

WARSAW, May 25th 2022

**QUARTERLY REPORT OF 11
BIT STUDIOS S.A. FOR
THE THREE MONTHS ENDED
MARCH 31ST 2022**

LETTER FROM THE MANAGEMENT BOARD

Warsaw, May 25th 2022

Dear Shareholders and Investors,

It is our pleasure to present to you this report of 11 bit studios S.A. for the first quarter of 2022. During the first three months of the year, 11 bit studios S.A. generated more than PLN 17.75m in revenue. Our EBITDA came in at PLN 5.32m, operating profit was PLN 3.75m, and net profit exceeded PLN 3.77m. It should be noted that the net profit figure would have been higher but for the non-cash provision of PLN 0.83m recognised in connection with the 2021–2025 Incentive Scheme and the donation of PLN 3.68m to the Ukrainian Red Cross.

As in previous periods, the solid figures for the first quarter of 2022, better than assumed in the budget, were due to excellent monetisation of the Company's entire portfolio of proprietary games. Worthy of a particular mention are strong sales of *This War of Mine* in late February and early March when, in response to Russia's invasion of Ukraine, the Management Board of 11 bit studios S.A. decided to donate all revenue from sales of this iconic, anti-war game during that period to the Ukrainian Red Cross. Our initiative was very well received by the gaming community and the media, not only the gaming industry ones, all over the world.

Games from the publishing portfolio, led by *Moonlighter* and *Children of Morta*, had a positive impact on revenue earned by the Company in the first quarter of 2022 as well. Sales of the latter were markedly supported by the addition of an online co-op mode, which took place on February 14th 2022. Revenue from sale of third-party games in the three months ended March 31st 2022 accounted for 24% of the Company's total revenue.

The Company's financial condition measured by the size of cash resources improved for yet another successive quarter despite growing expenditure on new games, pay rise pressures, and higher costs of day-to-day operations, which was clearly attributable to rising inflation. As at March 31st 2022, the total value of 11 bit studios S.A.'s financial assets (cash in bank accounts and secure financial instruments) exceeded PLN 107.8m and was higher than at the end of 2021.

We consistently deliver on our plans. On the last day of February we announced the acquisition of a 40% stake in Fool's Theory Sp. z o.o, the producer of *Vitriol* (working title), one of the games from our publishing portfolio. In April, we announced the execution of an agreement for the release of *South of the Circle*, a game produced by the UK studio State of Play. We strongly believe that we will soon be able to publish more information on similar projects.

Thank you once again for the trust you place in us. We invite you to read our Report.

We also want to invite all interested parties to our annual Investor Conference, currently planned to be held on Tuesday, June 14th. More details of the event will be announced in due course.

A handwritten signature in black ink, appearing to read 'Przemysław Marszał'.

Przemysław Marszał
President of the
Management Board

A handwritten signature in black ink, appearing to read 'Grzegorz Miechowski'.

Grzegorz Miechowski
Member of the
Management Board

A handwritten signature in black ink, appearing to read 'Michał Drozdowski'.

Michał Drozdowski
Member of the
Management Board

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FINANCIAL HIGHLIGHTS

The selected financial data presented in the tables below was translated into the euro at the rates specified below.

Assets, equity and liabilities in the statement of financial position were translated at the mid exchange rate quoted by the National Bank of Poland for the last day of the reporting period:

- Exchange rate as at March 31st 2022 – PLN 4.6525,
- Exchange rate as at December 31st 2021 – PLN 4.5994

Items of the statement of profit or loss and statement of cash flows were translated at the average mid exchange rate calculated as the arithmetic mean of the exchange rates quoted by the National Bank of Poland for the last day of each month in the period:

- Exchange rate in the three months ended March 31st 2022 – PLN 4.6472,
- Exchange rate in the three months ended March 31st 2021 – PLN 4.5721.

Statement of financial position

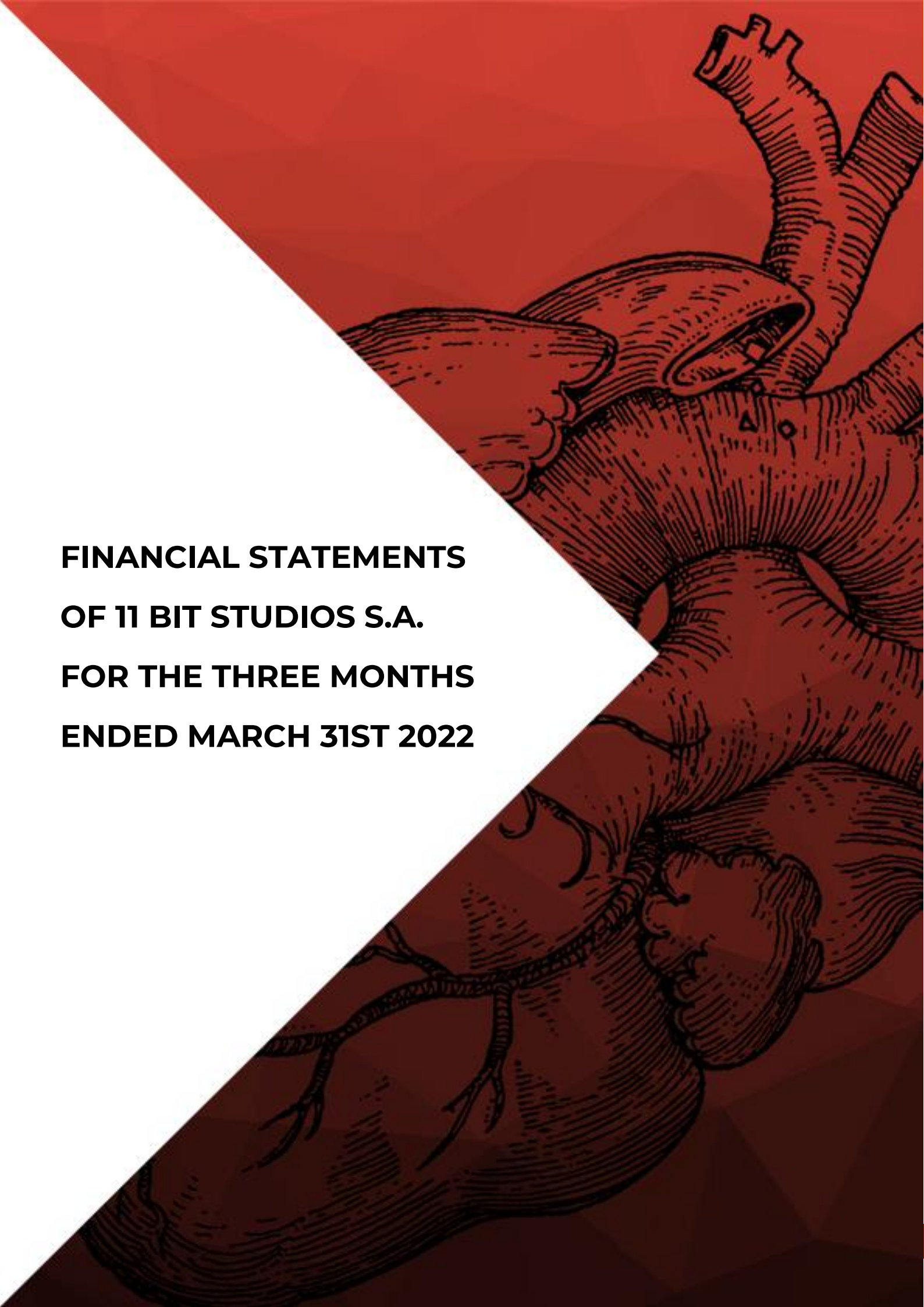
	Mar 31 2022 (PLN)	Mar 31 2022 (EUR)	Dec 31 2021 (PLN)	Dec 31 2021 (EUR)
Total assets	226,627,032	48,710,808	219,512,964	47,726,435
Non-current assets	103,038,921	22,147,001	90,679,674	19,715,544
Intangible assets	67,283,442	14,461,782	59,137,637	12,857,685
Current assets	123,588,111	26,563,807	128,833,290	28,010,891
Cash	50,404,801	10,833,918	26,748,530	5,815,656
Total equity and liabilities	226,627,032	48,710,807	219,512,964	47,726,435
Equity	202,045,326	43,427,260	197,337,291	42,905,007
Liabilities and provisions	24,581,706	5,283,548	22,175,673	4,821,427

Statement of profit or loss

	Period ended Mar 31 2022 (PLN)	Period ended Mar 31 2022 (EUR)	Period ended Mar 31 2021 (PLN)	Period ended Mar 31 2021 (EUR)
Revenue	17,745,553	3,818,547	14,836,980	3,245,113
Depreciation and amortisation	1,568,946	337,611	2,941,542	643,368
Operating profit	3,748,881	806,697	3,441,572	752,733
EBITDA	5,317,827	1,144,308	6,383,114	1,396,101
Profit (loss) before tax	5,351,957	1,151,652	4,288,361	937,941
Net profit (loss)	3,773,730	812,044	3,558,934	778,402

Statement of cash flows

	Period ended Mar 31 2022 (PLN)	Period ended Mar 31 2022 (EUR)	Period ended Mar 31 2021 (PLN)	Period ended Mar 31 2021 (EUR)
Net cash from operating activities	12,415,010	2,671,503	7,770,541	1,699,556
Net cash from investing activities	11,536,331	2,482,426	(11,179,557)	(2,445,169)
Net cash from financing activities	(295,070)	(63,494)	(305,884)	(66,902)
Total net cash flows	23,656,271	5,090,435	(3,714,900)	(812,515)



**FINANCIAL STATEMENTS
OF 11 BIT STUDIOS S.A.
FOR THE THREE MONTHS
ENDED MARCH 31ST 2022**

1. OVERVIEW

11 bit studios S.A. (the "Company") was incorporated by a notarial deed of December 7th 2009 before notary public Paweł Andrzej Kania at his Notary Office in Warsaw (number in the register of notarial deeds: Rep. 16069/2009). Company shares are traded in the public market.

1.1. Company overview

Business name:	11 bit studios Spółka Akcyjna
Abbreviated name:	11 bit studios S.A.
Registered office:	Warsaw, Poland
Registered address:	ul. Brzeska 2, 03-737 Warsaw, Poland
Principal business activity:	in accordance with the Polish Classification of Business Activities – computer programming activities (62.01.Z)
Registry court:	District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division
National Court Register (KRS) No.:	0000350888
Tax Identification Number (NIP):	1182017282
Industry Identification Number (REGON):	142118036

The Company was established for indefinite time.

The financial year of the Company is the same as the calendar year.

The Company's principal business activity includes:

- Production of cross-platform video games,
- Sale of cross-platform video games.

The Company does not have any subsidiaries. It has an associate – Fool's Theory Sp. z o.o.

1.2. Covered periods

11 bit studios S.A.'s interim condensed financial statements for the first quarter of 2022 present data for the reporting period from January 1st to March 31st 2022 and contain comparative data for the period from January 1st to March 31st 2021.

1.3. Composition of the Company's governing bodies as at March 31st 2021

Management Board

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski – Member of the Management Board

Supervisory Board

- Radosław Marter – Chairman of the Supervisory Board
- Jacek Czykiel– Deputy Chairman of the Supervisory Board
- Marcin Kuciapski – Member of the Supervisory Board
- Piotr Wierzbicki – Member of the Supervisory Board
- Artur Konefał – Member of the Supervisory Board

In the reporting period, there were no changes in the composition of the Company's Management or Supervisory Boards.

The joint term of office of the Management Board members expires on the date when the General Meeting approves the Company's financial statements for the financial year ending December 31st 2021. The term of office of the current Supervisory Board expires on May 23rd 2022.

1.4. Auditor

PricewaterhouseCoopers Polska Sp. z o.o. Audyt Sp.k.
ul. Polna 11
00-633 Warsaw

1.5. Shareholding structure as at the issue date of this quarterly report

Name	Number of shares	% of share capital held	Number of votes	% of total voting rights at GM
Przemysław Marszał	103,500	4.35	103,500	4.35
Grzegorz Miechowski	170,413	7.16	170,413	7.16
Michał Drozdowski	84,630	3.56	84,630	3.56
Aviva Investors Poland TFI*	136,099	5.72	136,099	5.72
N-N PTE	143,055	6.01	143,055	6.01
Esaliens TFI	122,028	5.13	122,028	5.13
Other shareholders	1,620,419	68.07	1,620,419	68.07
Total	2,380,144	100.00	2,380,144	100.00

* Number of shares registered at the Extraordinary General Meeting held on July 20th 2021.

In the reporting period, there were changes in the shareholding structure of 11 bit studios S.A.

In Current Report No. 1/2022 of January 11th 2022, 11 bit studios S.A. announced that on January 11th 2022 the Company received a notification given under Art. 87.1.2b of the Public Offering Act of July 29th 2005, submitted by Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A., to the effect that following the acquisition of 11 bit studios S.A. shares on December 30th 2021 the funds managed by N-N PTE S.A. hold 118,764 Company shares,

representing 5.018% of total voting rights at the Company's General Meeting and 5.018% of the Company's share capital.

In Current Report No. 5/2022 of January 31st 2022, 11 bit studios S.A. announced that on January 31st 2022 the Company received a notification given under Art. 69 of the Public Offering Act of July 29th 2005, submitted by Nationale-Nederlanden Powszechna Towarzystwo Emerytalne S.A., to the effect that following the acquisition of 11 bit studios S.A. shares on January 24th 2022 Nationale-Nederlanden Otwarty Fundusz Emerytalny holds a total of 125,316 Company shares, representing 5.294% of total voting rights at the Company's General Meeting and 5.294% of the Company's share capital. N-N PTE S.A. also notified the Company that a total of 143,055 shares in 11 bit studios S.A. were recorded in the accounts of the funds managed by N-N PTE S.A.

In Current Report No. 6/2022 of February 11th 2021, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on February 11th 2022 947 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 97,900.86. The shares were issued for the purposes of the 2017–2019 Incentive Scheme. At the same time, the Company announced that as of February 11th 2022 the Company's share capital was PLN 236,786.8 and comprised 2,367,868 shares with a par value of PLN 0.1 per share.

Subsequent to the reporting period and prior to the issue date of these financial statements, there were further changes in the shareholding structure of 11 bit studios S.A.

In Current Report No. 10/2022 of April 11th 2022, 11 bit studios S.A. announced that, based on information received from Dom Maklerski BOŚ S.A., on April 11th 2022 12,276 Series G shares were duly subscribed and paid for as part of a public offering, for a total amount of PLN 1,269,092.88. At the same time, the Company announced that as of April 11th 2022 the Company's share capital was PLN 238,014.4 and comprised 2,380,144 shares with a par value of PLN 0.1 per share.

In Current Report No. 12/2022 of April 20th 2022, 11 bit studios S.A. announced that on April 20th 2022 the Company received a notification under Article 19(1) of the Market Abuse Regulation from Marcin Kuciapski, Member of the Supervisory Board, concerning his acquisition of 11 bit studios S.A. shares. On April 19th 2022, Marcin Kuciapski purchased a total of 145 shares in 11 bit studios S.A. in trades executed on the WSE, at an average price of PLN 543.21 per share.

In Current Report No. 15/2022 of May 10th 2022, 11 bit studios S.A. announced that on May 10th 2022 the Company received a notification given under Art. 69.1.2a of the Public Offering Act of July 29th 2005, given by Esaliens Towarzystwo Funduszy Inwestycyjnych S.A., to the effect that following the acquisition of 11 bit studios S.A. shares on May 5th 2022 the funds managed by Esaliens TFI hold a total of 122,028 shares in 11 bit studios S.A., representing 5.13% of total voting rights at the Company's General Meeting and 5.13% of the Company's share capital.

1.6. Company shares held by members of its management and supervisory staff

	Position	Shareholding as at the reporting date (no. of shares)	Shareholding as at Dec 31 2021 (no. of shares)	Shareholding as at Dec 31 2020 (no. of shares)
Przemysław Marszał	President of the Management Board	103,500	103,500	106,500
Grzegorz Miechowski	Member of the Management Board	170,413	170,413	177,413
Michał Drozdowski	Member of the Management Board	84,630	84,630	84,630
Marcin Kuciapski	Member of the Supervisory Board	1,155	1,155	550

According to the submitted declarations, no members of the Company's Supervisory Board other than Marcin Kuciapski hold shares in 11 bit studios S.A.

In the reporting period, there were no changes in the holdings of Company shares by the management and supervisory staff.

1.7. Headcount

As at the date of issue of these financial statements, 222 persons were employed at the Company under employment contracts or provided services to the Company on the basis of contracts under civil law.

1.8. Functional and presentation currency

These interim condensed financial statements are presented in the Polish złoty (PLN). The Management Board decided that the Polish złoty would be the Company's functional and presentation currency. In the case of an entity operating on international markets, the choice of the functional currency and the identification of the currency which should be recognised as the currency used in the principal economic environment in which the entity operates, is a subjective decision. The Company monitors its economic environment for any material changes that could affect its choice of functional currency.

2. FINANCIAL STATEMENTS OF 11 BIT STUDIOS S.A.

2.1. Statement of profit or loss and other comprehensive income (PLN)

	Note	Period ended Mar 31 2022	Period ended Mar 31 2021
Continuing operations			
Revenue	3.3	17,745,553	14,836,980
Other income	3.4	53,633	47,892
Total operating income		17,799,186	14,884,872
Depreciation and amortisation	3.5	(1,568,946)	(2,941,542)
Raw materials and consumables used		(191,375)	(134,017)
Services	3.6	(5,538,132)	(5,450,345)
Salaries, wages and employee benefits	3.7	(2,892,337)	(2,490,307)
Taxes and charges		(82,417)	(69,906)
Other expenses	3.4	(3,777,098)	(357,183)
Total operating expenses		(14,050,305)	(11,443,300)
Operating profit		3,748,881	3,441,572
Interest income	3.8	12,017	1,944
Other finance income	3.8	1,678,484	937,533
Finance costs	3.9	(84,129)	(92,688)
Share of profit/(loss) of associate	3.16	(3,296)	0
Profit before tax		5,351,957	4,288,361
Income tax expense	3.10	1,578,227	729,427
NET PROFIT		3,773,730	3,558,934
Earnings per share (PLN):			
Basic	3.11	1.61	1.54
Diluted	3.11	1.58	1.47
NET PROFIT		3,773,730	3,558,934
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		3,773,730	3,558,934

2.2. Statement of financial position (PLN)

ASSETS

	Note	As at Mar 31 2022	As at Dec 31 2021
Non-current assets			
Property, plant and equipment	3.12	25,497,090	25,946,479
Intangible assets	3.13	67,283,442	59,137,637
Perpetual usufruct of land		4,267,291	4,281,361
Deferred tax asset	3.10	900,240	957,488
Other assets	3.19	135,360	99,080
Investment in Fool's Theory Sp. z o.o. (associate)	3.16	4,404,222	0
Financial instruments (IRS) – long-term portion	3.27	551,276	257,629
Total non-current assets		103,038,921	90,679,674
Current assets			
Trade and other receivables	3.14	8,872,289	16,485,147
Income tax receivable	3.15	5,658,243	4,138,348
Other current assets	3.18	1,132,577	752,342
Financial instruments (IRS) – short-term portion	3.27	95,874	42,938
Cash and cash equivalents	3.20	50,404,801	26,748,530
Current financial assets	3.17	57,424,328	80,665,985
Total current assets		123,588,111	128,833,290
TOTAL ASSETS		226,627,032	219,512,964

EQUITY AND LIABILITIES

	Note	As at Mar 31 2022	As at Dec 31 2021
Equity			
Share capital	3.21	236,787	236,692
Share premium		13,160,573	13,063,204
Statutory reserve funds		120,467,692	120,467,692
Share-based payment reserve		35,929,049	35,092,206
Retained earnings		32,541,225	28,477,497
Total equity		202,045,326	197,337,291
Liabilities			
Non-current liabilities			
Long-term borrowings and other debt instruments	3.23	7,245,000	7,560,000
Deferred income	3.28	635,711	635,711
Lease liabilities - perpetual usufruct of land		753,768	755,245
Liability arising from acquisition of shares in associate		1,788,303	0
Total non-current liabilities		10,422,782	8,950,956
Current liabilities			
Trade and other payables	3.24	7,897,837	8,012,807
Contract liabilities	3.25	4,985,832	3,937,176
Short-term borrowings and other debt instruments	3.23	1,260,000	1,260,000
Lease liabilities - perpetual usufruct of land		15,255	14,734
Deferred income	3.28		0
Total current liabilities		14,158,924	13,224,717
Total liabilities		24,581,706	22,175,673
TOTAL EQUITY AND LIABILITIES		226,627,032	219,512,964

2.3. Statement of changes in equity (PLN)

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Total
As at Jan 1 2022	236,692	13,063,204	120,467,692	35,092,206	28,477,497	197,337,291
Net profit for the financial year	0	0	0	0	3,773,730	3,773,730
Other comprehensive income for the financial year (net)	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	0
Creation of capital reserve	0	0	0	836,843	0	836,843
Allocation of profit to statutory reserve funds	0	0	0	0	0	0
Recognition of series G share-based payments	94	97,369	0	0	0	97,463
Recognition of costs of the 2021-2025 Incentive Scheme	0	0	0	0	0	0
As at Mar 31 2022	236,786	13,160,573	120,467,692	35,929,049	32,251,227	202,045,327

	Share capital	Share premium	Statutory reserve funds	Share-based payment reserve	Retained earnings	Total
As at Jan 1 2021	236,055	12,407,633	87,152,664	31,744,829	33,106,943	164,648,124
Net profit for the financial year	0	0	0	0	3,558,934	3,558,934
Other comprehensive income for the financial year (net)	0	0	0	0	0	0
Total comprehensive income	0	0	0	0	0	0
Allocation of profit to statutory reserve funds	0	0	0	0	0	0
Share-based payments	90	92,952	0	1,039,104	0	1,132,146
As at Mar 31 2021	236,145	12,500,585	87,152,664	32,783,933	36,665,877	169,339,204

2.4. Statement of cash flows (PLN)

	Note	Period ended Mar 31 2022	Period ended Mar 31 2021
Cash flows from operating activities			
Profit for the financial year		3,773,730	3,558,934
Adjustments:			
Depreciation and amortisation	3.5	1,568,946	2,941,542
Income tax expense recognised in profit or loss	3.10	1,578,227	729,542
Remeasurement of intangible assets		36,280	(17,972)
Cost of the Incentive Scheme	3.29	836,843	1,039,104
Other adjustments		(981,710)	(222,936)
Changes in working capital:			
Increase/(decrease) in trade and other receivables		7,612,858	(10,588)
Increase/(decrease) in other assets		(416,515)	(67,278)
Increase/(decrease) in trade and other payables		(114,970)	1,657,716
Increase/(decrease) in net contract assets/liabilities		1,048,656	0
Increase/(decrease) in deferred income		0	(44,998)
Cash provided by operating activities		14,942,345	9,562,951
Income tax paid		(2,527,335)	(1,792,411)
Net cash from operating activities		12,415,010	7,770,541
Cash flows from investing activities			
Loans to employees		176,780	1,301,531
Proceeds from redemption of financial assets		50,000,000	0
Purchase of financial assets		(26,719,591)	(4,992,409)
Acquisition of non-current financial assets (shares in associate Fool's Theory Sp. z o.o.)		(2,619,216)	0
Payments for property, plant and equipment and intangible assets		(9,301,642)	(7,488,679)
Net cash from investing activities		11,536,331	(11,179,557)
Cash flows from financing activities			
Proceeds from issue of shares		97,901	93,042
Proceeds/(repayments) under credit facility		(315,000)	(315,000)
Payment of interest on credit facility		(77,971)	(83,926)
Net cash from financing activities		(295,070)	(305,884)
Net increase /(decrease) in cash		23,656,271	(3,714,900)
Cash at beginning of reporting period		26,748,530	24,134,648
CASH AT END OF REPORTING PERIOD		50,404,801	20,419,748

3. NOTES TO THE FINANCIAL STATEMENTS

3.1. Application of IFRSs

These financial statements have been prepared on a historical cost basis, except for financial instruments measured at fair value through profit or loss.

The Company maintains accounting records and prepares financial statements in accordance with International Financial Reporting Standards as endorsed by the European Union (“IFRSs”).

3.1.1. Statement of compliance

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRSs”) as endorsed by the European Union and related interpretations issued in the form of the European Commission’s regulations.

The Company applied the IFRSs as effective on March 31st 2022. The accounting policies applied to prepare these financial statements of the Company for the three months ended March 31st 2022 are consistent with the policies applied to prepare the Company’s full-year financial statements for 2021, except for the changes described below. The same policies have been applied for the current and comparative periods.

3.1.2. New and amended standards and interpretations

The following new standards and amendments to existing standards effective from January 1st 2021 were applied for the first time in these financial statements:

- **Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 related to IBOR reform**

In connection with the expected reform of the reference rates (the IBOR reform), the International Accounting Standards Board published Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. The amendments address accounting issues that will emerge after IBOR is replaced as interest rate benchmark for financial instruments with alternative interest rates. The amendments introduce a number of guidelines and exemptions, including in particular: a practical expedient to be applied in the event of lease modification that is required by the IBOR reform, which will be recognised by using a revised effective interest rate; exemption from the requirement to discontinue hedge accounting; temporary exemption from the requirement to designate the risk component; and the requirement to provide additional disclosures.

- **Amendments to IFRS 4: Application of IFRS 9 *Financial Instruments***

The amendment to IFRS 4 – *Insurance Contracts* postpones the application of IFRS 9 *Financial Instruments* until January 1st 2023, which is the effective date of IFRS 17 *Insurance Contracts*.

- **Amendment to IFRS 16 Leases**

In connection with the coronavirus (COVID-19) pandemic, IFRS 16 was amended in 2020 by introducing a practical expedient with respect to assessing whether a COVID-19-related amendment to a lease contract is a lease modification. As a result, lessees are provided with a practical expedient in the form of exemption from applying IFRS 16 guidance regarding lease modifications. Since the amendment was limited to rent concessions for which any reduction in lease payments affected only payments originally due on or before June 30th 2021, in March 2021 the IASB extended the availability period of the practical expedient, permitting lessees to apply it to rent concessions until June 30th 2022. The amendment applies as of April 1st 2021, with an early application option.

3.1.3. Issued standards and interpretations which are not yet effective and have not been adopted early by the Company

In these financial statements, the Company resolved not to early adopt the following issued standards, interpretations or amendments to existing standards prior to their effective date:

- **IFRS 17 Insurance Contracts and amendments to IFRS 17**

IFRS 17 *Insurance Contracts* was issued by the International Accounting Standards Board on May 18th 2017 and amendments to IFRS 17 were issued on June 25th 2020. The amended standard is effective for annual periods beginning on or after January 1st 2023.

IFRS 17 *Insurance Contracts* will replace existing IFRS 4, which provides for diverse practices in accounting for insurance contracts. IFRS 17 will substantially change the accounting practices of all entities that deal with insurance contracts and investment agreements.

The Company will apply IFRS 17 following its endorsement by the European Union.

As at the date of these financial statements, the new standard was not yet endorsed by the European Union.

- **Amendments to IAS 1 Presentation of Financial Statements**

The IASB has published amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current. The amendments are effective for financial statements for periods beginning on or after January 1st 2023.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.

- **IFRS 3 Business Combinations**

The amendments to the standard issued in May 2020 are intended to update the relevant references to the Conceptual Framework in IFRS without introducing any substantive changes to accounting for business combinations.

As at the date of these financial statements, the amendments were not yet endorsed by the European Union.

- **Amendment to IAS 16 Property, Plant and Equipment**

The amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and

related cost in profit or loss. The amendment is effective for financial statements for periods beginning on or after January 1st 2022.

- **Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets**
The amendments to IAS 37 clarify what costs an entity considers in assessing whether a contract is onerous. The amendment is effective for financial statements for periods beginning on or after January 1st 2022.
- **Annual Improvements to IFRSs 2018–2020 Cycle**
Annual Improvements to IFRSs 2018–2020 Cycle amend the following standards: IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 9 *Financial Instruments*, IAS 41 *Agriculture*, and illustrative examples for IFRS 16 *Leases*.
The amendments explain and clarify the guidance on recognition and measurement provided in the standards.
- **Amendment to IAS 1 Presentation of Financial Statements and the IASB Practice Statement on Disclosure of Accounting Policies**
The amendment to IAS 1 requires entities to disclose their material accounting policy information, which is defined in the Standard. It clarifies that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements. In addition, the IASB's guidance was amended with respect to the application of the materiality concept in practice, to provide guidance on the application of the materiality concept to accounting policy disclosures. As at the date of these financial statements, the amendment was not yet endorsed by the European Union.
- **Amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**
In February 2021, the IASB issued an amendment to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* as regards the definition of accounting estimates. The amendment clarifies how entities should distinguish changes in accounting policies from changes in accounting estimates. As at the date of these financial statements, the amendment was not yet endorsed by the European Union.
- **Amendments to IAS 12 Income Taxes**
The amendments to IAS 12 clarify how to account for deferred tax on transactions such as leases and decommissioning obligations. Prior to the amendments, it was not clear whether the initial recognition exception applied to such transactions, i.e. transactions that lead to the recognition of both deferred tax assets and liabilities. The amendments to IAS 12 clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that at the time of initial recognition give rise to equal taxable and deductible temporary differences.
The amendment is effective for financial statements for periods beginning on or after January 1st 2023. As at the date of these financial statements, the amendment was not yet endorsed by the European Union.

- **Amendment to IFRS 17 Insurance Contracts**

The amendment relates to transition requirements following the initial application of IFRS 17 *Insurance Contracts* and IFRS 9 *Financial Instruments*. The amendment provides an option aimed at improving the usefulness of information to investors about the initial application of the new standard.

The amendment relates to insurers' transition to the new standard only – it does not affect any other requirements of IFRS 17.

As at the date of these financial statements, the amendment was not yet endorsed by the European Union.

- **IFRS 14 Regulatory Deferral Accounts**

The standard permits an entity which is a first-time adopter of IFRS (on or after January 1st 2016) to continue to account for rate-regulated activities in accordance with its previous accounting policies. To ensure better comparability with entities which already use IFRSs and do not account for such activities, in accordance with the issued IFRS 14 amounts from rate-regulated activities should be presented as a separate item in the statement of financial position, statement of profit or loss, and statement of comprehensive income.

The European Union has decided not to endorse IFRS 14.

- **Amendments to IFRS 10 and IAS 28 concerning sale or contribution of assets between an investor and its associate or joint venture**

The amendments address the current inconsistency between IFRS 10 and IAS 28. The accounting approach depends on whether the non-monetary assets sold or contributed to an associate or joint venture constitute a business.

Full gain or loss is recognised by the investor if the non-monetary assets constitute a business. If the assets do not meet the definition of a business, the investor recognises a partial gain or loss, excluding the part corresponding to other investors' interests.

The amendments were issued on September 11th 2014. As at the date of these financial statements, endorsement of the amendments has been postponed by the European Union.

3.2. Material achievements or failures of the Company in the reporting period

As in previous periods, in the first three months of 2022 11 bit studios S.A. focused on monetising the games from its proprietary and publishing portfolios. This revenue stream contributed to building cash resources necessary to finance the Company's ambitious growth projects, which have been running for a few years now.

In the sales area, in the first quarter of 2022 the Company worked actively to ensure good visibility of its products on the key sale platforms. These efforts, relying on multi-year relationships with the Company's key trading partners, delivered positive results, placing the Company's games (both proprietary and marketed by the publishing division) in high positions in the bestseller rankings during sale campaigns on Steam and other distribution platforms. Particularly worth mentioning are the Winter Sale on Steam (end of 2021 and beginning of 2022), Midweek Madness

on Steam (January 2022), Lunar Sale on Steam (February 2021), and Publisher Sale on Nintendo (February 2022). Another important source of revenue in the reporting period were campaigns related to the sale of individual games from the 11 bit studios S.A. portfolio in bundles with other developers' games. Flagship examples of such activities included the highly profitable *Between Life and Death Bundle* on Steam (comprising *This War of Mine* and *Undying*) and the *Stand with Ukraine Bundle* on Humble Bundle platform. However, particularly noteworthy is the initiative undertaken by the Company immediately after Russia's invasion of Ukraine to transfer one week's revenue from the sale of *This War of Mine* to the Ukrainian Red Cross. The amount raised in that period was USD 850,000 **(for more information, see Note 3.33)**

Another important contributor to 11 bit studios S.A.'s performance in the reporting period was the release of an update to *Children of Morta* (the publishing division's title) consisting in the addition of an online co-op mode. The release was accompanied by a promotional campaign (a free weekend combined with a reduction of the product's price) on Steam, which increased the sales volume of *Children of Morta* and revenue generated by this game.

In the first quarter of 2022, 11 bit studios S.A. posted revenue of PLN 17,745,553, up 19.6% year on year. 24% of this amount was attributable to sales of third-party developed (11 bit publishing division's) games (27% the year before).

Operating expenses in the three months ended March 31st 2022 were PLN 14,050,305, a 22.78% increase year on year. The increase was mainly attributable to the donation of PLN 3,676,405 to the Ukrainian Red Cross, an item not present in the first quarter of 2021. As in the comparative period, the largest item of operating expenses in the first quarter of 2022 were services (PLN 5,538,132), mostly comprising royalties payable to the producers of *Moonlighter* and *Children of Morta*. In the three months ended March 31st 2022, the Company spent PLN 2,892,337 on salaries and wages, but it should be noted that this item includes a non-cash provision (PLN 836,843) recognised every quarter (until the fourth quarter of 2025 inclusive) for the costs of the 2021–2025 Incentive Scheme. At PLN 1,568,946, depreciation and amortisation was a considerable item of operating expenses in the first quarter of 2022 (down 46.66% year on year). The decrease was attributable to the completion of amortisation of expenditure on games from the proprietary and publishing division's portfolios, which were released several years or several quarters ago.

The year-on-year increase in revenue, slightly outpaced by an increase in operating expenses, translated into an operating profit of PLN 3,748,880 for the three months ended March 31st 2022, up 8.93% year on year. However, the Company's operating profit margin went down to 21.12%, from 23.19% in the corresponding period of the previous year. Profit before tax came in at PLN 5,351,957 in the three months ended March 31st 2022, driven by a positive balance of finance income and finance costs resulting from favourable changes in international currency markets (depreciation of the zloty against foreign currencies). To compare, in the corresponding period of the previous year profit before tax stood at PLN 4,288,361. The Company posted a net profit of PLN 3,773,730, 6.04% more than in the comparative period. As a result, the net margin reached 21.26%, compared with 23.99% the year before.

The Company's sound financial position was also confirmed by cash flows from operating activities, which amounted to PLN 14,942,346. After the payment of PLN 2,527,335 in income tax,

net operating cash flows stood at PLN 12,415,011. As at the end of March 2022, the Company's financial assets (cash and cash equivalents as well as low-risk financial instruments) totalled PLN 107,829,129 despite growing capital expenditure and were higher relative to the end of 2021.

In the proprietary games area, in the three months ended March 31st 2022 11 bit studios S.A. focused on expanding three in-house development teams responsible for the titles that will drive its performance in the coming years, i.e., *Frostpunk 2*, *Project 8* and *Dolly* (the latter two are projects' code names). The headcount in the respective teams is approximately 70, 45 and almost 40. The Company conducted an intensive recruitment campaign with a view to expanding each team to the target headcount of 60–80 people. This target is expected to be achieved within a few quarters. The growing production resources translated into increased spending on game development, which reached PLN 9,467,985 in the three months ended March 31st 2022.

This amount also includes expenditure on the financing of games in the publishing division. As at the reporting date, the publishing portfolio of 11 bit studios S.A. included four products. The first one is a game with a working (code) name of *Vitriol*, produced by the Fool's Theory Sp. z o.o studio of Bielsko-Biała. The other ones are games under the working (code) titles *Botin* (produced by Digital Sun Games studio from Spain, which was responsible for *Moonlighter*), and *Ava*, produced by the Spanish development studio Chibig. *South of the Circle*, produced by UK studio State of Play, is the latest project from 11 bit studios S.A.'s publishing division (the Company announced the execution of an agreement for the release of the game on April 14th 2022). The game will be released for PCs and for Nintendo Switch, Xbox Series S|X, Xbox One, PlayStation 5, and PlayStation 4. The release date of the game, which is set in the realities of the Cold War, has a unique storyline, rich narrative layer and minimalist aesthetics, will be announced in the near future.

In the three months ended March 31st 2022, the 11 bit publishing team engaged in active acquisition efforts to increase the size of its portfolio, which are expected to result in new contracts by the end of the year.

In order to prepare for a larger number of publishing projects (in the medium term, the Company intends to manage 9 to 12 third-party projects at the same time), build its in-house production resources and develop other divisions, in the three months ended March 31st 2022, as in previous periods, 11 bit studios S.A. worked intensively to increase its workforce. As at the reporting date, the Company used the services of 222 employees and independent contractors. By the end of the year, the number of employees should grow to approximately 250 and continue to rise in the coming periods.

The event of material importance to the Company was the acquisition, on the last day of February, of a 40% equity interest in Fool's Theory Sp. z o.o. from its existing shareholders (two natural persons). Established in 2018, the Bielsko-Biała-based company employs approximately 60 staff and is the producer of the game *Vitriol*, to be published by 11 bit studios S.A. For more information on the transaction, see **Note 3.16**.

3.3. Revenue (PLN)

	Period ended Mar 31 2022	Period ended Mar 31 2021
Revenue	17,745,553	14,836,980

As in the previous year, in the three months ended March 31st 2022 the main source of the Company's revenue was sales of proprietary games as well as third-party games marketed as part of the 11 bit publishing services. Other income accounted for just 0.30% of total revenue in the reporting period (0.32% in the three months ended March 31st 2021).

3.3.1. Revenue by geographical region (PLN)

The Company operates in six main geographical areas: Poland, its home market, the European Union, the US, Japan, China and other countries (including Canada, Korea, Brazil, and Australia).

Below is presented revenue from third-party customers by geographical area. The classification is based on the place of registration of the third-party customers.

	Period ended Mar 31 2022	Period ended Mar 31 2021
Poland	621,112	483,588
European Union	573,525	382,424
US	13,062,223	11,484,305
Japan	2,099,046	1,571,325
China	66,145	36,048
Other	1,323,502	879,290
Total	17,745,553	14,836,980

3.3.2. Revenue by distribution channel

Revenue from sales of video games in the three months ended March 31st 2022, amounting to PLN 17,745,553 (vs PLN 14,836,980 the year before), included PLN 16,767,111 (PLN 14,050,861 the year before) in revenue from products sold via the sale platforms of the Company's 10 key business partners, including Steam, Nintendo, Sony, Microsoft, GOG and Epic Games.

3.4. Other income and expenses (PLN)

3.4.1. Other income

	Period ended Mar 31 2022	Period ended Mar 31 2021
Grants received	0	44,998
Other income	640	0
Impairment losses – reversal of ECL provision	49,252	0
Gain on disposal of non-current non-financial assets	0	2,894
Other income - received damages/compensations	3,741	0
Total	53,633	47,892

3.4.2. Other expenses

	Period ended Mar 31 2022	Period ended Mar 31 2021
Costs of discontinued projects	0	323,799
Donations	3,676,405	3,627
Non-recoverable withholding tax	0	11,444
Other expenses by nature	100,693	18,313
Total	3,777,098	357,183

In the first quarter of 2022, the main item of other expenses was a donation of PLN 3,676,405 to the Ukrainian Red Cross. The funds for this purpose were raised from the sale of *This War of Mine* in the period from February 24th to March 2nd 2022. Other expenses (PLN 100,693) comprised advertising, travel-for-work and business travel costs. In the comparative period, the largest item of other expenses was the cost of discontinued projects of PLN 323,799, comprising a write-off of expenditure related to the development of the Game Engine (phase 6).

3.5. Depreciation and amortisation (PLN)

	Period ended Mar 31 2022	Period ended Mar 31 2021
Depreciation/ amortisation charges made during the year:		
Depreciation	718,444	623,954
Amortisation	1,375,115	2,695,999
Total	2,093,559	3,319,953
Allocation to project costs	(538,684)	(380,561)
Land (including perpetual usufruct of land)	14,071	2,150
Total	1,568,946	2,941,542

The 46.66% year-on-year decrease in the depreciation and amortisation expense in the three months ended March 31st 2022, to PLN 1,568,946, was mainly attributable to lower amortisation (down by almost 49%) of intangible assets, i.e., expenditure on proprietary games and games in the publishing portfolio, which was due to the completion of amortisation of certain products. On the other hand, depreciation of property, plant and equipment rose slightly year on year, by 15.4%, to PLN 718,444, as a result of growing expenditure on IT equipment for newly hired employees. A major portion of these expenses (PLN 538,684 in the three months ended March 31st 2022 vs PLN 380,561 the year before) was allocated to project costs.

3.6. Services (PLN)

	Period ended Mar 31 2022	Period ended Mar 31 2021
Services	5,538,132	5,450,345

The year-on-year drop in cost of services in the three months ended March 31st 2022 was chiefly driven by a year-on-year decline in revenue from sale of third-party games, due to their natural ageing. *Moonlighter* and *Children of Morta*, the two key titles in the publishing divisions' portfolio, were first released in spring 2018 and autumn 2019, respectively. The Company paid royalties on revenue generated from the two products to the respective game developers: Digital Sun studio based in Spain and Dead Mage of the US. In the three months ended March 31st 2022, the royalties amounted to PLN 3,038,484 relative to PLN 3,281,790 in the previous year.

The Company's total expenditure on intangible assets (games production) which was not recognised under services but capitalised in the value of assets in the first quarter of 2022 amounted to PLN 2,907,044, compared with PLN 2,303,801 in the first quarter of 2021.

3.7. Salaries, wages and employee benefits (PLN)

	Period ended Mar 31 2022	Period ended Mar 31 2021
Salaries, wages and employee benefits	2,892,337	2,490,307

The increase in salaries and wages in the first three months of 2022, of 16.14%, to PLN 2,892,337 from PLN 2,490,307 the year before, was driven by a steady workforce expansion and rising pay levels. As in the previous year, in the three months ended March 31st 2022 salaries, wages and employee benefits included non-cash provisions (PLN 836,844 in the reporting period vs PLN 1,039,104 in the comparative period) recognised in connection with the Company's 2021–2025 Incentive Scheme.

3.8. Finance income (PLN)

	Period ended Mar 31 2022	Period ended Mar 31 2021
Interest income:		
Bank deposits	12,017	1,944
Finance income:		
Gains on remeasurement of financial assets	133,993	39,554
Income from disposal of investments in financial assets	81,746	0
Remeasurement of IRS	346,583	274,974
Net foreign exchange gains (losses), including:		
a) Cash	888,464	44,842
b) Loans and receivables	68,136	333,570
c) Liabilities measured at amortised cost	159,562	244,593
Total	1,690,501	939,477

As a result of favourable changes in international currency markets in the three months ended March 31st 2022, i.e., depreciation of the zloty against the US dollar and the euro, in which a vast majority of the Company's revenue is earned, in the reporting period the Company generated

significant finance income from currency exchange gains, amounting to PLN 1,116,162, compared with PLN 623,005 in the first quarter of the previous year. In the three months ended March 31st 2022, the Company also earned PLN 346,583 (PLN 274,974 in the first quarter of 2021) in finance income from remeasurement of an interest rate swap hedging the Company against interest rate risk over the term of the investment facility (PLN 12,600,000) contracted by the Company at the end of 2018 with PKO BP S.A. for the purchase of a new office. 11 bit studios S.A.'s finance income in the three months ended March 31st 2022 totalled PLN 1,690,501, relative to PLN 939,477 in the corresponding period of the previous year. This means an increase of 79.94%.

3.9. Finance costs (PLN)

	Period ended Mar 31 2022	Period ended Mar 31 2021
Interest on public charges	(267)	(2,839)
Net foreign exchange gains (losses)	0	0
Interest on credit facilities	(75,949)	(27,195)
Settlement of IRS	(2,023)	(56,731)
Other	(5,890)	(5,923)
Total	(84,129)	(92,688)

In the reporting period, the largest item of finance costs, which rose by 117.32% year on year, were the costs related to the investment credit facility of PLN 12,600,000 contracted with PKO BP S.A. at the end of 2018 to finance the purchase of new offices. In the first quarter of 2022, interest on the facility and costs related to the settlement of the Interest Rate Swap (IRS) hedging the interest rate risk over the term of the investment facility, totalled PLN 77,972, compared with PLN 83,926 in the comparative period.

3.10. Income tax on continuing operations (PLN)

3.10.1. Income tax recognised in profit or loss

	Period ended Mar 31 2022	Period ended Mar 31 2021
Current income tax:		
Attributable to current year	1,520,979	977,732
Deferred income tax:		
Attributable to current year	57,248	(248,305)
Tax expense recognised in current year on continuing operations	1,578,227	729,427

With respect to income tax, 11 bit studios S.A. is bound by laws and regulations of general application. The Company does not conduct operations in any Special Economic Zone, which would entail the applicability of other rules for calculating taxes, The Company's fiscal and accounting year is the same as the calendar year.

Effective tax rate:

	Period ended Mar 31 2022	Period ended Mar 31 2021
Profit before tax from continuing operations	5,351,957	4,288,361
Income tax expense at 19% (2021: 19%)	1,016,872	814,789
Tax effect of income which is not classified as income for tax purposes	(103,865)	(361,970)
Tax effect of income which is classified as income for tax purposes	0	(7,515)
Tax effect of costs which are not deductible for tax purposes	760,625	(1,260,797)
Tax effect of costs which are deductible for tax purposes	(686,120)	2,058,017
Effect of IP Box tax relief settlement at 5% tax rate	(619,637)	(264,790)
Total	1,578,227	977,732

The tax rate applied in the above reconciliation in 2022 and 2021 is 19%. It is the corporate income tax rate applicable in Poland in accordance with the tax laws. The effective tax rate was 29.49% in the first quarter of 2022 and 22.79% in the first quarter of 2021.

The reason behind the year-on-year increase in the tax rate in the three months ended March 31st 2022 was that the cost of donation to the Ukrainian Red Cross was not recognised for tax purposes. Taking a prudent approach, the Company awaits a tax ruling on that matter from a tax advisor.

With respect to sales of proprietary games the Company uses the IP Box relief, which was introduced on October 23rd 2018 pursuant to the Act Amending the Personal Income Tax Act, the Corporate Income Tax Act, the Tax Legislation and certain other acts, and has been in effect since January 1st 2019. Under the Act, the Company's revenue from the sale of qualifying intellectual property rights (games) multiplied by the nexus index was taxed at a preferential CIT rate (5%). In the three months ended March 31st 2022, the IP Box relief amounted to PLN 619,637 (PLN 264,790 in the comparative period).

3.10.2. Current tax receivable and payable

	As at Mar 31 2022	As at Dec 31 2021
VAT refund receivable	1,192,636	1,888,534
CIT refund receivable	5,658,243	4,138,348
Total	6,850,879	6,026,882

The tax receivables included the IP Box tax relief described in Note 3.10.1 (PLN 4,049,010 as at March 31st 2022), the tax remaining to be deducted upon receipt of returns from trading partners, and non-recovered withholding tax.

3.10.3. Deferred tax (net)

Below is presented an analysis of the deferred tax asset / (liability) shown in the statement of financial position.

	As at Mar 31 2022	As at Dec 31 2021
Deferred tax asset	1,044,749	980,081
Deferred tax liability	(144,509)	(22,594)
Total	900,240	957,487

All deferred tax assets are classified as current assets, because the items on which the asset is calculated are provisions for current expenses, including royalties and provisions for bonuses. The Company expects the assets to be reversed in full within 12 months from the reporting date.

Income tax assets/liabilities in the reporting period

	As at Jan 1 2022	Recognised in profit or loss	As at Mar 31 2022
Assets			
Provisions	59,848	17,737	77,586
Royalties payable	953,494	5,778	959,272
Liabilities	10,580	(2,689)	7,891
Provisions			
Remeasurement of financial assets	(43,842)	(75,208)	(119,050)
Measurement of financial investments	(22,593)	(2,856)	(25,459)
Total	957,487	(57,074)	879,414

Income tax assets/liabilities in 2021

	As at Jan 1 2021	Recognised in profit or loss	As at Dec 31 2021
Assets			
Provisions	80,232	(20,383)	59,848
Royalties payable	1,339,512	(386,018)	953,494
Liabilities	7,897	2,701	10,580
Remeasurement of financial assets	164,528	(164,528)	0
Provisions			
Remeasurement of financial assets	0	(43,842)	(43,842)
Measurement of financial investments	(74,561)	51,968	(22,593)
Total	1,517,608	(560,102)	957,487

3.11. Earnings per share (PLN)

3.11.1. Basic earnings per share

	Period ended Mar 31 2022	Period ended Mar 31 2021
Basic earnings per share:		
From continuing operations	1.61	1.54
Total basic earnings per share	1.61	1.54
Diluted earnings per share:		
From continuing operations	1.58	1.47
Total diluted earnings per share	1.58	1.47

Profit and weighted average number of ordinary shares used to calculate basic earnings per share:

	Period ended Mar 31 2022	Period ended Mar 31 2021
Profit for the financial year attributable to shareholders	3,773,730	3,558,934
Total profit used to calculate basic earnings per share	3,773,730	3,558,934
Profit used to calculate basic earnings per share from continuing operations	3,773,730	3,558,934

	Period ended Mar 31 2022	Period ended Mar 31 2021
Weighted average number of ordinary shares used to calculate earnings per share	2,341,127	2,310,149

3.11.2. Diluted earnings per share

	Period ended Mar 31 2022	Period ended Mar 31 2021
Profit for the financial year attributable to shareholders	3,773,730	3,558,934
Total profit used to calculate diluted earnings per share	3,773,730	3,558,934
Profit used to calculate diluted earnings per share from continuing operations	3,773,730	3,558,934

The weighted average number of shares used to calculate diluted earnings per share is reconciled with the average used to calculate basic earnings per share in the following manner:

	Period ended Mar 31 2022	Period ended Mar 31 2021
Weighted average number of ordinary shares used to calculate basic earnings per share	2,341,127	2,310,149
Shares expected to be issued:		
Employee stock options	49,214	107,500

Weighted average number of ordinary shares used to calculate diluted earnings per share	2,380,988	2,417,649
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3.12. Property, plant and equipment (PLN)

Property, plant and equipment

	As at Mar 31 2022	As at Dec 31 2021
Buildings and premises	22,811,027	22,991,270
Property, plant and equipment under construction	241,933	374,315
Plant and equipment	534,924	514,682
Other property, plant and equipment	1,909,206	2,066,212
Total	25,497,090	25,946,479

Gross carrying amount:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2022	24,305,971	374,314	2,894,560	372,854	3,459,479	31,407,178
Increase	9,970	111,545	141,740	0	5,800	269,055
Decrease	0	0	0	0	0	0
Reclassification	0	(243,926)	243,926	0	0	0
As at Mar 31 2022	24,315,941	241,933	3,280,226	372,854	3,465,279	31,676,233

Accumulated depreciation and impairment:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2022	1,314,701	0	2,379,878	372,854	1,393,268	5,460,700
Depreciation expense	190,213	0	365,424	0	162,807	718,444
Decrease	0	0	0	0	0	0
As at Mar 31 2022	1,504,914	0	2,745,302	372,854	1,556,075	6,179,144

Comparative data for the period from January 1st to March 31st 2021

Gross carrying amount:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2021	24,200,705	102,242	1,953,626	372,854	3,492,462	30,121,888
Increase	0	118,561	152,905	0	0	271,466
Decrease	(1,340)	0	0	0	0	(1,340)
Reclassification	33,360	(175,262)	141,902	0	0	0
As at Mar 31 2021	24,232,725	45,541	2,248,433	372,854	3,492,462	30,392,014

Accumulated depreciation and impairment:

	Buildings and premises	Property, plant and equipment under construction	Plant and equipment	Vehicles	Other property, plant and equipment	Total
As at Jan 1 2021	555,273	0	1,515,859	363,406	797,848	3,232,386
Depreciation	189,466	0	267,810	9,448	157,231	623,954
Decrease	0	0	(1,700)	0	0	(1,700)
As at Mar 31 2021	744,739	0	1,781,969	372,854	955,079	3,854,640

3.13. Intangible assets (PLN)

Useful lives of intangible assets used to calculate amortisation:

Completed development work:

Completed Game Engine development work as at March 31st 2022 included the capitalised cost of the fourth and fifth work phases.

As at March 31st 2022, completed video games development work comprised games released in earlier periods.

Ongoing development work:

As at March 31st 2022, expenditure on ongoing development work included mainly expenditure on the development of games, in particular *Frostpunk 2*, *Project 8*, *Dolly*, and third-party games of 11 bit publishing.

Testing ongoing development work for impairment:

Key assumptions used to calculate the value in use of material ongoing development work based on the discounted cash flow model:

The Company makes projections of revenue and expenses over a time horizon of up to five years from the financial statements date, and then discounts them with the weighted average cost of capital (WACC). As regards these financial statements, the discount rate applied is 9.4%.

The weighted average cost of capital was determined using the following capital valuation model: $WACC = \text{cost of debt} \times \text{weight of debt} + \text{cost of equity} \times \text{weight of equity}$. The cost of debt was estimated based on the incurred financial liabilities, i.e., the PLN 12,600,000 investment credit facility with PKO BP S.A. The cost of debt before tax was reduced by the effective tax rate. The Company calculated the cost of equity using the CAPM model, under which the cost of equity was calculated as the sum of the risk-free rate and beta multiplied by the required equity market risk premium. The cost of debt and the cost of equity were calculated using weights appropriate for the Company's financing structure.

Revenue was estimated based on a detailed analysis of various areas of the games market using the Company's long-time experience and sales results for 11 bit studios' current game portfolio.

Expenses were estimated on the basis of costs already incurred and a projection of costs to be incurred until the forecast release date.

A sensitivity analysis performed as at the reporting date showed that there was no risk of impairment of intangible assets comprising ongoing development work.

No write-offs on discontinued work were recognised in the reporting period. Following an analysis, in 2021 the Company wrote off expenditure of PLN 971,915 on discontinued work. Additionally, in 2021 the Company recovered from WildFrame Media, the owner of the Digital Sun studio, some of the expenditure (EUR 140,000) incurred to finance the development of *Foxhole*.

Carrying amount:

	As at Mar 31 2022	As at Dec 31 2021
Completed development work (game engine)	2,048,169	2,389,463
Completed development work (games)	2,532,218	3,500,237
Ongoing development work	62,443,345	52,926,024
Licences	259,710	321,913
Total	67,283,442	59,137,637

Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2022	6,813,631	38,056,770	934,772	52,926,024	98,731,197
Increase	0	0	3,600	9,517,321	9,520,921
Reclassification of completed development work	0	0	0	0	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	0	0
As at Mar 31 2022	6,813,631	38,056,770	938,372	62,443,345	108,252,118

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2022	4,424,169	34,556,533	612,859	0	39,593,561
Amortisation expense	341,293	968,019	65,803	0	1,375,115
Decrease	0	0	0	0	0
As at Mar 31 2022	4,765,462	35,524,552	678,662	0	40,968,676

Comparative data for the period from January 1st to March 31st 2021
Gross carrying amount:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	6,813,631	36,216,197	932,759	25,545,704	69,508,291
Increase	0	0	3,015	7,928,100	7,931,115
Reclassification of completed development work	0	874,177	0	(874,177)	0
Decrease	0	0	0	0	0
Discontinued work written off	0	0	0	323,799	323,799
As at Mar 31 2021	6,813,631	37,090,374	935,774	32,275,826	77,115,605

Accumulated amortisation and impairment:

	Completed development work (game engine)	Completed development work (games)	Licences	Ongoing development work	Total
As at Jan 1 2021	2,858,907	28,212,015	577,853	0	31,648,775
Amortisation expense	491,225	2,156,719	48,055	0	2,695,999
Decrease	0	0	0	0	0
As at Mar 31 2021	3,350,132	30,368,734	625,908	0	34,344,774

There were no research and development costs that did not meet the criteria to be capitalised on initial recognition in the reporting period or comparative periods.

3.14. Trade and other receivables (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Trade and other receivables, including:	8,892,861	16,554,971
Trade receivables	7,617,735	14,727,417
Taxes, grants, customs duties and social security	1,192,636	1,683,182
Other	82,490	144,373
Impairment losses on trade receivables	(20,572)	(69,824)
Total	8,872,289	16,485,147

3.14.1. Trade receivables

The Company recognised impairment losses based on historical credit loss rates determined through an analysis of receivables repayment. The Company also recognises impairment losses for receivables that are past due more than 360 days, but there were no such receivables in the reporting period.

Trade receivables are measured in the accounting books at amounts corresponding to transaction prices adjusted for impairment, if any, in accordance with the expected loss model.

Since the Company has cooperated for years with the same trading partners with a very high financial standing and has never experienced any payment problems in those relations, it applies simplified methods to measure receivables at amortised cost, unless this would distort information contained in its statement of financial position, in particular where the period until the due date for payment is not long. Historically, there have been only minor changes to the list of trading partners through which the Company sells games.

The balances disclosed as at March 31st 2022 included receivables from the Company's largest customers, accounting for over 5% of total trade receivables.

Receivables by customer:

	As at Mar 31 2022	As at Dec 31 2021
Company A	2,609,168	2,695,618
Company B	1,003,224	3,897,600
Company C	695,035	842,087
Company D	582,940	738,970
Company E	521,699	237,241
Company F	516,497	1,094,675
Company G	434,470	540,492

Ageing analysis of trade receivables

	As at Mar 31 2022	As at Dec 31 2021
Short-term	7,423,278	14,465,039
1-30 days	142,205	26,184
31-60 days	41,141	161,488
61-90 days	11,111	1,315
91-120 days	0	2,720
121-360 days	0	70,671
Over 360 days	0	0
Total	7,617,735	14,727,417

The above ageing analysis of trade receivables did not show any receivables past due over 360 days (as at the reporting date), because in the previous periods the Company recovered a portion of impaired receivables and wrote off in full the receivables classified as uncollectible.

Changes in impairment losses on impaired trade receivables:

	As at Mar 31 2022	As at Dec 31 2021
As at beginning of reporting period	69,824	89,197
Recognition	20,572	121,561
Reversal	(69,824)	(74,877)
Use	0	(66,057)
As at end of reporting period	20,572	69,824

Ageing structure of allowance for expected credit losses:

	As at Mar 31 2022	As at Dec 31 2021
Short-term	5,889	10,993
1-30 days	5,702	6,706
31-60 days	2,896	8,856
61-90 days	6,085	653
91-120 days	0	1,491
121-360 days	0	41,125
over 360 days	0	0
Total	20,572	69,824

As at the end of March 2022, only allowances for expected credit losses were recognised. There were no grounds for recognising individual impairment losses on past due receivables.

3.15. Income tax receivable (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Income tax receivable	5,658,243	4,138,348
Total	5,658,243	4,138,348

3.16. Shares in Fool's Theory Sp. z o.o. (associate) (PLN)

Information on the associate investee

Name	Fool's Theory Sp. z o.o.
Principal place of business	Bielsko-Biała
Country of incorporation	Poland
Ownership interest held	40%
% of total voting rights	40%
Investment recognition method	equity method

On February 28th 2022, the Company executed an agreement on the purchase of shares in Fool's Theory sp. z o.o. of Bielsko-Biała ("Fool's Theory"), for which the District Court in Bielsko-Biała, 8th Commercial Division of the National Court Register, maintains register entry number KRS 0000719685, whereby the Company acquired from Jakub Rokosz and Krzysztof Mąka (the "Sellers") 40 shares in Fool's Theory sp. z o.o. with a par value of PLN 50 per share, representing in total 40% of the share capital of Fool's Theory sp. z o.o. This shareholding gives 11 bit studios S.A. significant influence over Fool's Theory.

The investment in 11 bit studios S.A.'s associate is measured using the equity method, in accordance with IAS 29. The investment is initially measured at cost and recognised in the accounting books as a separate category: "Investment in associate Fool's Theory Sp. z o.o."

11 bit studios S.A.'s payment for the acquired shares was divided into two tranches. The first tranche, of PLN 2,619,215.50, was paid on March 9th 2022. The second tranche will be settled in cash 7 (seven) months after the market release of *Vitriol*, developed by Fool's Theory. 11 bit studios S.A. is the publisher of *Vitriol*. The second tranche amount will depend on net revenue generated by the Company from the sale of *Vitriol* within six months from the game's market release and the percentage of positive user ratings on Steam Reviews received by *Vitriol* over that period. According to the agreement, the second tranche amount will be within the range of PLN 1,571,529 – PLN 3,666,901. As at March 31st 2022, the value of the second tranche was estimated at PLN 1,788,303 and recognised in correspondence with a separate category of non-current liabilities: "Liability arising from acquisition of shares in associates" The estimate was based on the planned release date of *Vitriol*, the forecast revenue from the sale of the game and the expected rating at Steam Reviews, and the value so obtained was then discounted using the Company's cost of capital until March 31st 2022.

As at each reporting date, the value of the investment is increased or reduced to account for the Company's share in the profit or loss of the investee recorded after the acquisition date. The Company's share of the investee's profit or loss is recognised in the Company's profit or loss under "Share of profit (loss) of associate". Any distributions of profit generated by the investee reduce the carrying amount of the investment.

Measurement of investment in Fool's Theory Sp. z o.o. as at March 31st 2022

Cost of shares – first tranche	2,619,216
Cost of shares – second tranche (estimate)	1,788,303
Share of Fool's Theory Sp. z o.o.'s profit (loss)	(3,296)
Dividends received from associate	0
Investment in Fool's Theory Sp. z o.o. – carrying amount	4,404,222

On February 28th 2022, the Company also concluded a shareholders agreement with Jakub Rokosz and Krzysztof Mąka setting out detailed rules for managing Fool's Theory's affairs and mutual rights and obligations of its shareholders. The shareholders agreed to prepare an incentive scheme for key employees and associates of Fool's Theory, which would be based on the financial results (cumulative revenue and gross profit) of the company generated in the years 2023–2027. If Fool's Theory achieves the targets set in connection with the incentive scheme for the years 2023–2027, 11 bit studios S.A. will pay Jakub Rokosz and Krzysztof Mąka a bonus in the aggregate amount of PLN 1,000,000. The cost of the bonus will be recognised in accordance with IAS 19 evenly until the end of 2027.

Selected data from the statement of financial position of Fool's Theory Sp. z o.o. as at March 31st 2022

Non-current assets	9,554,518
Current assets	374,193
Cash	64,563
Current liabilities	533,465
Non-current liabilities	0

3.17. Current financial assets (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Financial instruments	57,411,301	80,475,972
Loans to employees	13,026	190,013
Total	57,424,327	80,665,985

The financial instruments included:

	Acquisition date	Measurement as at acquisition date	Interest rate (%)	Measureme nt as at Mar 31 2022	Maturity date
PKO Leasing notes*	February 1st 2022	11,892,479	2.50	11,939,723	June 13th 2022
PKO Leasing notes*	August 3rd 2022	14,827,112	3.20	14,857,010	July 19th 2022
PKO Bank Hipoteczny bonds*	November 19th 2021	9,962,171	0.90	9,994,596	April 22nd 2022
PKO Bank Hipoteczny bonds*	December 2nd 2021	10,463,621	0.90	10,494,324	April 22nd 2022
PKO Parasolowy FIO – Subfundusz Obligacji Samorządowych	December 23rd 2020	10,000,000		10,125,648	
Total		57,145,383		57,411,301	

* The notes issued by PKO Leasing and PKO Bank Hipoteczny are discount notes. They will be redeemed by the Issuers at the nominal price.

The Company classifies its financial instruments as current financial assets as they are used to manage the Company's day-to-day liquidity.

Loans to employees are measured at amortised cost. Loans are granted for a period of 12 months. Loans to employees are presented as current assets due to the remaining repayment period.

3.18. Other current assets (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Insurance	51,051	65,610
Domain names, licences, subscriptions	369,810	438,265
Prepaid expenses	581,139	234,280
Property tax	79,965	0
Perpetual usufruct of land	20,542	0
Other	30,070	14,187
Total	1,132,577	752,342

Other current assets comprised short-term prepayments and accrued income, including prepaid expenses related to industry events (trade fairs) in which the Company will take part in subsequent periods, as well as fees for Internet domains, property insurance, subscriptions, stock exchange fees and charges related to the property located at ul. Brzeska 2 in Warsaw (11 bit studios S.A.'s headquarters).

3.19. Other assets (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Long-term prepayments and accrued income	135,360	99,080
Total	135,360	99,080

Long-term prepayments and accrued income as at the end of March 2022 and as at the end of 2021 included fees for online domains and trademarks.

3.20. Cash and cash equivalents (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Cash in hand and at banks	50,404,801	26,748,530
Total	50,404,801	26,748,530

Cash in hand and at banks as at March 31st 2022, by currency:

- PLN 24,305,658,
- USD 4,892,808 (PLN 20,452,426),
- EUR 1,213,543 (PLN 5,646,010),
- CNY 1,073 (PLN 707).

Cash in hand and at banks as at December 31st 2021, by currency:

- PLN 13,266,773,
- USD 2,353,897 (PLN 9,556,820),
- EUR 853,209 (PLN 3,924,250),
- CNY 1,073 (PLN 686).

When measuring its cash, including in foreign currencies, as at March 31st 2022, the Company also measured expected credit losses (ECL), but the effect was not material.

3.21. Share capital (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Share capital	236,787	236,692
Total	236,787	236,692

As at March 31st 2022, the Company's share capital consisted of 2,367,868 fully paid-up ordinary shares totalling PLN 236,786.80.

3.22. Information on dividend paid or declared

The Company did not pay any dividend in the three months ended March 31st 2022 or three months ended March 31st 2021.

3.23. Borrowings (PLN)

On December 19th 2018, the Company announced that it had entered into a PLN 12,600,000 investment credit facility agreement with PKO BP S.A. to partly finance the purchase of a developed property located at ul. Brzeska 2 in Warsaw. The facility repayment date is December 11th 2028. The facility is repayable in monthly instalments. As at December 31st 2021, the Company had no delays or arrears in its repayment. The facility bears interest at 1M WIBOR plus a fixed bank margin of 0.9pp. Interest rate risk related to the facility is hedged with an interest rate swap over the entire term of the facility, which means that the effective cost of the credit facility is 3.4%. Repayment of the facility is secured with a blank promissory note issued by the Company, together with a promissory note declaration, a contractual mortgage of up to PLN 20,223,000 over perpetual usufruct of land and ownership title to the building erected on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP S.A. As at March 31st 2022, the long-term portion of the facility was PLN 7,245,000 (end of 2021: PLN 7,560,000), while its short-term portion was PLN 1,260,000 (no change).

Financial liabilities of 11 bit studios S.A. (borrowings)

Lender	Borrowed amount	Currency	As at Mar 31 2022	As at Dec 31 2021	Interest Rate	Repayment deadline
PKO BP S.A.	12,600,000	PLN	8,505,000	8,820,000	1M WIBOR +0.9%.	December 11th 2028
Total	12,600,000		8,505,000	8,820,000		

Repayment schedule for the investment credit facility with PKO BP S.A. (principal amount, excluding interest and measurement of IRS) as at March 31st 2021

Lender	Up to 1 month	From 1 to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years	Total
PKO BP S.A.	105,000	210,000	945,000	5,040,000	2,205,000	8,505,000
Total	105,000	210,000	945,000	5,040,000	2,205,000	8,505,000

3.24. Trade and other payables (PLN)

	As at Mar 31 2022	As at Dec 31 2021
Trade payables	932,982	1,302,952
Guarantee deposits – Brzeska 2	6,450	6,150
Taxes, customs duties, insurance and other dues	690,509	744,927
Royalties	5,048,801	5,018,390
Provisions	954,150	661,422
Accruals and deferred income (provision for audit and other invoices)	214,979	231,903
Amounts payable to employees	8,170	5,267
Other	41,796	41,796
Total	7,897,837	8,012,807

As at March 31st 2022, 11 bit studios S.A.'s trade and other payables amounted to PLN 7,897,837, down 1.43% on December 31st 2021. The main item was royalties payable to external game developers whom the Company provides with publishing services. As at the end of 2021, liabilities under royalties were PLN 5,018,390, close to the amount recorded as at March 31st 2022. As at the reporting date, trade payables amounted to PLN 932,982, down 28.39% on the end of 2021 (PLN 1,302,952), mainly due to the payments for purchases of IT equipment made in the last weeks of 2021. Provisions recognised for, among other things, annual bonuses for the Company's employees and associates rose by 44.26%, from PLN 661,422 as at the end of December 2021 to PLN 954,150 as at the end of March 2022.

The Company has financial risk management policies in place to ensure timely payment of liabilities.

Ageing analysis of trade payables:

	As at Mar 31 2022	As at Dec 31 2021
Short-term	758,174	850,795
1-30 days	25,147	452,157
31-60 days	20,276	0
61-90 days	129,385	0
91-120 days	0	0
121-360 days	0	0
over 360 days	0	0
Total	932,982	1,302,952

The Company has financial risk management policies in place to ensure timely payment of liabilities.

Maturity periods of trade payables as at Mar 31 2022

Short-term	From 1 to 30 days	31 to 60 days	From 61 to 90 days	From 91 to 120 days	121 to 360 days and others	Total
181,054	751,928	0	0	0	0	932,982

3.25.Contract liabilities

As at March 31st 2022, liabilities under contracts with customers comprised advance payments received by the Company from its trading partners towards future sales of the Company's products (games).

3.26.Provisions for employee bonuses and other provisions (PLN)

The Company decided that starting from the financial statements for 2021 it will recognise the provision for retirement and disability benefits as a separate provision and present it as long-term provisions in a separate table.

3.26.1.Short-term provisions

	Provision for retirement and disability benefits	Accrued holiday entitlements	Accrued bonuses for Management Board members and employees	Accrued salaries and wages and B2B bonuses	Total
As at Jan 1 2022	501	398,378	57,524	194,629	651,032
Increase:					
Recognition	80	321,489	60,308	213,099	594,976
Decrease:					
Use	0	(181,386)	0	(119,853)	(301,239)
Reversal	0	0	0	(315)	(315)
As at Mar 31 2022	581	538,481	117,832	287,560	944,454

Comparative data for the period from January 1st to March 31st 2021

	Accrued holiday entitlements	Accrued bonuses for Management Board members and employees	Accrued salaries and wages and B2B bonuses	Total
As at Jan 1 2021	322,904	390,000	147,368	860,272
Increase:				
Recognition	372,953	439,720	1,787,951	2,600,624
Decrease:				
Use	297,480	679,224	1,614,818	2,591,522
Reversal		92,972	125,872	218,844

As at Mar 31 2021	398,377	57,524	194,629	650,530
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3.26.2. Long-term provisions

	Provision for retirement and disability benefits	Total
As at Jan 1 2022	10,390	10,390
Increase:		
Recognition	0	0
Decrease:		
Use	0	0
Reversal	(693)	(693)
As at Mar 31 2022	9,697	9,697

3.27. Financial instruments (PLN)

As at the reporting date, the Company analysed its financial assets and concluded that the carrying amounts of the instruments measured at amortised cost did not differ from their fair value both as at March 31st 2022 and December 31st 2021. In the case of instruments measured at fair value, the measurement was based on their market value as at the reporting date.

3.27.1. Financial assets and liabilities

Financial assets:

	As at Mar 31 2022	As at Dec 31 2021
Financial assets measured at amortised cost – cash	50,404,801	26,748,530
Financial assets measured at fair value – investment fund units	10,125,648	10,071,799
Financial assets measured at amortised cost – PKO Leasing notes and PKO Bank Hipoteczny bonds	47,286,653	70,404,173
Financial assets measured at amortised cost – trade and other receivables	8,872,289	16,079,147
Loans to employees measured at amortised cost	13,027	190,013
IRS measured at fair value	647,150	300,567
Total	117,349,568	123,794,229

For a full list of financial assets held by the Company as at March 31st 2022 and measured at fair value, see **Note 3.17**.

Financial liabilities:

	As at Mar 31 2022	As at Dec 31 2021
Trade and other payables	7,897,837	8,012,807
Credit facility	8,505,000	8,820,000
Perpetual usufruct rights to land	769,025	769,981
Total	17,171,862	17,602,788

The Company measures trade and other payables and the credit facility and liabilities under perpetual usufruct of land at amortised cost. The IRS is measured at fair value.

3.27.2.Credit risk

Trade receivables, investment fund units, bonds, notes (bonds and notes held as at March 31st 2022 had fixed interest rates and short (up to several months) maturity periods – **Note 3.17.**), and cash are the key categories of assets exposed to credit risk. The amounts disclosed in the statement of financial position are presented net of impairment losses calculated as expected credit losses, which are estimated by the Company on the basis of past experience and the assessment of current economic conditions.

At present, the Company does not insure its trade receivables. The Company's trading partners are leading global corporations, including Valve Corporation, Microsoft, Nintendo, Apple and Google, which are businesses indisputably enjoying a sound financial position. Amounts due from electronic distribution platforms in respect of games sold are collected in 30 days or less. The Company has never experienced any difficulties with collecting receivables from its trading partners.

For information on the concentration of credit risk related to trade receivables, see **Note 3.14.** The Company regularly monitors payments from trading partners and has not identified any problems in this area.

The Company has business relationships with financial institutions that enjoy a strong financial standing. As at March 31st 2022, the Company held cash with two institutions: PayPal (PLN 450,065) and the PKO BP S.A. Group (the balance).

Measurement of investment fund units may be subject to periodic fluctuations as a result of marking to market. The Company assesses the market risk as low as the funds are held with in safe financial institutions – open-ended investment funds.

3.27.3.Fair value measurement methods

The Company did not change the methods used to measure financial instruments relative to the prior reporting period.

The fair value of financial assets and liabilities listed on active markets is determined based on their quoted prices (Level 1 inputs). The fair value of other items is determined based on either directly or indirectly observable inputs (Level 2 inputs) or unobservable inputs (Level 3 inputs).

The fair value of bonds and notes is measured at cost, plus any outstanding interest and discount determined using the effective interest rate. The fair value of investment fund units is

determined based on market prices (daily valuations). The fair value of loans for employees is determined based on future cash flows, discounted at the current interest rate on loans.

Financial assets measured at fair value:

	As at Mar 31 2022	As at Dec 31 2021	Fair value hierarchy
Investment fund units	10,125,648	10,071,799	Level 2
Remeasurement of IRS	647,150	300,567	Level 3

In the reporting period, the Company did not change its fair value hierarchy classification policies.

Financial assets measured at amortised cost:

	As at Mar 31 2022	As at Dec 31 2021	Fair value hierarchy
Bonds and notes	47,286,653	70,270,813	Level 2
Loans to employees	13,027	190,013	Level 3

In the reporting period, the Company did not change its fair value hierarchy classification policies.

3.28. Deferred income

	As at Mar 31 2022	As at Dec 31 2021
Government grants*	635,711	635,711
Total	635,711	635,711
Short-term	0	0
Long-term	635,711	635,711
Total	635,711	635,711

* The amount represents a government grant (EU funding) received in 2017 under the Creative Media programme for the development of Project 8. Income from the grant has not been accounted for yet. It will be recognised against amortisation charges in the coming years.

3.29. Share-based payments (PLN)

3.29.1. Employee stock option plan for 2021–2025

Pursuant to Resolution No. 03/01/2021 of the Company's Extraordinary General Meeting of January 21st 2021, the Company operates an Incentive Scheme for members of the Management Board, employees and independent contractors. Persons who signed Incentive Scheme participation agreements with the Company will be entitled to acquire Series C subscription warrants convertible into Series H shares, subject to meeting the targets set for the Company and defined in the Incentive Scheme Rules.

The Incentive Scheme covers the years 2021–2025. Persons who have the right to acquire the warrants will be entitled to exercise them by subscribing for Series H shares by June 30th 2029.

Pursuant to Resolution No. 05/01/2021 of the Extraordinary General Meeting of January 21st 2021, the Company may issue up to 125,000 Series H shares with a par value of PLN 0.10 per share and total par value of PLN 12,500 for the purposes of the Incentive Scheme. Upon proposal from the Company's Management Board, the Supervisory Board will pass a resolution, promptly after the Annual General Meeting approving the Company's financial statements for the financial year 2025, to grant Series C subscription warrants to the Incentive Scheme participants, in such number as specified in the Management Board's proposal.

The grant of the warrants is subject to the achievement of the following financial targets (in PLN) by the Company:

Total revenue of 11 bit studios S.A., 2021–2025	656,000,000
Total profit before tax of 11 bit studios S.A., 2021–2025	328,000,000

If the financial targets are not fully met, the pool of shares offered under the Incentive Scheme will be reduced by 4% for each 1% of the underperformance. If the financial targets are exceeded, the issue price of Series H shares will be reduced by 1% for each incremental 2% of the over performance, however, the discount amount may not exceed 10% of the issue price. The issue price of Series H shares under the 2021–2025 Incentive Scheme was set at PLN 474.93.

3.29.2. Recognition of the 2021–2025 Incentive Scheme

The fair value of warrants granted under the Incentive Scheme has been estimated using the Damodaran warrant pricing model, which takes into account the Company's share price as at the date of signing the Incentive Scheme participation agreement (the grant date) and its annual volatility. This value is charged to profit or loss proportionately over the entire settlement period for the five-year Incentive Scheme, and is recognised as capital reserve. The terms and conditions of the incentive scheme are based on the achievement of the general corporate objectives, and therefore, as the condition of direct allocation to an asset is not satisfied, these costs do not meet the capitalisation requirement and are recognised in the Company's profit or loss. The key parameters of the model used to calculate the fair value of the potential Incentive Scheme premium and the costs to be charged to profit or loss in a given period are presented below:

Start date of the Scheme	January 1st 2021
Grant date (date of signing the participation agreements)	March 10th 2021
Vesting date	December 31st 2025
11 bit studios S.A. share price on the grant date (PLN)	517
Six-month volatility of 11 bit studios S.A. share price (%)	34.43%
Risk-free rate (%)	0.86%
Number of Incentive Scheme warrants	125,000
Number of Incentive Scheme warrants granted as at Mar 31 2022	83,750
Measurement of warrants (PLN)	199.84
Scheme valuation as at Mar 31 2022 (PLN)	16,736,883

Statement of profit or loss – employee benefits expense in 2021	3,347,377
Statement of profit or loss – employee benefits expense in 2022	836,844
Total Incentive Scheme cost as at Dec 31 2025 remaining to be recognised (PLN)	12,552,662

The costs of the 2021–2025 Incentive Scheme are recognised over its entire term. The financial objectives set out in the Scheme are Group-wide and have not been set for individual persons (participants of the Scheme). All costs of the Scheme are recognised as they are incurred in the statement of profit or loss and are not partly capitalised in the Company's statement of financial position.

3.30.Related-party transactions (PLN)

Related parties include members of the Management Board and the Supervisory Board and key personnel of the Company (key management).

- Przemysław Marszał – President of the Management Board
- Grzegorz Miechowski – Member of the Management Board
- Michał Drozdowski – Member of the Management Board
- Wojciech Ozimek – Chairman of the Supervisory Board (resigned from the Supervisory Board on April 15th 2021)
- Jacek Czykiel, Deputy Chairman of the Supervisory Board
- Radosław Marter – Member of the Supervisory Board, Chairman of the Supervisory Board since April 15th 2021
- Marcin Kuciapski, Member of the Supervisory Board
- Piotr Wierzbicki, Member of the Supervisory Board
- Artur Konefał – Member of the Supervisory Board (since April 15th 2021)

In addition, the Company's related parties include also the following persons related to members of the key management:

- Paweł Miechowski – Marketing Manager, brother of Grzegorz Miechowski, Member of the Management Board,
- Kancelaria Radcy Prawnego Agnieszki Rabenda-Ozimek (law office); Agnieszka Rabenda-Ozimek is married to Wojciech Ozimek, Chairman of the Supervisory Board (until April 15th 2021).

Fool's Theory Sp. z o.o., in which 11 bit studios S.A. has held 40% of shares since February 28th 2022 (see **Note 3.16**), is also classified as a related party.

3.30.1.Sale transactions

Apart from the services provided by members of the Company's Management Board as described in **Note 3.30.4.**, the Company entered into the following related-party transactions in the three months ended March 31st 2022 and three months ended March 31st 2021:

	Period ended Mar 31 2022	Period ended Mar 31 2021
Arkona – Paweł Miechowski	60,000	55,500
Kancelaria Radcy Prawnego Agnieszka Rabenda-Ozimek*	not applicable	7,739
Fool's Theory Sp. z o.o.**	1,612,355	not applicable
Total	1,672,355	63,239

* Kancelaria Radcy Prawnego Agnieszki Rabenda-Ozimek (law firm) ceased to be a related party to the Company as of April 15th 2021.

** "Fool's Theory Sp. z o.o. became a related party of 11 bit studios S.A. as of February 28th 2022.

3.30.2.Loans advanced to related parties

As in the comparative period, in the reporting period the Company did not advance any loans to related parties.

3.30.3.Borrowings from related parties

The Company did not receive any loans from related parties in the three months ended March 31st 2022 or March 31st 2021.

3.30.4.Remuneration of members of the Management Board, key personnel and members of the Supervisory Board

The Company's key management personnel are its Management Board. In the three months ended March 31st 2022 and in the comparative period, the members of the Company's Management Board and Supervisory Board were remunerated as follows for discharging managerial and supervisory responsibilities:

	Period ended Mar 31 2022	Period ended Mar 31 2021
Short-term benefits – Management Board:	517,923	408,570
Short-term benefits – Supervisory Board:	91,433	37,350
Total	601,356	445,920

On June 9th 2020, the Company's Annual General Meeting passed a resolution (No. 20/06/2020) to adopt a remuneration policy for members of the Company's Management and Supervisory Boards. The full text of the remuneration policy is available on the Company's website in the Investor Relations tab.

The members of the Company's Management Board did not receive any other remuneration in the form of profit distributions or stock options for the three months ended March 31st 2022 or 3 months ended March 31st 2021. However, they participate in the 2017–2019 Incentive Scheme and the 2021–2025 Incentive Scheme, as described in detail (together with the valuation) in **Note 3.29.**

In addition, members of the Management Board received the following consideration for services under civil-law contracts:

Short-term benefits – Management Board:

	Period ended Mar 31 2022	Period ended Mar 31 2021
Short-term benefits – Management Board (civil-law contracts)	45,000	45,000
Total	45,000	45,000

3.30.5. Other related-party transactions

Apart from the transactions described above, the Company did not enter into any other related-party transactions.

3.31. Off-balance-sheet commitments

As at the issue date of these financial statements, the Company had off-balance-sheet commitments of EUR 3,142,500, USD 173,000, and PLN 3,636,728. The commitments are related to publishing agreements executed by the Company with third-party development studios.

3.32. Contingent assets and liabilities

3.32.1. Contingent liabilities

Security for an investment credit facility contracted with PKO BP S.A. in December 2018 to finance a part of the purchase price for the property at ul. Brzeska 2 in Warsaw, comprising a blank promissory note issued by the Company, together with a promissory note declaration, contractual mortgage of up to PLN 20,223,000.00 over perpetual usufruct of land and ownership title to the building erected on the property, and an assignment of cash receivables under an insurance contract for the property in favour of PKO BP.

Promissory note declaration (blank promissory note) in favour of the National Centre for Research and Development as security for the proper performance of obligations under co-funding agreement No. POIR.01.01.01-00-0231/20-00.

3.33. Seasonal and cyclical changes in the Company’s business during the reporting period

In the three months ended March 31st 2022, the Company did not record any unusual seasonal or cyclical fluctuations.

3.34. Factors and events, especially of a non-recurring nature, with a bearing on the financial results

In the reporting period, on February 24th 2022, Russia invaded Ukraine, starting a military conflict which was ongoing as at the issue date of these financial statements. The Company actively engaged in relief efforts for the Ukrainian victims of the war and already on the first day of Russia’s

invasion of our eastern neighbour it decided that all revenue generated in the following week from the sale of *This War of Mine*, together with DLCs, would go to the Ukrainian Red Cross. The initiative met with a very good response from fans and media globally (the world's leading media, including *The Washington Post*, wrote about the initiative). As a result, within seven days the Company raised as much as USD 850,000 (PLN 3,670,405) and donated the funds in April 2022. The entire amount increased the Company's revenue in the first quarter of 2022 and the donation was recognised as other expenses.

3.35. Events subsequent to the reporting date

No events occurred which would have an impact on these interim condensed financial statements for the three months ended March 31st 2022 by the date of their authorisation for issue by the Company's Management Board on May 25th 2022.

3.36. Factors with bearing on the Company's future results

Over the next few quarters, including in 2022, 11 bit studios S.A.'s performance will be determined chiefly by future sales of *Frostpunk* and paid DLCs released for this title as part of the Season Pass. The Company's strong financial performance in the three months ended March 31st 2022, fuelled by the sale of *Frostpunk*, shows that the game still has a strong monetisation potential, which supports the expectation that its life cycle will be long, as is the case for *This War of Mine*. The Company intends to maintain gamers' interest in *Frostpunk* through promotional and marketing activities, and to capitalise on this IP in other, non-digital fields, a case in point being the board game version of the title that has been produced for a few quarters now by Glass Cannon Unplugged. A noteworthy event will be the upcoming release of the game's mobile version, being developed by 11 bit studios S.A.'s Chinese partner, NetEase, a global leader in the segment of games for mobile devices. In addition, a series of novels and short stories centred on the *Frostpunk* universe is under preparation. The project is supervised by Jacek Dukaj, a science fiction writer, one of the most popular in Poland and known globally.

This War of Mine will also be a significant revenue driver for 11 bit studios S.A. over the next quarters, although its contribution will gradually decrease due to the natural obsolescence of the game. More than seven years from its release, *This War of Mine* is still very popular with computer game fans thanks to its unique theme (war seen through the eyes of civilians). Since the fourth quarter of 2019, the Company has not been engaged in any development work on *This War of Mine*, but has been taking various efforts to maintain its sales. One example is the release of the game for PS5 and Xbox Series S|X after the reporting period (on May 10th 2022). *This War of Mine's* version for the latest consoles features a number of graphic improvements. It has also been adapted to support 4K resolution.

An important source of 11 bit studios S.A.'s revenue and profits in subsequent periods will be the productions from the publishing portfolio, especially *Moonlighter* and *Children of Morta*. However, as in the case of proprietary games, revenue from this source is expected to decline gradually despite the effort undertaken by the Company owing to natural ageing of the products.

In the first quarter of 2022, revenue from sale of games created by third-party developers accounted for 24% of the Company's total revenue. A year earlier, the share was 27%.

In the longer term of a few years, 11 bit studios S.A.'s financial results will be driven by the releases of new games in the proprietary and publishing portfolios. As at the issue date of these financial statements, the pipeline of games created by third-party development teams consisted of three items. All of them are based on Unreal Engine, produced by Epic Games. The total production budget of the three proprietary games, i.e., *Frostpunk 2*, *Project 8* and *Dolly* (the latter two are working titles), is approximately PLN 110m. To compare, the production budget of *Frostpunk* (PC version) was below PLN 10m. The teams working on each of the games consist of approximately 70, over 45 and more than 40 people, respectively, and are being steadily expanded. This is in line with the Company's medium-term strategy for the next few years, which is to have three in-house development teams, comparable in size (each approximately 60–80 people strong). Assuming a production cycle of about three to four years for each game, with three teams 11 bit studios S.A. would be able to release one proprietary title a year.

In the coming quarters and years, the Company's performance will also be materially supported by the publishing division. In the last quarters, the Company focused on significant strengthening and expanding of the publishing team potential and intensified its efforts to acquire new products for the publishing portfolio. The publishing portfolio of 11 bit studios S.A. currently consists of four projects. The first of the agreements provides for publishing a game with a working title of *Vitriol*, produced by Fool's Theory Sp. z o.o. of Bielsko-Biała. The producer of the next game, *Botin* (code name) is Digital Sun Games of Spain, the studio behind the development of *Moonlighter*. The third game, with a code name of Ava, is being developed by a Spanish studio Chibig. The most recent publishing project is *South of The Circle* (the Company announced the execution of the agreement after the reporting period). The game, produced by UK's State of Play, a studio which has won numerous international awards including BAFTA, should soon make its market debut in more than a dozen language versions for PCs, Nintendo Switch, Xbox Series S|X, Xbox One, PlayStation 5 and PlayStation 4. The total investment budget (for 11 bit studios S.A.) allocated to those titles is approximately PLN 30m. To compare, the Company had invested slightly over PLN 2m in each of *Moonlighter* and *Children of Morta*. As at the issue date of these financial statements, the total value of the Company's commitments under those projects was EUR 3,142,500, USD 173,000 and PLN 3,636,728.

It is 11 bit studios S.A.'s intention to rapidly expand the publishing portfolio in order to implement its medium-term (a few years') strategy that provides for releasing three to four third-party developed games each year. Therefore, the Company is ready to spend another PLN 50m by the end of 2023 on new projects developed by third-party studios. Advanced talks are under way on new publishing contracts, including with foreign teams.

An element which also may have a material bearing on the Company's performance in the future is planned acquisitions, designed to expand and strengthen the capabilities and market position of 11 bit studios S.A. On February 28th 2022, the Company announced the acquisition of 40% of shares in Fool's Theory Sp. z o.o. (the producer of *Vitriol*, to be published by 11 bit studios S.A.). For details of the transaction, see **Note 3.16**. As at the issue date of these financial

statements, the Company was holding talks with several other entities, which were at various stages of advancement. Potential transactions will preferably be financed with internally generated funds. However, the Company does not exclude other acquisition financing models.

3.37. Description of material proceedings pending before a court, arbitration body or state administration authority

The Company is neither the subject of nor a party to any material proceedings pending before a court, a competent arbitration body or a state administration authority.

3.38. Management Board's representation

We represent that, to the best of our knowledge, these interim condensed financial statements and the comparative financial data have been prepared in accordance with the applicable International Financial Reporting Standards (IFRSs) as endorsed by the European Union, and that they give a clear, true and fair view of the Company's assets, financial position and financial performance.

These interim condensed financial statements have been prepared on a historical cost basis. These interim condensed financial statements do not include all information and disclosures required in full-year financial statements and should be read in conjunction with the full-year financial statements for 2021, including notes, for the period of 12 months ended December 31st 2021, prepared in accordance with the IFRS as endorsed by the EU.

These interim condensed financial statements are not subject to auditing by an independent auditor.


3.39. Authorisation of financial statements

These interim condensed financial statements were authorised for issue by the Management Board on May 25th 2022.

Signed by:



Przemysław Marszał
President of the
Management Board



Grzegorz Miechowski
Member of the
Management Board



Michał Drozdowski
Member of the
Management Board

Warsaw, May 25th 2022