

CI Games Group

Independent Statutory Auditor's Opinion and Report
Financial year ended
December 31, 2013

INDEPENDENT STATUTORY AUDITOR'S OPINION

To the Shareholders and Supervisory Board of CI Games S.A.

We reviewed the enclosed consolidated financial statements of the group whose Parent is CI Games S.A., having its registered office in Warsaw, ul. Puławska 182 (the Parent), which consist of the consolidated balance sheet drawn up as at December 31, 2013, consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the period from January 1, 2013 to December 31, 2013, together with notes to the financial statements.

The Parent's management is responsible for drawing up the financial statements and report on the Group's operations in accordance with legal regulations.

The Parent's Management Board and members of the Supervisory Board or other supervisory body are required to ensure that the consolidated financial statements and report on the Group's operations fulfill the requirements provided for in the Accounting Act of September 29, 1994 (Polish Journal of Laws of 2009, no. 152, item 1223 as amended), hereinafter referred to as the "Polish Accounting Act".

Our objective was to audit and express an opinion on whether the consolidated financial statements are compliant with the Group's required accounting principles (policy), whether they reliably and clearly present all significant aspects of the financial situation, asset position and financial result of the Group.

We audited the consolidated financial statements in accordance with the following:

- 1) Section 7 of the Polish Accounting Act;
- 2) National financial audit standards issued by the National Chamber of Statutory Auditors in Poland.

We planned and carried out the audit of the consolidated financial statements in such manner as to gain the rational certainty necessary for us to express an opinion on the statements. In particular, the audit covered verification of the accounting principles (policies) and significant estimates applied by the Parent and examination, primarily on a test basis, of evidence supporting the figures and disclosures in the consolidated financial statements, together with an overview of the consolidated financial statements.

We consider that the audit provided us with sufficient basis to provide an opinion.

In our opinion, the audited consolidated financial statements, in all significant aspects:

- a) give a true and accurate view of all information significant for assessment of the Group's financial situation and asset position as at December 31, 2013, as well as its financial result for the financial year January 1 to December 31, 2013,
- b) were drawn up in accordance with International Accounting Standards, International Financial Reporting Standards and associated interpretations published in the form of European Commission regulations, and where not governed by such standards then appropriate to the requirements of the Polish Accounting Act and secondary legislation issued on its basis, and also pursuant to correctly maintained accounts,

- c) are compliant with the provisions of law binding on the Group which impact the content of financial statements.

Without raising reservations as to the correctness and accuracy of the audited consolidated financial statements, we point out the Management Board's assumptions regarding the Group's status as a going concern, as presented in point 2 c) of the introduction to the financial statements.

The management report on the Group's operations is complete in the meaning of art. 49, sec. 2 of the Polish Accounting Act and complies with the Ordinance of the Minister of Finance of February 19, 2009 on current and periodic information provided by issuers of securities and the conditions for recognizing information required by the law of a non-member state as equivalent (Polish Journal of Laws of 2009, no. 33, item 259), and the information contained in it, as sourced from the audited consolidated financial statements, is compliant therewith.

[signature]

Statutory Auditor no. 11505

Jędrzej Szalacha

Lead Statutory Auditor

conducting the audit

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

Entity authorized to audit financial statements, entered into the list of authorized entities, no. 3767, held by the National Chamber of Statutory Auditors.

Warsaw, March 21, 2014

CI Games Group

Report on Audit of the Financial Statements
Financial year ended
December 31, 2013

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I. GENERAL PART OF THE REPORT

1. Identification data and basic information on the Group and Parent

1.1. Name, legal form and registered address of the Parent

CI Games S.A.
ul. Puławska 182
03-821 Warsaw, Poland
Hereinafter the Company or Parent

1.2. Objects of the Parent

In accordance with the Parent's articles of incorporation, its principal objects are:

- manufacture of electronic games, including computer games,
- manufacture of computer media;
- production of audio recordings, video recordings and reproduction of computer media;
- retail sale of computer games, audio recordings, video recordings and computer media;
- computer hardware and software advisory;
- software distribution;
- advertising;
- wholesale of electronic games, audio recordings, video recordings and computer media;
- publishing activity;
- printing activity;
- retail sale of books, newspapers and written material;
- retail sale outside of a network of stores;
- data processing;
- database activity;
- activity connected with film and the video industry;
- other forms of education not elsewhere classified;
- recruitment and provision of personnel;
- commercial activity not elsewhere classified;
- research and development work in technical sciences.

1.3. Legal basis for the Parent's operations

The Parent was formed through transformation from City Interactive Sp. z o.o. The resolution on transformation was adopted by the general meeting of City Interactive Sp. z o.o. on May 16, 2007. The duration of the Company is unlimited. The Company is registered at the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division of the National Court Register, entry number KRS 0000282076.

Pursuant to a resolution of the Ordinary General Meeting of Shareholders of April 23, 2013, the Parent's name was changed to CI Games S.A. Change of the Parent's name was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division, on August 7, 2013.

1.4. Parent's registration for tax and statistical purposes

NIP (taxpayer identification number): 1181585759
REGON (statistical identification number): 017186320

1.5. Parent's share capital

As at December 31, 2013, the Parent's share capital (registered and unregistered) was PLN 1 391 499.90, divided into 13 914 999 shares with a nominal value of PLN 0.10 each. Shares are not preferred shares.

Pursuant to a resolution of the Management Board of CI Games S.A. of December 4, 2013, the Company's share capital was increased by PLN 126 499.90 through the issue of 1 264 999 ordinary shares (not preferred) with a nominal value of PLN 0.10 each. The issue price per share was PLN 9. The subscription was private. The Management Board was authorized to increase the Company's share capital under issued capital pursuant to a resolution of the Extraordinary General Meeting of Shareholders of November 14, 2013. The share capital increase was registered by the District Court for the Capital City of Warsaw in Warsaw, 13th Commercial Division, on January 8, 2014. Pursuant to resolution 122/2014 of the Management Board of Giełda Papierów Wartościowych w Warszawie S.A., said board decided to introduce the shares, in a standard manner, to trading on the parallel market on February 6, 2014.

The Parent's shareholding structure as at December 31, 2013 was as follows (registered capital as at December 31, 2013, together with capital paid-up and taken-up as at December 31, 2013, but registered on January 8, 2014):

Shareholder name	Number of shares	Nominal value of shares (PLN thousands)	Number of votes held (%)	Type of shares
Marek Tymiński	6 356 357	635.6	45.7%	Ordinary
Quercus Parasolowy SFIO	846 962	84.7	6.1%	Ordinary
Others	6 711 680	671.2	48.2%	Ordinary
	13 914 999	1 391.5	100%	

CI Games S.A. is parent of the CI Games Group, and draws up consolidated financial statements.

1.6. Parent's Management Board

The Parent's Management Board performs management functions.

As at December 31, 2013, the Parent's Management Board comprised:

- Marek Tymiński – President of the Management Board

Andreas Jaeger resigned as Member of the Management Board on March 13, 2013.

1.7. Information on the entities comprising the Group

As at December 31, 2013, the CI Games Group comprised the following entities:

- CI Games S.A. – parent,
- CI Games Germany GmbH – wholly-owned subsidiary,
- CI Games USA Inc. – wholly-owned subsidiary,
- Business Area Sp. z o.o. – wholly-owned subsidiary,
- City Interactive Studio S.R.L. – wholly-owned subsidiary,
- Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna – 99.99% interest held by CI Games S.A. 0.01% held by Business Area Sp. z o.o.,
- CI Games Cyprus Ltd. – wholly-owned subsidiary,
- CI Games Spółka Akcyjna Spółka Jawna – subsidiary of Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna (99.99%), with 0.01% held by CI Games S.A.
- City Interactive Canada Inc. – wholly-owned subsidiary,
- City Interactive Peru SAC – 99%-owned subsidiary,
- City Interactive Jogos Electronics LTDA – wholly-owned subsidiary (90% of shares held by CI Games S.A., 10% held by CI Games USA Inc.),
- City Interactive Mexico S.A. de C.V. – wholly-owned subsidiary (95% of shares held by CI Games S.A., 5% held by CI Games USA Inc.).

The following entities with continuing operations were fully consolidated in the Group's consolidated financial statements drawn up for the financial year January 1 to December 31, 2013:

- CI Games S.A. – parent,
- CI Games Germany GmbH – subsidiary,
- CI Games USA Inc. – subsidiary,
- Business Area Sp. z o.o. – subsidiary,
- City Interactive Studio S.R.L. – subsidiary,
- Business Area Spółka z ograniczoną odpowiedzialnością Spółka Jawna – subsidiary,
- CI Games Cyprus Ltd. – subsidiary,
- CI Games Spółka Akcyjna Spółka Jawna – subsidiary.

Other entities within the Group were not subject to consolidated due to the fact that their financial data is immaterial from the viewpoint of evaluating the Group's financial position and/or their operations were discontinued and appropriate impairment losses and provisions were created at the Parent's level.

1.8. Information on audit of the financial statements of entities comprising the Group

We conducted the audit of the financial statements of the Parent, CI Games S.A., for the financial year January 1 to December 31, 2013 and issued an unqualified opinion on March 21, 2014.

The financial statements of CI Games USA Inc. were audited by Tanton and Company LLP Accountants & Consultants (New York, USA) and the opinion of March 3, 2014 did not include any reservations.

The financial statements of other entities comprising the Group were not audited by a statutory auditor.

2. Information on the financial statements for the preceding year

The CI Games Group's consolidated financial statements for the preceding financial year, i.e. the year ended December 31, 2012 were audited by CSWP Audyt Sp. z o.o. Sp. k. and the independent statutory auditor's opinion, dated March 7, 2013, did not contain reservations but included the following supplementary explanation:

"Without raising reservations as to the correctness and accuracy of the audited consolidated financial statements, we point out that:

- As at the end of the reporting period the Group maintained low liquidity ratios and generated a loss for the financial year. The Parent's Management Board believes that this does not constitute a threat to the Group's status as a going concern, as described in point 2 c) of the introduction to the consolidated financial statements,
- The Parent did not publish the financial statements for the preceding year in the *Monitor Polski B* official gazette."

On April 23, 2013, the Parent's general meeting approved the financial statements for the preceding year.

The consolidated financial statements for the preceding year were submitted to the National Court Register on July 12, 2013.

The closing balance as at the end of the preceding financial year was correctly introduced into the accounts as the opening balance for the audited year.

3. Data identifying the authorized entity and lead statutory auditor

3.1. Entity authorized to audit the financial statements

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.
ul. Kopernika 34
00-336 Warsaw, Poland

NIP: 525-25-23-102
REGON: 145894054
KRS: 0000402544

Company registered at the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register.

Entry into the list of entities authorized to audit financial statements: no. 3767.

3.2. Lead statutory auditor

Jędrzej Szalacha, statutory auditor no. 11505.

3.3. Information on the agreement on provision of assurance services, audit dates and independence

The basis for performance of the audit is the agreement of June 19, 2013. The decision on selection of statutory auditor was taken through the resolution of the Parent's Supervisory Board of June 19, 2013.

The time frame for audit of the financial statements at the Parent's registered office was as follows:

- From July 24 to August 1, 2013 – initial audit,
- From January 27 to January 31, 2014 and from February 17 to February 21, 2014 – final audit.

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k., the lead statutory auditor and persons participating in the audit of the Group's consolidated financial statements fulfill the requirements for independence in relation to all Group entities in the meaning of art. 56, sections 3 and 4 of the act on statutory auditors and their self-regulation, entities authorized to audit financial statements and public oversight.

II. ANALYTICAL PART OF THE REPORT

1. Group financial data

1.1. Consolidated balance sheet – assets

ASSETS	Dec. 31, 2013 (PLN thousands)	% share in carrying value	Dec. 31, 2012 (PLN thousands)	% share in carrying value
Non-current assets				
Property, plant and equipment	1 967	2.0	1 425	2.0
Intangible assets	43 785	44.7	38 108	52.6
Goodwill	-	-	9	0.0
Interests in subsidiaries, associates and jointly controlled entities	5	0.0	18	0.0
Deferred income tax assets	22 479	22.9	5 291	7.3
Other non-current assets	-	-	32	0.0
Total non-current assets	68 236	69.6	44 883	61.9
Current assets				
Inventories	3 336	3.4	2 357	3.3
Current investments	27	0.0	43	0.1
Advances paid	473	0.5	100	0.1
Trade and other receivables	9 528	9.7	6 108	8.4
Income tax receivables	3 125	3.2	-	-
Cash and cash equivalents	11 208	11.5	16 474	22.8
Other current assets	2 064	2.1	2 492	3.4
Total current assets	29 761	30.4	27 574	38.1
TOTAL ASSETS	97 997	100.0	72 457	100.0

In 2013, the Parent, as a partner in a civil partnership, became an income tax payer on behalf of subsidiary CI Games Spółka Akcyjna Spółka Jawna. The principle assets of CI Games Spółka Akcyjna Spółka Jawna are trademarks which were offset at consolidation. In connection with a temporary difference between the tax value and carrying value of the Group's trademarks, a deferred income tax asset was recognized, resulting in an increase in non-current assets.

1.2. Consolidated balance sheet – equity and liabilities

EQUITY AND LIABILITIES	Dec. 31, 2013 (PLN thousands)	% share in carrying amount	Dec. 31, 2012 (PLN thousands)	% share in carrying amount
Equity				
Share capital	1 391	1.4	1 265	1.7
Share premium	15 530	15.9	4 556	6.3
Exchange differences on translation of foreign operations	22	0.0	(54)	0.1
Buy-back provision	16 000	16.3	16 000	22.1
Retained earnings	47 604	48.6	17 891	24.6
Total equity	80 547	82.2	39 658	54.6
Liabilities and provisions				
Non-current liabilities				
Provision for pensions and similar	33	0.0	32	0.1
Finance lease liabilities	13	0.0	39	0.1
Deferred income tax provision	1 076	1.1	44	0.1
Total non-current liabilities	1 122	1.1	115	0.3
Current liabilities				
Borrowings including credits, loans and debt instruments	5 720	5.9	20 602	28.4
Deferred tax liabilities	492	0.5	-	-
Trade payables	8 290	8.5	8 030	11.1
Finance lease liabilities	25	0.0	51	0.1
Other liabilities	302	0.3	286	0.3
Other current provisions	1 499	1.5	988	1.4
Deferred income	-	-	2 727	3.8
Total current liabilities	16 328	16.7	32 684	45.1
TOTAL EQUITY AND LIABILITIES	97 997	100.0	72 457	100.0

Equity increased in comparison with the preceding year as a result of the net profit generated for 2013 and a share issue.

The decrease in liabilities results from repayment of bonds which were issued by the Parent to finance the Sniper: Ghost Warrior 2 release that took place in March 2013.

1.3. Consolidated statement of profit and loss

	Jan. 1, 2013 – Dec. 31, 2013 (PLN thousands)	% share in revenue from sales	Jan. 1, 2012 – Dec. 31, 2012 (PLN thousands)	% share in revenue from sales
CONTINUING OPERATIONS				
Net revenue from sales				
Revenue from sale of products and services	66 188	61.7	40 151	97.4
Revenue from sale of goods for resale and materials	41 102	38.3	1 054	2.6
	107 290	100.0	41 205	100.0
Cost of products, goods for resale and services sold				
Cost of manufacture of products sold	(56 984)	53.1	(29 585)	71.8
Value of goods for resale and materials sold	(606)	0.6	(641)	1.6
	(57 590)	53.7	(30 226)	73.4
Gross profit/(loss) on sales	49 700	46.3	10 979	26.6
Other operating revenue	1 175	1.1	329	0.8
Distribution costs	(18 269)	17.1	(9 691)	23.5
Administrative expenses	(6 612)	6.3	(5 973)	14.5
Other operating costs	(10 236)	9.5	(17 074)	41.4
Profit/(loss) on operating activities	15 758	14.7	(21 430)	52.0
Finance income	107	0.1	442	1.1
Finance costs	(1 827)	1.7	(2 383)	5.8
Profit/(loss) before tax	14 038	13.1	(23 371)	56.7
Income tax	15 675	14.6	3 577	8.7
Profit/(loss) on continuing operations	29 713	27.7	(19 794)	48.0
Net profit/(loss)	29 713	27.7	(19 794)	48.0

The increase in revenue and profitability results primarily from the March 2013 release of Sniper: Ghost Warrior 2.

The 2013 result was also substantially affected by the recognition of a deferred income tax asset concerning a temporary difference between the book value and tax value of trademarks belonging to the Group.

1.4. Consolidated statement of comprehensive income

	Jan. 1, 2013 – Dec. 31, 2013 (PLN thousands)	% share in revenue from sales	Jan. 1, 2012 – Dec. 31, 2012 (PLN thousands)	% share in revenue from sales
Net profit	29 713	27.7	(19 794)	(48.0)
Total other comprehensive income				
Result of translation of foreign operations	76	0.1	(44)	0.1
Result of hedging instrument measurement	-	-	2 098	5.1
	76	0.1	2 054	5.0
Total comprehensive income for the financial year	29 789	27.8	(17 740)	43.1

In 2012, other comprehensive income mainly concerned reversal of hedging instrument measurement which was done as at December 31, 2011.

2. Analysis of the Group's financial data

	2013	2012	2011
1. Net sales margin			
$\frac{\text{Net profit} \times 100\%}{\text{Net revenue}}$	27.7%	Negative value	20.7%
2. Return on equity			
$\frac{\text{Net profit} \times 100\%}{\text{Equity} - \text{net profit}}$	58.5%	Negative value	41.4%
3. Receivables turnover			
$\frac{\text{Net trade receivables} \times 365 \text{ days}}{\text{Net revenue from sales}}$	32 days	54 days	65 days
4. Debt ratio			
$\frac{\text{Liabilities and provisions for liabilities} \times 100\%}{\text{Total equity and liabilities}}$	17.8%	45.4%	18.2%
5. Current ratio			
$\frac{\text{Current assets}}{\text{Current liabilities}}$	1.8	0.8	3.3

The Group's FY results are substantially dependent on game releases due to the fact that the majority of sales take place in the initial post-release period, i.e. "day one." Once a game is released, it is fairly easy to predict whether it will be a success or will impairment losses need to be recognized.

Due to the above, ratios are incomparable from year to year, and are thus not subject to interpretation.

2013 saw the release of Sniper: Ghost Warrior 2, however other unprofitable game projects resulted in the recognition of a PLN 8 million impairment loss.

The Group intends to release two important games in 2014, works on which are currently being finalized.

III. DETAILED PART OF THE REPORT

1. Extent of the audit

The audit was carried out for the shareholders and Supervisory Board of CI Games S.A., having its registered office in Warsaw at ul. Puławska 182.

The consolidated financial statements comprise a consolidated balance sheet drawn up as at December 31, 2013, consolidated statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the financial year January 1 to December 31, 2013, and notes to the consolidated financial statements.

There was no limitation in the extent of the audit and the Parent's Management Board submitted and provided access to all declarations, explanations, documents and information requested by the auditor.

2. Basis for drawing up the consolidated financial statements

The consolidated financial statements were drawn up in accordance with International Accounting Standards, International Financial Reporting Standards and associated interpretations published in the form of European Commission regulations, and where not governed by such standards then appropriate to the requirements of the Polish Accounting Act and secondary legislation issued on its basis.

3. Group accounting principles and financial year

All entities within the Group which are subject to consolidation consistently and diligently apply the unified adopted accounting principles (policies) approved by the Parent's Management Board.

All entities within the Group which are subject to consolidation drew up financial statements for the financial year January 1 to December, 31 2013.

4. Information on consolidation documentation

The Parent's Management Board provided complete and accurate consolidation documentation, including:

- the financial statements of all entities within the Group which are subject to consolidation,
- lists of corrections and exclusions necessary to draw up the consolidated financial statements, in particular: the acquisition value of shares in subsidiaries held by the Parent and the share of net assets of the subsidiaries corresponding to the Parent's share in these entities' ownership structure; inter-group settlements (receivables and payables) and inter-group transactions (revenue and costs) for the entities subject to consolidation; exclusions of unrealized results of entities subject to consolidation, recognized as assets and dividends.

5. Notes to the consolidated financial statements and report on the Group's operations

On the basis of the audit we found that, in all significant aspects, the notes to the consolidated financial statements, forming an integral part of these statements, and the management report on the Group's operations, were drafted by the Group in a comprehensive and correct manner.

6. Information on the statutory auditor's opinion

As a result of the audit carried out on the Group's financial statements drafted as at and for the period ended December 31, 2013, we have issued an unqualified opinion with the following supplementary explanation:

"Without raising reservations as to the correctness and accuracy of the audited consolidated financial statements, we point out the Management Board's assumptions regarding the Group's status as a going concern, as presented in point 2 c) of the introduction to the financial statements."

[signature]

Statutory Auditor no. 11505

Jędrzej Szalacha

Lead Statutory Auditor

conducting the audit

CSWP Audyt Spółka z ograniczoną odpowiedzialnością Sp. k.

Entity authorized to audit financial statements, entered into the list of authorized entities, no. 3767, held by the National Chamber of Statutory Auditors.

Warsaw, March 21, 2014