

City Interactive Group

Independent Statutory Auditor's Opinion and Report
Financial year ended
December 31, 2012

INDEPENDENT STATUTORY AUDITOR'S OPINION

To the Shareholders and Supervisory Board of City Interactive S.A.

We audited the enclosed financial statements of the City Interactive Group, having its registered office in Warsaw, ul. Żupnicza 17 (the "Group"), the parent of which is City Interactive S.A., having its registered office in Warsaw, ul. Żupnicza 17 (the "Parent"), which consist of the consolidated balance sheet drawn up as at December 31, 2012, 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, 2012, and 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, 2012, as well as its financial result for the financial year January 1 to December 31, 2012,
- 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 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.

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 7, 2013

City Interactive Group

Report on Audit of the Financial Statements
Financial year ended
December 31, 2012

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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

City Interactive S.A.
ul. Żupnica 17
03-821 Warsaw, Poland

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

City Interactive S.A. (a public limited company) was formed through transformation from City Interactive Sp. z o.o. (a limited liability company). 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.

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, 2012 the Parent's registered share capital was PLN 1 265 000, divided into 12 650 000 shares with a nominal value of PLN 0.10 each. Shares are not preferred shares.

The shareholding structure as at December 31, 2012 was as follows:

Shareholder name	Number of shares	Nominal value of shares (PLN thousands)	Number of votes held (%)	Type of shares
Marek Tymiński	6 347 285	634.7	50.2%	Ordinary
QUERCUS TFI	663 734	66.4	5.2%	Ordinary
Others < 5%	5 638 981	563.9	44.6%	Ordinary
	12 650 000	1 265	100%	

City Interactive S.A. is parent of the City Interactive 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, 2012 the Parent's Management Board comprised:

- Marek Tymiński – President of the Management Board,
- Andreas Jaeger – Member of the Management Board.

Andreas Jaeger was appointed Member of the Management Board on March 14, 2012. He replaced Michał Sokolski, who on the same day resigned as Member of the Management Board.

1.7. Information on the entities comprising the Group

As at December 31, 2012, the City Interactive Group comprised the following entities:

- City Interactive S.A. – parent,
- City Interactive Germany GmbH – wholly-owned subsidiary,
- City Interactive USA Inc. – wholly-owned subsidiary,
- Business Area Sp. z o.o. – wholly-owned subsidiary,
- City Interactive Studio S.R.L. – wholly-owned subsidiary,
- City Interactive Canada Inc. – wholly-owned subsidiary,
- City Interactive UK Ltd. – wholly-owned subsidiary,

- City Interactive Spain S.L. – wholly-owned subsidiary,
- City Interactive Peru SAC – 99%-owned subsidiary,
- City Interactive Jogos Electronics LTDA – wholly-owned subsidiary (90% of shares held by City Interactive S.A., 10% held by City Interactive USA Inc.),
- City Interactive Mexico S.A. de C.V. – wholly-owned subsidiary (95% of shares held by City Interactive S.A., 5% held by City Interactive USA Inc.).

On August 21, 2012 the Parent sold 100% of its shares in subsidiary City Interactive Studio Ltd.

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, 2012:

- City Interactive S.A. – parent,
- City Interactive Germany GmbH – subsidiary,
- City Interactive USA Inc. – subsidiary,
- Business Area Sp. z o.o. – subsidiary,
- City Interactive Studio S.R.L. – 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 City Interactive S.A. for the financial year January 1 to December 31, 2012 and issued an unqualified opinion on March 7, 2013.

The financial statements of City Interactive USA Inc. were audited by Tanton and Company LLP Accountants & Consultants (New York, USA) and the opinion of March 4, 2013 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 City Interactive Group's consolidated financial statements for the preceding financial year, i.e. the year ended December 31, 2011 were audited by CSWP Audyt Sp. z o.o. and the independent statutory auditor's opinion, dated April 13, 2012, contains neither reservations nor comments.

On June 28, 2012 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 February 25, 2013. The Parent did not publish the consolidated financial statements for the preceding financial year in the *Monitor Polski B* official gazette.

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. Nowy Świat 49
00-042 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 May 28, 2012. The decision on selection of statutory auditor was taken through the resolution of the Parent's Supervisory Board of May 23, 2012.

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

- From July 25 to August 3, 2012 – initial audit,
- From January 28 to February 1, 2013 – final audit,
- From February 18 to 22, 2013 – 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, 2012 (PLN thousands)	% share in carrying value	Dec. 31, 2011 (PLN thousands)	% share in carrying value
Non-current assets				
Property, plant and equipment	1 425	2.0	1 385	2.0
Intangible assets	38 108	52.6	25 062	35.4
Goodwill	9	0.0	9	0.0
Interests in subsidiaries, associates and jointly controlled entities	18	0.0	18	0.0
Deferred income tax assets	5 291	7.3	2 269	3.2
Other non-current assets	32	0.0	36	0.1
Total non-current assets	44 883	61.9	28 779	40.7
Current assets				
Inventories	2 357	3.3	4 945	7.0
Current investments	43	0.1	403	0.6
Advances paid	100	0.1	1 361	1.9
Trade and other receivables	6 108	8.4	14 519	20.5
Income tax receivables	-	-	858	1.2
Cash and cash equivalents	16 474	22.8	16 700	23.7
Other current assets	2 492	3.4	3 089	4.4
Total current assets	27 574	38.1	41 875	59.3
TOTAL ASSETS	72 457	100.0	70 654	100.0

The increase in carrying value results chiefly from an increase in intangible assets, including the costs of development work connected with the production of software, together with increase in the value of deferred income tax assets. The growth in deferred income tax assets results from the increase in negative temporary differences arising in connection with the recognition of significant impairment losses on intangible assets (unsuccessful releases and discontinued production of certain games), together with the tax loss for the current year.

The decrease in current assets results primarily from a decline in trade receivables, which in turn is a result of lower revenue from sales (lack of successful game releases throughout 2012).

1.2. Consolidated balance sheet – equity and liabilities

EQUITY AND LIABILITIES	Dec. 31, 2012 (PLN thousands)	% share in carrying amount	Dec. 31, 2011 (PLN thousands)	% share in carrying amount
Equity				
Share capital	1 265	1.7	1 265	1.8
Share premium	4 556	6.3	4 556	6.5
Revaluation reserve	-	-	(2 098)	3.0
Exchange differences on translation of foreign operations	(54)	0.1	(10)	-
Buy-back provision	16 000	22.1	16 000	22.6
Retained earnings	17 891	24.6	38 061	54.0
Total equity	39 658	54.6	57 774	81.9
Non-current liabilities				
Provision for pensions and similar	32	0.1	15	-
Finance lease liabilities	39	0.1	29	-
Deferred income tax provision	44	0.1	298	0.4
Total non-current liabilities	115	0.3	342	0.4
Current liabilities				
Borrowings including credits, loans and debt instruments	20 602	28.4	-	-
Deferred tax liabilities	-	-	46	0.1
Trade payables	8 030	11.1	8 324	11.7
Finance lease liabilities	51	0.1	26	0.0
Financial liabilities	-	-	2 954	4.2
Other liabilities	286	0.3	298	0.4
Other current provisions	988	1.4	890	1.3
Deferred income	2 727	3.8	-	-
Total current liabilities	32 684	45.1	12 538	17.7
TOTAL EQUITY AND LIABILITIES	72 457	100.0	70 654	100.0

Equity decreased in comparison with the preceding year as a result of the net loss generated for 2012.

The significant increase in liabilities results from the Parent's issue of short-term bonds, presented in liabilities under borrowings including credits, loans and debt instruments.

1.3. Consolidated statement of profit and loss

	Jan. 1, 2012 – Dec. 31, 2012 (PLN thousands)	% share in revenue from sales	Jan. 1, 2011 – Dec. 31, 2011 (PLN thousands)	% share in revenue from sales
CONTINUING OPERATIONS				
Net revenue from sales				
Revenue from sale of products and services	40 151	97.4	80 350	98.3
Revenue from sale of goods for resale and materials	1 054	2.6	1 368	1.7
	41 205	100.0	81 718	100.0
Cost of products, goods for resale and services sold				
Cost of manufacture of products sold	29 585	71.8	42 192	51.6
Value of goods for resale and materials sold	641	1.6	1 018	1.3
	30 226	73.4	43 210	52.9
Gross profit on sales	10 979	26.6	38 508	47.1
Other operating revenue	329	0.8	669	0.8
Distribution costs	9 691	23.5	10 540	12.9
Administrative expenses	5 973	14.5	5 900	7.2
Other operating costs	17 074	41.4	1 617	2.0
Profit/(loss) on operating activities	(21 430)	52.0	21 120	25.8
Finance income	442	1.1	1 546	1.9
Finance costs	2 383	5.8	358	0.4
Profit/(loss) before tax	(23 371)	56.7	22 308	27.3
Income tax	(3 577)	8.7	5 385	6.6
Profit/(loss) on continuing operations	(19 794)	48.0	16 923	20.7
Net profit/(loss)	(19 794)	48.0	16 923	20.7

The Group incurred a net loss in 2012, resulting from the fact that there were no significant new game releases. The release of flagship titles is planned in 2013 and 2014.

In addition, the Group recognized a significant impairment loss on finished and unfinished game development, amounting to PLN 13.5 million, which was recognized under other operating costs.

1.4. Consolidated statement of comprehensive income

	Jan. 1, 2012 – Dec. 31, 2012 (PLN thousands)	% share in revenue from sales	Jan. 1, 2011 – Dec. 31, 2011 (PLN thousands)	% share in revenue from sales
Net profit	(19 794)	48.0	16 923	20.7
Total other comprehensive income				
Result of financial asset measurement	(44)	0.1	(14)	0.0
Result of hedging instrument measurement	2 098	5.1	(2 098)	2.6
	2 054	5.0	(2 112)	2.6
Total comprehensive income for the financial year	(17 740)	43.1	14 811	18.1

In 2012, other comprehensive income mainly concerned reversal of hedging instrument measurement. The Group did not apply hedge accounting during the current period and as at the end of period did not have any open forward contracts.

2. Analysis of the Group's financial data

	2012	2011	2010
1. Net sales margin			
$\frac{\text{Net profit} \times 100\%}{\text{Net revenue}}$	Negative value	20.7%	31.1%
2. Return on equity			
$\frac{\text{Net profit} \times 100\%}{\text{Equity} - \text{net profit}}$	Negative value	41.4%	167.4%
3. Receivables turnover			
$\frac{\text{Net trade receivables} \times 365 \text{ days}}{\text{Net revenue from sales}}$	54 days	65 days	73 days
4. Debt ratio			
$\frac{\text{Liabilities and provisions for liabilities} \times 100\%}{\text{Total equity and liabilities}}$	45.3%	18.2%	27.9%
5. Current ratio			
$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.8	3.3	2.6

Due to the net loss incurred, profitability ratios were negative in 2012.

The increase in debt results from the drop in equity due to a net loss, together with an increase in the balance of current liabilities as a result of bond issues.

The decline in the current ratio results from the decrease in equity, increase in debt instrument liabilities and significant expenditures on non-current assets (game development).

The financial forecasts presented by the Parent's Management Board show that the positive cash flows and earnings from sales of "Sniper Ghost Warrior 2", the release of which is planned for March 2013, will be fully sufficient for the buy-back of bonds and to maintain the Group's liquidity in 2013.

III. DETAILED PART OF THE REPORT

1. Extent of the audit

The audit was carried out for the shareholders and Supervisory Board of City Interactive S.A., having its registered office in Warsaw at ul. Żupnica 17.

The consolidated financial statements comprise a consolidated balance sheet drawn up as at December 31, 2012, 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, 2012, 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 2012.

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, 2012, 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 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."

[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 7, 2013