

Pirate Studios Limited

Annual Report and Financial Statements

Year Ended

31 December 2020

Company Number 09669260

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Pirate Studios Limited

Company Information

Directors	D Borrie M De Jesus M Hammerton M Maar H Teck
Registered number	09669260
Registered office	13 Rothbury Road London E9 5HA
Independent auditors	BDO LLP 55 Baker Street London W1U 7EU

Pirate Studios Limited

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Pirate Studios Limited

Strategic Report For the Year Ended 31 December 2020

Introduction

The directors present their strategic report and financial statements for the year ended 31 December 2020.

Principal activity

The principal activity of Pirate Studios Limited (the "company") and its subsidiaries (together "the group") was that of provision of music studios and facilities.

The company is a trading company and acts as a holding company for the group's trading subsidiaries, Pirate Studio LLC and Pirate Studio GmbH, incorporated in USA and Germany respectively. The company's results also include the results of its foreign branch registered in Ireland.

Business review

The company is the world's first and only global self-service studio provider, established in July 2015 with 36 locations worldwide (2019 - 24 locations worldwide).

The company has developed a powerful and highly disruptive customer proposition that is differentiated from traditional studios and appeals to a broad range of consumers. Our aim is to empower artists by providing state-of-the-art creative studios to rent hourly, at an affordable price. Our automated technology allows artists to teach, collaborate, livestream and record from any of our studios all over the world.

The key elements of our proposition include:

- An innovative studio design allowing for cost-effective and efficient assembly, reducing time to market.
- Non-prime location rents and reduced staffing which are passed to customers in the form of low prices.
- Unique self-service operating model, facilitating unmanned buildings which are open 24/7 compared to competitors who are open 12 hours a day.
- Proprietary technology allowing artists to capture and share their performances direct from the studio.

The company's strategy is to continue to roll out new studios with high returns on capital, as well as developing its digital community and marketplace for learning and artist services.

Pirate Studios Limited

Strategic Report (continued) For the Year Ended 31 December 2020

Section 172 statement

This section describes how we have considered and had regard to the interests of our key stakeholders when exercising our duty to promote the success of the company under section 172(1) of the Companies Act 2006. The principles set out within this section are not just something considered at board level but are in fact embedded throughout the company.

Our key stakeholder groups are set out below. All of these groups are key to the continued success of our business and their views and needs, as well as any long term consequences of our actions, are taken into account when making any decision at any level throughout the business. Sometimes decisions must be made based on competing priorities.

Investors - we rely on investors and providers of debt funding as essential sources of capital for our global expansion plan and digital product development. They rely on us to manage cash prudently and generate a return on their investment by striking a balance between ambitious growth and sustainability.

Suppliers - we rely on our suppliers to provide the real estate through which we operate, supply the materials and labour required to build new studios and provide essential services we need to operate our business. Our suppliers rely on us to generate revenue and employment for them.

Customers - our customers are the reason we exist and we are passionate about not just providing safe, accessible and comfortable spaces for them to create but also the tools and opportunities for them to realise their true potential. Connecting customers with each other as well as their audience and the wider market remains a key part of our mission. In doing so, we build our brand value and loyalty.

Our workforce - our ambitious plans would not be possible without the hard work and dedication of our employees. Our employees rely on us to provide a safe and respectful working environment, stable employment and the training and opportunities to further develop their skillsets.

Communities and the environment - we engage with local communities, local government and the police to ensure that we act both as a responsible company and a responsible neighbour. Our business and the customers that use our studios have the potential to enrich local communities but it has to be done in a way that is acceptable to those existing communities the safety of our customers as well as the surrounding community is our highest priority. At a wider level we are always looking at new ways we can reduce any adverse impact of our business on the environment.

Financial and operational highlights

Revenue reduced from £3,594,827 in 2019 to £2,961,373 in 2020 representing a decrease of 18% due to the Covid-19 pandemic. An analysis of revenue is set out in Note 4.

Pirate Studios Limited

Strategic Report (continued) For the Year Ended 31 December 2020

Free bookings and credit bookings

Free Bookings are given for the first month after a go live of a new location. This marketing exercise is a very effective way of generate hype and acquiring new customers. Credit is also offered through other marketing promotions such as our “refer a friend” scheme. The directors monitor both types of credit and the analysis below shows the year on year growth in free bookings and credit bookings despite an overall drop in revenue, driven by the fact that so many new studios were opened during the year.

	2020 £	2019 £	% Change £
Free booking launch revenue	185,799	101,568	83%
Credit bookings	385,470	600,258	-36%
	<u>571,269</u>	<u>701,826</u>	<u>33%</u>

	2020	2019
Number of sites	36	24
Number of studios	736	357
Number of bookings	179,091	226,957
Profitability per site (proforma, unaudited)* (%)	6%	53%

* (Turnover, including free booking launch and credit bookings less Cost of sales) divided by (Turnover, including free booking launch and credit bookings).

Given the backdrop of the global pandemic, the directors were satisfied with the performance of the business against these KPIs. The total number of studios more than doubled as new locations were launched in the US, Germany and the UK toward the end of the year and on a monthly basis revenue recovered quickly after each of the various lockdowns.

Pirate Studios Limited

Strategic Report (continued) For the Year Ended 31 December 2020

Principal risks and uncertainties

Attracting and retaining customers

As the majority of our revenue is derived from our studios operations, our success is dependent on attracting and retaining customers within our studios. Consequently, we must continually engage existing customers and attract new customers in order to maintain or increase our studio occupancy levels. If we are unable to attract and retain customers, it could have a material adverse effect on our rate of growth, business and prospects.

The factors that may influence this include:

- competition from other studio operators
- changes in customer preference away from our self-service value offering
- a decline in general interest to our product offering
- changes in customer spending habits due to adverse economic conditions
- changes in the level of positive referrals from current and former customers
- enforced closures as a result of pandemics

New site availability

A key part of our expansion strategy is the opening of new studios. Currently, and for the foreseeable future, all of our sites are leaseholds and we are dependent upon finding and securing new leasehold sites where we can open new studios. Our site selection strategy includes a variety of criteria to determine the optimal locations of new sites such as demographics, population density, accessibility, competition and other music-led demand indicators. Our ability to identify and negotiate acceptable lease terms for new sites may be adversely affected by the availability of sites that meet our selection criteria or fluctuations in the property market. As a result, we may be unable to identify suitable sites and secure them acceptable terms or in a timely manner. This could have a material adverse effect on our rate of growth, business and prospects.

Supply chain management

We rely on third-party contractors and suppliers for various services and products, such as site fit out, equipment, maintenance and cleaning. Whilst there are a number of providers for each of these services and we closely monitor their performance, there are risks that are beyond our control. If we encounter delays or difficulties in securing the products or services provided by our third-party contractors and suppliers or there is a deficiency, lack of or poor quality of such products or services provided, it may impact our service offering and have a material adverse effect on our rate of growth, business and prospects.

Systems

We are a technology enabled company and any disruptions or failures that affect our website, studio access, marketing, finance and other administrative functions could have an adverse effect on our operations. While we have a full business continuity plan in place, conduct regular data back-ups and have processes in place to protect customer data, disruptions, failures or cyber attacks involving our information technology systems could have a material adverse effect on our rate of growth, business and prospects.

New business lines

Our strategy is to develop a number of digital products and services which are complementary to our studios. This requires additional capital investment as well as management time and other resources. It is possible any such products or services may not perform in line with expectations, which could have a material adverse effect on our rate of growth, business and prospects.

Pirate Studios Limited

Strategic Report (continued) For the Year Ended 31 December 2020

Principal risks and uncertainties (continued)

Access to capital

During the ramp-up phase, our business will be capital intensive, and we require significant capital to finance such activities, as well as to fund ongoing investments in our business and to meet our debt obligations. Any inability or delay in raising additional capital if and when required may affect our ability to execute on our growth strategy or cause us to lose future opportunities. This could have a material adverse effect on our rate of growth, business and prospects.

Brexit

The impact of Brexit on the company is considered to be negligible. Our business model doesn't rely on importing or exporting goods or providing services across borders so any supply chain issues that Brexit may have caused or increased duty costs or VAT considerations do not pose a threat. Whenever we are building new studios in the EU, our local subsidiary will work with local contractors also based within the EU and the project is paid for in EUR. Once operational both the revenue and costs generated by that location are also in Euros so, whilst there were periods of volatility between GBP and the EUR, the foreign exchange risk is negligible. We're also still able to attract a diverse workforce.

Cost of living and inflation

As is the case with most other UK businesses we have experienced higher costs since the pandemic, particularly throughout 2022 driven by unusually high inflation in the UK. We have mitigated this risk by increasing our prices at the end of 2021 and the end of 2022. It is likely this will now become an annual pricing review.

Another factor that has driven costs up is the war in Ukraine. This has increased fuel costs in particular due to supply restrictions. Fortunately we entered 3 year fixed cost contracts for the majority of our portfolio during 2019 and the cost of fuel has dropped dramatically since its peak in September 2022 and continues to do so which means we will likely avoid most of the impact of these cost increases even after renewing these contracts in 2023.

Pirate Studios Limited

Strategic Report (continued) For the Year Ended 31 December 2020

Going concern

The COVID-19 pandemic developed rapidly in 2020, with well over 1 million deaths globally. Measures taken by various governments to contain the virus affected the group and company's economic activity. The territories within which the group operates were particularly hard hit.

All of the group's sites worldwide were closed during April 2020. Only the group's German location was operational in May 2020. Whilst recovery has been strong since reopening in June 2020 (revenue in October 2020 surpassing pre-COVID levels), the total estimated revenue loss due to COVID in 2020 was significant.

In order to mitigate the impact of COVID-19, the Executive team acted quickly in developing a strategic action plan focused around sustainability, preserving cash and achieving profitability on the group's and company's current portfolio of studios. The plan comprised:

- Accessing various job support schemes such as the UK Government's Job Retention Scheme and the Short-term Compensation scheme ("Kurzarbeitergeld") in Germany
- Undertaking a redundancy programme to remove non-essential roles and those where process improvements and automation resulted in a lower headcount requirement
- Moving to an outsourced supply model to reduce overheads
- Negotiating rent reductions or deferrals with landlords
- Pausing or removing all other non-essential expenditure

In addition, the group and company was able to access other UK Government support measures including:

- Business Rates Relief
- Retail & Hospitality Grant Scheme
- HMRC Time-To-Pay Scheme

Finally, in July 2020 the group successfully closed an additional funding round of £10m as part of the UK Government's Future Fund Scheme. This comprised £5m from the UK Government and £5m from an existing investor.

The combined effect of the above measures mitigated the effect of the drop in revenue due to COVID-19 and should see the group emerge from the COVID-19 crisis a leaner, more agile business that remains well positioned for scale.

At the time of writing there still remains considerable uncertainty over the economic outlook due some of the knock-on effects of the pandemic and other factors like the war in Ukraine resulting in what could turn out to be a global recession in 2023. In anticipation of this tough environment, management has run various forecast scenarios for a period of at least 24 months from the date of signing of these financial statements to determine the impact on profitability and cashflow in the event of depressed revenue. In each scenario, the group's current portfolio and cost base produces a sustainable, cash-generative business and, as a result, the financial statements are prepared on a going concern basis.

However, these scenarios all require at least an additional £3.3m of capital and the worst case requires the full £7.5m but this worst case is considered by management to be highly unlikely as it models the impact of 30% less revenue than planned for the next two years which is comparable to another global pandemic. The group is seeking this additional funding to ensure that the group's working capital proves sufficient to cover its operating activities and has entered the documentation and confirmatory due diligence phase with a new investor aiming to close the deal and provide \$10m of new capital by the end of March 2023 and the new investors have shown their commitment to getting the deal done by funding \$1m already. This equates to an additional £7.5m of additional capital being contemplated.

Pirate Studios Limited

Strategic Report (continued) For the Year Ended 31 December 2020

Going concern (continued)

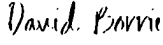
The directors have a successful history of raising financing from similar transactions, having raised additional equity and debt from both existing and new investors in each of the previous years. Notably, since the end of 2020, the group has raised over £10m in additional capital as well as negotiating extensions to all non-convertible debt currently held until the current fundraising round is complete.

During the course of 2021, a £1m loan which was due to be repaid in April 2021 was refinanced until June 2022, at which point this was extended further on a rolling basis until the current round of fundraising is complete. Another £1m loan was extended until June 2022 with the option to extend until June 2023 and this extension was formally requested and agreed during the course of 2022.

During the course of 2020 the company also extended all deep discounted bonds, originally due to be repaid June 2021, until June 2022. During the course of 2022 it was agreed that these bonds would be extended on a rolling basis until the current fundraising process is complete.

However, as the remaining \$9m of capital from this current fundraising round has not yet been raised for this purpose, a material uncertainty exists, which may cast significant doubt about the group's and the company's ability to continue as a going concern. It is also a key term of the current fundraising round that all debt and convertible debt holders agree to convert their debt to equity before the new capital is committed and whilst the Company has agreement from the majority of debt holders this process is not yet complete. However, the directors believe that, taken as a whole, the factors described above enable the group and the company to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the group and company were unable to continue as a going concern.

This report was approved by the board and signed on its behalf.

DocuSigned by

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D Borrie
Director

Date: 01-Mar-23 | 03:35 PST

Pirate Studios Limited

Directors' Report For the Year Ended 31 December 2020

The directors present their report and the financial statements for the year ended 31 December 2020.

Results and dividends

The loss for the year, after taxation, amounted to £16,373,255 (2019 - £9,722,165 as restated) .

These financial statements contain prior period adjustments; please see note 28 for further details.

Directors

The directors who served during the year were:

D Borrie
M De Jesus
M Hammerton
M Maar
H Teck

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, the directors' report and the consolidated financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies for the group's financial statements and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Pirate Studios Limited

Directors' Report (continued) For the Year Ended 31 December 2020

Disclosure of information to auditors

Each of the persons who are directors at the time when this directors' report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the company and the group's auditors are unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the company and the group's auditors are aware of that information.

Going concern

For further information in respect of going concern, see note 2.

Post balance sheet events

Since the end of 2020, the group has raised over £10m in additional capital as well as negotiating extensions to all non-convertible debt currently held until the current fundraising round is complete.

During the course of 2021, a £1m loan which was due to be repaid in April 2021 was refinanced until June 2022, at which point this was extended further on a rolling basis until the current round of fundraising is complete. Another £1m loan was extended until June 2022 with the option to extend until June 2023 and this extension was formally requested and agreed during the course of 2022.

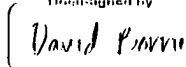
During the course of 2020 the company also extended all deep discounted bonds, originally due to be repaid June 2021, until June 2022. During the course of 2022 it was agreed that these bonds would be extended on a rolling basis until the current fundraising process is complete.

It is a key term of the current fundraising round that all debt and convertible debt holders agree to convert their debt to equity before the new capital is committed and whilst the Company has agreement from the majority of debt holders this process is not yet complete.

Auditors

The auditors, BDO LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.

FreeSigned by

4117 274 8920 415

D Borrie
Director

Date: 01-Mar-23 | 03:35 PST

Pirate Studios Limited

Independent Auditors' Report to the Members of Pirate Studios Limited

Opinion

We have audited the financial statements of Pirate Studios Limited ("the parent company") and its subsidiaries ("the group") for the year ended 31 December 2020 which comprise the Consolidated Statement of Comprehensive Income, Consolidated Balance Sheet, Company Balance Sheet, Consolidated Statement of Changes in Equity, Company Statement of Changes in Equity, Consolidated Statement of Cash Flows, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's loss for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2 to the financial statements, which indicates the Group and Parent Company are currently seeking additional funding to allow the company to trade for the foreseeable future which is yet to be secured. As stated in note 2, these events or conditions, along with other matters as set out in note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group and the Parent company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Pirate Studios Limited

Independent Auditors' Report to the Members of Pirate Studios Limited (continued)

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report and directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Pirate Studios Limited

Independent Auditors' Report to the Members of Pirate Studios Limited (continued)


Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at: <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the parent company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the parent company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

DocuSign Envelope ID: 04110411

Peter Smithson (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
United Kingdom
02 March 2023

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127).

Pirate Studios Limited

Consolidated Statement of Comprehensive Income For the Year Ended 31 December 2020

	Note	2020 £	As restated 2019 £
Turnover	4	2,961,373	3,594,827
Cost of sales		(3,640,056)	(3,823,531)
Gross loss		(678,683)	(228,704)
Administrative expenses		(15,140,452)	(8,798,775)
Other operating income	5	683,758	-
Operating loss	6	(15,135,377)	(9,027,479)
Interest payable and expenses	10	(1,237,475)	(708,537)
Loss before tax		(16,372,852)	(9,736,016)
Taxation	11	(403)	13,851
Loss for the financial year		(16,373,255)	(9,722,165)
Currency translation differences		(359,106)	72,712
Total comprehensive loss for the year		(16,732,361)	(9,649,453)

All amounts relate to continuing operations.

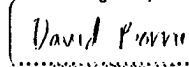
The notes on pages 23 to 53 form part of these financial statements.

Pirate Studios Limited
Registered number: 09669260

Consolidated Balance Sheet
As at 31 December 2020

	Note	2020 £	As restated 2019 £
Fixed assets			
Intangible assets	12	707,294	278,341
Tangible fixed assets	13	23,409,069	8,993,162
		<u>24,116,363</u>	<u>9,271,503</u>
Current assets			
Debtors: amounts falling due after more than one year	15	1,393,275	1,295,103
Debtors: amounts falling due within one year	15	692,438	668,446
Bank and cash balances		5,183,684	15,601,325
		<u>7,269,397</u>	<u>17,564,874</u>
Creditors: amounts falling due within one year	16	(7,110,435)	(2,285,558)
Net current assets		<u>158,962</u>	<u>15,279,316</u>
Total assets less current liabilities		<u>24,275,325</u>	<u>24,550,819</u>
Creditors: amounts falling due after more than one year	17	(25,444,971)	(11,886,983)
Provisions for liabilities			
Other provisions	20	(250,705)	(173,254)
Net (liabilities)/assets		<u>(1,420,351)</u>	<u>12,490,582</u>
Capital and reserves			
Share capital	21	919	917
Share premium account	22	30,074,446	30,074,064
Capital redemption reserve	22	512	512
Foreign exchange reserve	22	(300,955)	58,151
Other reserves	22	4,322,318	1,501,274
Accumulated losses	22	(35,517,591)	(19,144,336)
		<u>(1,420,351)</u>	<u>12,490,582</u>

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

Digitally signed by


D Borrie
 Director

Date: 01-Mar-23 | 03:35 PST

The notes on pages 23 to 53 form part of these financial statements.

Pirate Studios Limited
Registered number: 09669260

Company Balance Sheet
As at 31 December 2020

	Note	2020 £	As restated 2019 £
Fixed assets			
Intangible assets	12	697,326	278,341
Tangible assets	13	13,523,596	7,719,205
Investments	14	22,168	22,168
		<u>14,243,090</u>	<u>8,019,714</u>
Current assets			
Debtors: amounts falling due after more than one year	15	851,844	820,006
Debtors: amounts falling due within one year	15	16,228,468	4,696,777
Bank and cash balances		4,071,018	15,330,654
		<u>21,151,330</u>	<u>20,847,437</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(5,105,888)	(1,980,976)
Net current assets		<u>16,045,442</u>	<u>18,866,461</u>
Total assets less current liabilities		<u>30,288,532</u>	<u>26,886,175</u>
Non-current liabilities			
Creditors: amounts falling due after more than one year	17	(25,424,449)	(11,886,983)
Provisions for liabilities			
Dilapidation provision		(196,944)	(140,074)
Net assets		<u><u>4,667,139</u></u>	<u><u>14,859,118</u></u>
Capital and reserves			
Share capital	21	919	917
Share premium account	22	30,074,446	30,074,064
Capital redemption reserve	22	512	512
Foreign exchange reserve	22	(8,531)	-
Other reserves	22	4,322,318	1,501,274
Accumulated losses	22	(29,722,525)	(16,717,649)
		<u><u>4,667,139</u></u>	<u><u>14,859,118</u></u>

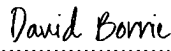
Pirate Studios Limited

Registered number: 09669260

Company Balance Sheet (continued) As at 31 December 2020

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements. The loss after tax of the parent company for the year was £13,004,876 (2019 - £8,032,736 as restated).

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

DocuSigned by:

.....
D Borrie
Director

Date: 01-Mar-23 | 03:35 PST

The notes on pages 23 to 53 form part of these financial statements.

Pirate Studios Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2020

	Share capital	Share premium account	Capital redemption reserve	Foreign exchange reserve	Other reserves	Accumulated losses	Total equity
	£	£	£	£	£	£	£
At 1 January 2020	917	30,074,064	512	58,151	1,501,274	(19,073,385)	12,561,533
Prior year adjustment (see note 28)	-	-	-	-	-	(70,951)	(70,951)
At 1 January 2020 (as restated)	917	30,074,064	512	58,151	1,501,274	(19,144,336)	12,490,582
Comprehensive loss for the year							
Loss for the year	-	-	-	-	-	(16,373,255)	(16,373,255)
Foreign exchange movement	-	-	-	(359,106)	-	-	(359,106)
Total comprehensive loss for the year	-	-	-	(359,106)	-	(16,373,255)	(16,732,361)
Shares issued during the year (note 21)	2	382	-	-	-	-	384
Equity component of convertible loans (note 17)	-	-	-	-	2,821,044	-	2,821,044
At 31 December 2020	919	30,074,446	512	(300,955)	4,322,318	(35,517,591)	(1,420,351)

The notes on pages 23 to 53 form part of these financial statements.

See note 20 for further information on the shares issued and shares cancelled during the year.

Pirate Studios Limited

Consolidated Statement of Changes in Equity For the Year Ended 31 December 2019

	Share capital	Share premium account	Capital redemption reserve	Foreign exchange reserve	Other reserves	Accumulated losses	Total equity
	£	£	£	£	£	£	£
At 1 January 2019 (as previously stated) - unaudited	1,176	8,381,158	-	(14,561)	220,951	(9,041,106)	(452,382)
Prior year adjustment	-	-	-	-	-	(511,546)	(511,546)
At 1 January 2019 (as restated)	<u>1,176</u>	<u>8,381,158</u>	<u>-</u>	<u>(14,561)</u>	<u>220,951</u>	<u>(9,552,652)</u>	<u>(963,928)</u>
Comprehensive loss for the year							
Loss for the year (as restated)	-	-	-	-	-	(9,722,165)	(9,722,165)
Foreign exchange movement	-	-	-	72,712	-	-	72,712
Total comprehensive loss for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>72,712</u>	<u>-</u>	<u>(9,722,165)</u>	<u>(9,649,453)</u>
Shares issued during the year	181	17,692,978	-	-	-	-	17,693,159
Equity component of convertible loans (note 17)	-	-	-	-	1,501,274	-	1,501,274
Conversion of loans (note 17)	72	3,999,928	-	-	(220,951)	130,481	3,909,530
Shares cancelled during the year	(512)	-	512	-	-	-	-
At 31 December 2019 (as restated)	<u><u>917</u></u>	<u><u>30,074,064</u></u>	<u><u>512</u></u>	<u><u>58,151</u></u>	<u><u>1,501,274</u></u>	<u><u>(19,144,336)</u></u>	<u><u>12,490,582</u></u>

The notes on pages 23 to 53 form part of these financial statements.

Pirate Studios Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2020

	Called up share capital	Share premium account	Capital redemption reserve	Foreign exchange reserve	Other reserves	Accumulated losses	Total equity
	£	£	£	£	£	£	£
At 1 January 2020 (as restated)	917	30,074,064	512	-	1,501,274	(16,568,887)	15,007,880
Prior year adjustment (see note 28)	-	-	-	-	-	(148,762)	(148,762)
At 1 January 2020 (as restated)	917	30,074,064	512	-	1,501,274	(16,717,649)	14,859,118
Comprehensive loss for the year							
Loss for the year	-	-	-	-	-	(13,004,876)	(13,004,876)
Foreign exchange movement	-	-	-	(8,531)	-	-	(8,531)
Shares issued during the year (note 21)	2	382	-	-	-	-	384
Equity component of convertible loans (note 17)	-	-	-	-	2,821,044	-	2,821,044
At 31 December 2020	919	30,074,446	512	(8,531)	4,322,318	(29,722,525)	4,667,139

The notes on pages 23 to 53 form part of these financial statements.

Pirate Studios Limited

Company Statement of Changes in Equity For the Year Ended 31 December 2019

	Called up share capital	Share premium account	Capital redemption reserve	Other reserves	Accumulated losses	Total equity
	£	£	£	£	£	£
At 1 January 2019 (as previously stated) - unaudited	1,176	8,381,158	-	220,951	(8,308,436)	294,849
Prior year adjustment	-	-	-	-	(506,958)	(506,958)
At 1 January 2019 (as restated) - unaudited	1,176	8,381,158	-	220,951	(8,815,394)	(212,109)
Comprehensive loss for the year						
Loss for the year (as restated)	-	-	-	-	(8,032,736)	(8,032,736)
Shares issued during the year	181	17,692,978	-	-	-	17,693,159
Equity component of convertible loans	-	-	-	1,501,274	-	1,501,274
Conversion of loans	72	3,999,928	-	(220,951)	130,481	3,909,530
Shares cancelled during the year	(512)	-	512	-	-	-
At 31 December 2019 (as restated)	917	30,074,064	512	1,501,274	(16,717,649)	14,859,118

The notes on pages 23 to 53 form part of these financial statements.

Pirate Studios Limited

Consolidated Statement of Cash Flows For the Year Ended 31 December 2020

	2020 £	As restated 2019 £
Cash flows from operating activities		
Loss for the financial year	(16,373,255)	(9,722,165)
Adjustments for:		
Amortisation of intangible assets	85,167	35,109
Depreciation of tangible assets	2,857,038	1,765,192
Interest charged to the income statement	1,237,475	708,537
Taxation charge	403	(13,851)
(Increase) in debtors	(102,850)	(1,129,551)
Increase in creditors	4,667,683	1,372,186
Increase in provisions	77,451	91,304
Loss on disposal of tangible assets	17,700	22,007
Corporation tax (paid)/received	(403)	13,851
Net cash generated from operating activities	(7,533,591)	(6,857,381)
Cash flows from investing activities		
Purchase of tangible fixed assets	(18,132,118)	(4,666,385)
Purchase of intangible fixed assets	(514,775)	(209,112)
Disposals of tangible fixed assets	401,745	-
Net cash from investing activities	(18,245,148)	(4,875,497)

Pirate Studios Limited

Consolidated Statement of Cash Flows (continued) For the Year Ended 31 December 2020

	2020 £	As restated 2019 £
Cash flows from financing activities		
Interest paid	(71,158)	(227,158)
Repayment of other loans	-	(225,000)
Repayment of finance leases	(6,377)	(5,952)
Cash (to)/from lease incentives	(1,023,727)	876,571
Issue of ordinary shares	384	17,693,141
New convertible loans	16,169,270	8,993,000
Net cash used in financing activities	15,068,392	27,104,602
Net (decrease)/increase in cash and cash equivalents	(10,710,347)	15,371,724
Cash and cash equivalents at beginning of year	15,601,325	229,601
Foreign exchange movements on cash and cash equivalents	292,706	-
Cash and cash equivalents at the end of year	5,183,684	15,601,325
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	5,183,684	15,601,325
	5,183,684	15,601,325

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

1. General information

Pirate Studios Limited is a private company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the company information page and the nature of the company's operations and its principal activities are set out in the strategic report.

The company has determined that GBP is its functional currency.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires group management to exercise judgement in applying the group's accounting policies (see note 3).

The company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and has not presented its own statement of comprehensive income in these financial statements.

The following principal accounting policies have been applied:

2.2 Basis of consolidation

The consolidated financial statements present the results of the company and its subsidiaries ("the group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the purchase method. In the balance sheet, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

2.3 Parent company disclosure exemptions

In preparing the separate financial statements of the parent company, advantage has been taken of the following disclosure exemptions available in FRS 102:

- No statement of cash flows has been presented for the parent company;
- Disclosures in respect of the parent company's financial instruments have not been presented as equivalent disclosures have been provided in respect of the group as a whole; and
- No disclosures have been given for the aggregate remuneration of the key management personnel of the parent company as their remuneration is included in the totals for the group as a whole.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.4 Going concern

The COVID-19 pandemic developed rapidly in 2020, with well over 1 million deaths globally. Measures taken by various governments to contain the virus affected the group and company's economic activity. The territories within which the group operates were particularly hard hit.

All of the group's sites worldwide were closed during April 2020. Only the group's German location was operational in May 2020. Whilst recovery has been strong since reopening in June (revenue in October surpassing pre-COVID levels), the total estimated revenue loss due to COVID in 2020 was significant.

In order to mitigate the impact of the anticipated revenue loss, the Executive team acted quickly in developing a strategic action plan focused around sustainability, preserving cash and achieving profitability on the group's and company's current portfolio of studios. The plan comprised:

- Accessing various job support schemes such as the UK Government's Job Retention Scheme and the Short-term Compensation scheme ("Kurzarbeitergeld") in Germany
- Undertaking a redundancy programme to remove non-essential roles and those where process improvements and automation resulted in a lower headcount requirement
- Moving to an outsourced supply model to reduce overheads
- Negotiating rent reductions or deferrals with landlords
- Pausing or removing all other non-essential expenditure

In addition, the group and company was able to access other UK Government support measures including:

- Business Rates Relief
- Retail & Hospitality Grant Scheme
- HMRC Time-To-Pay Scheme

Finally, in July 2020 the group successfully closed an additional funding round of £10m as part of the UK Government's Future Fund Scheme. This comprised £5m from the UK Government and £5m from an existing investor.

The combined effect of the above measures mitigated the effect of the drop in revenue due to COVID-19 and should see the group emerge from the COVID-19 crisis a leaner, more agile business that remains well positioned for scale.

At the time of writing there still remains considerable uncertainty over the economic outlook due some of the knock-on effects of the pandemic and other factors like the war in Ukraine resulting in what could turn out to be a global recession in 2023. In anticipation of this tough environment, management has run various forecast scenarios for a period of at least 24 months from the date of signing of these financial statements to determine the impact on profitability and cashflow in the event of depressed revenue. In each scenario, the group's current portfolio and cost base produces a sustainable, cash-generative business and, as a result, the financial statements are prepared on a going concern basis.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.4 Going concern (continued)

However, these scenarios all require at least an additional £3.3m of capital and the worst case requires the full £7.5m but this worst case is considered by management to be highly unlikely as it models the impact of 30% less revenue than planned for the next two years which is comparable to another global pandemic. The group is seeking this additional funding to ensure that the group's working capital proves sufficient to cover its operating activities and has entered the documentation and confirmatory due diligence phase with a new investor aiming to close the deal and provide \$10m of new capital by the end of March 2023 and the new investors have shown their commitment to getting the deal done by funding \$1m already. This equates to an additional £7.5m of additional capital being contemplated.

The directors have a successful history of raising financing from similar transactions, having raised additional equity and debt from both existing and new investors in each of the previous years. Notably, since the end of 2020, the group has raised over £10m in additional capital as well as negotiating extensions to all non-convertible debt currently held until the current fundraising round is complete.

During the course of 2021, a £1m loan which was due to be repaid in April 2021 was refinanced until June 2022, at which point this was extended further on a rolling basis until the current round of fundraising is complete. Another £1m loan was extended until June 2022 with the option to extend until June 2023 and this extension was formally requested and agreed during the course of 2022.

During the course of 2020 the company also extended all deep discounted bonds, originally due to be repaid June 2021, until June 2022. During the course of 2022 it was agreed that these bonds would be extended on a rolling basis until the current fundraising process is complete.

However, as the remaining \$9m of capital from this current fundraising round has not yet been raised for this purpose, a material uncertainty exists, which may cast significant doubt about the group's and the company's ability to continue as a going concern. It is also a key term of the current fundraising round that all debt and convertible debt holders agree to convert their debt to equity before the new capital is committed and whilst the Company has agreement from the majority of debt holders this process is not yet complete. However, the directors believe that, taken as a whole, the factors described above enable the group and the company to continue as a going concern for the foreseeable future. The financial statements do not include the adjustments that would be required if the group and company were unable to continue as a going concern.

2.5 Turnover

Turnover is recognised at the fair value of the consideration received or receivable for services provided in the normal course of business, and is shown net of VAT and other sales related taxes. The fair value of consideration takes into account trade discounts, settlement discounts and volume rebates. Turnover in respect of studio and other revenue is recognised as the services are delivered to the customer. Any consideration received upfront is recognised as deferred revenue.

2. Accounting policies (continued)

2.6 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets are amortised on a straight line basis at a rate of 20% per annum.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.7 Tangible fixed assets

Tangible fixed assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Leasehold improvements	- Between 2 and 15 years
Studio equipment and machinery	- 3 years
Motor vehicles	- 5 years
Fixtures and fittings	- 5 years
Computer equipment	- 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the consolidated statement of comprehensive income.

2.8 Operating leases

Rentals paid under operating leases are charged to the consolidated statement of comprehensive income on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

2.9 Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.10 Debtors

Short term debtors are measured at transaction price, less any impairment. Loans receivable are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method, less any impairment.

2.11 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

2.12 Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using the effective interest method.

2.13 Financial instruments

The group only enters into basic financial instrument transactions that result in the recognition of financial assets and liabilities like trade and other debtors and creditors, loans from banks and other third parties and loans to related parties.

Debt instruments (other than those wholly repayable or receivable within one year), including loans and other accounts receivable and payable, are initially measured at present value of the future cash flows and subsequently at amortised cost using the effective interest method. Debt instruments that are payable or receivable within one year, typically trade debtors and creditors, are measured, initially and subsequently, at the undiscounted amount of the cash or other consideration expected to be paid or received. However, if the arrangements of a short-term instrument constitute a financing transaction, like the payment of a trade debt deferred beyond normal business terms or in case of an out-right short-term loan that is not at market rate, the financial asset or liability is measured, initially at the present value of future cash flows discounted at a market rate of interest for a similar debt instrument and subsequently at amortised cost, unless it qualifies as a loan from a director in the case of a small company, or a public benefit entity concessionary loan.

Financial assets that are measured at cost and amortised cost are assessed at the end of each reporting period for objective evidence of impairment. If objective evidence of impairment is found, an impairment loss is recognised in the consolidated statement of comprehensive income.

For financial assets measured at amortised cost, the impairment loss is measured as the difference between an asset's carrying amount and the present value of estimated cash flows discounted at the asset's original effective interest rate. If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

For financial assets measured at cost less impairment, the impairment loss is measured as the difference between an asset's carrying amount and best estimate of the recoverable amount, which is an approximation of the amount that the group would receive for the asset if it were to be sold at the balance sheet date.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is an enforceable right to set off the recognised amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.14 Convertible debt

The proceeds received on issue of the group's convertible debt are allocated into their liability and equity components and presented separately in the balance sheet.

The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that did not include an option to convert.

The difference between the net proceeds of the convertible debt and the amount allocated to the debt component is credited direct to equity and is not subsequently remeasured. On conversion, the debt and equity elements are credited to share capital and share premium as appropriate.

Transaction costs that relate to the issue of the instrument are allocated to the liability and equity components of the instrument in proportion to the allocation of proceeds.

2.15 Government grants

Grants are accounted under the accruals model as permitted by FRS 102. Grants relating to expenditure on tangible fixed assets are credited to profit or loss at the same rate as the depreciation on the assets to which the grant relates. The deferred element of grants is included in creditors as deferred income.

A grant is recognised when there are reasonable assurance that the company will comply with the conditions attaching to the grant and the grants will be received. Grants of a revenue nature are recognised in the statement of comprehensive income in the same period as the related expenditure.

2.16 Finance costs

Finance costs are charged to the consolidated statement of comprehensive income over the term of the debt using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

2.17 Pensions

Defined contribution pension plan

The group operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. Once the contributions have been paid the group has no further payment obligations.

The contributions are recognised as an expense in the consolidated statement of comprehensive income when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the group in independently administered funds.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.18 Share based payments

Where share options are awarded to employees, the fair value of the options at the date of grant is charged to the consolidated statement of comprehensive income over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

The fair value of the award also takes into account non-vesting conditions. These are either factors beyond the control of either party (such as a target based on an index) or factors which are within the control of one or other of the parties (such as the group keeping the scheme open or the employee maintaining any contributions required by the scheme).

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the consolidated statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss is charged with fair value of goods and services received.

2.19 Taxation

Tax is recognised in the consolidated statement of comprehensive income except that a charge attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet date in the countries where the company and the group operate and generate income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the balance sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits;
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met; and
- Where they relate to timing differences in respect of interests in subsidiaries, associates, branches and joint ventures and the group can control the reversal of the timing differences and such reversal is not considered probable in the foreseeable future.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

2. Accounting policies (continued)

2.20 Foreign currency translation

Functional and presentation currency

The group and company's functional and presentational currency is GBP.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of comprehensive income except when deferred in other comprehensive income as qualifying cash flow hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance income or costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within 'administrative expenses'.

On consolidation, the results of overseas operations are translated into Sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at opening rate and the results of overseas operations at actual rate are recognised in other comprehensive income.

2.21 Provisions for liabilities

Provisions are made where an event has taken place that gives the group a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the consolidated statement of comprehensive income in the year that the group becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the balance sheet.

Provisions for dilapidations are recognised over the life of the lease, at which point they will be used to revert the internal building back to its original state.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

3. Judgements in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgments:

- Determine whether there are indicators of impairment of the group's tangible and intangible assets. Factors taken into consideration in reaching such a decision include the economic viability, capitalisation of software development and expected future financial performance of the asset and where it is a component of a larger cash-generating unit, the viability and expected future performance of that unit.
- Capitalisation of software development: There is judgement involved with regards to development costs being capitalised and whether they satisfy the criteria per FRS 102 to be capitalised. Capitalisation of a particular activity commences after proof of concept, requirements and function concept stages are complete, and once the directors are satisfied that future economic benefit will be delivered by the assets developed.
- Capitalisation of payroll costs: There is judgement involved with regards to payroll costs being capitalised and whether they satisfy the criteria per FRS 102 to be capitalised. Software developer and project manager costs relating to the creation of digital assets that satisfy this criteria are tracked by time spent on a project basis and are classified as Intangible Assets and depreciated on a straight line basis over 5 years in line with our Intangible Asset depreciation policy. Payroll costs incurred by our Rollout and Construction team are entirely associated with both current and future studio builds that satisfy the criteria to be capitalised and are classified as Leasehold Improvements and depreciated on a straight line basis over 5 years as their time is not allocated by project and 5 years is the shortest lease length within our portfolio.
- Classification of preference shares: There is judgement involved in determining whether preference shares are classified as debt, equity or compound financial instruments. Key factors that impact decision making are: whether there exists a mandatory obligation for the company to redeem the shares in cash and whether the conversion feature, if exercised, results in a fixed number of preference shares being converted into a fixed number of ordinary shares.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

3. Judgements in applying accounting policies (continued)

Other key sources of estimation uncertainty:

- *Cash flow forecasts - going concern*
Cash flow forecasts from year ended 2020 have been prepared in support of the going concern assessment. Estimates have been explored in more detail within the going concern section of the accounting policy note 2.4, which relates to the future estimated revenue, costs and cash position expected until March 2025. Three scenarios have been assessed based on revenue transactions. The sensitivity of this has been modelled by a reasonable worst-case scenario where the Group's revenue will decline by 30% for the next two years which is on par with the expected revenue loss the company experienced due to the COVID pandemic. The Group considers this worst-case scenario to be highly unlikely. Under both the expected and reasonable worst-case models there is sufficient headroom of effective cash available. These forecasts are all based on just receiving the initial \$10m investment from the current fundraising round (out of a total of \$25m available over two tranches).
- *Tangible fixed assets (see note 13)*
Tangible fixed assets are depreciated over their useful lives taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on the number of factors. In re-assessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.
- *Dilapidations provisions (see note 20)*
Dilapidations provisions are recognised where there are "make good" clauses in the group's operating lease agreements. The directors build up their dilapidations provisions over the term of the lease such that they represent the directors' best estimate of the amount required to remove leasehold improvements and put the property back into the condition at the inception of the lease.
- *Convertible loans (see note 18)*
Convertible loans classified as compound financial instruments require judgement and estimation to determine how the proceeds received on issue is bifurcated between the liability and equity components. The fair value of the liability component is calculated using the discounted cash flows over the life of the instrument using a market rate of interest, payable on a similar instrument. The interest rate used in the calculation requires judgement. The residual between the net proceeds and the amount allocated to the liability component is recorded in equity.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

4. Turnover

An analysis of turnover by class of business is as follows:

	2020 £	2019 £
Studio revenue	2,922,235	3,541,843
Other revenue	39,138	52,984
	<u>2,961,373</u>	<u>3,594,827</u>

Analysis of turnover by country of destination:

	2020 £	2019 £
United Kingdom	2,719,179	3,262,667
Europe	165,951	180,636
United States of America	76,243	151,524
	<u>2,961,373</u>	<u>3,594,827</u>

5. Other operating income

	2020 £	2019 £
Government grants	683,758	-

In 2020 the Group took advantage of the various government initiatives to support businesses during the Covid-19 pandemic and utilised the UK Coronavirus Job Retention Scheme which amounted to £683,758

These amounts are disclosed in "Other operating income" in the statement of comprehensive income.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

6. Operating loss

The operating loss is stated after charging:

	2020	As restated 2019
	£	£
Exchange differences	(143,539)	190,332
Depreciation of tangible fixed assets	2,857,038	1,683,575
Amortisation of intangible fixed assets	85,167	35,109
Operating lease rentals	4,873,168	1,788,988
Loss on disposal of fixed assets	17,700	22,007
	<u>17,700</u>	<u>22,007</u>

7. Auditors' remuneration

	2020	2019
	£	£
Fees payable to the group's auditor and its associates for the audit of the group's annual financial statements	71,000	41,500
	<u>71,000</u>	<u>41,500</u>
Fees payable to the group's auditor and its associates in respect of:		
Taxation compliance services	8,000	6,000
All other services	14,350	4,750
	<u>22,350</u>	<u>10,750</u>

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

8. Employees

Staff costs, including directors' remuneration, were as follows:

	Group 2020 £	Group As restated 2019 £
Wages and salaries	4,489,196	3,932,225
Social security costs	413,967	384,491
Cost of defined contribution scheme	81,417	91,553
	<u>4,984,580</u>	<u>4,408,269</u>

The average monthly number of employees, including the directors, during the year was as follows:

	Group 2020 No.	Group 2019 No.	Company 2020 No.	Company 2019 No.
Management	5	6	5	6
Administration	89	78	82	74
Construction	-	19	-	18
	<u>94</u>	<u>103</u>	<u>87</u>	<u>98</u>

9. Directors' remuneration

	2020 £	2019 £
Directors' emoluments	219,013	220,288
Company contributions to defined contribution pension schemes	5,837	6,013
	<u>224,850</u>	<u>226,301</u>

The highest paid director received remuneration of £135,439 (2019 - £140,833).

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

10. Interest payable and similar expenses

	2020	As restated 2019
	£	£
Interest charged on convertible loans	783,662	235,702
Other loan interest payable	227,813	242,168
Interest charged on deep discount bonds	226,000	230,667
	<u>1,237,475</u>	<u>708,537</u>

11. Taxation

	2020	As restated 2019
	£	£
Corporation tax		
Adjustments in respect of prior periods	403	(13,851)
	<u>403</u>	<u>(13,851)</u>
Total current tax charge/(credit)	<u>403</u>	<u>(13,851)</u>
Taxation on profit/(loss) on ordinary activities	<u>403</u>	<u>(13,851)</u>

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

11. Taxation (continued)

Factors affecting tax charge for the year

The tax assessed for the year is higher than (2019 - higher than) the standard rate of corporation tax in the UK of 19% (2019 - 19%). The differences are explained below:

	2020 £	As restated 2019 £
Loss on ordinary activities before tax	<u>(16,372,852)</u>	<u>(9,736,016)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019 - 19%)	<u>(3,110,842)</u>	<u>(1,849,843)</u>
Effects of:		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	15,003	59,389
Difference in local corporate tax rate	(14,590)	-
Remeasurement of deferred tax for changes in tax rates	(251,217)	-
Prior year adjustment	403	-
Depreciation in excess of capital allowances	238,039	-
Effects of losses incurred by overseas subsidiaries	-	334,802
Adjust closing deferred tax to average rate of 19.00%	-	251,320
Adjust opening deferred tax to average rate of 19.00%	-	(99,512)
Deferred tax not recognised	<u>3,123,607</u>	<u>1,289,993</u>
Total tax charge/(credit) for the year	<u><u>403</u></u>	<u><u>(13,851)</u></u>

Adjustments in respect of prior periods relate to research and development tax credits relating to previous periods.

In relation to the tax implication of the prior period adjustment (Note 28), the nature of the adjustment is a non-tax adjusting item. Further, deadline for submitting the FY2019 tax returns had passed, the management was unable to update the tax returns.

Factors that may affect future tax charges

The company has trade losses available of £25,949,909 to carry forward and offset against future profits. No deferred tax asset has been recognised on this amount due to doubts on future profitability against which losses may be offset.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

12. Intangible assets

Group

	Software development £
Cost	
At 1 January 2020	345,624
Additions	514,775
Foreign exchange movement	(655)
At 31 December 2020	<u>859,744</u>
Amortisation	
At 1 January 2020	67,283
Charge for the year on owned assets	85,167
At 31 December 2020	<u>152,450</u>
Net book value	
At 31 December 2020	<u>707,294</u>
At 31 December 2019	<u>278,341</u>

Capitalised software development relates to the group's booking platform, which is critical to the delivery of the group's services.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

12. Intangible assets (continued)

Company

	Software development £
Cost	
At 1 January 2020	345,624
Additions	504,152
At 31 December 2020	<u>849,776</u>
Amortisation	
At 1 January 2020	67,283
Charge for the year	85,167
At 31 December 2020	<u>152,450</u>
Net book value	
At 31 December 2020	<u><u>697,326</u></u>
At 31 December 2019	<u><u>278,341</u></u>

Capitalised software development relates to the company's booking platform, which is critical to the delivery of the company's services.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

13. Tangible fixed assets

Group

	Leasehold improvements £	Studio equipment and machinery £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost						
At 1 January 2020 (as previously stated)	10,049,136	2,285,647	37,996	203,450	120,222	12,696,451
Prior Year Adjustment	16,484	-	-	-	-	16,484
At 1 January 2020 (as restated)	10,065,620	2,285,647	37,996	203,450	120,222	12,712,935
Additions	16,163,747	1,787,432	22,302	124,074	34,563	18,132,118
Disposals	(435,723)	(129)	-	-	-	(435,852)
Exchange adjustments	(413,955)	(20,465)	-	1,849	(1,914)	(434,485)
At 31 December 2020	25,379,689	4,052,485	60,298	329,373	152,871	29,974,716
Depreciation						
At 1 January 2020 (as previously stated)	2,127,013	811,604	12,859	101,479	87,007	3,139,962
Prior Year Adjustment	579,811	-	-	-	-	579,811
At 1 January 2020 (as restated)	2,706,824	811,604	12,859	101,479	87,007	3,719,773
Charge for the year	2,165,731	625,665	13,153	20,879	31,610	2,857,038
Disposals	(16,365)	(42)	-	-	-	(16,407)
Exchange adjustments	6,210	(1,090)	-	385	(262)	5,243
At 31 December 2020	4,862,400	1,436,137	26,012	122,743	118,355	6,565,647

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

13. Tangible fixed assets (continued)

Net book value

At 31 December 2020	<u>20,517,289</u>	<u>2,616,348</u>	<u>34,286</u>	<u>206,630</u>	<u>34,516</u>	<u>23,409,069</u>
At 31 December 2019 (as restated)	<u>7,358,796</u>	<u>1,474,043</u>	<u>25,137</u>	<u>101,971</u>	<u>33,215</u>	<u>8,993,162</u>

Assets which had a net book value of £419,445 were sold for £401,745 resulting in a loss on disposal of £17,700.

Company

	Leasehold improvements £	Studio equipment and machinery £	Motor vehicles £	Fixtures and fittings £	Computer equipment £	Total £
Cost						
At 1 January 2020	8,647,494	2,145,538	37,996	150,852	109,426	11,091,306
Additions	6,963,195	1,158,843	22,302	101,419	22,987	8,268,746
At 31 December 2020	<u>15,610,689</u>	<u>3,304,381</u>	<u>60,298</u>	<u>252,271</u>	<u>132,413</u>	<u>19,360,052</u>
Depreciation						
At 1 January 2020 (as previously stated)	1,758,593	759,410	12,859	85,318	78,863	2,695,043
Prior Year Adjustment	677,058	-	-	-	-	677,058
At 1 January 2020 (as restated)	<u>2,435,651</u>	<u>759,410</u>	<u>12,859</u>	<u>85,318</u>	<u>78,863</u>	<u>3,372,101</u>
Charge for the year	1,852,759	561,212	13,153	8,464	28,767	2,464,355
At 31 December 2020	<u>4,288,410</u>	<u>1,320,622</u>	<u>26,012</u>	<u>93,782</u>	<u>107,630</u>	<u>5,836,456</u>

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

13. Tangible fixed assets (continued)

Company

Net book value

At 31 December 2020	<u>11,322,279</u>	<u>1,983,759</u>	<u>34,286</u>	<u>158,489</u>	<u>24,783</u>	<u>13,523,596</u>
At 31 December 2019 (as restated)	<u>6,211,843</u>	<u>1,386,128</u>	<u>25,137</u>	<u>65,534</u>	<u>30,563</u>	<u>7,719,205</u>

14. Investments

Company

	Investments in subsidiary companies £
Cost	
At 1 January 2020	22,168
At 31 December 2020	<u>22,168</u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name	Registered office	Class of shares	Holding
Pirate Studios LLC	USA	Ordinary	100%
Pirate Studios GmbH	Germany	Ordinary	100%

The registered office of Pirate Studios LLC is 1013 Centre Road, Suite 403-B, Wilmington, Delaware, 19805, USA.

The registered office of Pirate Studios GmbH is Unit 5, Bergholzstrabe 4, Berlin, 12099, Germany.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

15. Debtors

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Due after more than one year				
Deposits	1,393,275	1,295,103	851,844	820,006
Due within one year				
Trade debtors	1,972	44,728	613	42,780
Amounts owed by group undertakings	-	-	15,601,803	4,083,663
Other debtors	528,697	332,679	466,419	289,083
Prepayments	161,769	291,039	159,633	281,251
	<u>692,438</u>	<u>668,446</u>	<u>16,228,468</u>	<u>4,696,777</u>

16. Creditors: Amounts falling due within one year

	Group 2020 £	Group As restated 2019 £	Company 2020 £	Company As restated 2019 £
Trade creditors	1,310,487	413,042	597,829	346,399
Amounts owed to group undertakings	-	-	41,294	-
Other taxation and social security	189,661	179,487	158,250	174,321
Obligations under finance lease and hire purchase contracts	5,898	7,358	5,898	7,358
Lease liabilities	-	72,089	-	72,089
Other creditors	1,944,512	22,782	1,023,742	4,204
Accruals and deferred income	1,404,385	840,863	1,280,578	626,668
Lease incentives	2,255,492	749,937	1,998,297	749,937
	<u>7,110,435</u>	<u>2,285,558</u>	<u>5,105,888</u>	<u>1,980,976</u>

Included in the amount of other creditors above, there is a capital commitment of £Nil (2019 - £750,000) for enabling works under the rental agreements.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

17. Creditors: Amounts falling due after more than one year

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Convertible loans	20,689,278	6,577,150	20,689,278	6,577,150
Deep discount bonds	2,748,415	2,346,000	2,727,893	2,346,000
Obligations under finance lease and hire purchase contracts	7,278	12,195	7,278	12,195
Lease liabilities	-	951,638	-	951,638
Loans	2,000,000	2,000,000	2,000,000	2,000,000
	<u>25,444,971</u>	<u>11,886,983</u>	<u>25,424,449</u>	<u>11,886,983</u>

Convertible loans

On 14 July 2020 the remaining undrawn balance of an existing £20,000,000 facility was restructured so that new terms were agreed on a new £7,100,000 facility and £5,000,000 was released and re-invested under the terms of the Future Fund on 27 July 2020. The Future Fund is a government scheme delivered by the British Business Bank to support UK-based companies facing financing difficulties due to the Coronavirus outbreak subject to at least equal match funding from private investors.

The £7,893,000 already drawn down from the original £20,000,000 facility in 2019 remains on the same terms but in an amended and restated agreement of an aggregate amount up to £7,900,000. The new £7,100,000 loan facility has a warrant instrument that grants the holder the option to convert the amounts due into preferred B1 shares at any point within a 10 year period from the loan agreement date. Only the principal will convert to equity; no interest is due if the loan converts. If the loan has not been converted by 14 July 2022 it will be repaid by the final repayment date 14 July 2027. Interest of 8% per annum accrues on any amounts drawn down from the draw down date up until the final repayment date. A total of £6,149,510 was drawn down from this facility in 2020; £2,711,737 on 9 October 2020 and £3,437,773 on 10 November 2020.

The £5,000,000 re-invested by the original investor under the terms of the Future Fund was matched by a further £5,000,000 investment from British Business Bank. Under the terms of this £10,000,000 convertible loan agreement, the total amount of the loan converts automatically to the most senior class of shares with identical rights and preferences as attached to, and with the same obligations as, the securities issued in any bona fide equity financing round of at least £10,000,000 before 27 July 2023. The lenders have the option to convert in the event of equity financing less than £10,000,000 but at least £2,500,000 occurring before 27 July 2023. If the loan has not been converted, it will be repaid on 27 July 2023. Interest of 8% per annum will be paid from 27 July 2021 up until that date as well as a 100% redemption premium. On conversion, and at the company's sole discretion, either the interest accrued to date is paid in cash and only the principal converts to equity or both the principal and the interest accrued to date is converted to equity.

The convertible loans on the balance sheet date at 31 December 2020 is the debt component of the £10,000,000 Future Fund facility, £7,893,000 drawn down from the £7,900,000 loan facility and £6,149,150 drawn down from the £7,100,000 loan facility.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

17. Creditors: Amounts falling due after more than one year (continued)

Deep discount bonds

Deep discounted bonds originally redeemable on 21 June 2020 were extended until 21 June 2022. During the course of 2022 it was agreed that these bonds would be extended on a rolling basis until the current fundraising process is complete. The increase in balance of deep discounted bonds is entirely due to the accrued effective interest rate during the year. No new bonds were issued.

Loans

Loans consist of two £1,000,000 long term loans with annual interests of 10.95%. During 2020 one of these loan agreements was amended to state that all interest due between 01 January 2020 and 31 December 2020 was no longer payable but instead the accrued interest was to be added to the principal. The other loan agreement was amended to state that half of the interest due between 01 April 2020 and 31 March 2021 was payable and the other half was added to the principal.

During the course of 2021, one of these £1,000,000 loans which was due to be repaid in April 2021 was refinanced until June 2022, at which point this was extended further on a rolling basis until the current round of fundraising is complete. The other £1,000,000 loan was extended until June 2022 with the option to extend until June 2023 and this extension was formally requested and agreed during the course of 2022.

18. Loans

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Amounts falling due within one year				
Amounts falling due 1-2 years				
Deep discount bonds	2,748,415	2,346,000	2,727,893	2,346,000
Loans	2,000,000	2,000,000	2,000,000	2,000,000
	<u>4,748,415</u>	<u>4,346,000</u>	<u>4,727,893</u>	<u>4,346,000</u>
Amounts falling due 2-5 years				
Convertible loans	20,689,278	6,577,150	20,689,278	6,577,150
	<u>20,689,278</u>	<u>6,577,150</u>	<u>20,689,278</u>	<u>6,577,150</u>
	<u>25,437,693</u>	<u>10,923,150</u>	<u>25,417,171</u>	<u>10,923,150</u>

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

19. Financial instruments

	Group 2020 £	Group As restated 2019 £
Financial assets		
Financial assets that are debt instruments measured at amortised cost	<u>7,107,628</u>	<u>17,273,835</u>
Financial liabilities		
Financial liabilities measured at amortised cost	<u>(31,932,886)</u>	<u>(13,885,854)</u>

Financial assets measured at amortised cost comprise trade and other debtors, and cash deposits and cash in bank.

Financial liabilities measured at amortised cost comprise loans, trade creditors, other creditors and accrued expenses.

20. Provisions

Group

	Dilapidation provision £
At 1 January 2020	173,254
Charged to profit or loss	77,451
At 31 December 2020	<u><u>250,705</u></u>

The dilapidations are expected to be used in 1 to 16 years. As at 31 December 2020 the company had a dilapidations provision of £250,705 (2019 - £140,074). The amount charged to profit or loss was £77,451.

Company

	Other provision £	Total £
At 1 January 2020	140,074	140,074
Charged to profit or loss	56,870	56,870
At 31 December 2020	<u><u>196,944</u></u>	<u><u>196,944</u></u>

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

21. Share capital

Company

	2020 £	2019 £
Called-up		
31,838 (2019 - 31,838) Ordinary shares of £0.01 each	318	318
20,321 (2019 - 20,321) Preference A shares of £0.01 each	203	203
21,469 (2019 - 21,469) Preference B shares of £0.01 each	215	215
3,399 (2019 - 3,399) Preference B1 shares of £0.01 each	34	34
12,885 (2019 - 12,885) Preference B2 shares of £0.01 each	129	129
1,841 (2019 - 1,841) Deferred shares shares of £0.01 each	18	18
196 C Ordinary shares of £0.01 each	2	-
	<u>919</u>	<u>917</u>

Share class summary rights:

- Preference B2 Ordinary shares accrue a fixed cumulative annual dividend of 10% and are redeemable preference shares with full voting rights
- Preference B1 Ordinary, Preference A Ordinary and Preference B Ordinary are shares are preference shares with full voting rights but do not confer any rights of redemption
- Deferred Shares do not confer any voting rights, nor do they confer rights of redemption or to dividends

Liquidation preference:

- The preference B1 and Preference B2 Ordinary Shares rank first on a liquidation, followed by the Preference B and Preference A Ordinary shares.

Summary of activity in the year:

- 196 C Ordinary shares were subscribed for a total of £384.16

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

22. Reserves

Share premium account

The share premium account includes the premium on issue of equity shares, net of any issue costs.

Capital redemption reserve

Capital redemption reserve represents the amount of capital replenished following the cancellation of shares.

Foreign exchange reserve

This is the gain arising on retranslating the net assets/liabilities of overseas operations into Pounds Sterling.

Other reserves

Other reserves relate to equity component of convertible loans (see note 18).

Accumulated losses

Accumulated losses represents cumulative profits or losses, net of dividends paid and other adjustments.

23. Analysis of net debt

	At 1 January 2020 £	Cash flows £	Other non- cash changes £	At 31 December 2020 £
Cash at bank and in hand	15,601,325	(10,417,641)	-	5,183,684
Convertible loans	(6,577,150)	(16,169,270)	2,057,142	(20,689,278)
Deep discount bonds	(2,346,000)	-	(402,415)	(2,748,415)
Loans	(2,000,000)	-	-	(2,000,000)
Finance leases	(19,553)	6,377	-	(13,176)
	<u>4,658,622</u>	<u>(26,580,534)</u>	<u>1,654,727</u>	<u>(20,267,185)</u>

24. Pension commitments

The group operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the group in an independently administered fund. The pension cost charge represents contributions payable by the group to the fund and amounted to £81,417 (2019 - £91,553). £47,124 was outstanding at the end of the year (2019 - £29,990).

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

25. Commitments under operating leases

At 31 December 2020 the group and the company had future minimum lease payments due under non-cancellable operating leases for each of the following periods:

	Group 2020 £	Group 2019 £
Not later than 1 year	4,241,205	2,602,156
Later than 1 year and not later than 5 years	14,161,331	7,957,915
Later than 5 years	23,499,646	8,103,049
	<u>41,902,182</u>	<u>18,663,120</u>

26. Related party transactions

The company has taken advantage of the exemption available under paragraph 33.1A of the Financial Reporting Standard 102 not to disclose transactions with other wholly owned members of the group.

During the year, the company received lease incentives of £470,685 (2019 - £293,629) from related parties, which are classified as creditors (see note 16) and incurred expenses of £361,413 (2019 - £293,629) and no management fees with its shareholders (2019 - £100,000).

Key management personnel are considered to be the directors and their remuneration is included in note 9.

27. Controlling party

In the opinion of the directors there is no ultimate controlling party.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

28. Prior period adjustment

Group

German entity expense adjustment

Management had been performing review of the Group's German component and noted that the subsidiary had unrecorded expenses in the prior year, due to timing differences, which have subsequently been adjusted.

Depreciation adjustment

Adjustment relates to correcting the depreciation expense recognised to ensure it complies with FRS 102 (to depreciate when the asset is ready for intended use), specifically where costs relating to building new sites are depreciated from the date the site is opened and therefore the from which the asset is in use as opposed to being depreciated from the point of being invoiced.

Deposit reclassification

During the year, the management had been performing review of its deposit schedule and noted that deposit amounting to £1,295,103 was incorrectly presented as current assets. The Group's deposit relates to its long-term leases. The Group rents a number of studios to support its operations. The lease terms are usually long-term (average of 5 years).

Restated Consolidated Statement of Comprehensive Income

	2019 £	Expense adjustment £	Depreciation adjustment £	Deposit reclassification £	2019 as restated £
Turnover	3,594,827	-	-	-	3,594,827
Cost of sales	(3,823,606)	-	75	-	(3,823,531)
Administrative expenses	(8,727,745)	(35,919)	(35,111)	-	(8,798,775)
Interest payable and expenses	(708,542)	-	5	-	(708,537)
Taxation	13,851	-	-	-	13,851
Loss for the financial year	(9,651,215)	-	-	-	(9,722,175)
Currency translation differences	72,712	-	-	-	72,212
Total comprehensive loss for the year	(9,579,003)	(35,919)	(35,031)	-	(9,649,953)

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

28. Prior period adjustment

Group

Restated Consolidated Balance Sheet

	2019 £	Expense adjustment £	Depreciation adjustment £	Deposit reclassification £	2019 as restated £
Intangible assets	278,341	-	-	-	278,341
Tangible assets	9,556,489	-	(563,327)	-	8,993,162
Debtors due after one year	-	-	-	1,295,103	1,295,103
Debtors	1,963,549	-	-	(1,295,103)	668,446
Cash	15,601,325	-	-	-	15,601,325
Creditors	(2,249,639)	(35,919)	-	-	(2,285,558)
Creditors due after one year	(11,886,983)	-	-	-	(11,886,983)
Other provisions	(173,254)	-	-	-	(173,254)
Share capital	917	-	-	-	917
Share premium	30,074,064	-	-	-	30,074,064
Capital redemption reserve	512	-	-	-	512
Foreign exchange reserve	58,151	-	-	-	58,151
Other reserves	1,501,274	-	-	-	1,501,274
Accumulated losses	(18,545,090)	(35,919)	(563,327)	-	(19,144,336)

Prior period adjustment for 1 January 2019 had a net impact of £511,546 decrease in equity. This consists of two prior period adjustments (1) Prior year accounts for year ended 31 December 2019 also had a restatement which resulted to net increase in net assets amounting to £16,750. This relates to adjustment for capitalisation of development costs, recognition of dilapidation provision, convertible loan adjustments including interest, turnover and depreciation charge. (2) The second prior year error resulted to net decrease in net assets amounting to £528,296 which relates to the correction of the depreciation expense..

Prior period adjustment for 31 December 2019 resulted to a net decrease in net assets amounting to £70,951 which consists of (1) an expense adjustment in the German subsidiary amounting to £35,919 and (2) correction of the depreciation expense of £35,031.

Total depreciation adjustment from prior years amounts to £563,37 which includes the 1 January 2019 adjustment of £528,296 and 31 December 2019 adjustment of £35,031.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

28. Prior period adjustment

Company

Restated Company Balance Sheet

	2019 £	Expense adjustment £	Depreciation adjustment £	Deposit reclassification £	2019 as restated £
Intangible assets	278,341	-	-	-	278,341
Tangible assets	8,396,263	-	(677,058)	-	7,719,205
Investments	22,168	-	-	-	22,168
Debtors due after one year	-	-	-	820,006	820,006
Debtors	5,516,783	-	-	(820,006)	4,696,777
Cash	15,330,654	-	-	-	15,330,654
Creditors due within one year	(1,980,976)	-	-	-	(1,980,976)
Creditors due after one year	(11,886,983)	-	-	-	(11,886,983)
Other provisions	(140,074)	-	-	-	(140,074)
Share capital	917	-	-	-	917
Share premium	30,074,064	-	-	-	30,074,064
Capital redemption reserve	512	-	-	-	512
Other reserves	1,501,274	-	-	-	1,501,274
Accumulated losses	(16,040,591)	-	(677,058)	-	16,717,649

Depreciation adjustment

The prior period adjustment at company level includes a £677,058 adjustment to depreciation relating to the year ended 31 December 2018, therefore increasing the restated values of accumulated depreciation and accumulated losses brought forward as at 1 January 2018.

Deposit reclassification

During the year, the management had been performing review of its deposit schedule and noted that deposit amounting to £820,006 was incorrectly presented as current assets. The Company's deposit relates to its long-term leases. The Company rents a number of studios to support its operations. The lease terms are usually long-term (average of 5 years).

Prior period adjustment for 1 January 2019 had a net impact of £506,958 decrease in equity. This consists of two prior period adjustments (1) Prior year accounts for year ended 31 December 2019 also had a restatement which resulted to net increase in net assets amounting to £21,338. This relates to adjustments for capitalisation of development costs, recognition of dilapidation provision, convertible loan adjustments including interest, turnover and depreciation charge. (2) The second prior year error resulted to net decrease in net assets amounting to £528,296 which relates to the correction of the depreciation expense.

Prior period adjustment for 31 December 2019 resulted to a net decrease in net assets amounting to £148,762 which relates to the correction of the depreciation expense.

Total depreciation adjustment from prior years amounts to £677,058 which includes the 1 January 2019 adjustment of £528,296 and 31 December 2019 adjustment of £149,762.

Pirate Studios Limited

Notes to the Financial Statements For the Year Ended 31 December 2020

29. Post balance sheet events

Since the end of 2020, the group has raised over £10m in additional capital as well as negotiating extensions to all non-convertible debt currently held until the current fundraising round is complete.

During the course of 2021, a £1m loan which was due to be repaid in April 2021 was refinanced until June 2022, at which point this was extended further on a rolling basis until the current round of fundraising is complete. Another £1m loan was extended until June 2022 with the option to extend until June 2023 and this extension was formally requested and agreed during the course of 2022.

During the course of 2020 the company also extended all deep discounted bonds, originally due to be repaid June 2021, until June 2022. During the course of 2022 it was agreed that these bonds would be extended on a rolling basis until the current fundraising process is complete.

It is a key term of the current fundraising round that all debt and convertible debt holders agree to convert their debt to equity before the new capital is committed and whilst the Company has agreement from the majority of debt holders this process is not yet complete.