

Registered number: 09882916

TONIC GAMES LIMITED

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 SEPTEMBER 2020

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TONIC GAMES LIMITED

COMPANY INFORMATION

Directors	D J Bailey (resigned 1 March 2021) P J Croft (resigned 1 March 2021) P S Shapiro (resigned 1 March 2021) Z D Tsai (resigned 1 March 2021) S Tinkler (appointed 6 April 2020, resigned 1 March 2021) R S Gelber (appointed 1 March 2021) J LoBean (appointed 1 March 2021)
Company secretary	D J Bailey (resigned 1 March 2021)
Registered number	09882916
Registered office	2-4 Packhorse Road Gerrards Cross Buckinghamshire SL9 7QE
Independent auditor	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 30 Finsbury Square London EC2A 1AG

TONIC GAMES LIMITED

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TONIC GAMES LIMITED

GROUP STRATEGIC REPORT FOR THE YEAR ENDED 30 SEPTEMBER 2020

Introduction

The directors present their strategic report and financial statements for Tonic Games Limited and subsidiaries for the year ended 30 September 2020.

Business review

We hoped to deliver a transformational year in FY20 by reinvesting the returns from our longstanding Blockbuster business into Original Game IP. The long term aspiration was for our Original IP and Publishing businesses to replace our Blockbuster business altogether over the course of a 2-3 year period.

Our highest priority during the financial year was to successfully release our first massively multiplayer Original IP on Playstation and PC platforms: "Fall Guys: Ultimate Knockout" which had been in development since 2018.

Like every company, we also responded to the demands of the global pandemic, first with the closure of our Madrid based studio and then shortly after with our UK studios heading home in March 2020. Our teams adapted well to the changes; we experienced some operational disruption as did our suppliers and this ultimately contributed to a delay of the release of Fall Guys by around 3 months. Thanks to support from our 1st Party Platform partners the business was able to continue operating without harm.

The Fall Guys Open Beta event at the end of July attracted unprecedented levels of support from players, quickly becoming the No.1 title on the Twitch video streaming platform whilst still being pre-Release. When the game launched commercially on August 4th, it became the most downloaded Playstation Plus Game in history within days and has since been cited as one of the most successful launches of a new video game by an independent game developer.

The scale of the success of Fall Guys has meant that our portfolio management strategy is no longer a requirement to facilitate our growth and manage risk, and so in the final quarter of the year we began to quickly reallocate resources across the Group towards live operations and developing new features for our players.

Britain exiting the EU

On 23 June 2016, the United Kingdom (the 'UK') held a referendum in which voters approved an exit of the UK from the European Union (the 'EU'), commonly referred to as 'Brexit'. On 29 March 2017, the UK delivered formal notification of its intention to withdraw from the EU. On 31 January 2020, the UK left the EU and entered into a transition period until 31 December 2020 through the withdrawal agreement, to date no formal trade deal has been reached between the UK and the EU, creating significant uncertainty about the terms of the trade agreement and the consequent impact on the economies of the UK, the EU and other countries.

Tonic Games Limited is currently headquartered in the UK and our games are sold around the world. The directors are monitoring the impact of Brexit and the resulting trade agreements, including the impact to the UK workforce that includes EU nationals. Whilst at present the Group does not expect operations to be materially impacted, any uncertainty arising from the outcome of Brexit could be disruptive to operations or could adversely impact results.

Note on Change of Control

In March 2021, The Group was wholly acquired by Epic Games, Inc. This acquisition will bring significant strategic advantages to our Group and to the Fall Guys franchise in particular; helping us to bring Fall Guys to the widest possible audience and to continue investing in original game experiences.

TONIC GAMES LIMITED

**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

Principal risks and uncertainties

	Risk	Mitigation
Economic climate	The Company is exposed to fluctuations in the global economy. As the COVID-19 pandemic continues, there is increased risk of an economic downturn which could impact our business.	Historically, our sector has benefited during economic downturns and the COVID-19 pandemic has currently not had a negative financial impact on the Group or on the gaming sector as a whole. The Board is monitoring the situation closely and will take action if required.
Intellectual property	One of the Group's core assets is its intellectual property it owns. Any infringement may adversely impact the business.	The Group protects its own IP and rigorously challenges any potential infringement.
IT Systems	The Group is reliant on its IT systems and infrastructure. Any major systems failure could have a material impact on the Group's operations.	The Group has put in place business continuity and disaster recovery plans which are tested frequently.
Foreign exchange movements	The Group receives receipts in foreign currencies and has employees based overseas paid in foreign currencies. There is exposure to adverse movements in exchange rates, which would impact our revenue and costs.	Where relevant, the Group uses forward foreign exchange contracts to mitigate the risk. Also, where possible, the Group will contract in Sterling.
Video Games Tax Relief	The Group benefits from the Video Games Tax Relief scheme which was introduced in 2014. As a result, the Group receives a large VGTR receipt each year. If changes to VGTR policies were to be made, this could have an impact on our financial performance.	Current UK tax policy states that VGTR will be available until at least 2023.
Success of Fall Guys	Player retention is key to continued success, a substantial reduction in players could adversely impact our business.	The Company continues to innovate Fall Guys with updated and new season launches within the game to attract new and retain existing players.

TONIC GAMES LIMITED

GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020

Financial key performance indicators

	2020	<i>As restated</i>
	£	2019
	£	£
Revenue	72,455,856	18,225,917
Gross Margin	78%	40%
Adjusted EBITDA*	49,291,328	4,175,602
Net cash balance	8,043,180	10,137,083

*Adjusted EBITDA, which is defined as profit before amortisation, depreciation, impairments and exceptional items, is a non-GAAP metric used by management and is not a UK GAAP disclosure.

Future Outlook

The success of Fall Guys and the acquisition by Epic Games, Inc. will position us strongly for growth in the coming years both from a people and profitability perspective. We plan to employ more than 400 people by the end of the next financial year, continue to create our own Original games and expect to see substantial growth in the Fall Guys franchise.

Section 172(1) statement

This section sets out an overview of how the directors have fulfilled their duties under s172 of the Companies Act 2006. S172 requires that the directors act in a way that is most likely to promote the success of the Group and Company for the benefit of its members as a whole. The specific requirements of s172 are that directors have regard to:

- The likely long-term consequences of their decisions;
- The interests of the Company's employees;
- The need to maintain business relationships with suppliers, customers and others;
- The impact of the Group and Company's operations on the community and environment;
- The desirability of maintaining a reputation for good business ethics; and
- The need to act fairly between members of the Group and Company.

The directors are involved in the day-to-day management of business strategy and other related policies and will review financial and operational performance and other stakeholder-related matters where relevant on a regular basis.

Although the nature of the Group and Company's business operations has a limited environmental impact, the Group and Companies continue to try and reduce their environmental footprint. The Company encourages virtual communication tools, which minimizes the impact of business travel and implements recycling focused waste management initiatives at the office.

The Company engages with its communities to better understand their needs and identify support opportunities. It does this by: (i) encouraging employees to take community days; (ii) participating and promoting of community events; and (iii) partnerships.

Due to the scope of our stakeholders, it is generally more effective for stakeholder engagement to take place at an operational or business unit level.

The table below details how the Board has engaged with our wider stakeholders and how such interactions influence decision making:

TONIC GAMES LIMITED

GROUP STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Section 172(1) statement (continued)

Employee interest	How we engage	Decision making impacts
<ul style="list-style-type: none"> • Learning and development • Health and safety and safe working conditions • Diversity and inclusion • Human rights and modern slavery • Fair play and benefits • Workplace societies and clubs 	<ul style="list-style-type: none"> • Code of conduct • In person training • Online training • Intranet • All staff emails • Workplace posters and communications • Whistleblowing hotline • Reward team • Well-being initiatives 	<ul style="list-style-type: none"> • Attention of directors to survey results • In all monthly meetings, there is a section dedicated to Company updates and to respond to employee questions/ concerns • Regular company updates from the directors to all employees • Health and wellbeing initiatives, for example, access to Employee Assistance Programme • Work from home initiatives, for example, employee home office expense policies • Pay/ benefit review

The table below details how the Board has engagement with our wider stakeholders and how such interactions influence decision making:

Stakeholder	How we engage	Decision making impacts
Suppliers	<ul style="list-style-type: none"> • Fair payment practices • Standardised Request for Proposals • Conflict of interest reviews • Adherence to terms of supply • Participation in KYC processes 	<ul style="list-style-type: none"> • Dependence on capability and performance of suppliers e.g. small businesses, industry peers • Regular meetings with key suppliers and key business stakeholders • Vendor Code of Conduct
Customers	<ul style="list-style-type: none"> • Customer events and competitions • Global customer brand tracking • Market research • Product testing • Customer support channels • Quality Assurance Team • Online forms 	<ul style="list-style-type: none"> • Engaging with customers helps us to understand their needs and identify opportunities and challenges • Product updates in response to customer feedback
Governments	<ul style="list-style-type: none"> • Companies House filings • Statistical surveys 	<ul style="list-style-type: none"> • Regulatory compliance

TONIC GAMES LIMITED

**GROUP STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

Employee Involvement

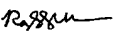
The directors ensure that the employees are informed of any significant matters affecting them and places considerable value on the involvement of the employees within the wider business and its performance. Employee involvement is achieved through quarterly calls; this gives the directors an opportunity to share the performance of the business, any plans for the future and the financial and economic factors affecting the Group and Company's performance. As part of this call questions can be asked / recommendations made anonymously or publicly.


As part of the yearly appraisal, employees are awarded a bonus based on their personal objectives being met and the Group's performance in line with expected targets.

Employment of disabled persons

The Group and Company ensures that they make reasonable or legally required accommodation for any disadvantage caused by the disability. The office can accommodate people with disabilities e.g., the office is wheelchair accessible and the Group and Company carries out individual risk assessments for anyone that could be vulnerable in some way, e.g. pregnancy. If an employee develops a disability while in employment by the Group and Company they are encouraged to raise this so the Group and Company can consider what accommodation or support may be appropriate.

This report was approved by the Board on 3 August 2021 and signed on its behalf.

DocuSigned by:

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R S Gelber
Director

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J Lobeau
Director

TONIC GAMES LIMITED

**DIRECTORS' REPORT
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

The directors present their report and the financial statements for the year ended 30 September 2020.

Principal activity

The principal activity of the Company is to act as a holding company for the Group and the principal activities of the Group during the year were the creation, development and publishing of video games.

Results and dividends

The profit for the year, after taxation, amounted to £42,208,725 (2019: £3,741,244).

£Nil dividends, including A1 preference dividends, were declared in the year (2019: £Nil). Dividends paid in the year were £Nil (2019: £Nil) and relate to dividends accrued from a prior period.

Directors

The directors who served during the year and subsequent to year end were:

D J Bailey (resigned 1 March 2021)
P J Croft (resigned 1 March 2021)
P S Shapiro (resigned 1 March 2021)
Z D Tsai (resigned 1 March 2021)
S Tinkler (appointed 6 April 2020, resigned 1 March 2021)
R S Gelber (appointed 1 March 2021)
J LoBean (appointed 1 March 2021)

TONIC GAMES LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 30 SEPTEMBER 2020

Directors' responsibilities statement

The directors are responsible for preparing the Group 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law, including FRS 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 and profit or loss of the Group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies 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;
- 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 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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Going concern

The directors have prepared the financial statement on the going concern basis. Refer to note 2.3 to the financial statements for further detail.

Disclosure of information in the Strategic report

The Group has chosen in accordance with Section 414C(11) of the Companies Act 2006 to set out in the Strategic report information required in the Directors' report.

Matters covered in the strategic report

Disclosure of the Company's business review, future developments and financial risk management practice on payments of creditors are provided in the strategic report.

TONIC GAMES LIMITED

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

Subsequent events

In our view, the acquisition by Epic Games, Inc. on 1 March 2021 and the COVID-19 pandemic are both considered to be non-adjusting post balance sheet events, consequently no adjustments have been made in the financial statements. The COVID-19 pandemic has developed rapidly in 2020, we have taken a number of measures to monitor and mitigate the effects of COVID-19, such as health and safety for our people and ensuring they have the appropriate equipment to work remotely. At this stage, the Company has not been adversely impacted by the COVID-19 pandemic.

As we operate in the gaming sector, we have found increased demand for our games and expect this to continue. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

Disclosure of information to auditor

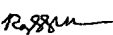
The directors confirm that:

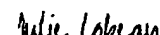
- so far as each director is aware, there is no relevant audit information of which the Company and the Group's auditor is unaware, and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company and the Group's auditor is aware of that information.

Auditor

The auditor, Grant Thornton UK LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the Board on 3 August 2021 and signed on its behalf.

DocuSigned by:

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R S Gelber
Director

DocuSigned by:

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J LoBean
Director



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TONIC GAMES LIMITED

Opinion

We have audited the financial statements of Tonic Games Limited (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 30 September 2020, which comprise the Consolidated Statement of comprehensive income, the Consolidated and Company Statements of financial position, the Consolidated and Company Statement of changes in equity, the Consolidated Statement of cash flows and notes 1 to 30 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 30 September 2020 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- 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.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as COVID-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's or the parent Company's future prospects and performance.

COVID-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Group's or the parent Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company associated with these particular events.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TONIC GAMES LIMITED (CONTINUED)

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the directors' conclusions, we considered the risks associated with the Group's or the parent Company's business model, including effects arising from macro-economic uncertainties such as COVID-19 and Brexit, and analysed how those risks might affect the Group's or the parent Company's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this Auditor's report is not a guarantee that the Group and the parent Company will continue in operation.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TONIC GAMES LIMITED (CONTINUED)

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

Matter on which we are required to report under the Companies Act 2006

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 Group strategic report or the Directors' report.

Matters on which we are required to report by exception

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 for the financial statements

As explained more fully in the Directors' responsibilities statement set out on page 7, 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.



INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TONIC GAMES LIMITED (CONTINUED)

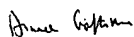
Auditor's responsibilities for the audit of the financial statements

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 on the Financial Reporting Council's website at: 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 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 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Aimee Griffiths BA FCA
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London

August 2021
5/8/2021

TONIC GAMES LIMITED

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	Note	2020 £	As restated 2019 £
Turnover	4	72,455,856	18,225,917
Cost of sales		(15,367,911)	(10,934,177)
Gross profit		57,087,945	7,291,740
Administrative expenses		(11,189,539)	(6,413,345)
Other operating income	5	2,236,839	2,434,980
Operating profit	6	48,135,245	3,313,375
Adjusted EBITDA*		49,291,328	4,175,602
Amortisation, depreciation and impairment		(407,575)	(679,920)
Exceptional items		(748,508)	(182,307)
Profit on ordinary activities before interest		48,135,245	3,313,375
Interest receivable and similar income	9	14,272	23,640
Interest payable and expenses	10	(5,026)	406,875
Profit before taxation		48,144,491	3,743,890
Tax on profit	11	(5,935,766)	(2,646)
Profit for the financial year		42,208,725	3,741,244
Foreign exchange for translation		1,281	-
Other comprehensive income for the year		1,281	-
Total comprehensive income for the year		42,210,006	3,741,244
Profit for the year attributable to:			
Owners of the parent Company		42,208,725	3,741,244

Refer to note 29 for prior year adjustments.

There were no recognised gains and losses for 2020 or 2019 other than those included in the Consolidated statement of comprehensive income.

The notes on pages 21 to 40 form part of these financial statements.

*Adjusted EBITDA, which is defined as profit before amortisation, depreciation, impairments and exceptional items, is a non-GAAP metric used by management and is not a UK GAAP disclosure.

TONIC GAMES LIMITED
REGISTERED NUMBER:09882916

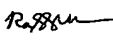
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020


	Note	2020 £	2019 £
Fixed assets			
Intangible assets	13	5,490,807	1,907,228
Tangible assets	14	1,698,092	522,244
		<u>7,188,899</u>	<u>2,429,472</u>
Current assets			
Debtors: amounts falling due within one year	16	49,321,969	4,829,868
Cash at bank and in hand	17	8,043,180	10,137,083
		<u>57,365,149</u>	<u>14,966,951</u>
Current liabilities			
Creditors: amounts falling due within one year	18	(10,509,975)	(4,461,766)
Net current assets		<u>46,855,174</u>	<u>10,505,185</u>
Non-current assets			
Debtors: amounts falling due after more than one year		980,793	-
Deferred tax		164,796	-
		<u>1,145,589</u>	<u>-</u>
Net assets		<u>55,189,662</u>	<u>12,934,657</u>
Capital and reserves			
Called up share capital	21	16	16
Share premium account	22	5,814,913	5,769,914
Foreign exchange reserve	22	(1,640)	-
Merger reserve	22	2,123,057	2,123,057
Profit and loss account	22	47,253,316	5,041,670
Equity attributable to owners of the parent Company		<u>55,189,662</u>	<u>12,934,657</u>
		<u>55,189,662</u>	<u>12,934,657</u>

TONIC GAMES LIMITED
REGISTERED NUMBER:09882916

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
AS AT 30 SEPTEMBER 2020

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 3 August 2021.

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R S Gelber
Director

DocuSigned by:

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J L O'Beirne
Director

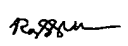
The notes on pages 21 to 40 form part of these financial statements.

TONIC GAMES LIMITED
REGISTERED NUMBER:09882916

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 30 SEPTEMBER 2020

	Note	2020 £	2019 £
Fixed assets			
Investments	15	501,193	501,193
		<u>501,193</u>	<u>501,193</u>
Current assets			
Debtors: amounts falling due within one year	16	3,603,091	3,558,092
		<u>3,603,091</u>	<u>3,558,092</u>
Total assets less current liabilities		4,104,284	4,059,285
Net assets		4,104,284	4,059,285
Capital and reserves			
Called up share capital	21	16	16
Share premium account	22	3,603,088	3,558,089
Profit and loss account brought forward		501,180	94,305
Profit for the year		-	406,875
		<u>501,180</u>	<u>501,180</u>
Profit and loss account carried forward		501,180	501,180
		<u>4,104,284</u>	<u>4,059,285</u>

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

DocuSigned by:

 RS Geiber
 Director
 Date: 3 August 2021

DocuSigned by:

 Julie Loban
 Director
 Date: 3 August 2021

The notes on pages 21 to 40 form part of these financial statements.

TONIC GAMES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020

	Called up share capital	Share premium	Foreign exchange reserve	Merger reserve	Profit and loss account	Total equity
	£	£	£	£	£	£
At 1 October 2019	16	5,769,914	-	2,123,057	5,041,670	12,934,657
Comprehensive income for the year						
Profit for the year	-	-	-	-	42,208,725	42,208,725
Currency translation differences	-	-	(1,640)	-	2,921	1,281
Total comprehensive income for the year	-	-	(1,640)	-	42,211,646	42,210,006
Shares issued during the year	-	44,999	-	-	-	44,999
Total transactions with owners	-	44,999	-	-	-	44,999
At 30 September 2020	16	5,814,913	(1,640)	2,123,057	47,253,316	55,189,662

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019

	Called up share capital	Share premium	Merger reserve	Profit and loss account	Total equity
	£	£	£	£	£
At 1 October 2018	13	2,213,825	2,123,057	1,300,426	5,637,321
Comprehensive income for the year					
Profit for the year	-	-	-	3,741,244	3,741,244
Total comprehensive income for the year	-	-	-	3,741,244	3,741,244
Shares issued during the year	3	3,556,089	-	-	3,556,092
Total transactions with owners	3	3,556,089	-	-	3,556,092
At 30 September 2019	16	5,769,914	2,123,057	5,041,670	12,934,657

The notes on pages 21 to 40 form part of these financial statements.

TONIC GAMES LIMITED

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 October 2019	16	3,558,089	501,180	4,059,285
Comprehensive income for the year				
Profit for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
Contributions by and distributions to owners				
Shares issued during the year	-	44,999	-	44,999
Total transactions with owners	-	44,999	-	44,999
At 30 September 2020	16	3,603,088	501,180	4,104,284

**COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 SEPTEMBER 2019**

	Called up share capital	Share premium account	Profit and loss account	Total equity
	£	£	£	£
At 1 October 2018	13	2,000	94,305	96,318
Comprehensive income for the year				
Profit for the year	-	-	406,875	406,875
Contributions by and distributions to owners				
Shares issued during the year	3	3,556,089	-	3,556,092
At 30 September 2019	16	3,558,089	501,180	4,059,285

The notes on pages 21 to 40 form part of these financial statements.

TONIC GAMES LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	2020 £	2019 £
Cash flows from operating activities		
Profit for the financial year	42,208,725	3,741,244
Adjustments for:		
Amortisation of intangible assets	490,475	168,328
Depreciation of tangible assets	407,575	237,517
Impairments of fixed assets	182,980	274,075
Loss on disposal of tangible assets	3,370	38,202
Debt element of share capital	-	(406,875)
Interest paid	5,026	-
Interest received	(14,272)	(23,640)
Taxation charge	-	2,646
(Increase) in debtors	(45,637,289)	(260,217)
Increase in creditors	6,047,806	3,323,965
Corporation tax received/(paid)	-	(1,043,227)
Monitoring cost	35,000	-
Net cash generated from operating activities	3,729,396	6,052,018
Cash flows from investing activities		
Purchase of intangible fixed assets	(4,257,033)	(1,600,908)
Purchase of tangible fixed assets	(1,586,795)	(380,885)
Interest received	14,272	23,640
Net cash used in investing activities	(5,829,556)	(1,958,153)

TONIC GAMES LIMITED

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
 FOR THE YEAR ENDED 30 SEPTEMBER 2020**

	2020 £	2019 £
Cash flows from financing activities		
Issue of ordinary shares	44,999	3,556,092
Interest paid	(5,026)	-
Monitoring cost	(35,000)	-
Foreign exchange movements	1,284	-
Net cash from financing activities	<u>6,257</u>	<u>3,556,092</u>
Net (decrease)/increase in cash and cash equivalents	<u>(2,093,903)</u>	<u>7,649,957</u>
Cash and cash equivalents at beginning of year	10,137,083	2,487,126
Cash and cash equivalents at the end of year	<u><u>8,043,180</u></u>	<u><u>10,137,083</u></u>
Cash and cash equivalents at the end of year comprise:		
Cash at bank and in hand	8,043,180	10,137,083
	<u><u>8,043,180</u></u>	<u><u>10,137,083</u></u>

The notes on pages 21 to 40 form part of these financial statements.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

1. General information

Tonic Games Limited is a private company limited by shares and incorporated in England and Wales. Its registered head office is located at 2-4 Packhorse, Gerrards Cross, Buckinghamshire, SL9 7QE.

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 own subsidiaries ("the Group") as if they form a single entity. Intercompany transactions and balances between group companies are therefore eliminated in full.

No Statement of comprehensive income and related notes are provided for Tonic Games Limited as provided by section 408 of the Companies Act 2006.

2.3 Going concern

The directors have prepared the financial statements on the going concern basis having projected cashflow and operating forecasts for the business for a period of at least 12 months from the date of signing these financial statements. These support the expected growth of the business and the assumption that it will continue to be cashflow positive in the foreseeable future. The Group has increased its net cash position post the balance sheet date and based on current and forecasted performance, including consideration of the impacts of COVID-19 and the acquisition by Epic Games, Inc., subsequent to year end the directors reasonably expect there to continue to be sufficient cash resources to be able to pay liabilities as they fall due for at least 12 months from the date of approval of these financial statements.

In our view, the COVID-19 pandemic is considered to be a non-adjusting post balance sheet event and no adjustment is made in the financial statements as a result. Further details of the impact on operations from COVID-19 can be seen in the directors report under subsequent events.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

2. Accounting policies (continued)

2.4 Turnover

Turnover comprises revenue recognised by the Company in respect of services supplied during the year and royalties received, exclusive of Value Added Tax and is measured with reference to customer contracts.

In respect of contracts to develop or provide maintenance and support services for specific games, revenue is recognised as the service is provided. Royalty revenue attributable to the Company is recognised net of associated direct costs and profit share at the point the game is made available for download. Publishing revenue is recognised at the point the game is made available for download.

2.5 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. Development costs are amortised on a straight line basis over their useful economic lives, from the point that the asset is completed and released for sale.

The estimated useful life of a published game is determined in reference to the game's forecast longevity at the point of public release.

Where no internally generated intangible asset can be recognised, development costs are recognised as an expense in the period in which they are incurred.

Development of video games for publication	- 3-5 years
Software	- 3 years

2.6 Tangible fixed assets

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives on the following bases:

Long-term leasehold property	- over the period of the lease
Fixtures and fittings	- 25% straight line
Computer equipment	- 33.3% straight line

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

2. Accounting policies (continued)**2.7 Compound instruments**

Compound instruments comprise both a liability and equity component. Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities. Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classified as financial liabilities and are presented as such on the Statement of financial position. Finance costs and any gains or losses attributable to financial liabilities are included in the Consolidated statement of comprehensive income. Dividends and distributions relating to equity instruments are charged directly to equity.

The fair value of the liability component has been calculated based on estimated future cash flows, discounted using the prevailing market rate for a similar debt instrument without an equity feature. The residual between the net proceeds of issue and the liability component is classed as the equity element. At each Statement of financial position date, the liability component is restated to reflect the net present value of the revised cash flows, the difference being taken to the Statement of comprehensive income.

2.8 Impairment of fixed assets

Assets that are subject to depreciation or amortisation are assessed at each reporting date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash-generating unit to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each reporting date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.9 Valuation of investments

Investments in subsidiaries are measured at cost less accumulated impairment.

Management assess whether there are indicators of impairment on an annual basis. Where there are indicators of impairment, management estimate the recoverable amount of each asset based on expected future cashflows and using an appropriate discount rate to discount these.

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.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

2. Accounting policies (continued)

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.

In the Consolidated statement of cash flows, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

2.12 Financial Instruments

The Group enters into basic financial instruments 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, loans to related parties and investments in non-puttable ordinary shares.

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 reporting date.

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position 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.

2.13 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.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

2. Accounting policies (continued)

2.14 Foreign currency translation

Functional and presentation currency

The 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 profit or loss 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 profit or loss within 'other operating income'.

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 within foreign exchange for translation.

2.15 Finance costs

Finance costs are charged to profit or loss 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.

2.16 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.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

2. Accounting policies (continued)

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 Statement of financial position. The assets of the plan are held separately from the Group in independently administered funds.

2.18 Interest income

Interest income is recognised in profit or loss using the effective interest method.

2.19 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. 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 reporting 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 Statement of financial position 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 reporting date.

2.20 Video games tax relief

Video Game Tax Credits have only been recognised where management believe that a tax credit will be recoverable based on their experience of obtaining the relevant certification and the success of similar historical claims. Such credits are recognised within other operating income in order to reflect the substance of these credits to the Company and Group (see note 29).

TONIC GAMES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

2. Accounting policies (continued)

2.21 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

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

Management consider the following to be the key areas of estimation uncertainty in the preparation of these accounts as follows:

Intangible Assets

Management have to estimate the expected useful life of the capitalised intangible assets which then impacts the amortisation expense recognised and carrying value for these assets.

At each reporting date, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated through the use of forecasts in order to determine the extent of the impairment loss (if any).

4. Turnover

	2020 £	2019 £
Sales	<u>72,455,856</u>	<u>18,225,917</u>

The Group does not provide any information on the geographical location of sales as a proportion of revenue is through third party distribution platforms which are responsible for the sales data of consumers.

5. Other operating income

	2020 £	As restated 2019 £
Video games tax credit	<u>2,236,839</u>	<u>2,434,980</u>

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

6. Operating profit

The operating profit is stated after charging:

	2020 £	2019 £
Depreciation of tangible fixed assets	407,575	237,517
Amortisation of intangible assets	506,623	168,328
Impairment of intangible assets	182,980	274,075
Auditor's remuneration - audit fees	49,000	51,820
Auditor's remuneration - non audit	10,982	7,107
Exchange differences	(1,040,383)	(35,696)
Other operating lease rentals	1,120,811	1,063,615
Redundancy costs*	173,640	84,314
Onerous rent due on cessation*	255,470	40,205
Loss on disposal - Leasehold improvements*	-	35,316
Other exceptional costs*	29,513	9,380
Defined contribution pension cost	280,288	170,613
Due diligence*	-	13,094
Forward exchange contract losses*	289,885	-

*The total of these items is £748,508 (2019: £182,307) and are considered to be one-off costs.

7. Directors' remuneration

	2020 £	2019 £
Directors' emoluments	618,000	346,580
Company contributions to defined contribution pension schemes	9,150	6,000
	<u>627,150</u>	<u>352,580</u>

The highest paid director received a gross salary of £120,000 (2019: £120,000) including pension contributions of £3,600 (2019: £3,000).

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

8. Employees

	2020 £	2019 £
Wages and salaries	11,947,490	7,964,566
Social security costs	1,213,221	873,648
Costs of defined contribution scheme	280,288	170,613
	<u>13,440,999</u>	<u>9,008,827</u>

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

	2020 No.	2019 No.
	<u>260</u>	<u>193</u>

9. Interest receivable

	2020 £	2019 £
Other interest receivable	<u>14,272</u>	<u>23,640</u>

10. Interest payable and similar expenses

	2020 £	2019 £
Other interest payable	<u>5,026</u>	<u>(406,875)</u>

Included with interest payable and other charges is a write back of a finance cost of £Nil (2019: £406,875) related to the debt element of the share capital instruments. During the previous year, Synova Capital Fund II LLP became the majority shareholder. As part of this transaction, the existing financial instrument held under the previous ultimate controlling party was extinguished and the charge accumulated over the years was released into the P&L. All holders of these shares in the capital Company irrevocably waived all right and entitlement, in respect of their entire holdings of shares, to all and any dividend in respect of the financial year ended 30 September 2019 and any dividend in respect of the current financial year.

TONIC GAMES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

11. Taxation

	2020 £	As restated 2019 £
Current tax on profits for the year	5,935,766	2,646
Total current tax	5,935,766	2,646

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%). The Finance Act 2016 included legislation to reduce the main rate of corporation tax from 20% to 19% from 1 April 2017 and to 17% from April 2020. Legislation has been substantively enacted to repeal the reduction of the main corporation tax rate thereby maintaining the current rate of 19%. The differences are explained below:

	2020 £	As restated 2019 £
Profit on ordinary activities before tax	48,144,491	3,743,890
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	9,193,771	713,192
Effects of:		
Fixed asset differences	39,405	10,590
Expenses not deductible for tax purposes	6,459	41,796
Other tax adjustments, reliefs and transfers	(504,488)	(584,393)
Group relief	-	(5,631)
Income not taxable for tax purposes	(231,436)	(580,540)
Other permanent differences	-	(479,319)
Adjust closing deferred tax to average rate	-	224,005
Adjust opening deferred tax to average rate	-	(99,059)
Remeasurement of deferred tax for changes in tax rates	(223,392)	-
Video game development tax profit adjustment	(2,661,349)	(2,747,660)
Deferred tax (utilisation)/not recognised	(1,908,057)	1,074,685
Video games tax relief recognised in other operating income	2,236,839	2,434,980
Other	(11,986)	-
Total tax charge for the year	5,935,766	2,646

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

11. Taxation (continued)

Factors that may affect future tax charges

The Group has unrelieved tax losses of £1,432,274 (2019: £9,831,911) to carry forward. We have recognised a deferred tax asset of £164,796 (2019: £628) in the Consolidated statement of financial position.

12. Parent Company profit for the year

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 profit after tax of the parent Company for the year was £Nil (2019: £406,875).

13. Intangible assets

Group

	Development of Catapult Technology £	Development of video games for publication £	Total £
Cost			
At 1 October 2019	75,614	2,077,857	2,153,471
Additions	-	4,274,166	4,274,166
Impairment	-	(182,980)	(182,980)
Foreign exchange movement	-	(984)	(984)
At 30 September 2020	75,614	6,168,059	6,243,673
Amortisation			
At 1 October 2019	23,236	223,007	246,243
Charge for the year on owned assets	16,116	490,507	506,623
At 30 September 2020	39,352	713,514	752,866
Net book value			
At 30 September 2020	36,262	5,454,545	5,490,807
At 30 September 2019	52,378	1,854,850	1,907,228

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

13. Intangible assets (continued)

Amortisation on intangible assets is charged to administrative expenses.

The additions of £4,274,167 (2019: £1,600,908) relates to the development costs of games capitalised in the year. Impairment of £182,980 (2019: £274,075) relates to the write off of developments costs of games.

14. Tangible fixed assets

Group

	Leasehold Property £	Fixtures and fittings £	Computer equipment £	Total £
Cost				
At 1 October 2019	375,583	145,695	916,716	1,437,994
Additions	1,033,212	218,893	367,090	1,619,195
Disposals	(231,758)	(53,484)	(389,765)	(675,007)
Exchange difference	2,292	292	957	3,541
At 30 September 2020	1,179,329	311,396	894,998	2,385,723
Depreciation				
At 1 October 2019	236,510	88,144	591,096	915,750
Charge for the year on owned assets	156,756	49,431	234,396	440,583
Disposals	(231,758)	(50,114)	(386,830)	(668,702)
At 30 September 2020	161,508	87,461	438,662	687,631
Net book value				
At 30 September 2020	1,017,821	223,935	456,336	1,698,092
At 30 September 2019	139,073	57,551	325,620	522,244

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

15. Fixed asset investments

Company

	Investments in subsidiary companies £
Cost or valuation	
At 1 October 2019	501,193
At 30 September 2020	<u>501,193</u>
Net book value	
At 30 September 2020	<u><u>501,193</u></u>

Subsidiary undertakings

The following were subsidiary undertakings of the Company:

Name and company number	Country of incorporation	Principal activity	Class of shares	Holding
Mediatonic Limited (05565220)	England	Creation, development and sale of video games	Ordinary	100%
*Burke & Best Limited (09555736)	England	Creation, development and sale of video games	Ordinary	100%
*The Irregular Corporation Limited (09911973)	England	Publication of video games	Ordinary	100%
*Freak Fandango Limited (09912370)	England	Dormant	Dormant	100%
*Mediatonic West Limited (09911877)	England	Creation, development and sale of video games	Ordinary	77%
*Fudoki Limited (10920424)	England	Creation, development and sale of video games	Ordinary	100%
*Fortitude Games Limited (10973601)	England	Creation, development and sale of video games	Ordinary	100%
*Sashimi Games Limited (11181634)	England	Creation, development and sale of video games	Ordinary	100%
*Tempura Games Limited (11181732)	England	Creation, development and sale of video games	Ordinary	100%
Mediatonic Games SLU	Spain	Creation, development and sale of video games	Ordinary	100%
The Irregular Corporation K.K.	Japan	Publication of video games	Ordinary	100%

* For the period ended 30 September 2020 Tonic Games Limited has provided a parental guarantee in respect of all liabilities due by its subsidiaries which are exempt from audit by virtue of s479A of Companies Act 2006.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020**

15. Fixed asset investments (continued)

Subsidiary undertakings (continued)

The aggregate of the share capital and reserves as at 30 September 2020 and the profit or loss for the year ended on that date for the subsidiary undertakings were as follows:

Name	Aggregate of share capital and reserves £	Profit/(Loss) £
Mediatonic Limited	47,300,589	39,717,102
Burke & Best Limited	92,244	(1,189)
The Irregular Corporation Limited	3,203,939	1,663,602
Freak Fandango Limited	-	-
Mediatonic West Limited	(28,966)	(1,007)
Fudoki Limited	(444)	(445)
Fortitude Games Limited	681,454	381,668
Sashimi Games Limited	213,519	213,518
Tempura Games Limited	583,747	583,747
Mediatonic Games SLU	59,642	32,388
The Irregular Corporation K.K.	(187,612)	(184,998)

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16. Debtors

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Due after more than one year				
Other debtors	980,793	-	-	-
	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Due within one year				
Trade debtors	2,823,350	1,611,235	-	-
Amounts owed by group undertakings	-	-	3,553,091	3,558,092
Other debtors	534,988	594,189	50,000	-
Prepayments and accrued income	45,963,631	1,040,524	-	-
Tax recoverable	-	1,583,292	-	-
Deferred taxation	-	628	-	-
	49,321,969	4,829,868	3,603,091	3,558,092

17. Cash and cash equivalents

	Group 2020 £	Group 2019 £
Cash at bank and in hand	8,043,180	10,137,083

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**NOTES TO THE FINANCIAL STATEMENTS
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18. Creditors: Amounts falling due within one year

	Group 2020	Group 2019
	£	£
Trade creditors	886,049	1,550,812
Corporation tax	3,858,613	-
Other taxation and social security	504,299	308,811
Other creditors	648,645	83,720
Accruals and deferred income	4,612,369	2,518,423
	<u>10,509,975</u>	<u>4,461,766</u>

Amounts owed by group undertakings are unsecured, interest free and are repayable on demand.

19. Deferred taxation**Group**

	2020	2019
	£	£
At beginning of year	628	141
Charged to the profit or loss	164,168	487
At end of year	<u>164,796</u>	<u>628</u>

The deferred tax asset is made up as follows:

	Group 2020	Group 2019
	£	£
Accelerated capital allowances	(103,065)	628
Tax losses carried forward	267,861	-
	<u>164,796</u>	<u>628</u>

TONIC GAMES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

20. Financial instruments

	Group 2020 £	Group 2019 £	Company 2020 £	Company 2019 £
Financial assets				
Financial assets that are debt instruments measured at amortised cost	<u>50,302,763</u>	<u>3,245,948</u>	<u>3,603,092</u>	<u>3,558,092</u>
Financial liabilities				
Financial liabilities measured at amortised cost	<u>(6,147,063)</u>	<u>(4,152,955)</u>	<u>-</u>	<u>-</u>

Financial assets that are debt instruments measured at amortised cost comprise trade receivables, amounts owed by group undertakings, prepayments, accrued income and other receivables.

Financial liabilities measured at amortised cost comprise of trade creditors, amounts owed to group undertakings, other creditors, accruals and deferred income.

Derivative financial instruments designated as hedges of variable interest rate risk comprise debt element of share capital instruments.

21. Share capital

	2020 £	2019 £
Allotted, called up and fully paid		
63,775 (2019: 62,689) A Ordinary shares of £0.000001 each	-	-
57,008 (2019: 56,038) B Ordinary shares of £0.000001 each	-	-
3,959 (2019: 6,015) C Ordinary shares of £0.000010 each	-	-
7,975,350 (2019: 7,770,960) A Ordinary Preference shares of £0.000001 each	8	8
6,997,142 (2019: 6,946,468) B Ordinary Preference shares of £0.000001 each	7	7
505,319 (2019: 746,349) C Ordinary Preference shares of £0.000001 each	1	1
10,455 (2019: 7,796) D1 Ordinary shares of £0.000001 each	-	-
20,730 (2019: 23,389) D2 Ordinary shares of £0.000001 each	-	-
	<u>16</u>	<u>16</u>

TONIC GAMES LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 SEPTEMBER 2020

21. Share capital (continued)

During the year, 2,056 C Ordinary shares were transferred and converted to 970 B Ordinary shares and 1,086 A Ordinary shares, 255,064 C Ordinary Preferred shares were transferred and converted to 50,674 B Ordinary Preferred shares and 204,390 A Ordinary Preferred shares, 2,659 D2 Ordinary shares were transferred and converted to 2,659 D1 Ordinary shares. A further 14,034 C Ordinary Preferred shares were issued.

The non-Preferred Ordinary shares have full voting and dividend rights, whereas the Preferred shares do not have voting rights. On a return of assets on liquidation or capital reduction or otherwise (except upon the redemption of shares of any class or the purchase by the Company of its own shares), the assets of the Company available for distribution amongst its members after payment of its liabilities shall be applied in the following manner and order of priority:

- a) first, in paying to each of the A Ordinary Preferred shareholders, in priority of any other classes of shares;
- b) second, in paying to each of the B and C Ordinary Preferred shareholders, in priority of any other classes of shares;
- c) the balance of the surplus assets (if any) to holders of Ordinary shares pro-rata.

22. Reserves

Share premium account

Includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium

Merger reserve

Arises on consolidation due to merger relief applied in regards to the share-for-share exchange.

Profit and loss account

Includes all current and prior period retained profit and losses.

23. Contingent liabilities

As at 30 September 2020, the Company had no contingent liabilities (2019: £Nil).

24. Capital commitments

As at 30 September 2020, the Company had no capital commitments (2019: £Nil).

25. 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 £280,288 (2019: £170,613). Contributions totaling £4,105 (2019: £Nil) were payable to the fund at the reporting date and are included in creditors.

TONIC GAMES LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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26. Commitments under operating leases

At 30 September 2020 the Group 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	1,649,332	298,875
Later than 1 year and not later than 5 years	5,505,065	-
	<u>7,154,397</u>	<u>298,875</u>

27. Related party transactions

The Company has taken advantage of the exemption available in FRS 102 Section 33 "Related party disclosures" whereby it has not disclosed transactions with the ultimate parent Company or any wholly owned subsidiary undertaking of the Group.

£105,858 was invoiced to Graphite Digital Limited for management charges and rental costs for a shared premises (2019: £94,394). Mr D J Bailey and Mr P J Croft were the managing directors and majority shareholders. Mr D J Bailey and Mr P J Croft are also directors and majority shareholders of Graphite Digital Ltd.

At the year end, the amount owed to Graphite Digital Ltd was £Nil (2019: £Nil) and the amount owed by Graphite Digital Ltd was £25,204 (2019: £Nil).

£35,000 was invoiced by Synova Capital LLP for management charges (2019: £19,034). At the year end, the amount owed to Synova Capital was £Nil (2019: £Nil).

28. Subsequent events

In our view, the acquisition by Epic Games, Inc. on 1 March 2021 and the COVID-19 pandemic are both considered to be non-adjusting post balance sheet events, consequently no adjustments have been made in the financial statements. The COVID-19 pandemic has developed rapidly in 2020, we have taken a number of measures to monitor and mitigate the effects of COVID-19, such as health and safety for our people and ensuring they have the appropriate equipment to work remotely. At this stage, the Company has not been adversely impacted by the COVID-19 pandemic.

As we operate in the gaming sector, we have found increased demand for our games and expect this to continue. We will continue to follow the various government policies and advice and, in parallel, we will do our utmost to continue our operations in the best and safest way possible without jeopardising the health of our people.

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**NOTES TO THE FINANCIAL STATEMENTS
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29. Prior year adjustments

In the current year, Management have changed the accounting policy in relation to the presentation of the Video Games Tax Relief tax credit to be recognised in other operating income. This is to align the disclosure of transaction in compliance with FRS 102. As a result, the prior period other income and cost of sales for the year have been restated.

In accordance with FRS 102, Management have applied this from the earliest date for which it is practicable, as if the accounting policy had always been applied. Therefore prior year has been restated to reflect this classification.

In the current period, £2,236,839 has been recognised in other operating income in relation to the Video Game development tax credit and £2,434,980 for 2019. This resulted in an increase of £2,434,980 to cost of sales for 2019.

There have been no changes to the prior year profit, equity, or Statement of financial position.

	30 September 2019	Prior period adjustment	Restated 30 September 2019
Cost of sales	(8,499,197)	(2,434,980)	(10,934,177)
Gross profit	9,726,720	(2,434,980)	7,291,740
Other operating income		(2,434,980)	2,434,980

30. Controlling party

Subsequent to year end, the ultimate parent undertaking of this Company is Epic Games, Inc., a company registered in North Carolina, on the basis that it owns 100% of the issued share capital. The registered address of Epic Games, Inc. is 620 Crossroads Blvd, Cary, NC 27518, United States.