

MindArk's Differentiation

One factor that differentiates MindArk and Entropia Universe from the competition is the game's virtual economy with microtransactions, and its own currency, Project Entropia Dollar (PED), which has a fixed value against the USD (10 PED = 1 USD), and the opportunity for participants to both deposit and withdraw money in a safe manner.

A further differentiation is the Planet Partner model, which allows other developers to partner with MindArk and build their own planets within Entropia Universe, sharing revenues generated on the planet.

MindArk has more than 15 years of experience developing and managing technology for virtual economies in an interactive 3D online environment. Today MindArk offers secure microtransactions for a large number of concurrent users that interact with one another online via their computers.

With the Entropia Platform, MindArk has a leading position in this area.

MindArk and its Affiliates

MindArk is the parent company of a group comprising the parent company and three subsidiaries, Entropia Universe AB, Planet Calypso AB and Green Fund Finance Sweden AB. All are located in Gothenburg, Sweden.

Planet Calypso AB was the operator and developer of Planet Calypso, the first planet in Entropia Universe. Since January 1, 2015 all operations are handled by the parent company.

The subsidiary Entropia Universe AB previously provided much of the support for and operation of Entropia Universe. Since May 2012, the company is primarily used for marketing purposes.

Green Fund Finance is the next generation investment house providing funding for commercial, innovative and sustainable technologies promoting a green economy.

Employees

In 2018, MindArk averaged 41 employees, including six women.

The company's CEO since December 2017 is Henrik Nel Jerkrot. Other senior officials of the company are Magnus Eriksson (COO), David Simmonds (Business Development Manager), Mats Kling (CTO), Jan Welter Timkrans (Working Chairman) and Gunilla Krogh (CFO).

Shares

The shares of MindArk are unlisted. The total number of shares are 157 623 125.

The distribution of shares among major shareholders is as follows:

<i>Shareholders</i>	<i>Shareholding</i>	<i>Proportion of shares and votes</i>
Jan Welter Timkrans	55 274 452	35,07 %
C-G Bothén AB	25 600 000	16,24 %
Others approx 900	76 748 673	48,69 %
Totalt	157 623 125	100 %

Important events during 2018

During 2018 MindArk has focused the majority of resources and investments on Entropia Universe. To provide a more stable and performance wise improved platform, a lot of time and effort has been placed on technical updates which lay the foundation for future development.

ComPet Game

It was decided in 2018 to suspend all ComPet development. The decision was based on the marketing campaign and analysis of said campaign that indicated that ComPet could not penetrate the app market. MindArk has in 2018 investigated the possibilities to enter a partnership, as of yet without finding a good fit. The ComPet Deed Holders were offered compensation through the possibility of exchanging ComPet Deeds for Arkadia Moon Deeds, at a ratio of 5:2.

DeepToken

In December 2018, MindArk decided to suspend the DeepToken project given that the targets set for DeepToken can not be reached in the short term.

Social and Business VR – with support for mobile units

In 2018, MindArk received its last contribution from Vinnova (Swedish Innovation Authority) for the Social & Business-VR project. This in connection with the project, together with Vinnova, was completed after one year's duration. Social & Business-VR experience is a B2B solution for business meetings, seminars and more in a secure virtual environment. Customers will be able to access the virtual areas via PC, Mac, Tablets, Smartphones and all major VR glasses such as Oculus Rift, HTC Vive and Samsung Gear to name a few.

The opportunity for the customer to use the traditional 2-D method or the emerging 3-D VR technology gives MindArks system an advantage in the communication and presentation marketplace. During 2018, MindArk has worked on establishing relationships with partners where concrete user cases for the product can be utilized.

Unconsumed user holdings i.e. player debt from "Contingent Liabilities" to Liabilities in the Balance Sheet

The player debt, ie unconsumed user holdings, increased during the fiscal year from 105.4 million PED to 112.1 million PED, an increase of 6.4 million PED. The total debt also increased in SEK, but significantly more as the SEK / USD exchange rate has increased from 8.23 SEK / USD at the end

of the year to 8.97 SEK / USD last December 2018 (10 PED = 1 USD). As a result, the debt increased by 13.7 million in SEK, from 86.8 million SEK to 100.5 million SEK.

The total amount of "Unconsumed user holdings" is a variable amount that varies with the various activities within Entropia Universe. Historical figures show that 30 - 35% (average over the last 15 years) of the funds deposited by users are later withdrawn. The remaining funds are either consumed or remained in the accounts of the users in the form of inventory or cash in the form of the virtual currency PED.

However, it is a prerequisite for the survival of Entropia Universe that MindArk pays out the requested withdrawals and therefore the part of the player debt, which is likely to be withdrawn, will be booked as a debt.

With these facts in hand, the assessment is that the actual debt, which would be entered in the balance sheet, is 33% of the player debt at the time of the entry. This means that the actual debt by year-end 2018 was 37 million PED, in 30.2 million SEK. The allocation for unconsumed user holdings has been adjusted for this and for the change in exchange rate between USD/PED and SEK.

Economic Development

Net deposits in 2018 amounted to 78.5 million PED (68.2 million SEK) compared to the 2017 net deposits, which totaled 62.3 million PED (53.1 million SEK). If a deduction is made for deposits related to financial purchases, such as Deeds, the figure for 2018 is 72.7 million PED (63.2 million SEK) compared to 61.4 million PED (52.4 million SEK) in 2017, representing an increase in net deposits of 18.4 %. The increase is slightly larger in SEK, since the exchange rate between USD and SEK has risen. This year the average exchange rate has been 8.69 SEK / USD compared to the exchange rate used in the budget; 8.21 SEK / USD. Last year's exchange rate was 8.53 SEK / USD.

Net sales for the company amounted to 62.1 million SEK (previous year SEK 57.5 million), an increase of 8 %. Approximately 3.9 million SEK (last year 7.3 million SEK) of net sales is related to inactive users, i.e. a user whose account has not been active for at least one year. Remaining funds in these accounts have been moved from player debt to net sales. If revenue from inactive user accounts is excluded, this year's decrease in net sales is 15.9%.

Net sales reached the company's budget target by 14% over the set budget. The reason why the budget was surpassed are several. The company has worked intensively to improve the stability and performance of Entropia Universe, which fell largely in place during 2018. Another reason is the positive effects of Loot 2.0 and its follow-up projects that have begun to pay dividends. The quarterly Mayhem event has also been streamlined and refined with new challenging and engaging features. This has provided positive effects not only during the competitions but also during the time between the competitions when many users spend time preparing for them.

Other income includes revenues from the sale of Arkadia Moon Deeds (a total of 3.9 million SEK).

Operating expenses amounted to about 53.5 million SEK (last year about 58.5 million SEK), a decrease of 5 million SEK. The decrease is mostly due to decreased marketing, which ended at 3.1 million SEK (last year 6.5 million SEK). Another reason is lower costs for external development.

Operating profit before depreciation amounted to plus 19.6 million SEK (previous year plus 8.7 million SEK).

Depreciation and write-downs of tangible and intangible fixed assets increased from 5.9 million SEK in 2017 to 13.5 million SEK in 2018. The large increase is partly due to the fact that this year the company had full depreciation of the revaluation of Entropia Universe and the Entropia Platform. It is matched against activation of the new development taking place in Entropia Universe. The second part of the large increase is that the planned depreciation of ComPet increased by 2.5 million SEK compared with the previous year. In addition, a further SEK 1.5 million write-down of ComPet was made.

After financial items, profit before taxes amounts to 2.9 million SEK (previous year minus 864 000 SEK). The relatively low result is mainly due to the high depreciation and write-downs of ComPet but also to the negative currency change on the allocation for the player debt. Read more in Note 4. A further analysis of the results will be presented in the next section.

The equity of the company amounted at year-end to 39.4 million SEK (previous year 37.1 million SEK).

Analysis of the results for Entropia Universe

As previously mentioned, MindArk's result stands at plus 2.9 million SEK for the fiscal year 2018. The company's main product Entropia Universe has generated a very good profit, however the company's total earnings have been negatively affected by side projects. The company has wanted to expand partly by developing an app (ComPet Game) and partly by creating a marketplace for virtual objects (DeepToken). However, both these projects / products have only generated costs and no revenues during the financial year. In 2018, ComPet Game generated external costs of SEK 2 million, internal personnel costs of SEK 0.3 million and depreciation and write-downs of SEK 6.5 million. DeepToken has generated external costs of SEK 4.1 million and internal costs of SEK 1.4 million.

Looking only at Entropia Universe and its revenues and expenses, one finds an operating profit of 20.4 million SEK and a profit before tax of 17.1 million SEK, i.e. Entropia Universe is an extremely profitable product.

Cash Flow and Liquid Assets

During the year the company acquired fixed assets of 940 000 SEK and capitalized development costs regarding Entropia Universe and the Entropia Platform in the amount of 7.8 million SEK.

The company's liquidity has increased significantly during the year and at year end amounted to 13.6 million SEK versus 7.8 million SEK the previous year.

Group in Summary

No consolidated financial statements have been prepared for fiscal year 2018, as no or not significant operations have been conducted in the subsidiaries during the year.

Listing of MindArk Shares

The timing of the listing of MindArk shares has not yet been established, any further information will be published on our website.

Annual Meeting

The annual meeting for 2018 was held on June 20 in the company's office. In addition to the decision to determine the previous year's accounts, it was proposed to elect a new member of the board, Göran Alvek. The meeting resolved to approve the proposal. Jan Welter Timkrans and David Simmonds were re-elected as members of the Board. Magnus Eriksson and Gunilla Krogh were re-elected as deputies to the Board.

Final Words

During 2018, MindArk has taken steps in the right direction to fulfill the full potential of the company and Entropia Universe have. With 16 years invested in the product along with new hires and technological investments, MindArk has every possibility to improve its position in its market during the coming years.

MindArk will keep improving its communication with the user base and further strengthen the community relationship. Continuous improvements in both software and hardware will further ensure MindArk is on the frontier of virtual real-cash economy platforms.

The Board's proposed appropriation of profits

The Board of Directors proposes that the net loss and retained earnings be carried forward (all amounts in SEK):

Retained losses	-44 311 800
Shared premium reserve	33 950 695
Net profit for the year	618 787
	-6 742 318
Amount carried forward	-6 742 318

Further inquiries regarding the financial position and performance of the company are directed to the below listed income statement, balance sheet and cash flow statement with accompanying notes.

Several years summary (TSEK)

	2018	2017	2016	2015	2014
Net sales	62 091	57 471	63 764	52 893	37 653
Profit after amortization	6 137	2 740	8 161	3 691	-3 518
Profit after financial items	2 861	-864	10 745	4 002	-4 912
Net profit for the year	619	0	5 434	3 056	3 709
Total assets	98 206	94 697	59 138	50 541	34 637
Equity	39 392	37 089	38 515	30 401	20 383
Fixed assets	72 921	78 555	29 465	26 730	24 577

Changes in shareholders' equity (TSEK)

	Share capital	Revaluation reserve	Restricted Reserves	Fund for development	Share premium reserve	Profit carried forward	Total capital
Opening balance	1 576	38 532	50	7 094	33 951	-44 114	37 089
Shareholders meeting						0	0
Change deferred tax		1 680					1 680
Resolution revaluation reserve		-5 200				5 200	0
Resolution fund for development				-5 362		5 362	0
Left of deposits to DeepToken						5	4
Fund for development				7 765		-7 765	0
Net profit for the year						619	619
Outgoing balance	1 576	35 012	50	9 497	33 951	-40 693	39 392

Income Statement

	Not	2018-01-01 -2018-12-31	2017-01-01 -2017-12-31
Net sales		62 091 429	57 471 490
Capitalized work		7 764 703	3 863 957
Other income		3 262 471	5 877 042
		73 118 603	67 212 489
Operating expenses			
Other external costs	3	-26 768 294	-30 952 586
Personnel costs		-26 744 888	-27 599 451
Amortization and depreciation		-13 467 997	-5 920 402
		-66 981 179	-64 472 439
Operating profit		6 137 424	2 740 050
Financial items			
Profit from other securities and receivables accounted for as non-current assets	4	684 965	-217 659
Other financial items	5	0	104 136
Interest cost and similar items	6	-3 359 741	-3 286 209
Exchange rate differences in bank holdings		-601 349	-204 309
		-3 276 125	-3 604 040
Profit after financial items		2 861 299	-863 990
Transfers to untaxed reserves		0	1 760 840
Net profit before tax		2 861 299	896 850
Income tax		-2 242 512	-896 850
Net profit		618 787	0

Balance Sheet

Not 2018-12-31 2017-12-31

Assets

Non-current assets

Intangible assets

Planet Calypso and Planet Calypso Forum	7,8	147 936	295 873
ComPet Game	9	3 059 625	9 533 760
Entropia Platform and Entropia Universe	10	54 619 782	53 070 759
		57 827 343	62 900 392

Property and equipment

Buildings and land	11	655 065	0
Equipment and computer hardware	12	1 647 637	1 331 932
		2 302 702	1 331 932

Financial assets

Shares in subsidiaries	13	4 960 000	4 910 000
Other long-term securities	14	743 320	743 320
Loan MindArk Groups Vinstandelsstiftelse		190 000	162 000
Deferred tax		2 239 081	4 481 593
Other long-term receivables	15	4 658 576	4 025 945
		12 790 977	14 322 858

Total non-current assets

72 921 022 78 555 182

Current assets

Stock-in-trade

Commercial goods	16	114 411	193 954
Advanced to suppliers		111	26 226
		114 522	220 180

Short-term receivables

Account receivables		2 709 639	2 285 976
Receivables from payment providers	17	1 858 330	1 945 085
Receivables group companies		91 537	82 512
Tax advanced		79 563	65 948
Other receivables		5 092 884	1 694 612
Prepaid expenses and accrued income		1 760 420	2 074 609
		11 592 373	8 148 742

Short-term investment

Other short-term investments		0	11 691
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Cash and bank balances

		13 578 384	7 760 760
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Total current assets 25 285 279 16 141 373

Total assets

98 206 301 94 696 555

Balance Sheet

Not

2018-12-31

2017-12-31

Equity and liabilities

Equity

Restricted equity

Share capital (157 623 125 shares)

1 576 231

1 576 231

Revaluation reserve

35 011 600

38 532 000

Restricted reserves

50 000

50 000

Fund for development

9 496 596

7 093 941

46 134 427

47 252 172

Non-restricted equity

Share premium reserve

33 950 695

33 950 695

Profit brought forward

-41 311 800

-44 113 843

Net profit

618 787

0

-6 742 318

-10 163 148

Total equity

39 392 109

37 089 024

Untaxed reserves

1 943 370

1 943 370

Allocations

18

Allocation unconsumed user holdings

33 180 043

29 459 145

Estimated deferred tax

9 188 400

10 868 000

Total allocations

42 368 443

40 327 145

Long-term liabilities

Other liabilities

101 543

102 540

101 543

102 540

Short-term liabilities

Accounts payable

2 217 929

1 949 092

Liabilities group companies

3 904 486

3 907 044

Other liability

2 627 880

2 098 486

Accrued expenses and prepaid income

5 650 541

7 279 854

Total short-term liabilities

14 400 836

15 234 476

Total equity and liabilities

98 206 301

94 696 555

Notes

Note 1 Supplementary disclosures & accounting principles

The annual report has been prepared in accordance with the Swedish Annual Accounts Act. The accounting principles applied agree with the Annual Accounts Act as well as recommendations and comments from the Accounting Standard Committee.

The annual accounts and the consolidated accounts drawn up in accordance with *BFNAR 2012: 1 Årsredovisning och koncernredovisning* (K3).

Receivables are entered at the amount in which they are expected to be received.

Other assets and liabilities have been valued at acquisition value unless otherwise stated.

Accrual allocation of revenues and expenses has been done according to the professional ethics for accountants.

Fixed assets are entered at their acquisition value reduced for accumulated amortization and depreciations. Amortization and depreciation is accounted for in a straight line over the assets anticipated economic life.

The following percentages are applied:

Entropia Platform and Entropia Universe	10 %
Planet Calypso	20 %
Planet Calypso Forum	20 %
ComPet Game	33 %
Building and Land	5 %
Equipment and tools	20 %
Computer hardware	20-33 %

The useful life has been shortened for ComPet Game from five years to three years. There has also been a write-down of SEK 1.5 million on the ComPet Game.

Note 2 Estimates and assessments

The preparation of financial statements and application of accounting principles is often based on management's assessments, estimates and assumptions that are considered reasonable at the time the assessment is made. Estimates and assessments are based on historical experience and a number of other factors, which in the current circumstances are considered reasonable. The results of these are used to assess the reported values of assets and liabilities, which otherwise do not appear clearly from other sources. The actual outcome may deviate from these estimates and judgments. Estimates and assumptions are reviewed regularly.

No significant sources of uncertainty in estimates and assumptions on the balance sheet date are expected to entail a significant risk of a significant adjustment of the reported values for assets and liabilities during the next financial year.

Since mid-year 2017, the actual debt of the player debt is recognized in the balance sheet (previously a contingent liability) under the heading Allocations. The real debt is estimated to be about 33% of the actual player debt.

Note 3 Average employees

	2018	2017
Average employees	41	44

Note 4 Profit from other securities and receivables accounted for as non-current assets

	2018	2017
Interest	315 560	241 354
Exchange revenues	369 405	-459 013
	684 965	-217 659

Note 5 Other financial items

	2018	2017
Other interest income	0	104 136
	0	104 136

Note 6 Interest cost and similar items

	2018	2017
Interest cost	-2 835	-2 026
Exchange difference player debt	-3 356 906	-3 284 183
	-3 359 741	-3 286 209

The reason for the large exchange difference is that the company has made an exchange adjustment on the player debt. The exchange rate at the end of 2018 was 8.97 SEK/ USD and at the year-end 2017 the rate was 8.23 SEK/ USD. It will be a negative currency adjustment of 3.4 MSEK. The reason is that the debt has increased during the fiscal year 2018, which means that a higher exchange rate will affect the company negatively. See more in the note 18 Allocations.

Note 7 Planet Calypso

	2018-12-31	2017-12-31
Acquisition value brought forward	551 263	551 263
	551 263	551 263
Amortization brought forward	-330 759	-220 506
Amortization according to plan	-110 253	-110 253
	-441 012	-330 759
Entered net value carried forward	110 251	220 504

Note 8 Planet Calypso Forum

	2018-12-31	2017-12-31
Acquisition value brought forward	188 421	188 421
	188 421	188 421
Amortization brought forward	-113 052	-75 368
Amortization according to plan	-37 684	-37 684
	-150 736	-113 052
Entered net value carried forward	37 685	75 369

Note 9 ComPet Game

Refers to the acquisition of the ComPet Game idea, capitalized costs and capitalized expenses for the mobile application development. ComPet Game was launched in 2016. The note also refers to the cost and amortization for the MindArk and Entropia Universe web tool, which is fully amortized. The useful life of ComPet Game in 2018 has changed from 5 years to 3 years and a write-down of 1.5 million SEK has also been made.

	2018-12-31	2017-12-31
Acquisition value brought forward	12 738 359	12 738 359
	12 738 359	12 738 359
Amortization brought forward	-3 204 599	-773 395
Amortization according to plan	-4 974 135	-2 431 204
	-8 178 734	-3 204 599
The write-down of the year	-1 500 000	0
Outgoing write-down	-1 500 000	0
Entered net value carried forward	3 059 625	9 533 760

Not 10 Entropia Platform and Entropia Universe

	2018-12-31	2017-12-31
Acquisition value brought forward	55 863 957	0
Purchase	7 764 703	55 863 957
	63 628 660	55 863 957
Amortization brought forward	-2 793 198	0
Amortization according to plan	-6 215 680	-2 793 198
	-9 008 878	-2 793 198
Entered net value carried forward	54 619 782	53 070 759

Not 11 Buildings and land

	2018-12-31	2017-12-31
Purchase	661 070	0
	661 070	0
Depreciation for the year	-6 005	0
	-6 005	0
Entered net value carried forward	655 065	0

Note 12 Equipment and computer hardware

	2018-12-31	2017-12-31
Acquisition value brought forward	11 342 298	11 141 370
Acquisitions	939 945	200 928
	12 282 243	11 342 298
Depreciation brought forward	-10 010 366	-9 462 303
Depreciation for the year	-624 240	-548 063
	-10 634 606	-10 010 366
Entered net value carried forward	1 647 637	1 331 932

Note 13 Specification shares in subsidiaries

Corporate name	Proportion	Share of voting	Number of shares	Book value
Planet Calypso AB (publ)	100%	100%	450 000	3 910 000
Entropia Universe AB	100%	100%	2 000	1 000 000
Green Fund Finance Sweden AB	100%	100%	500	50 000
				4 960 000

	Corporate identity	Domicile	Equity	Net profit
Planet Calypso AB (publ)	556766-6416	Göteborg	3 904 486	-7 755
Entropia Universe AB	556767-3594	Göteborg	1 000 016	-1 746
Green Fund Finance Sweden AB	559170-3557	Göteborg	50 000	22 014

Note 14 Other long-term securities holdings

Refers to new issues in Rufoid AB and Manomotion AB.

	2018-12-31	2017-12-31
Acquisition value brought forward	743 320	688 320
Purchase	0	55 000
	743 320	743 320
Entered net value carried forward	743 320	743 320

Note 15 Other long-term receivables

Refers to promissory note loan according to agreement.

Note 16 Stock

The inventory only consist of profile products that are sold through an online shop on the company's website.

Note 17 Receivables from payment providers

Refers to MindArk's outstanding receivables on all contracted payment providers. The open balance contains payments confirmed by the provider but not yet received by MindArk.

Note 18 Allocations

	2018-12-31	2017-12-31
Deferred tax liability		
Value brought forward	10 868 000	0
Allocations for the year	0	11 440 000
During the year reversed amount	-1 679 600	-572 000
	9 188 400	10 868 000
Allocations for unconsumed user holdings		
Value brought forward	29 459 145	0
Allocation for the year	3 720 899	29 459 145
	33 180 044	29 459 145

Unconsumed user holdings:

Unconsumed user holdings, ie the player debt, equivalents of user deposits which are not used or withdrawn. The debt increased during the fiscal year from PED 105.4 million PED to 112.1 million PED, an increase of 6.6 million PED. The total debt also increased in SEK, the SEK / USD exchange rate has gone from 8.23 SEK / USD at the end of last year to 8.97 SEK / USD last December 2018 (10 PED = 1 USD). As a result, the debt increased by 13.7 million in SEK, from 86.8 million SEK to 100.5 million SEK.

User requested reimbursements not yet settled is recognized in the balance sheet under Accrued expenses.

Since mid-year 2017, the real part of the player debt is recognized in the balance sheet (previously a contingent liability) under the heading Allocations. The real debt is estimated to be about 33 % of the actual player debt. This means that this year's allocation is just over 33 million SEK.

Note 19 Pledged assets

Refers to SEB´s corporate mortgage.

	2018-12-31	2017-12-31
Mortgage companies	3 000 000	0
	3 000 000	0

Note 18 Important events in early 2019

Camera release

To improve the interaction ease of use for newcomers MindArk made a camera and interaction release in February 2019. The release was an important step in lowering the cost of recruiting new users and in that way get a better economy with marketing. The change also targeted the older users improving their interaction as well as laying a foundation for further interaction improvements.

AMA

In February 2019 an AMA (Ask Me Anything) was held where MindArk management and department officers answered user questions in real time. The session aimed to develop communication between MindArk as a company and the Entropia Universe user base. This dialogue format will be used in upcoming sessions in the future since it was very appreciated by the user base and seems to work as a tool for improving the communication with the users.

Organisational changes

The organisational transformation that commenced in 2018 will continue during 2019. By adapting an agile framework, making role definitions clearer, as well as adding new hires, MindArk is striving for a more streamlined organisation. The management has also decentralised parts of the operative decisions in order to cut unnecessary lead times.

Göteborg April 30, 2019

Jan Welter Timkrans

Jan Welter Timkrans
Chairman of the Board

David Simmonds

David Simmonds
Board Member

Göran Alvek

Göran Alvek
Board Member

Henrik Nel Jerkrot

Henrik Nel Jerkrot
CEO

My audit report concerning this annual report has been issued on May 7, 2019.

Magnus Götenfelt

Magnus Götenfelt
Authorized public accountant