

# STATUTORY AUDITOR'S AUDIT REPORT

for the period

from 1 January 2019 to 31 December 2019

## QUARTICON S.A.

in Warsaw

## STATUTORY AUDITOR'S AUDIT REPORT ON ANNUAL FINANCIAL STATEMENTS

For the General Meeting of Shareholders and the Supervisory Board

**QUARTICON S.A.**

based in Warsaw, Al. Jerozolimskie 123A

### Report on annual financial statements

#### Opinion

We carried out the audit of the annual financial statements of **QUARTICON S.A.** (the "Company") consisting of introduction to the financial statements, balance sheet drawn up as at 31 December 2019 and the profit and loss account, the statement of changes in equity, the cash flow statement for the financial year from 1 January to 31 December 2019 and notes and explanations ("financial statements").

We have found that the attached financial statements:

- present clearly and fairly the financial and economic situation of the Company as at 31 December 2019 and its financial result and cash flow for the period ending on that date pursuant to the applicable provisions of the Act of 29 September 1994 (Accounting Act" – consolidated text Journal of Laws of 2019, p. 351, as amended) and the adopted accounting rules (policy);
- correspond in form and content to the legal regulations binding upon the Company and the provisions of the Articles of Association;
- was drawn up on the basis of accurately kept accounting books in line with chapter 2 of the Accounting Act.

#### Basis of the opinion

The audit was carried out in line with the National Standards on Auditing in the wording of the International Standards on Auditing adopted by way of a resolution of the Polish Chamber of Statutory Auditors No. 3430/52a/2019 of 21 March 2019 on national auditing standards and other documents, as amended ("KSB") and in accordance with 11 May 2017 on statutory auditors, audit companies and public supervision ("Act on statutory auditors" – consolidated text of the Journal of Laws of 2019, item 1421, as amended). Our responsibility in line with these standards have been described further in the section of our report "Responsibility of the Statutory Auditor for auditing the financial statements".

We are independent of the Company in line with the Code of Ethics for Professional Accountants of the International Federation of Accountants ("IFAC Code") adopted by way of the resolution of the Polish Chamber of Statutory Auditors No. 3431/52a/2019 of 25 March 2019 on professional ethics rules of statutory auditors and other ethical requirements applicable to auditing financial statements in Poland. We have also completed our other ethical obligations in accordance with these requirements and the IFAC Code. During the audit the key statutory auditor and the audit Company remained independent of the Company in line with the independence requirements laid down in the Act on statutory auditors.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Explanation with a note – an event after the end of the reporting period**

Please refer to point 1.34 of Notes to the financial statements, which describes the impact of the ongoing COVID-19 pandemic on the entity's operations. Our opinion has not been modified in reference to this issue.

### **Key issues of the audit**

Key issues of the audit are issues which, according to our professional judgment, have been the most significant during auditing the financial statements for the current reporting period. These include the most significant types of the risk of material misstatement, including the assessed types of the risk of material misstatement caused by fraud. We referred to these issued in the context of our audit of financial statements as a whole and in formulating our opinion; we also presented our reaction to these risks, and when necessary, we formulated the major observations related to these risks. We do not provide a separate opinion on these matters.

## Key issues of the audit

### R&D projects – valuation and presentation in the balance sheet

QuarticOn SA is a tech company which develops AI-based systems for the support and personalisation of e-commerce and marketing processes. The services of the company are possible to be provided thanks to its proprietary projects. Expenditures on R&D projects in 2019 amounted to PLN 1,651,000, of which projects unaccounted for by the end of the year amounted to PLN 428,000. Outlays on proprietary projects concern the labour costs of employees, cooperation agreements and the purchase of external services. The Company identified its projects in point 1.9 of Notes to the financial statements. By the end of the project, the given expenditures are provided under the item “Assets – deferred and accrued expenses” of the balance sheet. Completed projects, if factors arising from Article 33 (2) of the Accounting Act are provided under the “Assets – intangible assets – R&D expenses” of the balance sheet.

Due to the fact that expenditures considered to be R&D expenses are individualised, which is associated with a probability of errors in accounting for R&D expenses, we recognised the risk of misstatements in the financial statements.

### Costs of completed R&D works – valuation

Under Assets in the balance sheet the Company presents costs of completed R&D works, which are projected completed in the audited year and the previous years. The balance sheet items are depreciated every 5 years. As at the balance-sheet date, the costs of completed R&D works are valued according to the costs of their production, taking into consideration depreciation write-offs and impairment write-offs. The net value of R&D works included in the balance sheet at the end of the year amounted to PLN 7,993,000.

The Management Board makes judgments as to the qualification of the given expenditures as R&D expenses, the time of completing the works and considering specific expenditures as an item of intangible assets, whether the given asset will generate economic benefits in the future and whether a revaluation write-down should be created for the given asset.

Our auditing procedures included the analysis of the records of intangible assets in order to identify R&D works; we verified the accuracy of the depreciation or

We focussed on this area due to substantial amounts incurred by the Company on R&D works and due to the fact that the way of accounting for them in financial statements requires significant judgment.

### How our audit addressed this issue

Our auditing procedures included, inter alia, the identification of the currently performed R&D works, the assessment of the completeness and accuracy of the classification of R&D expenses. On the basis of a sample, we verified the accuracy, existence and the occurrence of the presented expenditures, and confirmed their completeness through the sample verification of source documents.

We also assessed the objective of the project, the expected final outcome, the planned completion and estimated expenditures.

We carried out talks with the Management Board as to the validity of meeting the conditions for accounting for expenditures as an asset and the current status of projects.

We also assessed whether R&D expenses were accurately presented in the financial statements.

The applied procedures made it possible to state with sufficient certainty that the Company accurately identifies and presents ongoing R&D projects in their financial statements.

amortisation write-downs made in the audited year. We verified the completeness of presenting R&D works in accounting books and in the financial statements.

As for R&D works completed and intangible assets entered in the register in 2019, we verified the basis for including the asset under intangible assets and the accuracy of the initial measurement. On the basis of the selected sample, we verified the accuracy, the existence and the occurrence of the presented expenditures on the given R&D works.

We also performed an analysis of the received estimates of future net financial benefits arising from implementing R&D works in relation to revenues obtained in 2019, the previous years and in the first quarter of 2020. We assessed whether there is no need to create a revaluation write-down of R&D works presented in the financial statements.

The Company presented projections of estimates regarding future benefits from net financial inflows arising from the implementation of R&D work results. Significant issues also include the uncertainty of implementing the performed financial projections with an impact on the achievement of the projected benefits from these assets.

We focussed on this area due to the substantial contribution of R&D works to the Company's assets and due to the fact that the way of accounting for them in financial statements requires significant judgment.

We carried out talks with the Management Board referring to the achieved and expected revenues, which confirmed that including R&D works under assets in the balance sheet was justified.

We also assessed whether R&D works were accurately presented in the financial statements.

The applied procedures made it possible to state with sufficient certainty that the Company accurately values and presents completed R&D works in its financial statements.

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## Other issues

The Company's financial statements for the year ended 31 December 2018 was audited by a statutory auditor acting on behalf of a different auditing company, who on 28 May 2019 issued an opinion without reservations, containing an explanatory paragraph pointing to the high proportion of R&D works under balance-sheet assets and uncertainty as to the fulfilment of the financial projections having an impact on obtaining the expected benefits from these assets.

## Responsibility of the Management Board and the Supervisory Board for financial statements

The Management Board of the Company is responsible for preparing the financial statements on the basis of properly kept accounting records and for the fair presentation of these financial statements in accordance with the Accounting Act, the adopted accounting rules (policy), and other legal regulations applicable to the Company and its Articles of Association, and for internal control, which is considered necessary by the Management Board for preparing financial statements free of material misstatements caused by fraud or error.

Preparing the financial statements, the Management Board of the Company is responsible for assessing the Company's ability to continue its operations, for disclosing, if applicable, matters related to the continuity of operations and for adopting the ongoing concern principle as the basis for accounting, except for situations when the Management Board intends to wind up the Company or discontinue its operations, or has no other real alternative to winding up or discontinuation of operations.

The Management Board of the Company and members of the Supervisory Board are obliged to ensure that the financial statements fulfil the requirements provided for in the Accounting Act. Members of the Supervisory Board are responsible for overseeing the Company's financial reporting process.

## Responsibility of the Statutory Auditor for auditing the financial statements

Our objectives are to obtain reasonable assurance that the financial statements as a whole does not contain any material misstatement due to fraud or error, and to issue an audit report with our opinion. Reasonable assurance is a high level of assurance, which, however, does not guarantee that an audit performed in line with KSB rules will always detect material misstatements. Misstatements may occur as a result of fraud or error and are considered material if it can be reasonably expected that individually or in aggregate they could impact the economic decisions made by its users on the basis of these financial statements.

The scope of the audit does not include future viability of the Company or the efficiency or effectiveness of running its matters by the Management Board of the Company now or in the future.

During the audit performed in line with KSB rules we apply professional judgement and professional scepticism, and also

- we identify and assess the risk of any material misstatements due to fraud or error, design and apply auditing procedures responding to those risks and obtain audit evidence sufficient and appropriate to provide a basis for our opinion. The risk of the failure to detect a material misstatement due to fraud is higher than that arising from an error, as fraud can involve collusion, forgery, intentional omissions, fraudulent misrepresentation or circumvention of internal audit procedures;
- we acquire an understanding of internal audit applicable to the audit in order to design auditing procedures appropriate in specific circumstances, but not in order to express an opinion on the effectiveness of the Company's internal audit;
- we assess the appropriateness of the applied accounting rules (policy) and the validity of accounting estimates and related disclosures made by the Company's Management Board;
  - we formulate a conclusion on the appropriateness of using the ongoing concern principle as the basis for accounting by the Management Board of the Company, and, on the basis of the obtained audit evidence, whether there is material uncertainty related to certain events or circumstances which may raise serious doubts as to the Company's ability to continue its operations. If we conclude that there is material uncertainty, we are required to note in our statutory auditor's report the related disclosures in the financial statements, or if such disclosures are inadequate, we modify our opinion. Our conclusions are based on audit evidence obtained up to the date of drawing up our statutory auditor's report; however, future events or circumstances may cause the Company to discontinue its operations;
- we evaluate the general presentation, structure and contents of the financial statements, including disclosures, and whether the financial statements represent transactions and events on which they are based in a manner enabling their reliable presentation.

We provide the Supervisory Board with information on, inter alia, the planned scope and time of conducting the audit and significant findings, including all substantial weaknesses of the internal control identified during the audit.

### **Other information, including the report on the Company's operations**

Other information include the report on the Company's operations for the financial year ended 31 December 2019 ("Report on the Company's operations").

#### *Responsibility of the Management Board and the Supervisory Board*

The Management Board of the Company is responsible for preparing Other information in line with legal regulations.

The Management Board of the Company and members of the Supervisory Board are obliged to ensure that the Report on the Company's operations with separated sections fulfil the requirements provided for in the Accounting Act.

#### *Responsibility of the Statutory Auditor*

Our opinion on the audit of the financial statements does not cover the Report on the Company's operations. In relation to auditing financial statements, it is our duty to become familiar with the Report on the Company's operations, and doing so, to consider whether it is not significantly inconsistent with the financial statements or our knowledge obtained during the audit or whether it does not seem to contain any other material misstatements. If on the basis of the work performed we find material misstatements in the Report on the Company's operations, we are obligated to include such information in our audit report. In line with the Act on statutory auditors, we are also obligated to issue an opinion whether the Report on the Company's operations was drawn up in line with legal regulations and whether it is consistent with information contained in the financial statements.

### **Opinion on the Report on the Company's operations**

On the basis of the work performed during the audit, in our opinion the Report on the Company's operations:

- was drawn up in accordance with Article 49 of the Accounting Act;
- is consistent with information contained in the financial statements.

Furthermore, in the light of the knowledge about the Company and its environment, we state that during the audit we have not found any material misstatements.

The key statutory auditor in charge of the audit resulting with this statutory auditor's report is

Dorota Neubauer

[signed electronically by  
Dorota Beata Neubauer  
2020/07/29]

Key statutory auditor

Register No. 13010

Acting on behalf of

**REWIT Księgowi i Biegli Rewidenci Sp. z o.o.**

80-137 Gdańsk, ul. Starodworska 1

Audit company on the list of entities authorised to audit financial statements under number  
101

Gdańsk, 29 July 2020