# PicsArt LLC

## Financial statements

*for the year ended 31 December 2020*
*together with independent auditor's report*

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# Independent auditor's report

To the Shareholder and manager of
PicsArt LLC

### *Opinion*

We have audited the financial statements of PicsArt LLC (hereinafter, the "Company"), which comprise the statement of financial position as at 31 December 2020 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

### *Basis for opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). 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 Company in accordance with the International Ethics Standards Board for Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Other matter*

The financial statements of the Company as at and for the year ended 31 December 2019 were unaudited.

### *Responsibilities of management for the financial statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines 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, management is responsible for assessing the 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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***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 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.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young CJSC
Yerevan, Armenia

Assurance partner,
General Director

Eric Hayrapetyan

30 December 2021

## Statement of financial position

## As at 31 December 2020

*In thousands of Armenian drams*

| | Note | 2020 | 2019 (unaudited) |
|---|---|---|---|
| **Assets** | | | |
| Property, plant and equipment | 4 | 419,921 | 434,934 |
| Intangible assets | 4 | 56,253 | 45,759 |
| Deferred tax assets | 10 | 180,041 | 99,806 |
| Non-current prepayments | | 122,902 | 8,638 |
| **Total non-current assets** | | **779,117** | **589,137** |
| Trade and other receivables | 5 | 1,129,613 | 996,013 |
| Other tax receivables | | 166,784 | 84,416 |
| Current prepayments | | 58,586 | 44,989 |
| Inventories | | 21,502 | 6,092 |
| Deposits at banks | 6 | 418,359 | – |
| Cash and cash equivalents | 7 | 491,283 | 149,772 |
| Other current assets | | 7,577 | 10,666 |
| **Total current assets** | | **2,293,704** | **1,291,948** |
| **Total assets** | | **3,072,821** | **1,881,085** |
| **Equity** | 11 | | |
| Share capital | | 18 | 18 |
| Share premium | | 64,396 | 64,396 |
| Additional paid-in capital | | 664,905 | 463,850 |
| Retained earnings | | 916,998 | 493,954 |
| **Total equity** | | **1,646,317** | **1,022,218** |
| **Liabilities** | | | |
| Trade and other payables | 8 | 1,139,096 | 598,739 |
| Other tax payables | | 156,828 | 17,932 |
| Current Income tax liability | | 130,580 | 105,060 |
| Lease liabilities | 9 | – | 137,136 |
| **Total current liabilities** | | **1,426,504** | **858,867** |
| **Total equity and liabilities** | | **3,072,821** | **1,881,085** |

These financial statements were approved by management on 30 December 2021 and were signed by:

Gurgen Petrosyan
Director

Hasmik Ghukasyan
Finance Director

*The accompanying notes from 1 to 17 are an integral part of these financial statements.*

## Statement of comprehensive income

## For the year ended 31 December 2020

*In thousands of Armenian drams*

| | *Note* | *2020* | *2019 (unaudited)* |
|---|---|---|---|
| Revenue from contracts with customers | 12 | 9,467,851 | 6,565,231 |
| Other operating income | | 7,714 | 3,552 |
| Salaries and other employee benefits | 13 | (6,776,921) | (4,475,964) |
| Research and development services | 15 | (1,035,985) | (603,448) |
| Depreciation and amortization | 4 | (641,155) | (558,134) |
| Rental expenses | 9 | (282,441) | (18,749) |
| Administrative and other operating expenses | | (278,480) | (601,352) |
| **Operating profit** | | **460,583** | **311,136** |
| Net foreign exchange gain | | 105,947 | (7,619) |
| Interest income | | 5,498 | – |
| Interest expense | | (1,328) | (36,194) |
| **Profit before tax** | | **570,700** | **267,323** |
| Income tax expense | 10 | (147,656) | (97,759) |
| **Total comprehensive income for the year** | | **423,044** | **169,564** |

*The accompanying notes from 1 to 16 are an integral part of these financial statements.*

## Statement of changes in equity

## For the year ended 31 December 2020

*In thousands of Armenian drams*

| | *Share capital* | *Share premium* | *Additional paid-in capital* | *Retained earnings* | *Total equity* |
|---|---|---|---|---|---|
| **Balance as at 1 January 2019 (unaudited)** | **18** | **64,396** | **320,007** | **324,390** | **708,811** |
| **Total comprehensive income (unaudited)** | | | | | |
| Profit for the year (unaudited) | – | – | – | 169,564 | **169,564** |
| **Total comprehensive income for the year (unaudited)** | **–** | **–** | **–** | **169,564** | **169,564** |
| Share-based payments (unaudited) | – | – | 143,843 | – | **143,843** |
| **Balance as at 31 December 2019 (unaudited)** | **18** | **64,396** | **463,850** | **493,954** | **1,022,218** |
| **Balance as at 1 January 2020 (unaudited)** | **18** | **64,396** | **463,850** | **493,954** | **1,022,218** |
| Profit for the year | – | – | – | 423,044 | **423,044** |
| **Total comprehensive income for the year** | **–** | **–** | **–** | **423,044** | **423,044** |
| Share-based payments | – | – | 201,055 | – | **201,055** |
| **Balance as at 31 December 2020** | **18** | **64,396** | **664,905** | **916,998** | **1,646,317** |

*The accompanying notes from 1 to 16 are an integral part of these financial statements.*

## Statement of cash flows

## For the year ended 31 December 2020

*In thousands of Armenian drams*

| | *Note* | *2020* | *2019 (unaudited)* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 9,342,939 | 6,190,283 |
| Payments to suppliers | | (2,228,999) | (1,658,567) |
| Payments to employees | | (5,471,657) | (3,786,512) |
| Interest received | | 5,498 | – |
| Interest paid | | (1,328) | (36,194) |
| Income tax payments | | (202,470) | (41,762) |
| **Net cash flows from operating activities** | | **1,443,983** | **667,248** |
| **Cash flows from investing activities** | | | |
| Deposits placed in banks | | (418,072) | – |
| Purchase of property plant and equipment | | (749,127) | (518,408) |
| **Net cash flows used in investing activities** | | **(1,167,199)** | **(518,408)** |
| **Net increase in cash and cash equivalents** | | **276,784** | **148,840** |
| Cash and cash equivalents at the beginning of the year | | 149,772 | 1,268 |
| Effect of exchange rates changes on cash and cash equivalents | | 64,727 | (336) |
| **Cash and cash equivalents at the end of the year** | 7 | **491,283** | **149,772** |

*The accompanying notes from 1 to 16 are an integral part of these financial statements.*

*In thousands of Armenian drams*

# 1. General information

PicsArt LLC (the "Company") was established as a result of reorganization of "Open Soft Consult" Limited Liability Company in the form of spin-off in December 2014.

The Company's registered office address is 16 Halabyan Street, Yerevan 0038, Republic of Armenia. The Company's principal activity is provision of research and development services. The Services are exported to USA, the sole customer of the Company is PicsArt Inc., which is the Parent company of the entity.

The Company is wholly owned by PicsArt Inc. (a company incorporated under the laws of the state of Delaware, having its principal place of business at One Market Street, Floor 32, San Francisco, CA 94105, United States).

# 2. Basis of preparation

## (a) Effect of COVID-19 pandemic

Due to the rapid spread of COVID-19 pandemic in 2020 many governments, including the Armenian Government, have introduced various measures to combat the outbreak, including travel restrictions, quarantines, closure of business and other venues and lockdown of certain areas. These measures have affected the global supply chain, demand for goods and services, as well as scale of business activity. It is expected that pandemic itself as well as the related public health and social measures may influence the business of the entities in a wide range of industries.

The Company continues to assess the effect of the pandemic and changing economic conditions on its activities, financial position and financial results.

## (b) Armenian business environment

Armenia continues economic reforms and development of its legal, tax and regulatory frameworks. The future stability of the Armenian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

Management believes that it is taking appropriate measures to support the sustainability of the Company's business in the current circumstances.

## (c) Statement of compliance

The financial statements of the Company have been prepared in accordance with the International Financial Reporting Standards ("IFRS") as developed and published by the International Accounting Standards Board ("IASB").

## (d) Functional and presentation currency

The national currency of the Republic of Armenia is the Armenian Dram ("AMD"), which is the Company's functional currency since it best reflects the economic substance of the underlying events and transactions of the Company.

These financial statements are presented in Armenian drams since management believes that this currency is more useful for the users of these financial statements. All financial information presented in AMD has been rounded to the nearest thousand unless otherwise indicated.

## (e) Use of estimates and judgment

The preparation of financial statements in conformity with IFRS requires management to make critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

In particular, the Company has identified a number of areas where significant judgments, estimates and assumptions are required. Further information on each of these areas and how they impact the various accounting policies are described with the associated accounting policy note within the related qualitative and quantitative note as described below. These include:

*Judgments*

- Share-based payments, Note 14;
- Recoverability of deferred tax assets, Note 10.

*In thousands of Armenian drams*

## 3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### (a) Revenue from contracts with customers

The Company's principal activity is provision of research and development services to its sole customer − PicsArt Inc., which is the Parent Company of the Group.

***Contract balances***

*Contract assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. The Company does not have any contract assets as performance and a right to consideration occurs within a short period of time and all rights to consideration are unconditional.

*Trade receivables*

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

### (b) Foreign currencies

In preparing the financial statements, transactions in currencies other than the functional currency are recorded at the rates of exchange defined by the Central Bank of Armenia prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates defined by the Central Bank of Armenia prevailing on the reporting date, which are 522.59 AMD for 1 USD, 641.11 AMD for 1 EUR and 7.02 AMD for 1 RUB as of 31 December 2020 (as of 31 December 2019: 479.70 AMD for 1 USD, 537.26 AMD for 1 EUR, and 7.77 AMD for 1 RUR).

Non-monetary items are not retranslated and are measured at historic cost (translated using the exchange rates at the transaction date), except for non-monetary items carried at fair value that are denominated in foreign currencies which are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the settlement and retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period, except for differences arising on the translation of non-monetary items in respect of which gains and losses are recognized directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognized directly in equity.

### (c) Property and equipment

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost comprises the purchase price including import duties and non-refundable purchase taxes and other directly attributable costs. When an item of property and equipment comprises major components having different useful lives, they are accounted for as separate items of property and equipment.

Depreciation is charged to profit or loss on a straight-line basis over the estimated useful lives of the individual assets or included in the cost of another asset. Depreciation commences when assets are available for use. The estimated useful lives are as follows:

- Leasehold improvements − 5 years;
- Computers and communication equipment − 1 year;
- Fixture/fittings and other fixed assets − 8 years.

*In thousands of Armenian drams*

## 3. Significant accounting policies (continued)

### (d) Intangible assets

Intangible assets are initially measured at cost. Subsequently intangible assets, which are acquired by the Company and which have finite useful lives, are stated at cost less accumulated amortization and impairment losses.

Amortization is charged to profit or loss on a straight-line basis over the estimated useful lives of the intangible assets.

### (e) Leases

***Company as a lessee***

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

*Right-of-use assets*

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

*Lease liabilities*

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

*Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

### (f) Financial instruments

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through OCI, or fair value through profit or loss.

*In thousands of Armenian drams*

## 3. Significant accounting policies (continued)

### (f) Financial instruments (continued)

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

*Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- ► Financial assets at amortised cost (debt instruments);
- ► Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments);
- ► Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments);
- ► Financial assets at fair value through profit or loss.

*Impairment of financial assets*

The Company recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For any other financial assets carried at amortised cost (which are due in more than 12 months), the ECL is based on the 12-month ECL. The 12-month ECL is the proportion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment including forward-looking information.

The Company considers a financial asset in default when contractual payments are 1 year past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

*In thousands of Armenian drams*

## 3. Significant accounting policies (continued)

### (f) Financial instruments (continued)

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

### (g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and depreciation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of net selling price and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount, in which case any reversal of impairment loss is treated as a revaluation increase.

### (h) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For financial assets carried at the amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets except for trade receivables where the carrying amount is reduced using an allowance account.

With the exception of the available-for-sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of the available-for-sale equity securities, any increase in fair value subsequent to an impairment loss is recognized directly in equity.

### (i) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognized as a deduction from equity, net of any tax effects.

Retained earnings (or accumulated profit/(loss)) include all current and prior period retained profits.

Additional paid-in capital includes reserve for share-based payments.

### (j) Provisions

A provision is recognized in the statement of financial position when the Company has a legal or constructive obligation as a result of past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

*In thousands of Armenian drams*

## 3. Significant accounting policies (continued)

### (k) Income tax

Income tax comprises current tax and deferred tax. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the way the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

### (l) Share-based payments

Employees (including senior executives) of the Company receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments issued by the Parent of the Company (equity-settled transactions).

*Equity-settled transactions*

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 14.

That cost is recognised in employee benefits expense (Notes 13 and 14), together with a corresponding increase in equity (additional paid-in capital), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Company's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of comprehensive income for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Company's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original vesting terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the entity or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

### (m) Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements that the Company reasonably expects will have an impact on its disclosures, financial position or performance when applied at a future date, are disclosed below. The Company intends to adopt these standards when they become effective. Of the other standards and interpretations that are issued, but not yet effective, as these are not expected to impact the Company, they have not been listed.

*In thousands of Armenian drams*

## 3. Significant accounting policies (continued)

### (m) Standards issued but not yet effective (continued)

*Amendments to IFRS 3 Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

*Amendments to IAS 1 and IAS 8 Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. The amendments to the definition of material is not expected to have a significant impact on the Company's financial statements.

## 4. Property and equipment

| | ***Computers and communication equipment*** | ***Fixtures and fittings*** | ***Leasehold improvements*** | ***Intangibles*** | ***Right-of-use assets*** | ***Total*** |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| **Balance at 1 January 2019** | **460,093** | **157,945** | **46,908** | **7,220** | **388,275** | **1,060,441** |
| Additions | 325,754 | 69,499 | – | 56,805 | 56,301 | **508,359** |
| Disposals | (6,701) | – | – | – | – | **(6,701)** |
| **Balance at 31 December 2019** | **779,146** | **227,444** | **46,908** | **64,025** | **444,576** | **1,562,099** |
| **Balance at 1 January 2020** | **779,146** | **227,444** | **46,908** | **64,025** | **444,576** | **1,562,099** |
| Additions | 483,953 | 78,992 | – | 73,691 | – | **636,636** |
| Disposals | (26,897) | – | – | (42) | – | **(26,939)** |
| **Balance at 31 December 2020** | **1,236,202** | **306,436** | **46,908** | **137,674** | **444,576** | **2,171,796** |
| **Accumulated depreciation** | | | | | | |
| **Balance at 1 January 2019** | **402,087** | **89,039** | **31,788** | **7,059** | **–** | **529,973** |
| Charge for the year | 185,557 | 33,690 | 9,425 | 11,207 | 318,255 | **558,134** |
| Disposals | (6,701) | – | – | – | – | **(6,701)** |
| **Balance at 31 December 2019** | **580,943** | **122,729** | **41,213** | **18,266** | **318,255** | **1,081,406** |
| Charge for the year | 404,361 | 41,751 | 5,525 | 63,197 | 126,321 | **641,155** |
| Disposals | (26,897) | – | – | (42) | – | **(26,939)** |
| **Balance at 31 December 2020** | **958,407** | **164,480** | **46,738** | **81,421** | **444,576** | **1,695,622** |
| **Carrying amount** | | | | | | |
| **At 31 December 2019** | **198,203** | **104,715** | **5,695** | **45,759** | **126,321** | **480,693** |
| **At 31 December 2020** | **277,795** | **141,956** | **170** | **56,253** | **–** | **476,174** |

*In thousands of Armenian drams*

## 5. Trade and other receivables

Trade and other receivables represent amounts receivable from the Parent company for provision of Research and Development services in amount of AMD 1,129,613 thousand for the year ended 31 December 2020 (AMD 996,013 thousand as of 31 December 2019).

## 6. Deposits at banks

Amounts due from financial institutions are held at an Armenian commercial bank with rating B1 as at 31 December 2020 in USD with maturity date in 2021.

## 7. Cash and cash equivalents

Cash and cash equivalents at are composed of the following items:

| | ***2020*** | ***2019*** |
|---|---|---|
| Bank accounts in USD | 248,892 | 149,870 |
| Bank accounts in AMD | 237,922 | 238 |
| Bank accounts in RUB | 5,620 | – |
| Less: allowance for impairment | (1,151) | (336) |
| **Total** | **491,283** | **149,772** |

## 8. Trade and other payables

| | ***2020*** | ***2019*** |
|---|---|---|
| Payables to employees | 946,030 | 443,106 |
| Trade payables | 189,507 | 155,033 |
| Other payables | 3,559 | 600 |
| **Total** | **1,139,096** | **598,739** |

## 9. Lease liabilities

Set out below are the carrying amounts of lease liabilities and the movements during the period:

| | ***2020*** | ***2019*** |
|---|---|---|
| **As at 1 January** | **137,136** | **388,275** |
| Additions | – | 56,301 |
| Accretion of interest | 1,328 | 24,941 |
| Payments | (138,464) | (332,381) |
| **As at 31 December** | **–** | **137,136** |

The Company's has certain leases of office building with term of less than 12 months. The Company applies the 'short-term lease' exemptions for these lease. Rent expense relating to short-term lease for 2020 amounted to AMD 282,441 thousand (2019: AMD 18,749 thousand).

## 10. Taxation

| | ***2020*** | ***2019*** |
|---|---|---|
| Current tax | (227,891) | (162,184) |
| Deferred tax | 80,235 | 64,425 |
| **Total** | **(147,656)** | **(97,759)** |

The corporate income tax within the Republic of Armenia is levied at the rate of 18% (2019: 20%). Differences between IFRS and RA Statutory tax regulations give rise to certain temporary differences between carrying value of certain assets and liabilities for financial reporting purposes and for tax purposes. Deferred income tax is calculated using the principal tax rate of 18% (2019: 20%)

*In thousands of Armenian drams*

## 10. Taxation (continued)

Numerical reconciliation between income tax expense and accounting profit is provided below:

| | ***2020*** | ***2019*** |
|---|---|---|
| **Profit before tax** | **570,700** | **267,323** |
| **Income tax at the rate of 18% (2019: 20%)** | **(102,726)** | **(53,464)** |
| Non-deductible expenses | (8,738) | (10,382) |
| Share-based payments | (36,190) | (33,913) |
| **Total income tax expense** | **(147,654)** | **(97,759)** |

Deferred tax assets and liabilities as of 31 December and their movement comprise:

| | ***2019*** | ***Recognized in profit or loss*** | ***2020*** |
|---|---|---|---|
| Property, plant and equipment and intangible assets | (16,242) | 26,886 | 10,644 |
| Trade and other payables | 88,621 | 80,776 | 169,397 |
| Lease liability | 27,427 | (27,427) | – |
| **Total deferred tax assets** | **99,806** | **80,235** | **180,041** |

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized. The Company estimated that it will generate sufficient taxable profit against which the deductible temporary differences amounting to AMD 180,041 thousand as at 31 December 2020 (31 December 2019: AMD 99,806 thousand) can be utilized.

## 11. Equity

### (a) Share capital

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Group.

### (b) Additional paid-in capital

As the Parent grants an award directly to the employees of the Company and settles them in its own equity, the Company accounts for the award as equity-settled, with a corresponding increase in equity as a contribution from the parent.

## 12. Revenue from contracts with customers

| | ***2020*** | ***2019*** |
|---|---|---|
| Revenue from Software development services (R&D) | 9,451,595 | 6,565,231 |
| Revenue from PicsArt Academy activities | 16,256 | – |
| **Total** | **9,467,851** | **6,565,231** |

The Company's principal activity is provision of research and development services to its parent company PicsArt Inc. All revenue is attributable to the services provided to the parent company (Note 15).

## 13. Salaries and other benefits

| | ***2020*** | ***2019*** |
|---|---|---|
| Salaries and other remuneration | 6,236,443 | 3,922,792 |
| Other employee benefits | 339,425 | 409,328 |
| Share-based payments | 201,053 | 143,844 |
| **Total** | **6,776,921** | **4,475,964** |

*In thousands of Armenian drams*

## 14. Share-based payments

### Stock Plan

PicsArt Inc. Stock Plan

Under PicsArt Inc. Stock Plan, PicsArt Inc., at its discretion, may grant share options to the Company's employees. Each grant of an Option under the Stock Plan is evidenced by a Stock Option Agreement between the optionee and the Parent Company. Each Stock Option Agreement specifies the exercise price and the date when all of any installment of the Option becomes exercisable.

The fair value of share options granted is estimated at the date of grant using Black-Scholes model, taking into account the terms and conditions on which the share options were granted.

### Movements during the year

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options during the year (excluding SARs).

| | *2020 Number* | *2020 WAEP (USD)* | *2019 Number* | *2019 WAEP (USD)* |
|---|---|---|---|---|
| **Outstanding 1 January** | **764,356** | **3.27** | **713,727** | **2.49** |
| Granted during the year | 92,648 | 7.16 | 78,904 | 2.80 |
| Forfeited during the year | (8,382) | 6.76 | (6,682) | 2.45 |
| Exercised during the year | (66,614) | 2.88 | (732) | 2.48 |
| Expired during the year | (129) | 6.76 | (20,861) | 2.39 |
| **Outstanding as at 31 December** | **781,879** | **4.17** | **764,356** | **3.27** |

The following tables list the inputs to the models used for the three plans for the years ended 31 December 2020 and 2019, respectively:

| | *2020* | *2019* |
|---|---|---|
| Weighted average fair values at the measurement date (USD) | 8.67 | 6.76 |
| Expected volatility (%) | 63% | 59% |
| Risk-free interest rate (%) | 0.11% | 1.84% |
| Model used | Black-Scholes | Black-Scholes |

## 15. Related party transactions

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year and respective balances at the end of each reporting year.

| | *Year* | *Sales to related parties* | *Purchases from related parties* | *Amounts owed by related parties* | *Amounts owed to related parties* |
|---|---|---|---|---|---|
| Parent | 2019 | 6,565,231 | – | 996,013 | – |
| | 2020 | 9,468,182 | – | 1,129,613 | – |
| Entities under common control | 2019 | – | 603,448 | – | 100,165 |
| | 2020 | 2,920 | 1,035,985 | 76,920 | 168,127 |

### Transactions with related parties

The Company has entered into Service Agreement with CVisionCreativeLab LLC (entity under common control) based on which the latter provides Research and Development Services (software development / web application creation services) to the Company.

The Company has entered into Service Agreement with its Parent company PicsArt Inc. based on which the Company provides Research & IT Development and Support services.

*In thousands of Armenian drams*

## 15. Related party transactions (continued)

### Compensation of key management personnel of the PicsArt LLC

| | *2020* | *2019* |
|---|---|---|
| Short term employee benefits | 389,403 | 355,440 |
| Share-based payments | 184,920 | 160,687 |
| **Total compensation paid to key management personnel** | **574,323** | **516,127** |

## 16. Risk management

The Company is exposed through its operations to the following financial risks: credit risk, market risk, liquidity risk. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimize effects on the Company's financial performance.

### Credit risk

Credit risk is the risk the Company could incur financial losses resulted from the third party's failure to discharge their obligations toward the Company. Credit risk arises from bank accounts, trade and other receivables. The outstanding trade receivable relates to Parent company and the risk of possible uncollectibility is assessed as low.

Credit risk also arises from cash and cash equivalents and deposits in banks. The Company places its funds in two large Armenian banks.

### Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk.

Company is not exposed to interest rate risk, as it does not hold financial instruments with floating interest rates. The Company doesn't have operations with equity instruments and commodity and is not exposed to equity price and commodity price risks.

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

For assets and liabilities denominated in other currencies, the Company refers to the rates published by the Central Bank of Republic of Armenia as at the reporting date which is presented below (currency unit value expressed in AMD).

| | *2020* | *2019* |
|---|---|---|
| | *AMD* | *AMD* |
| 1 USD | 522.59 | 479.7 |
| 1 RUB | 7.02 | 7.77 |

The tables below indicate the currencies to which the Company had significant exposure on 31 December 2020 and 31 December 2019 on its monetary and non-monetary assets. The analysis shows the effect of a reasonably possible movement of the currency rate against Armenian Dram, with all other variables held constant, on the income. A negative amount in the table reflects a potential net reduction in income statement or equity, while a positive amount reflects a net potential increase.

| | *Changes in currency rate in % in 2020* | *Effect on profit before tax 2020* | *Changes in currency rate in % in 2019* | *Effect on profit before tax 2019 (unaudited)* |
|---|---|---|---|---|
| **Currency** | | | | |
| USD | 5% | 33,975 | 3% | 33,537 |
| | -5% | (33,975) | -3% | (33,537) |
| RUB | 16% | (13,694) | 13% | (12,909) |
| | -16% | 13,694 | -13% | 12,909 |

*In thousands of Armenian drams*

## 16. Risk management (continued)

### Liquidity risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations when they fall due. Management continuously monitors Company's liquidity to ensure required cash flows for operating activities. The Company's trade and other payables are short-term and mature within 1 month.

## 17. Events after the reporting date

(a) On 30 June 2021 the Company acquired 100% of shares Share of Code Republic LLC, for consideration in amount of AMD 24,768 thousand;

(b) On 30 July 2021 the Company acquired a land and a building for total amount of AMD 229,750 thousand. After the reconstruction and renovation of property and surrounding land it is planned to set up a campus for conducting of IT trainings and organizing co-workings.