

LIMITED LIABILITY COMPANY
„ARSENAL INDUSTRIAL”
(UNIFIED REGISTRATION NUMBER 40103815302)

CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31 DECEMBER 2022
PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS
AND CONSOLIDATED ANNUAL REPORTS
TOGETHER WITH INDEPENDENT AUDITORS' REPORT
Riga, 2023



* This version of financial statements is a translation from the original, which was prepared in the Latvian language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of financial statements takes precedence over this translation.

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General information about the Group's parent company

Name of the Parent Company	Arsenal Industrial	
Legal status	Limited liability company	
Registration number, place and date of registration	40103815302, Riga, 8 August 2014	
Activity code (NACE)	NACE2 77.32 Renting and leasing of construction and civil engineering machinery and equipment NACE2 46.14 Agents involved in the sale of machinery, industrial equipment, ships and aircraft	
Legal address	Stabu street 61-11 Riga, Latvia, LV-1011	
Shareholders	SIA "Klucīši" (51%) FlyCap Investment Fund I AIF, limited partnership (49%)	
Board Members	Gints Vanags, Member of the Board	
Council Members	Girts Milgrāvis, Chairman of the Council Kaspars Zuicens, Deputy Chairman of the Council Jānis Liepiņš, Council Member	
Subsidiaries	<p>ARSENAL INDUSTRIAL OU Suur-Sõjamäe 25a, Tallinn, 11415, Estonia Reg.No. 14041623 (100%, 02.05.2016.)</p> <p>ARSENAL INDUSTRIAL Sp.z o.o. ul. Marszałkowska, nr 111, lok., miejsc. Warszawa, kod 00-102, Poland Reg.No. 634144 (100%, 31.08.2016.)</p> <p>ARSENAL INDUSTRIAL UAB Perkūnkiemio g. 13-91, Vilnius, LT-12114, Lithuania Reg.No. 304784353 (100%, 07.03.2018.)</p>	
Responsible for accounting	Anželika Dārziņa, Chief accountant	
Financial year	1 January – 31 December 2022	
Auditors	Anna Temerova -Allena Latvian Certified Auditor Certificate No. 154	SIA „Potapoviča un Andersone” Ūdens iela 12 - 45, Riga, Latvia, LV-1007 License No.99

Consolidated management report

Overview of the Group's operations

The main activity of the Group, the Parent Company of which is SIA Arsenal Industrial (hereinafter- the “Parent Company”, together with daughter companies – “the Group”), is rent and sale of construction equipment and hand tools.

The Group's goal is to provide products and services in high quality. To be an effective company that listens to the wishes of customers and implements them. To improve the Group's operations to meet current and future needs. To be a stable cooperation partner providing high quality customer service, establishing partnerships with entrepreneurs, continuing to invest in the Group's infrastructure. The Group's strategic goal is to take a leading position in the construction equipment rent and trade sector in the largest cities of Latvia and Baltic.

Operations in the reporting year

In the reporting period from 1 January 2022 to 31 December 2022, the Group's net turnover was EUR 9 155 117. Compared to 2021, it has increased by 6,2 %. In 2022, the construction market in the Baltic States and the world is facing the problems of the increase in the price of raw materials and the availability of construction materials due to the war in Ukraine started by Russia on February 24, 2022, and the sanctions imposed on Russia, as a result of which the volume of construction decreased. Despite these challenges, the Group, by consistently implementing a strategy related to investments in new equipment and tools, as well as growing the customer portfolio and market share, successfully managed to grow turnover in the core business segment, growing rental turnover by 9,6 % and maintenance and transportation services turnover by 25,1 %. Turnover from the sale of goods decreased by 7,2 %, as the Group focused more on the core business segment in 2022, but in 2023 the Group plans to increase the volume of sales of goods in this segment as well.

The Group closed the reporting year with a profit of EUR 294 603, compared to loss of EUR 110 786 in 2021. The increase can be explained by the fact that in 2022 the Group has worked more efficiently, increasing the turnover of rental, maintenance and transportation services, reducing the volume of bad debtors, transport and program maintenance expenses, as well as obtaining more profit from the sale of fixed assets and income from insurance claims.

The management of the Group has continued measures to improve the consistency and improvement of fixed asset accounting by revising the principles of depreciation of vehicles and module hangars and applying the liquidation values to these categories of fixed assets as well. Also, a review of software purchase and implementation costs was carried out, capitalizing some costs that was written off in previous years in the amount of 51,7 thousand EUR, also 22,7 thousand EUR employees' salaries for 2022 for the period of working time that was necessary to apply the software for the needs of the Group.

On December 31, 2022, the Group had positive own equity in amount of 164 thousand EUR (on December 31, 2021: negative 209 thousand EUR). In the end of reporting year, the Group's short-term liabilities exceeded its current assets by 5 406 thousand EUR, including bond-secured loans 5,2 million EUR and a loan from shareholder 645 thousand EUR, which the Group plans to refinance in 2023.

Prospects and further development

The main goal of the Group is to ensure high quality service and provide customers with the necessary equipment and tools. The Group plans the development of its operations in accordance with market trends alongside with continuous seeking of innovative solutions for the improvement and development of operations.

The Group's management has drawn up a budget for year 2023 and a cash flow forecast for 2023, projecting positive operating cash flows in 2023. Based on the cash flow forecasts, the Group will have sufficient funds available for sustaining the Group as a going concern and ensuring further development in 2023. The Group plans to invest in new rental equipment's and hand tools.

The Group's management believes that they will be able to ensure sufficient funds for sustaining the Group as a going concern, considering the following factors:

- the current business trends of the Group's companies demonstrate that the operating and liquidity positions will improve comparing to the previous year;
- the Group will evaluate the possibilities of further operations or liquidation of the subsidiary Arsenal Industrial SP.z.o.o., whose operating results in 2022 are insignificant. Since all significant liabilities against the Polish subsidiary have been accrued in doubtful receivables costs, no additional losses are expected in the event of liquidation;
- successful and supportive cooperation with long-term suppliers;
- the management of the Group is negotiating with financiers about refinancing options and expects to receive the first specific offers from credit institutions at the end of March/early April of 2023. The Group is confident that if no opportunity is found to refinance the loans by the end of the repayment term, the loan repayment terms will be extended.

Consolidated management report (cont'd)

In the reporting year, the Group and the construction market were affected by the increase in the price of raw materials and the problem of availability of construction materials due to the war in Ukraine started by Russia on February 24, 2022, and the sanctions imposed on Russia, as a result of which the volume of construction decreased. It is expected that these factors will continue to negatively affect the development of the construction industry in the first half of 2023 as well. The Group will continue to invest in new equipment and tools, increase the customer portfolio and market share, while continuously evaluating the situation in the Baltics and the world and the demand for the Group's services. With the gradual reduction of high inflation and the beginning of the activities of the new EU fund planning period, it is expected that the construction industry will return to positive growth rates and the demand for the Group's services will grow.

In view of the above, the Group's management believes that there are all grounds for preparing the financial statements for the year 2022 on a going concern basis. See also information in Note 2 "Going concern" in the consolidated annual report.

Exposure to risks

The Group's most important financial instrument is the issue of registered bonds. The main purpose of this financial instrument is to ensure financing for the Group's operations by purchasing construction equipment to provide customers with modern and high-quality equipment and tools via rent and trade services. The Group has various other financial instruments such as trade and other receivables and trade and other payables, which arise directly from its operations. The Group regularly monitors financial risks to minimize their negative impact on the Group's financial position.

Market risk

Market risk arises when assets include instruments that are subject to market price fluctuations (property, plant and equipment: rental construction equipment). To reduce the impact of market risk, the Group continuously examines the market situation, monitors market forces and competitors' activities (price fluctuations, changes in demand and supply) as well as reviews sales prices.

Credit risk

The Group is exposed to credit risk through its trade receivables and cash and cash equivalents. The Group manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group's exposure to bad debts is minimized.

Liquidity and cash flow risks

The Group is exposed to liquidity and cash flow risks. The Group ensures careful and well-thought-out planning of its cash flow to ensure that its current liabilities are met. The Group is convinced that the most important issue related to liquidity – refinancing of short-term credit obligations – will be successfully resolved in the first half of 2023.

Interest rate risk

The Group is exposed to interest rate risk. To minimize interest rate risk, the Parent Company has issued fixed interest rate bonds. Based on the current agreement with the investment fund, the management assesses the risk of interest rate changes as insignificant, but since the existing financing is attracted from financiers other than credit institutions, interest stability is ensured with a high interest rate.

Foreign currency risk

Based on the current structure of the Group's financial assets and liabilities denominated in foreign currencies, currency risk is not significant.

Events after the end of the reporting year

As of the date of signing the consolidated annual report, the Group continues negotiations with banks and other potential financiers regarding the refinancing of loans. The Group is confident that if no opportunity is found to refinance the loans by the end of the repayment term, the loan repayment terms will be extended.

Except for the above mentioned, there have been no events between the balance sheet date and the date of signing the annual report that would affect the Group's financial position as of December 31, 2022.

Gints Vanags
Member of the Board

THE DOCUMENT IS SIGNED WITH SECURE ELECTRONIC SIGNATURES AND CONTAINS A TIME STAMP.

Consolidated statement of profit or loss

	Notes	2022 EUR	2021 EUR
Net turnover	3	9 155 117	8 618 925
Cost of sales	4	(6 602 548)	(6 159 654)
Gross profit		2 552 569	2 459 271
Distribution costs	5	(1 092 341)	(1 174 890)
Administrative expense	6	(753 491)	(863 844)
Other operating income	7	449 891	240 452
Other operating expense	8	(42 523)	(22 272)
Other interest and similar income:		995	1 480
• other companies		995	1 480
Interest and similar expense:	9	(816 379)	(750 983)
• other parties		(816 379)	(750 983)
Profit or loss before the Corporate income tax		298 721	(110 786)
Corporate income tax for the reporting year		(4 118)	-
Net profit or loss for the reporting year		294 603	(110 786)

Notes on pages 11 to 22 are integral part of these financial statements.

 Gints Vanags
 Member of the Board

 Anželika Dārziņa
 Chief accountant

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Consolidated balance sheet

ASSETS

	Notes	31.12.2022. EUR	31.12.2021. EUR
NON-CURRENT ASSETS			
Intangible assets			
Intangible assets under development	11	86 378	-
TOTAL		86 378	-
Property, plant and equipment			
Leasehold improvements		61 002	27 606
Other fixtures and fittings, tools and equipment		7 418 607	5 763 326
TOTAL	12	7 479 609	5 790 932
TOTAL NON-CURRENT ASSETS		7 565 987	5 790 932
CURRENT ASSETS			
Inventories			
Raw materials and consumables		350 494	263 100
Finished goods and goods for sale		407 828	487 826
Prepayments for inventories		50 330	27 328
TOTAL	14	808 652	778 254
Receivables			
Trade receivables	15	1 008 242	1 072 778
Debts of affiliated companies	16	-	20 000
Other receivables	17	28 589	14 325
Other securities and investments	13	2 000	2 000
Prepaid expense	18	49 524	38 548
Accrued income		3 956	4 349
TOTAL		1 092 311	1 152 000
Cash	19	291 150	424 187
TOTAL CURRENT ASSETS		2 192 113	2 354 441
TOTAL ASSETS		9 758 100	8 145 373

Notes on pages 11 to 22 are integral part of these financial statements.

Gints Vanags
 Member of the Board

Anželika Dārziņa
 Chief accountant

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Consolidated balance sheet

EQUITY AND LIABILITIES

	Notes	31.12.2022. EUR	31.12.2021. EUR
EQUITY			
Share capital	20	49 020	49 020
Share premium	20	980 980	980 980
Revaluation reserves for long term investments	12	787 616	709 585
Reserves:			
• foreign currency revaluation reserve		20 568	20 543
Accumulated loss		(1 968 672)	(1 857 886)
Loss for the reporting year		294 603	(110 786)
	TOTAL EQUITY	164 115	(208 544)
LIABILITIES			
Non-current liabilities			
Bond-secured loans	21	-	5 200 000
Other liabilities	23	1 995 660	893 225
Payables to related companies	22	-	644 957
	TOTAL	1 995 660	6 738 182
Current liabilities			
Bond-secured loans	21	5 200 000	330 333
Other loans	23	551 242	275 401
Prepayments received from customers		61 549	64 880
Trade payables		649 072	445 360
Payables to related companies	22	657 856	-
Taxes payable	24	163 634	188 257
Other liabilities	25	115 747	119 330
Deferred income		16 602	36 574
Accrued liabilities	26	182 623	155 600
	TOTAL	7 598 325	1 615 735
	TOTAL LIABILITIES	9 593 985	8 353 917
TOTAL EQUITY AND LIABILITIES		9 758 100	8 145 373

Notes on pages 11 to 22 are integral part of these financial statements.

Gints Vanags
 Member of the Board

Anželika Dārziņa
 Chief accountant

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Consolidated statement of cash flows

	2022	2021
	EUR	EUR
Cash flows to/ from operating activities		
<i>Profit or loss before corporate income tax</i>	298 721	(110 786)
Adjustments for:		
Depreciation and impairment of property, plant and equipment	702 144	678 268
Amortization and impairment of intangible assets	-	384
Gain or loss from fluctuations of currency exchange rates	25	15 176
Gain or loss from disposal of property, plant and equipment	(169 902)	(91 959)
Other interest and similar income	(995)	(1 480)
Interest and similar expense	816 379	653 431
<i>Profit or loss before adjustments for the effect of changes in current assets and current liabilities</i>	1 646 372	1 143 034
• (increase) or decrease in receivables	39 688	40 670
• (increase) or decrease in inventories	(30 398)	3 483
• increase or (decrease) in trade and other payables	171 238	(420 222)
<i>Cash generated from operations</i>	1 826 900	766 965
Corporate income tax paid	-	-
Net cash flows to/ from operating activities	1 826 900	766 965
Cash flows to/ from investing activities		
Purchase of property, plant and equipment and intangible assets	(540 657)	(298 374)
Proceeds from sale of property, plant and equipment and intangible assets	460 380	293 240
Loans issued	-	(40 000)
Loans repaid	20 000	20 000
Interest received	995	296
Net cash flows to/ from investing activities	(59 282)	(24 838)
Cash flows to/ from financing activities		
Expenditure on interest payments	(1 129 943)	(231 660)
Expenditure on fixed assets acquired under finance leases	(770 712)	(272 514)
Net cash flows to/ from financing activities	(1 900 655)	(504 174)
Net foreign exchange difference	-	(1 997)
Net cash flow for the year	(133 037)	235 956
Cash and cash equivalents at the beginning of the year	424 187	188 231
Cash and cash equivalents at the end of the year	291 150	424 187

Notes on pages 11 to 22 are integral part of these financial statements.

Consolidated statement of changes in equity

	Share capital EUR	Share premium EUR	Reva- luation reserves EUR	Foreign currency revaluation reserve EUR	Retained loss EUR	Profit for the reporting year EUR	Total EUR
01.01.2021	49 020	980 980	-	7 595	(1 135 756)	(722 130)	(820 291)
Revaluation of property, plant and equipment	-	-	709 585	-	-	-	709 585
Loss carried forward	-	-	-	-	(722 130)	722 130	-
Loss for year 2021	-	-	-	-	-	(110 786)	(110 786)
Foreign currency revaluation	-	-	-	12 948	-	-	12 948
31.12.2021	49 020	980 980	709 585	20 543	(1 857 886)	(110 786)	(208 544)
Revaluation of property, plant and equipment, net	-	-	78 031	-	-	-	78 031
Loss carried forward	-	-	-	-	(110 786)	110 786	-
Profit for year 2022	-	-	-	-	-	294 603	294 603
Foreign currency revaluation	-	-	-	25	-	-	25
31.12.2022	49 020	980 980	787 616	20 568	(1 968 672)	294 603	164 115

Notes on pages 11 to 22 are integral part of these financial statements.

Notes to the consolidated financial statements

1. General information about the Group

Information provided in page 3 of consolidated annual report.

2. Summary of significant accounting policies

Basis of preparation of consolidated annual report

The annual report has been prepared in accordance with the “Law on Accounting” and the “Law on Annual Reports and Consolidated Annual Reports” of the Republic of Latvia and the Cabinet of Ministers Regulations No. 775 “Regulations for the Application of the Law on Annual Reports and Consolidated Annual Reports”. The profit and loss statement has been prepared in accordance with the scheme specified in Annex 3 (classified by function of expenses) of the “Law on Annual Reports and Consolidated Annual Reports”. Pursuant to Article 5 of the “Law on Annual Reports and Consolidated Annual Reports”, the Group is classified as a medium-sized group. The consolidated financial statements have been prepared in accordance with the requirements of Article 9 of the “Law on Annual Reports and Consolidated Annual Reports”. All financial data are presented in EUR.

Compared to the previous reporting year, the accounting and valuation methods used by the Group for certain asset categories have been changed, which is disclosed in the notes to the annual report. In case where reclassifications of comparative indicators have been made that do not affect the results of previous periods and the amount of equity, explanations are provided either in the accounting policy section of the relevant item or in the relevant section of the notes to the financial statements.

In accordance with management's assessment, as described in the notes below, the financial statements have been prepared on a going concern basis.

Going concern

The Group concluded the reporting year with profit in the amount of EUR 294 603, compared to a loss of EUR 110 786 in 2021. As at 31 December 2022 the equity of the Group is EUR 164 11 and its cash flow from operating activities is positive, EUR 1 826 900. At the end of the reporting year the short-term liabilities of the Group significantly exceed current assets by EUR 5 406 thousand, as the obligations for a borrowing against bonds in the amount of EUR 5.2 million and for a borrowing from a shareholder of the Company in the amount of EUR 645 thousand are due for repayment in 2023. Therefore, the management of the Group has evaluated the validity of the application of the going concern principle.

The main goal of the Group is to ensure high quality service and provide customers with the necessary equipment and tools. The Group plans the development of its operations in accordance with market trends alongside with continuous seeking of innovative solutions for the improvement and development of operations.

In 2022 the Group and the construction market were affected by the increase in the price of raw materials and the problem of availability of construction materials due to the war in Ukraine started by Russia on February 24, 2022, and the sanctions imposed on Russia, as a result of which the volume of construction decreased. It is expected that these factors will continue to negatively affect the development of the construction industry in the first half of 2023 as well. The Group will continue to invest in new equipment and tools, increase the customer portfolio and market share, while continuously evaluating the situation in the Baltics and the world and the demand for the Group's services. With the gradual reduction of high inflation and the beginning of the activities of the new EU fund planning period, it is expected that the construction industry will return to positive growth rates and the demand for the Group's services will grow. The consolidated annual report does not include any adjustments, accruals or impairments that could result from uncertainty related to the refinancing or extension of the short-term borrowings of the Group.

The Group's management has drawn up a budget for year 2023 and a cash flow forecast for 2023, projecting positive operating cash flows in 2023. Based on the cash flow forecasts, the Group will have sufficient funds available for sustaining the Group as a going concern and ensuring further development in 2023. The Group plans to invest in new rental equipment's and hand tools.

The Group's management believes that they will be able to ensure sufficient funds for sustaining the Group as a going concern, considering the following factors:

- the current business trends of the Group's companies demonstrate that the operating and liquidity positions will improve comparing to the previous year;
- the Group will evaluate the possibilities of further operations or liquidation of the subsidiary Arsenal Industrial SP.z.o.o., whose operating results in 2022 are insignificant. Since all significant liabilities against the subsidiary have been accrued in doubtful receivables costs, no additional losses are expected in the event of liquidation;
- successful and supportive cooperation with long-term suppliers;
- the management of the Group is negotiating with financiers about refinancing options. The Group is confident that if no opportunity is found to refinance the loans by the end of the repayment term, the loan repayment terms will be extended.

In view of the above, the Group's management believes that there are all grounds for preparing the financial statements for the year 2022 on a going concern basis.

2. Summary of significant accounting policies (cont'd)***Principles of consolidation***

The consolidated financial statements have been prepared using purchase method. Consolidation involves the Group's parent company and the Group's subsidiaries in which the Group's parent company has, directly or indirectly, more than half of the voting rights or otherwise has the power to govern the financial and operating policies. In cases where the Group owns more than half of the share capital of another company but has no control over that company, the company is not included in the consolidation. The Group's subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control is discontinued. In case the date of the share purchase agreement or the decision of the participants / shareholders to make additional investments differs significantly from the date of change or registration of ownership of shares / shares recorded in the Register of Enterprises, the date of acquisition is considered to be the date of the agreement, unless otherwise specified in the contract. All transactions between Group companies, settlements and unrealized gains on transactions between Group companies are eliminated; unrealized losses are also eliminated unless costs cannot be recovered. Where necessary, accounting policies for the Group's subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Use of estimates

When preparing the consolidated financial statement, the management has to rely on certain estimates and assumptions, which affect the balances of balance sheet and profit or loss statement items reflected in individual statements, as well as the amount of possible liabilities. Future events may affect the assumptions on which the relevant estimates are made. Any impact of changes in estimates is reflected in the financial statements at the time they are determined.

Foreign currency translation

The functional currency of the Group and the currency used in the consolidated financial statements is the monetary unit of the Republic of Latvia, the euro (EUR). All transactions in foreign currencies are revalued in EUR according to the euro reference rate published by the European Central Bank on the day of the relevant transaction. Monetary assets and liabilities denominated in foreign currency are converted into EUR at the euro reference rate published by the European Central Bank on the last day of the reporting year. Exchange rate differences arising from settlements in currencies or when reflecting asset and liability items using exchange rates that differ from the exchange rates initially used for accounting transactions are recognized in the consolidated statement of profit or loss at net value.

Property, plant and equipment

Until 2021, all property, plant and equipment were accounted at purchase cost, subtracted by accumulated depreciation. In 2021, the Group changed its accounting policy for rental equipment, deciding to recognize it at revalued amount. In 2022, the Group changed its accounting policy regarding vehicles and hangars, deciding to account for it at the revalued value and, starting from 2023, applying the liquidation/scrap value to the depreciation.

The depreciable amount of property, plant and equipment is determined by deducting its liquidation value from its purchase value or revalued amount. The liquidation value is the estimated value that the company would obtain from selling the asset at the end of its useful life, less expected disposal costs. If the liquidation value of the fixed asset is insignificant, it is not considered in calculating the depreciable value. Liquidation values of property, plant and equipment have been applied by the Group since 2018.

The Group makes accounting estimates of the useful lives of property, plant and equipment and their liquidation values (if any) and selects the depreciation method. These estimates shall be reviewed regularly and, if necessary, revised. From the beginning of 2020, the estimates of the useful lives of fixed assets and the value of scrap of fixed assets for certain groups of rental equipment and machinery were changed.

Property, plant and equipment are accounted at its initial or revalued value, subtracted by accumulated depreciation and impairment losses. Depreciation is calculated based on a straight-line method over the estimated useful lives of the following assets:

Item	Rate	Years	Liquidation value
Rental equipment and machinery	10%-33.33%	3-10	15 – 33%
Computers and data storage equipment	35.00%	3	NA
Transport vehicles	20.00%	5	30%*
Other fixtures and fittings, tools and equipment	20.00%	5	NA or 30%*

* Liquidation value is determined starting from the year 2023.

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity.

If any events or changes in circumstances indicate that the carrying value of fixed assets may be irrecoverable, the value of the relevant fixed assets is reviewed to determine their impairment. If any such indication exists and where the book values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the higher of an asset's net selling price and its value in use. When determining the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market expectations regarding changes in the asset's value and the risks attributable to them.

2. Summary of significant accounting policies (cont'd)

For an asset that does not itself generate significant cash flows, the recoverable amount is determined according to the cash-generating asset to which it belongs. Impairment losses are recognized in the income statement as production costs of the products sold.

The recognition of the accounting value of fixed assets is stopped if it is disposed of or if no economic benefits are expected from the further use of the asset in the future. Any gain or loss resulting from the derecognition of an asset (calculated as the difference between the net proceeds from disposal and the asset's carrying amount) is recognized in the income statement in the period when the asset is derecognized.

Costs associated with leasehold improvements are capitalized and recorded as property, plant and equipment. Depreciation of these assets is calculated over the lease term using the straight-line method.

Intangible assets

Intangible non-current assets are recorded at their initial value and amortized over their estimated useful life using a straight-line method. If any events or changes in circumstances indicate that the book value of intangible assets may be irrecoverable, the value of the relevant intangible assets is reviewed for impairment. Impairment losses are recognized when the carrying amount of intangible assets exceeds their recoverable amount.

Item	Rate	Years
Intangible assets	20.00%	5

Inventories

Inventories are stated at the lower of cost or net realizable value. The costs incurred in bringing the inventory to its current location and condition are accounted for as follows:

- raw materials are listed according to their purchase costs according to "first in - first out" (FIFO);
- finished goods and work-in-progress are accounted for at their direct material and labor costs, plus a share of manufacturing overhead based on the normal capacity of production facilities but excluding borrowing costs.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling costs. The net realizable value is reflected as the cost, from which the created provisions are deducted.

Inventory includes inventory for own use and rental. Inventory in the balance sheet is accounted for at acquisition cost, from which depreciation is deducted. Inventory is depreciated over the useful life of the asset using the straight-line method:

Item	Rate	Years
Inventory for own use	100.00%	1
Rental inventory	33.33%	3

Depreciation is calculated starting with the following month after the inventory is put into operation or engaged in commercial activity.

Inventory is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the inventory.

Trade and other receivables

Trade and other receivables are recognized and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Debts are written off when their recovery is considered impossible.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less.

Contingent liabilities and assets

Contingent liabilities are not recognized in the financial statements. They are recognized as liabilities only when the probability that the funds will be issued becomes sufficiently reasonable. Contingent assets are not recognized in this financial statement, but are reflected only when the probability that the economic benefits related to the transaction will reach the Group is sufficiently justified.

2. Summary of significant accounting policies (cont'd)***Financial lease***

Financial lease transactions, within the framework of which all risks and rewards resulting from the ownership of the leased object are transferred to the Group, are recognized in the balance sheet as fixed assets for an amount that, at the beginning of the lease, corresponds to the fair value of the leased property, or, if it is less, for the present value of the minimum lease payment. Finance lease payments are split between finance charges and amortization of the liability to provide a constant interest rate on the balance of the liability each period. Finance costs are included in the profit or loss statement as interest costs.

If there is sufficient reason to believe that at the end of the lease period the relevant leased object will become the lessee's property, the estimated time of use is assumed to be the time of useful use of this asset. In all other cases, depreciation of capitalized leased assets is calculated using the straight-line method over the shorter of the estimated useful lives of the assets or the lease period.

If the purpose of the operating lease is to acquire the asset in the end of operating lease term and if payments for operating lease is more than 85% from asset market value at the time when agreement is concluded, the operating lease is accounted as financial lease. Operating lease payments are apportioned between the lease payments and the financing components, recognizing the expected financing costs for future accounting purposes. At the end of the reporting period, liabilities for the recognized asset are presented at net value, less financing costs attributable to future periods.

Operating lease

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of profit or loss on a straight-line basis over the lease term. The commitments undertaken by the Group with respect to operating lease agreements are recorded as off-balance sheet liabilities.

Assets held for operating leases are presented in the balance sheet of the lessor according to the nature of the asset. Depreciable leased assets are subject to the same depreciation policy as other similar fixed assets.

The lessor shall recognize operating lease income as income in the profit or loss statement over the lease term.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, less value added tax and sales-related discounts. The following specific recognition criteria must also be met before revenue is recognized.

Sale of goods

Revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

The Group basically provides construction machinery and equipment rental services. Revenue is recognized in the period when the services are rendered.

Revenue from construction machinery and equipment rental services and corresponding expenses are recognized by reference to the stage of completion at the balance sheet date.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognized only to the extent that the recognized costs are recoverable.

Dividends

Revenue is recognized when the shareholder's right to receive payment is established.

Bond-secured loans

Bond-secured loans are recognized as financial liabilities. Bond-secured loans are recognized at their initial value. After the initial recognition, these borrowings are measured at amortized value using the straight-line method during the whole duration of the agreement. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the amortization process on a straight-line method. Amortized value is calculated as the difference between the fair value and nominal value of the bonds over the life of the agreement.

Loans and borrowings

Loans and borrowings are initially reflected in their initial value, which is determined by adding to the fair value of the loan or borrowing amount the costs associated with issuing the loan or deducting the costs associated with receiving the loan.

After initial recognition, loans and borrowings are recorded at their amortized cost using the effective interest method. The amortized value is calculated considering the cost of issuing the loan or borrowing, as well as any discounts or premiums associated with the loan or borrowing.

Gains or losses resulting from amortization are reflected in the income statement as interest income and expense.

2. Summary of significant accounting policies (cont'd)

Financial liabilities are excluded when they are extinguished or when contractual obligations are fulfilled or cancelled, or when they expire. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Events after the balance sheet date

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. If the events after the end of the reporting year are not adjusting, they are reflected in the notes to the financial statements only if they are significant.

Related parties

Related parties include members of the Group, members of the Management Board, their close family members and companies in which they have control or significant influence. The term "related parties" is as defined in Commission Regulation (EC) No. 1126/2008 of 3 November 2008, adopting certain international accounting standards in accordance with the European Parliament and the Council regulation (EC) No. 1606/2002, in attachment IAS 24 "Related Party Disclosures" used definition.

Corporate income tax

Corporate income tax for the reporting year is calculated according to the legislation of the Republic of Latvia, the Republic of Estonia, the Republic of Poland, and the Republic of Lithuania.

Latvia

For the year 2022 and the previous reporting year, the corporate income tax has been calculated in accordance with the Corporate Income Tax Law, which is effective from January 1, 2018.

Legal entities have not been required to pay income tax on earned profits starting from January 1, 2018, in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared.

Lithuania

Corporate income tax for the reporting year is calculated applying a 15% rate on taxable income generated during the taxation period.

Estonia

In Estonia, the net profit is not subject to corporate income tax, however, it is levied on all dividends paid by the company at the income tax rate of 20%, or 20/80 of net expense.

Poland

Corporate income tax for the reporting year is calculated applying a 20% rate on taxable income generated during the taxation period.

3. Net turnover

By business activities	2022	2021
Renting and re-renting of equipment	5 575 469	5 084 878
Sale of goods	2 415 811	2 603 992
Maintenance services	579 154	406 615
Transportation and delivery services	584 683	523 440
TOTAL:	9 155 117	8 618 925

4. Cost of sales

	2022	2021
Cost of goods and materials	1 949 651	2 033 317
Rent expense	1 694 806	1 584 825
Depreciation	867 329	678 782
Reduction of the revaluation reserve for the part of the revalued fixed assets depreciation	(164 860)	-
Staff costs	786 499	722 354
Repairs and maintenance costs	626 163	413 965
Rental space maintenance costs	371 048	318 134
Decrease in inventories	110 246	133 011
Transportation and assembly costs	362 316	275 266
TOTAL:	6 602 548	6 159 654

5. Distribution costs

	2022	2021
Staff costs	840 349	872 555
Provisions for doubtful receivables	123 295	179 532
Transportation expenses	62 033	56 140
Advertising and marketing	38 743	35 888
Other distribution costs	27 921	30 775
TOTAL:	1 092 341	1 174 890

6. Administrative expense

	2022	2021
Staff costs	482 285	515 629
Transportation expenses	92 234	127 109
Software maintenance	74 495	122 868
Consulting	22 448	52 867
Communications	10 816	11 089
Bank fees	9 872	7 180
Office expense	9 434	6 403
Business trips	14 834	1 100
Other administrative expense	37 073	19 599
TOTAL:	753 491	863 844

7. Other operating income

	2022	2021
Gain on disposal of property, plant and equipment, net (see notes 27)	188 402	92 127
Gain on compensation for property, plant and equipment and inventory	70 932	42 583
Proceeds from reduction of accrued liabilities	3 761	-
Insurance compensation from customers for the insurance of rented equipment	180 650	17 695
Other operating income	6 146	88 047
TOTAL:	449 891	240 452

8. Other operating expense

	2022	2021
Loss from disposal of property, plant and equipment, net	18 500	-
Administrative expense	12 859	13 179
Penalties paid	640	1 505
Loss from currency rate fluctuations, net	2 003	2 632
Other operating expense	8 521	4 956
TOTAL:	42 523	22 272

9. Interest and similar expense

	2022	2021
Financing costs	-	399 579
Loan interest payments	816 379	351 404
TOTAL:	816 379	750 983

10. Staff costs and number of employees

	2022	2021
Wages and salaries	1 734 348	1 769 403
Statutory social insurance contributions	371 390	340 076
TOTAL:	2 105 738	2 109 479
Average number of employees during the reporting year	67	74

11. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights EUR	Intangible assets under development EUR	Total EUR
Initial value			
31.12.2021.	15 800	-	15 800
Purchased	-	86 378	86 378
31.12.2022.	15 800	86 378	102 178
Amortization			
31.12.2021.	15 800	-	15 800
31.12.2022.	15 800	-	15 800
Residual balance sheet value 31.12.2021.	-	-	-
Residual balance sheet value 31.12.2022.	-	86 378	86 378

12. Property, plant and equipment

	Other fixed assets and inventory	Construction in progress	Leasehold improvements	Total
	EUR	EUR	EUR	EUR
Initial/revaluated value 31.12.2021	9 407 247	-	80 464	9 487 711
Purchased	2 549 507	53 760	-	2 603 267
Revaluated	291 583	-	-	291 583
Written off	(565 814)	-	-	(565 814)
Excluded reserve	(65 177)	-	-	(65 177)
Reclassified	-	(53 760)	53 760	-
31.12.2022.	11 617 346	-	134 224	11 751 570
Depreciation 31.12.2021.	3 643 921	-	52 858	3 696 779
Calculated	687 479	-	20 364	707 843
Calculated for reserve	159 486	-	-	159 486
For written off	(281 035)	-	-	(281 035)
For written off reserve	(11 112)	-	-	(11 112)
31.12.2022.	4 198 739	-	73 222	4 271 961
Residual balance sheet value				
31.12.2021.	5 763 326	-	27 606	5 790 932
31.12.2022.	7 418 607	-	61 002	7 479 609

In 2021, the Group changed its accounting policy for rental equipment accounting, but in 2022 additionally for cars and hangars accounting, deciding to recognize this group of property, plant and equipment at revaluated amounts, also for hangars and cars to determine liquidation values, which are not taken into account in the calculation of depreciation. The revaluation was performed by an independent expert SIA "Pro Motion." The revaluation of cars and hangars was carried out by the Group's specialists based on publicly available information on the market prices of comparable transactions.

The valuation for year 2022 was prepared on December 19, 2022. Based on the market values of property, plant and equipment indicated in the valuation and revaluation of cars and hangars carried out by the Group, the Group has recognized the difference between the carrying amount of the specific group of property, plant and equipment and the market value in amount of EUR 787 616 (in 2021 EUR 709 585), recognizing the increase in equity under "Revaluation reserve". The balance sheet value of Other fixed assets and inventory on December 31, 2022, without revaluation would be EUR 6 630 991. On December 31, 2022, property, plant and equipment with a total balance sheet value of EUR 2 678 022 were handed out in rent and was located at the Group's customers.

According to expert assessment for the revaluation of the rental equipment, a decrease in value should be recognized for certain property, plant and equipment in the amount of EUR 59 327. The adjustments have not been made because it is not considered material in the context of the annual report.

Pledges and other restrictions on property rights

All the Group's property, plant and equipment are pledged. Commercial pledgee - Mezzanine Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych (Reģistrācijas numurs RFI 1030). Pledged property: the aggregate property of the commercial pledgor as at the time of pledging, including any future parts thereof. The maximum value of the claim is EUR 7 950 000.

At the end of the reporting year, the Group's consolidated balance sheet includes property, plant and equipment with a balance sheet value of EUR 3 269 056 (in 2021 EUR 1 448 280), the ownership of which will be transferred only after the end of the lease term, after payments of residual value in accordance with the terms of the agreement. See note 23.

Changes in revaluation reserves in 2022

Revaluation reserve 31.12.2021	709 585
Write-off of revalued assets depreciation	(159 486)
Write-off of the remaining part of the revaluation of the sold revalued fixed assets	(48 692)
Write-off of the remaining part of the revaluation of excluded revalued fixed assets	(5 374)
Increase in accordance with revaluation made in 2022	291 583
Revaluation reserve 31.12.2022	787 616

13. Securities and other investments

	31.12.2022.	31.12.2021.
Deposit in bank	2 000	2 000
TOTAL:	2 000	2 000

The Group has a deposit with AS Citadele Banka with limited availability, which is extended annually until the end of the bank's cooperation agreement.

14. Inventories

	31.12.2022.	31.12.2021.
Materials, inventory, spare parts	350 494	263 100
Goods for sale	407 828	487 826
Prepayments for inventories	50 330	27 328
TOTAL:	808 652	778 254

All the Group's inventories are pledged as an aggregate property as at the time of pledging, including any future parts thereof.

15. Trade receivables

	31.12.2022.	31.12.2021.
Trade receivables	1 436 221	1 499 816
Provisions for doubtful receivables	(427 979)	(427 038)
TOTAL:	1 008 242	1 072 778

Trade receivables are non-interest bearing.

16. Debts of affiliated companies

	31.12.2022.	31.12.2021.
Loan to other related companies, fixed % rate *	EUR -	20 000
TOTAL debts of related companies:	-	20 000

* At the beginning of 2022, early repayment of the loan was received.

17. Other receivables

	31.12.2022.	31.12.2021.
Tax overpaid	6 669	6 639
Advances to employees	425	199
Other receivables	7 035	-
Deposits paid	14 460	7 487
TOTAL:	28 589	14 325

18. Prepaid expense

	31.12.2022.	31.12.2021.
Insurance	45 487	33 713
Other prepaid expense	4 037	4 835
TOTAL:	49 524	38 548

19. Cash

	31.12.2022.	31.12.2021.
Cash at bank	279 071	417 948
Cash on hand	12 079	6 239
TOTAL:	291 150	424 187

20. Share capital

The share capital of the Group is EUR 49 020 and consists of 49 020 shares. The par value of each share is EUR 1. All the shares are fully paid.

In relations to the loan received against bonds, the commercial pledge covers all the shares of the Parent Company of the Group owned by the commercial pledgor on the day of concluding the commercial pledge agreement and any other shares of the Group's share capital that the commercial pledger will acquire in the future. The commercial pledge also covers all current and future changes in the value and size of the Group's share capital (either as an increase and / or decrease) and all improvements thereto, as well as all property or non-property rights attached to these shares, including without limitation, all income and its distribution paid or payable for it (including, without limitation, dividends, liquidation quotas, share capital reduction payments (in cash or in kind, set-off or distribution, or otherwise), voting rights and the right to subscribe for any pledgor. The commercial pledgee has the right to sell the pledged property without an auction. It is prohibited to re-pledge the subject of the commercial pledge.

The share premium was paid as part of the share capital increase made in 2014 and 2015. The commercial pledge is not subject to the share premium.

21. Bond-secured loans

Long term:		Maturity	31.12.2022.	31.12.2021.
Loan from Mezzanine FIZ AN	EUR	28.04.2023.	-	5 200 000
Long term bond-secured loan in total:			-	5 200 000
Short term:		Maturity	31.12.2022.	31.12.2021.
Loan from Mezzanine FIZ AN	EUR	28.04.2023.	5 200 000	-
Accrued interest expense (including capitalized)			-	330 333
Short term bond-secured loan in total:			5 200 000	330 333
TOTAL bond-secured loan:			5 200 000	5 530 333

In 2018, the Group refinanced all its liabilities to credit institutions against bonds from Mezzanine Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych. The nominal value of the bonds is EUR 5.2 million. The fixed interest rate is 11.5%, which has been increased to 12.5% in 2022. Interest payments are made monthly. Capitalized interest expenses in amount of EUR 403 915 was paid in 2022. The loan is secured by a commercial pledge.

Pledged property: the aggregate property of the commercial pledgor as at the time of pledging, including any future parts thereof.

The commercial pledgor shall not be entitled to dispose of the property, one or more items together without the prior written consent of the commercial pledgee if their total book value exceeds EUR 400 000 in one quarter. The commercial pledgee has the right to sell the pledged property without an auction. It is prohibited to re-pledge the subject of the commercial pledge. See also information in note 20.

The management of the Group is negotiating with financiers about refinancing options and expects to receive the first specific offers from credit institutions at the end of March/early April. The Group is confident that if no opportunity is found to refinance the loans by the end of the repayment term, the loan repayment terms will be extended.

22. Payables to related companies

Long term:		Maturity	31.12.2022.	31.12.2021.
Loan from FlyCap Investment Fund	EUR	01.05.2023.	-	644 957
TOTAL long term payables to related companies:			-	644 957
Short term:		Maturity	31.12.2022.	31.12.2021.
Loan from FlyCap Investment Fund	EUR	01.05.2023.	644 957	-
Accounts Payable - Tehnikas brigāde SIA			12 899	-
TOTAL short term payables to related companies:			657 856	-
TOTAL payables to related companies:			657 856	644 957

At the beginning of 2022, an agreement on the extension of the loan until May 1, 2023 was signed. The loan bears a fixed interest rate, depending on the specific financial ratios achieved. Interest payments shall be made at the same time as the repayment of the principal amount. The loan issued by FlyCap Investment Fund is partially secured by the ERDF and LR budget funds, which in the future impose on the borrower restrictions specified in regulatory enactments regarding the possibilities of receiving other types of state support.

23. Other loans

Long term:		Maturity	31.12.2022.	31.12.2021.
Loans from suppliers (lease)	EUR	by 2025	2 084 848	1 014 761
Future interest payments	EUR		(148 932)	(121 536)
Leasing loan - Citadele Leasing SIA	EUR	by 2027	59 744	-
TOTAL long term other loans:			1 995 660	893 225
Short term:				
Loans from suppliers (lease)	EUR	within one year of the balance sheet date	698 830	361 734
Future interest payments	EUR		(164 810)	(86 333)
Leasing loan - Citadele Leasing SIA	EUR		17 222	-
TOTAL short term other loans:			551 242	275 401
TOTAL other loans:			2 546 902	1 168 626

In 2021, the Group changed the accounting for operating leases to include property, plant and equipment received under operating leases in the balance sheet in cases when the asset is expected to be purchased after the lease expires. Adjustments have been made in previous years to the accounting for such leases. See information in note 12 on the moment of transfer of ownership.

24. Taxes payable

	31.12.2022.	31.12.2021.
Value added tax	63 580	120 494
Statutory social insurance contributions	58 041	51 834
Personal income tax	34 031	14 144
Company car tax	1 674	1 178
Corporate income tax	4 118	-
Natural resource tax	704	592
Risk duty	1 486	15
TOTAL:	163 634	188 257

25. Other liabilities

	31.12.2022.	31.12.2021.
Wages and salaries	92 582	93 532
Security deposits	17 379	18 309
Payables to employees	1 115	1 587
Other liabilities	4 670	5 902
TOTAL:	115 747	119 330

26. Accrued liabilities

	31.12.2022.	31.12.2021.
Vacation pay reserve	115 831	106 667
Provisions for staff bonuses	28 692	25 550
Accrued interest on bond-secured loans	17 808	-
Other accrued liabilities	20 292	23 383
TOTAL:	182 623	155 600

27. Information on profit or loss from disposal of long-term investment objects

Object of long-term investment	Balance value at the time of exclusion	Proceeds from disposal	Gain or loss on disposal of an item
Rental equipment	273 111	440 817	167 706
Computers and data storage equipment	77	77	0
Inventory	4 570	25 266	20 696
TOTAL:	277 758	466 160	188 402
Excluded revaluation reserve	(48 691)		(48 691)

28. Financial and contingent liabilities**(a) Commitments under operating leases**

As a lessee, the Group has entered into several lease agreements for property (premises, vehicles, equipment). The total annual rental cost in 2022 was 172 945 EUR (2021: 231 073 EUR).

(b) Pledges

The Group's assets are pledged as collateral for the financing received. Please see notes 12, 14, 20 and 21.

29. Events after the balance sheet date

As of the date of signing the consolidated annual report, the Group continues negotiations with banks and other potential financiers regarding the refinancing of loans. The Group is confident that if no opportunity is found to refinance the loans by the end of the repayment term, the loan repayment terms will be extended.

Except for the above mentioned, there have been no events between the balance sheet date and the date of signing the annual report that would affect the Group's financial position as of December 31, 2022.

Gints Vanags
Board Member

Anželika Dārziņa
Chief Accountant

ELECTRONIC SIGNATURE OF THE BOARD MEMBER RELATES TO THE ANNUAL REPORT AS A SINGLE DOCUMENT FROM PAGE 1 TO 22.

ELECTRONIC SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTING RELATES TO THE FINANCIAL STATEMENTS ON PAGE 3 AND FROM PAGE 6 TO 22.

THE DOCUMENT IS SIGNED WITH SECURE ELECTRONIC SIGNATURES AND CONTAINS A TIME STAMP.

Independent Auditor's Report
(Translation from Latvian)

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To the shareholders of SIA ARSENAL INDUSTRIAL

Our Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of SIA ARSENAL INDUSTRIAL ("the Company") and its subsidiaries ("the Group") set out on pages 6 to 22 of the accompanying consolidated annual report, which comprise:

- the consolidated balance sheet as at 31 December 2022,
- the consolidated profit and loss statement for the year then ended,
- the consolidated statement of changes in equity for the year then ended,
- the consolidated statement of cash flows for the year then ended, and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of SIA ARSENAL INDUSTRIAL and its subsidiaries as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia we conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

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

Emphasis of matter on material uncertainty on going concern

The Group's financial profit for the year ended 31 December 2022 amounts to 294 603. However, as described in section "Going Concern of the Group" in Note 2 to the Financial Statements, despite the improvement of profitability of the Group's operations, the short-term liabilities of the Group as at the balance sheet date exceed its short-term assets by EUR 5 406 211. The Group has considerable loan liabilities that mature at the end of April and beginning of May 2023. As at the date of signing of the Annual Report, the management of the Group has commenced negotiating the extension of the loan maturity dates. As described in Notes 21 and 22 to the Financial Statements, and section "Going Concern of the Group" in Note 2 to the Financial Statements, there is material uncertainty on the ability of the Group to continue as going concern, if the maturity dates of the loans are not extended or no refinancing options of loan liabilities are ensured.

We do not modify our opinion in respect of the matter described above.

Reporting on Other Information

The Company management is responsible for the other information. The other information is the Management Report, as set out on pages 4 - 5 of the accompanying consolidated Annual Report.

Our opinion on the consolidated financial statements does not cover the other information included in the Annual Report, and we do not express any form of assurance conclusion thereon, except as described in the *Other reporting responsibilities in accordance with the legislation of the Republic of Latvia* section of our report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed and in light of the knowledge and understanding of the Group and its environment obtained in the course of our audit, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Other reporting responsibilities in accordance with the legislation of the Republic of Latvia

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the consolidated financial statements are prepared is consistent with the consolidated financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 the Group'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 the Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves a fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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.

On behalf of
SIA Potapoviča un Andersone,
Ūdens street 12-45, Riga, LV-1007
Certified Auditors Company licence No. 99

Anna Temerova-Allena
Responsible Certified Auditor
Certificate No. 154

ELECTRONIC SIGNATURE OF THE AUDITOR RELATES TO THE AUDITOR'S REPORT ENCLOSED WITH THE ANNUAL REPORT ON PAGES 23 TO 24

THE DOCUMENT IS SIGNED WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A VALID TIME STAMP