TRANSLATION OF SIA “ARSENAL INDUSTRIAL” CONSOLIDATED ANNUAL REPORT
FOR THE YEAR ENDED 31.12.2023

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

CONSOLIDATED ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2023

PREPARED IN ACCORDANCE WITH
THE LAW OF THE REPUBLIC OF LATVIA ON ANNUAL REPORTS
AND CONSOLIDATED ANNUAL REPORTS
TOGETHER WITH INDEPENDENT AUDITORS’ REPORT
Riga, 2024

ARSENAL
TEHNIKAS NOMA UN TIRDZNIECĪBA

* 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.

CONTENTS

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%) reg. No. 40103206643, legal address: Stabu street 61 – 11, Riga, LV-1011 FlyCap Investment Fund I AIF, limited partnership (49%), reg. No. 40103697951, legal address: Matrožu street 15A, Riga, LV-1048
Board Members	Gints Vanags, Member of the Board
Council Members	Ģirts Milgrāvis, Chairman of the Council Kaspars Zuicens, Deputy Chairman of the Council Jānis Liepiņš, Council Member
Subsidiaries	ARSENAL INDUSTRIAL OU Suur-Sõjamäe 25a, Tallinn, 11415, Estonia Reg.No. 14041623 (100%, 02.05.2016.) ARSENAL INDUSTRIAL Sp.z o.o. ul. Marszalkowska, nr 111, lok., miejsc. Warzszawa, kod 00-102, Poland Reg.No. 634144 (100%, 31.08.2016.) ARSENAL INDUSTRIAL UAB Perkūnkiemio g. 13-91, Vilnius, LT-12114, Lithuania Reg.No. 304784353 (100%, 07.03.2018.)
Responsible for accounting	Anželika Dārziņa, Chief accountant
Financial year	1 January – 31 December 2023
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. There is currently no active economic activity in Poland.

Operations in the reporting year
In 2023 the Group’s net turnover was EUR 11 151 662. Compared to 2022, it has increased by 21,8 %. The growth was mostly achieved by increase in the sale of goods, increasing the turnover by 80%, as there were both favourable market conditions and good cooperation conditions with suppliers. The profit from the core business was affected by fluctuations in the prices of resources and services, as a result the Group failed to achieve a positive operating profit margin, and the EBITDA profit percentage also decreased.

The Group closed the reporting year with a profit of EUR 674 268. Compared to 2022, it has increased by EUR 379 665. The increase can be explained by the fact that the existing bondholder Noble Fund Mezzanine Fundusz Inwestycyjny Zamknięty Aktywów Niepublicnych and the Group's shareholder FlyCap Investment Fund I AIF KS reduced the claim for the loan and accrued interest as part of the existing bond refinancing transaction. The decrease was recorded in the profit and loss statement under Other interest income and similar income.

On December 31, 2023, the Group had a positive equity in amount of 764 thousand EUR. In the end of reporting year, the Group’s short-term liabilities exceeded its current assets by 66 thousand EUR.

On November 30, 2023, the Group refinanced all its obligations with Noble Fund Mezzanine Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych against new bonds initially purchased by 34 bondholders (legal and private persons). Signet Bank AS acted as the organizer of the bond issue. The nominal value of the new bonds is EUR 4.5 million (4,500 bonds with a nominal value of EUR 1,000 per bond). Fixed annual interest rate of 12%. Interest payments are made every month. The maturity date is May 31, 2026. The Group plans to request the bonds to be listed on the Nasdaq Riga First North market within 6 months from the issue date. Information on bond collateral is provided in Note 21 of the consolidated annual report.

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 2024 and a cash flow forecast for 2024, projecting positive operating cash flows. Based on the cash flow forecasts, The Group will have sufficient funds to ensure its continued operations and growth in 2024. The Group plans to invest in new rental equipment and hand tools.

The Group's management believes that it will be able to secure sufficient funds to continue the Group's operations, 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 2023 are insignificant. Since all significant liabilities against the Polish subsidiary have been accrued in doubtful receivables, no additional losses are expected in the case of liquidation;
- the Group appropriately controls the financial indicators specified in the bond issue regulations. On December 31, 2023, and after the end of the reporting year, certain financial indicators specified in the bond contract, have not been achieved. According to the contract, the inconsistency must be prevented within 90 days. The Group plans to prevent the breach of covenants within the specified time limit;
- successful and supportive cooperation with long-term suppliers.

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

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. As inflation gradually decreases and activities related to the new EU funding planning period begin, it is expected that the construction sector will return to positive growth rates and the demand for the Group's services will increase.

Consolidated management report (cont’d)

Exposure to risks
The Group’s most important financial instrument is the issue of registered bonds and subordinate loan from shareholder. 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, as well as follows the conditions of financial covenants set in the Terms of the Notes issue, predicting the fulfilment of covenants and/or the need for corrective measures in a timely manner.

Interest rate risk
The Group is exposed to interest rate risk. To minimize interest rate risk, the Group’s management 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
The management of the Group takes measures to ensure the fulfilment of the financial covenants of the bond issue. The management of the Group has received confirmation from the shareholders that they continue to work to prevent the breach of the covenants, which can be done in several ways, either by increasing the equity or by amending the covenant requirements specified in the bond contract. The management of the Group is confident that this issue will be resolved within the term specified in the bond contract.
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, 2023.

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	2023 EUR	2022 EUR
Net turnover	3	11 151 662	9 155 117
Cost of sales	4	(8 370 734)	(6 602 548)
Gross profit		**2 780 928**	**2 552 569**
Distribution costs	5	(1 289 096)	(1 092 341)
Administrative expense	6	(902 870)	(753 491)
Other operating income	7	204 377	449 891
Other operating expense	8	(50 913)	(42 523)
Other interest and similar income:	9	883 855	995
• other companies		*883 855*	*995*
Interest and similar expense:	10	(949 208)	(816 379)
• other parties		*(949 208)*	*(816 379)*
Profit or loss before the Corporate income tax		**677 073**	**298 721**
Corporate income tax for the reporting year		(2 805)	(4 118)
Net profit for the reporting year		**674 268**	**294 603**

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

Gints Vanags
Member of the Board

Anželika Dārziņa
Chief accountant

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

Consolidated balance sheet

ASSETS

	Notes	31.12.2023. EUR	31.12.2022. EUR
NON-CURRENT ASSETS			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights		112 104	-
Intangible assets under development		5 074	86 378
TOTAL	12	**117 178**	**86 378**
Property, plant and equipment			
Leasehold improvements		78 118	61 002
Other fixed assets and equipment		6 788 066	7 418 607
TOTAL	13	**6 866 184**	**7 479 609**
Long term financial investment			
Next period expenses	18	113 886	-
TOTAL		**113 886**	**-**
TOTAL NON-CURRENT ASSETS		**7 097 248**	**7 565 987**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		350 404	350 494
Finished goods and goods for sale		820 704	407 828
Prepayments for inventories		45 169	50 330
TOTAL	15	**1 216 277**	**808 652**
Receivables			
Trade receivables	16	1 173 049	1 008 242
Other receivables	17	22 004	28 589
Other securities and investments	14	2 000	2 000
Prepaid expense	18	143 800	49 524
Accrued income		62 610	3 956
TOTAL		**1 403 463**	**1 092 311**
Cash	19	306 262	291 150
TOTAL CURRENT ASSETS		**2 926 002**	**2 192 113**
TOTAL ASSETS		**10 023 250**	**9 758 100**

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

Gints Vanags Member of the Board	Anželika Dārziņa Chief accountant

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

Consolidated balance sheet

EQUITY AND LIABILITIES

	Notes	31.12.2023. EUR	31.12.2022. EUR
EQUITY			
Share capital	20	49 020	49 020
Share premium	20	980 980	980 980
Revaluation reserves for long term investments	13	715 020	787 616
Reserves:			
• foreign currency revaluation reserve		18 305	20 568
Accumulated loss		(1 674 069)	(1 968 672)
Profit for the reporting year		674 268	294 603
TOTAL EQUITY		**763 524**	**164 115**
LIABILITIES			
Non-current liabilities			
Bond-secured loans	21	4 500 000	-
Other liabilities	23	1 166 713	1 995 660
Payables to related companies	22	601 487	-
TOTAL		**6 268 200**	**1 995 660**
Current liabilities			
Bond-secured loans	21	-	5 200 000
Other loans	23	988 378	551 242
Prepayments received from customers		32 749	61 549
Trade payables		1 349 230	649 072
Payables to related companies	22	10 460	657 856
Taxes payable	24	290 380	163 634
Other liabilities	25	114 068	115 747
Deferred income		9 500	16 602
Accrued liabilities	26	196 761	182 623
TOTAL		**2 991 526**	**7 598 325**
TOTAL LIABILITIES		**9 259 726**	**9 593 985**
TOTAL EQUITY AND LIABILITIES		**10 023 250**	**9 758 100**

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

Gints Vanags
Member of the Board

Anželika Dārziņa
Chief accountant

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

Consolidated statement of cash flows

	2023 EUR	2022 EUR
Cash flows to/ from operating activities		
Profit or loss before corporate income tax	677 073	298 721
Adjustments for:		
Depreciation and impairment of property, plant and equipment	731 506	702 144
Amortization and impairment of intangible assets	22 421	-
Gain or loss from fluctuations of currency exchange rates	(2 263)	25
Gain or loss from disposal of property, plant and equipment	(134 092)	(169 902)
Other interest and similar income	(452)	(995)
Proceeds from the reduction of financial liabilities	(883 403)	-
Interest and similar expense	949 208	816 379
Profit or loss before adjustments for the effect of changes in current assets and current liabilities	**1 359 998**	**1 646 372**
• (increase) or decrease in receivables	(373 037)	39 688
• (increase) or decrease in inventories	(407 625)	(30 398)
• increase or (decrease) in trade and other payables	758 865	171 238
Cash generated from operations	**1 338 201**	**1 826 900**
Corporate income tax paid	(4 118)	-
Net cash flows to/ from operating activities	**1 334 083**	**1 826 900**
Cash flows to/ from investing activities		
Purchase of property, plant and equipment and intangible assets	(208 680)	(540 657)
Proceeds from sale of property, plant and equipment and intangible assets	291 162	460 380
Loans repaid	-	20 000
Interest received	452	995
Net cash flows to/ from investing activities	**82 934**	**(59 282)**
Cash flows to/ from financing activities		
Expenditure on interest payments	(817 805)	(1 129 943)
Redemption of bonds	(4 500 000)	-
Issue of bonds	4 500 000	-
Expenditure on fixed assets acquired under finance leases	(584 100)	(770 712)
Net cash flows to/ from financing activities	**(1 401 905)**	**(1 900 655)**
Net cash flow for the year	**15 112**	**(133 037)**
Cash and cash equivalents at the beginning of the year	291 150	424 187
Cash and cash equivalents at the end of the year	**306 262**	**291 150**

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
01.01.2022	**49 020**	**980 980**	**709 585**	**20 543**	**(1 857 886)**	**(110 786)**	**(208 544)**
Revaluation of property, plant and equipment	-	-	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**
Revaluation of property, plant and equipment, net	-	-	(72 596)	-	-	-	(72 596)
Profit carried forward	-	-	-	-	294 603	(294 603)	-
Profit for year 2023	-	-	-	-	-	674 268	674 268
Foreign currency revaluation	-	-	-	(2 263)	-	-	(2 263)
31.12.2023	**49 020**	**980 980**	**715 020**	**18 305**	**(1 674 069)**	**674 268**	**763 524**

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.

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.

Principles of consolidation

The consolidated financial statements have been prepared using the 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.

Going concern

In accordance with management's assessment, as described in the notes below, the financial statements have been prepared on a going concern basis.
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 2024 and a cash flow forecast for 2024, projecting positive operating cash flows. 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 2024. 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 (SIA Arsenal Industrial, UAB Arsenal Industrial, OU Arsenal Industrial) demonstrate that the Group’s liquidity will be improved 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 2023 are insignificant. Since all significant liabilities against the Polish subsidiary have been accrued in doubtful receivables costs, no additional losses are expected in the case of liquidation;
- The management of the Group will evaluate the operation of the Estonian subsidiary, controlling the cost base to achieve positive performance results;
- successful and supportive cooperation with long-term suppliers;
- on December 31, 2023, and after the end of the reporting year, certain financial indicators specified in the contract have not been achieved. According to the bond contract, the inconsistency must be prevented within 90 days. The management of the Group plans to increase the equity of SIA Arsenal Industrial in order to ensure the fulfilment of the bond covenants. The management of the Group is convinced that the procedures to be taken will ensure the cure of the covenants breached, ensuring the further availability of funding within the terms set in the bond contract and without significant additional funding costs.

Considering the above, the Group's management believes that there are all grounds for preparing the financial statements on a going concern basis.

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

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.

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

Property, plant and equipment

Initially, the Group records fixed assets at purchase value. At the end of each reporting year, equipment, hangars and vehicles are revalued at market value, the increase in value being recognized in the revaluation reserve in the balance sheet. A decrease in value is recognized if it does not exceed the previously recognized increase in value, which is included in the revaluation reserve. Impairment is recognized in the statement of profit and loss only if it is considered a significant indicator in the context of the financial statements.

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 Group 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. The categories of fixed assets to which scrap values are applied are regularly reviewed and supplemented.

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.

Property, plant and equipment are accounted at its initial or revaluated 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%*

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. The depreciation value calculated from the revaluation reserve for the revalued part of fixed assets is included in the statement of profit or loss of each reporting year as a value reducing the total depreciation.

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 value exceeds the estimated recoverable amount, the asset is written down to its 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. Impairment losses are recognized in the statement of profit or loss 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 balance sheet value and the written off part of revaluation reserve) is recognized in the statement of profit or loss in the period when the asset is derecognized.

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

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.

Costs of creating fixed assets and unfinished construction objects are accounted for an initial value. The initial value includes construction costs and other direct costs. Depreciation is not calculated for work-in-progress until the relevant assets are completed and placed in service.

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 labour 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.

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.

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.

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.

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

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%.

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		2023	2022
Renting and re-renting of equipment		5 544 100	5 575 469
Sale of goods		4 347 713	2 415 811
Maintenance services		650 643	579 154
Transportation and delivery services		609 206	584 683
	TOTAL:	**11 151 662**	**9 155 117**

4. Cost of sales

	2023	2022
Cost of goods and materials	3 612 417	1 949 651
Rent expense	1 352 535	1 694 806
Depreciation	913 713	867 329
Reduction of the revaluation reserve for the part of the revalued fixed assets depreciation	(159 786)	(165 185)
Staff costs	935 659	786 499
Repairs and maintenance costs	673 310	626 163
Rental space maintenance costs	391 676	371 048
Decrease in inventories	118 461	109 921
Transportation and assembly costs	532 749	362 316
TOTAL:	**8 370 734**	**6 602 548**

5. Distribution costs

	2023	2022
Staff costs	1 008 313	840 349
Provisions for doubtful receivables	101 313	123 295
Transportation expenses	89 244	62 033
Advertising and marketing	53 973	38 743
Other distribution costs	36 253	27 921
TOTAL:	**1 289 096**	**1 092 341**

6. Administrative expense

	2023	2022
Staff costs	520 094	482 285
Transportation expenses	111 500	92 234
Software maintenance	148 697	74 495
Consulting	29 825	22 448
Communications	12 393	10 816
Bank fees	9 039	9 872
Office expense	7 427	9 434
Business trips	14 374	14 834
Other administrative expense	49 521	37 073
TOTAL:	**902 870**	**753 491**

7. Other operating income

	2023	2023
Gain on disposal of property, plant and equipment, net (see notes 27)	134 092	188 402
Gain on compensation for property, plant and equipment and inventory	26 962	70 932
Proceeds from reduction of accrued liabilities	1 092	3 761
Insurance compensation	17 231	180 650
Other operating income	25 000	6 146
TOTAL:	**204 377**	**449 891**

8. Other operating expense

		2023	2022
Loss from liquidation of property, plant and equipment		17 223	18 500
Administrative expense		17 205	12 859
Penalties paid		99	640
Loss from currency rate fluctuations, net		2 209	2 003
Other operating expense		14 177	8 521
	TOTAL:	**50 913**	**42 523**

9. Other interest and similar income

		2023	2022
Proceeds from the reduction of bonds (see notes 21)		780 000	-
Proceeds from the reduction of loans (see notes 22)		103 403	-
Proceeds from short-term loans and receivables		-	995
Interest income		452	-
	TOTAL:	**883 855**	**995**

10. Interest and similar expense

		2023	2022
Financing costs		52 000	-
Loan interest payments		897 208	816 379
	TOTAL:	**949 208**	**816 379**

11. Staff costs and number of employees

		2023	2022
Wages and salaries		2 041 464	1 734 348
Statutory social insurance contributions		396 657	371 390
	TOTAL:	**2 438 121**	**2 105 738**
Average number of employees during the reporting year		**75**	**67**

12. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	**Intangible assets under development**	**Intangible assets total**
Initial value	**EUR**	**EUR**	**EUR**
31.12.2022.	15 800	86 378	102 178
Purchased	-	53 221	53 221
Reclassified	134 525	(134 525)	-
31.12.2023.	**150 325**	**5 074**	**155 399**
Amortization			
31.12.2022.	15 800	-	15 800
Calculated	22 421	-	22 421
31.12.2023.	**38 221**	**-**	**38 221**
Residual balance sheet value 31.12.2022.	**-**	**86 378**	**86 378**
Residual balance sheet value 31.12.2023.	**112 104**	**5 074**	**117 178**

In the development of intangible assets, in addition to the costs of purchasing software and its adaptations, the costs of remuneration of the Company's employees are capitalized in the amount of EUR 22,695.

13. Property, plant and equipment

	Other fixed assets and inventory	Leasehold improvements	Total
	EUR	EUR	EUR
Initial/revaluated value 31.12.2022.	**11 617 346**	**134 224**	**11 751 570**
Purchased	295 975	51 773	347 748
Revaluated	122 330	-	122 330
Written off	(607 692)	-	(607 692)
Excluded reserve	(56 546)	-	(56 546)
31.12.2023.	**11 371 413**	**185 997**	**11 557 410**
Depreciation 31.12.2022.	**4 198 739**	**73 222**	**4 271 961**
Calculated	696 849	34 657	731 506
Calculated for reserve	159 786	-	159 786
For written off	(450 471)	-	(450 471)
For written off reserve	(21 556)	-	(21 556)
31.12.2023.	**4 583 347**	**107 879**	**4 691 226**
Residual balance sheet value			
31.12.2022.	**7 418 607**	**61 002**	**7 479 609**
31.12.2023.	**6 788 066**	**78 118**	**6 866 184**

The revaluation was performed by an independent expert SIA "Pro Motion." The valuation for the year 2023 was prepared on December 22, 2023. Based on the market values of property, plant and equipment indicated in the valuation, 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 715 020 (in 2022 EUR 787 616), recognizing the increase in equity under "Revaluation reserve".

The balance sheet value of Other fixed assets and inventory on December 31, 2023, without revaluation would be EUR 6 073 045.

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 98 thousand. The adjustments have not been made because it is not considered material in the context of the financial statements.

Changes in revaluation reserves in 2023

Revaluation reserve 31.12.2022	**787 616**
Write-off of revalued assets depreciation	(159 786)
Write-off of the remaining part of the revaluation of the sold revalued fixed assets	(29 727)
Write-off of the remaining part of the revaluation of excluded revalued fixed assets	(5 413)
Increase in accordance with revaluation made in 2023	122 330
Revaluation reserve 31.12.2023	**715 020**

Pledges and other property encumbrances

All the Group's property, plant and equipment are pledged. See note 21.

On December 31, 2023, property, plant and equipment with a total balance sheet value of EUR 2 112 094 were handed out in rent and was located at the Group's customers.

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 3 180 578 (in 2022 EUR 3 269 056), 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.

14. Securities and other investments

	31.12.2023.	31.12.2022.
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.

15. Inventories

	31.12.2023.	31.12.2022.
Materials, inventory, spare parts	350 404	350 494
Goods for sale	820 704	407 828
Prepayments for inventories	45 169	50 330
TOTAL:	**1 216 277**	**808 652**

All the Group's inventories are pledged as an aggregate property as at the time of pledging, including any future parts thereof. See note 21.

16. Trade receivables

	31.12.2023.	31.12.2022.
Trade receivables	1 666 765	1 436 221
Provisions for doubtful receivables	(493 716)	(427 979)
TOTAL:	**1 173 049**	**1 008 242**

Trade receivables are non-interest bearing.

17. Other receivables

	31.12.2023.	31.12.2022.
Tax overpaid	6 974	6 669
Advances to employees	3 527	425
Other receivables	-	7 035
Deposits paid	11 503	14 460
TOTAL:	**22 004**	**28 589**

18. Prepaid expense

Long term:		31.12.2023.	31.12.2022.
Prepaid expenses related to fundraising (not exceeding 5 years)*	EUR	113 886	-
TOTAL long term prepaid expense:*		**113 886**	**-**

Short term:		31.12.2023.	31.12.2022.
Prepaid expenses related to fundraising *	EUR	80 390	-
Insurance	EUR	54 533	45 487
Other prepaid expense	EUR	8 877	4 037
TOTAL short term prepaid expense:		**143 800**	**49 524**
TOTAL prepaid expense:		**257 686**	**49 524**

* See note 21.

19. Cash

	31.12.2023.	31.12.2022.
Cash at bank	300 089	279 071
Cash on hand	6 173	12 079
TOTAL:	**306 262**	**291 150**

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 relation 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 to any pledges for shares of the Group's share capital to be acquired in the future by the pledger. 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	31.12.2023.	31.12.2022.
Loan from Signet Bank AS	EUR	31.05.2026.	4 500 000	-
	Long term bond-secured loan in total:		**4 500 000**	**-**
Short term:				
Loan from Noble Fund Mezzanine FIZ AN	EUR	29.12.2023.	-	5 200 000
	Short term bond-secured loan in total:		**-**	**5 200 000**
	TOTAL bond-secured loan:		**4 500 000**	**5 200 000**

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 was EUR 5.2 million. The fixed interest rate was 12% in 2023. Interest payments were made monthly. Interest expenses in the amount of EUR 624 784 was paid in 2023.

In 2023, the Group refinanced all its obligations with Noble Fund Mezzanine Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych against new bonds initially purchased by 34 bondholders (legal and private persons). Signet Bank AS acted as the organizer of the bond issue. The nominal value of the bonds is EUR 4.5 million (4,500 bonds with a nominal value of EUR 1,000 per bond). Fixed annual interest rate of 12%. Interest payments are made every month. Capitalized interest costs of EUR 45,000 have been paid in 2023. As a result of the refinancing, the claim for bond-secured loan was reduced by EUR 780,000 (see note 9). The costs related to the refinancing in the amount of EUR 194 thousand are included in the expenses of future periods and will be written off linearly during the repayment period of the bonds (see note 18).

The bonds are secured by commercial pledges. The pledgers - the Group and the majority shareholder of the Group. Pledgee until 12.2023 - Noble Fund Mezzanine Fundusz Inwestycyjny Zamknięty Aktywów Niepublicnychnyh (Registration number RFI 1030). Pledgee from 12.2023. - ZAB VILGERTS, SIA (Registration number 40203309933) as a representative of bondholders. The maximum claim amount is EUR 5,670,000.

Pledged property: the aggregate property of the commercial pledger as at the time of pledging, including any future parts thereof. 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 note 28, section c) on the fulfilment status of the financial covenants specified in the bond contract.

22. Payables to related companies

		Maturity	31.12.2023.	31.12.2022.
Loan from FlyCap Investment Fund, long term	EUR	31.05.2026.	601 487	-
Loan from FlyCap Investment Fund, short term	EUR		-	644 957
Accounts Payable - Tehnikas brigāde SIA	EUR		10 460	12 899
		TOTAL payables to related companies:	**611 947**	**657 856**

In 2023, an agreement for the reduction of the loan (see note 9) and on the extension of the loan until May 31, 2026 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	31.12.2023.	31.12.2022.
Loans from suppliers (lease)	EUR	by 2025	1 177 759	2 084 848
Future interest payments	EUR		(53 437)	(148 932)
Leasing loan - Citadele Leasing SIA	EUR	by 2027	42 391	59 744
		TOTAL long term other loans:	**1 166 713**	**1 995 660**
Short term:				
Loans from suppliers (lease)	EUR		1 092 789	698 830
Future interest payments	EUR		(121 764)	(164 811)
Leasing loan - Citadele Leasing SIA	EUR		17 353	17 222
		TOTAL short term other loans:	**988 378**	**551 241**
		TOTAL other loans:	**2 155 091**	**2 546 901**

See information in note 13 on the moment of transfer of ownership.

24. Taxes payable

	31.12.2023.	31.12.2022.
Value added tax	176 500	63 580
Statutory social insurance contributions	65 328	58 041
Personal income tax	42 303	34 031
Company car tax	1 421	1 674
Corporate income tax	2 805	4 118
Natural resource tax	713	704
Risk duty	1 310	1 486
TOTAL:	**290 380**	**163 634**

25. Other liabilities

	31.12.2023.	31.12.2022.
Wages and salaries	104 816	92 582
Security deposits	8 568	17 379
Payables to employees	-	1 115
Other liabilities	684	4 671
TOTAL:	**114 068**	**115 747**

26. Accrued liabilities

		31.12.2023.	31.12.2022.
Vacation pay reserve		138 250	115 831
Provisions for staff bonuses		-	28 692
Accrued interest on bond-secured loans		41 440	17 808
Other accrued liabilities		17 071	20 292
	TOTAL:	**196 761**	**182 623**

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

	Balance sheet value	Proceeds from disposal	Excluded revaluation reserve	Gain or loss on disposal of an item
Rental equipment	(178 976)	279 874	29 727	130 625
Inventory	(3 038)	6 505	-	3 467
TOTAL:	**(182 014)**	**286 379**	**29 727**	**134 092**

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 2023 was 204 045 EUR (2022: 172 945 EUR).

(b) Pledges

The Group's assets are pledged as collateral for the financing received. Please see notes 13, 15, 20 and 21.

(c) Fulfilment of financial covenants related to bond financing

The bond contract determines the obligation to meet specific financial covenants. Financial covenants are calculated using the Group's consolidated financial data. If some of the financial covenants are breached, then the bondholders have the right to announce the event of default (to be submitted in writing). If at least 10% of bondholders do so and the bond issuer confirms the event of default, the bond issuer shall pay all bondholders the nominal value of bonds along with the accrued coupon interest and contractual penalty. The breach of the financial covenants may be cured by increase of the equity within 90 days after the publication of the quarterly report, or by agreeing with the bondholders amendments to financial covenants. According to the data of the consolidated annual report of the Group, as at 31 December 2023, certain financial covenants specified in the bond emission contract are breached and the management of the Group together with the shareholders takes measures to ensure that the required cure is taken within the specified deadlines.

29. Events after the balance sheet date

The management of the Group takes measures to ensure the fulfilment of the financial covenants of the bond issue. The management of the Group has received confirmation from the shareholders that they continue to work to prevent the breach of the covenants, which can be done in several ways, either by increasing the equity or by amending the covenant requirements specified in the bond contract. The management of the Group is confident that this issue will be resolved within the term specified in the bond contract.

There have been no other 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, 2023.

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.

POTAPOVIČA
ANDERSONE

Ūdens iela 12-45, Rīga, LV-1007, Latvija
T. +371 67607902, www.p-a.lv

Independent Auditor's Report
(Translation from Latvian)

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 2023,
- 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 2023, 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

As described in Notes 28 and 29 of the financial statements, the bond emission contract determines the obligation to ensure specific financial covenants. Financial covenants are calculated using the Group's consolidated financial data. If any of the financial covenants are not met, then the bondholders have the right to submit a written application on the occurrence of the event of default. If at least 10% of bondholders exercise this right and the bond issuer declares the occurrence of the event of default, the bond issuer shall pay all bondholders the nominal value of bonds along with the accrued coupon interest and contractual penalty. The breach of the financial covenants may be cured by increasing equity before or within 90 days after the publication of the quarterly report, or by agreeing with the bondholders amendments to financial covenants. According to the data of the consolidated annual report of the Group, as at 31 December 2023, certain financial covenants specified in the bond emission contract are breached and while the management of the Group together with the shareholders takes measures to ensure that the required cure is taken within the specified deadlines (i.e., by 30.05.2024), there is a material uncertainty of the ability of the Group to continue as a going concern, if the covenant's breach is not cured and at least 10% of the bondholders decide to exercise their right to announce the event of default.

Our opinion is not modified in respect of this matter.

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