

**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**



* 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	3
Consolidated management report	4
Consolidated statement of profit or loss	6
Consolidated balance sheet	7
Consolidated statement of cash flows	9
Consolidated statement of changes in equity	10
Notes to the consolidated financial statements	11
Independent auditors' report	24

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 until 07.06.2024 Eva Miķelsone, Deputy Chairman of the Council since 07.06.2024 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. Marszałkowska, nr 111, lok., miejsc. Warszawa, 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 Group, whose parent company is SIA "Arsenal Industrial" (hereinafter – the “Company”, together with its subsidiaries – the “Group”), is primarily engaged in the rental and sale of construction equipment and tools.

The Group's objective is to provide high-quality products and services. To be an efficient group of companies that listens to client needs and offers appropriate solutions. To improve its operations to meet current and future demands. To be reliable business partners by ensuring quality customer service, building relationships with local entrepreneurs, and continuing to invest in the Group's infrastructure. The Group's strategic goal is to become the market leader in construction equipment rental and sales in major cities of Latvia and the Baltics. No active operations are currently being pursued in Poland.

Operations in the reporting year

The Group's total net turnover for 2024 amounted to EUR 10 798 807. Compared to 2023, this represents a decrease of 3.2%. The decline was mainly driven by changes in the strategy of Arsenal Industrial OU – in 2024, a decision was made to focus on the sales segment and reduce the volume of rentals. Additionally, extra resources were allocated to transfer rental equipment from Arsenal Industrial OU to Arsenal Industrial SIA and Arsenal Industrial UAB, which caused a temporary reduction in turnover during the transition. Nevertheless, rental turnover in Latvia and Lithuania combined grew by 9.2% in 2024 compared to 2023. Meanwhile, sales turnover within the Group increased by 9.5% in 2024 compared to 2023, confirming a successful strategic focus on this segment.

The Group ended the reporting year with a loss of EUR 399,887. Compared to 2023, this is a decrease of EUR 1,074,155. This result is mainly due to a refinancing transaction carried out in the previous year, which reduced liabilities related to loans and accrued interest, thereby increasing the profit in 2023. Additional negative impact also resulted from the aforementioned changes in Arsenal Industrial OU's operational strategy.

As of 31 December 2024, the Group had a positive equity of EUR 985 thousand. At the end of the reporting period, the Group's current liabilities exceeded current assets by EUR 315 thousand.

In October 2024, a bondholders' meeting was convened during which amendments to the general terms of the bonds (covenants) were presented and approved. Bondholders representing 76% of the total bond volume participated in the vote, and all voted in favor of the amendments.

Prospects and further development

The Group's main objective is to provide quality service and supply customers with the necessary equipment and tools. The Group plans its development in accordance with market trends and is constantly seeking innovative solutions to improve and grow its operations.

Group management has prepared the budget and cash flow forecast for 2025, anticipating a positive operating cash flow. Based on these forecasts, the Group will have sufficient funds to ensure its continued operations and growth in 2025. The Group plans to invest EUR 2 million in new rental equipment and inventory, strengthening its market position and expanding service capacity. It is projected that the Group's EBITDA in 2025 will reach EUR 1.8 million.

Group management believes it will be able to secure sufficient cash resources to continue its operations, considering the following factors:

- Current business trends indicate that the liquidity of the Group's consolidated entities will have improved compared to the previous year;
- The Group will evaluate the future operations or liquidation of the subsidiary Arsenal Industrial SP.z.o.o., whose results in 2023 were insignificant. As all significant claims against the subsidiary have been provisioned, no additional losses are expected in the event of liquidation;
- The Group will also evaluate the future operational prospects of its Estonian subsidiary, Arsenal Industrial OU. In 2024, to improve the Group's operational efficiency, the operations of the Estonian subsidiary were reduced, and all long-term assets were either sold or transferred to the parent company's ownership.
- The Group complies with the financial covenants set out in the bond issuance terms. As of 31 December 2024 and after the reporting period, all contractual financial covenants have been met;
- Successful and supportive cooperation with long-term suppliers.

Considering the above, Group management believes that the 2024 financial statements have been justifiably prepared on a going concern basis. See also the “Going Concern” section in Appendix 2 of the financial statements.

Consolidated management report (cont'd)

The Group will continue to invest in new equipment and tools, expanding its client base and market share while continuously monitoring the situation in Latvia and globally, as well as the demand for the Group's services. With inflation gradually decreasing and the launch of new EU funding programs, the construction sector is expected to return to positive growth trends, increasing demand for the Group's services.

Exposure to risks

The Group's most significant financial instrument is the issue of registered bonds and a loan from a shareholder. The primary purpose of this financial instrument is to provide funding for the Group's business activities, specifically the acquisition of rental construction equipment, to offer clients modern and high-quality equipment, tools, rental, and sales services. The Group is also exposed to several other financial instruments such as trade receivables, other debtors, liabilities to suppliers and contractors, and other creditors, which arise directly from its business activities. The Group regularly monitors financial risks to minimize their adverse impact on the Group's financial position.

Market risk

Market risk arises when assets include instruments affected by market price fluctuations (fixed assets: construction rental equipment). To reduce market risk, the Group continuously studies the market, monitors market trends and competitor activities (price fluctuations, changes in demand and supply), and reviews sales prices.

Credit risk

The Group is exposed to credit risk in relation to trade receivables and cash and cash equivalents. The Group manages its credit risk by continuously assessing customer repayment history and setting payment terms individually. Additionally, the Group continuously monitors debtor balances to reduce the likelihood of bad debts.

Liquidity and cash flow risks

The Group is exposed to liquidity and cash flow risks. The Group ensures careful and deliberate planning of its cash flows to meet current obligations and monitors financial covenant requirements, forecasting compliance in a timely manner and/or taking corrective actions when necessary.

Interest rate risk

The Group is exposed to interest rate risk. To minimize this risk, the Group's management issued bonds with a fixed interest rate. Based on the current agreement with the investment fund, management considers the risk of interest rate changes to be insignificant. However, since the existing financing is raised from non-bank financiers, interest rate stability is ensured through a high fixed interest rate.

Foreign currency risk

Based on the current structure of financial assets and liabilities held in foreign currencies, currency risk is not considered significant.

Events after the end of the reporting year

After the end of the reporting period, the company has acquired additional fixed assets amounting to EUR 1 million, which will contribute to additional turnover and improve the company's financial indicators. In addition, refinancing of fixed assets has been carried out in the total amount of EUR 732 thousand. Further investments in fixed assets of approximately EUR 1 million are planned for 2025. A cooperation agreement has been signed with a new client in Germany, who will be using the company's equipment throughout 2025, generating additional turnover of approximately EUR 200 thousand.

Except for the above, there have been no additional events that would have affected the financial position of the Concern on December 31, 2024 and would have been reflected in the financial report.

Gints Vanags
Member of the Board

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Consolidated statement of profit or loss

	Notes	2024	2023
		EUR	EUR
Net turnover	3	10 798 807	11 151 662
• including from construction services rendered		233 845	246 497
Cost of sales	4	(8 417 056)	(8 370 734)
Gross profit		2 381 751	2 780 928
Distribution costs	5	(1 292 521)	(1 289 096)
Administrative expense	6	(860 855)	(902 870)
Other operating income	7	294 370	204 377
Other operating expense	8	(52 301)	(50 913)
Other interest and similar income:	9	5 864	883 855
• other companies		5 864	883 855
Interest and similar expense:	10	(876 195)	(949 208)
• other parties		(876 195)	(949 208)
Profit or loss before the Corporate income tax		(399 887)	677 073
Corporate income tax for the reporting year		-	(2 805)
Net profit for the reporting year		(399 887)	674 268

Notes on pages 11 to 23 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	31.12.2024 EUR	31.12.2023 EUR
NON-CURRENT ASSETS			
Intangible assets			
Concessions, patents, licenses, trademarks and similar rights		85 199	112 104
Intangible assets under development		5 074	5 074
TOTAL	12	90 273	117 178
Property, plant and equipment			
Other fixed assets and equipment		6 857 250	6 788 066
Leasehold improvements		78 298	78 118
Construction in progress		78 346	-
TOTAL	13	7 013 894	6 866 184
Long term financial investment			
Next period expenses	18	33 496	113 886
TOTAL		33 496	113 886
TOTAL NON-CURRENT ASSETS		7 137 663	7 097 248
CURRENT ASSETS			
Inventories			
Raw materials and consumables		392 027	350 404
Finished goods and goods for sale		2 004 949	820 704
Prepayments for inventories		35 112	45 169
TOTAL	15	2 432 088	1 216 277
Receivables			
Trade receivables	16	1 314 472	1 173 049
Other receivables	17	18 225	22 004
Other securities and investments	14	-	2 000
Prepaid expense	18	140 513	143 800
Accrued income		5 240	62 610
TOTAL		1 478 450	1 403 463
Cash			
	19	275 523	306 262
TOTAL CURRENT ASSETS		4 186 061	2 926 002
TOTAL ASSETS		11 323 724	10 023 250

Notes on pages 11 to 23 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	31.12.2024. EUR	31.12.2023. EUR
EQUITY			
Share capital	20	49 020	49 020
Share premium	20	980 980	980 980
Revaluation reserves for long term investments	13	1 336 235	715 020
Reserves:			
• foreign currency revaluation reserve		18 425	18 305
Accumulated loss		(999 801)	(1 674 069)
Profit for the reporting year		(399 887)	674 268
TOTAL EQUITY		984 972	763 524
LIABILITIES			
Non-current liabilities			
Bond-secured loans	21	4 500 000	4 500 000
Other liabilities	23	625 863	1 166 713
Payables to related companies	22	711 892	601 487
TOTAL		5 837 755	6 268 200
Current liabilities			
Other loans	23	1 226 647	988 378
Prepayments received from customers		15 182	32 749
Trade payables		2 471 346	1 349 230
Payables to related companies	22	126 182	10 460
Taxes payable	24	425 999	290 380
Other liabilities	25	94 524	114 068
Deferred income		800	9 500
Accrued liabilities	26	140 317	196 761
TOTAL		4 500 997	2 991 526
TOTAL LIABILITIES		10 338 752	9 259 726
TOTAL EQUITY AND LIABILITIES		11 323 724	10 023 250

Notes on pages 11 to 23 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

	2024 EUR	2023 EUR
Cash flows to/ from operating activities		
<i>Profit or loss before corporate income tax</i>	(399 887)	677 073
Adjustments for:		
Depreciation and impairment of property, plant and equipment	691 733	731 506
Amortization and impairment of intangible assets	26 905	22 421
Gain or loss from fluctuations of currency exchange rates	121	(2 263)
Gain or loss from disposal of property, plant and equipment	(153 323)	(134 092)
Other interest and similar income	(5 864)	(452)
Proceeds from the reduction of financial liabilities	-	(883 403)
Interest and similar expense	876 195	949 208
<i>Profit or loss before adjustments for the effect of changes in current assets and current liabilities</i>	1 035 880	1 359 998
• (increase) or decrease in receivables	5 402	(373 037)
• (increase) or decrease in inventories	(1 215 810)	(407 625)
• increase or (decrease) in trade and other payables	1 134 665	758 865
<i>Cash generated from operations</i>	960 137	1 338 201
Corporate income tax paid	-	(4 118)
Net cash flows to/ from operating activities	960 137	1 334 083
Cash flows to/ from investing activities		
Purchase of property, plant and equipment and intangible assets	(200 560)	(208 680)
Proceeds from sale of property, plant and equipment and intangible assets	350 152	291 162
Interest received	5 864	452
Net cash flows to/ from investing activities	155 456	82 934
Cash flows to/ from financing activities		
Expenditure on interest payments	(739 658)	(817 805)
Redemption of bonds	-	(4 500 000)
Issue of bonds	-	4 500 000
Expenditure on fixed assets acquired under finance leases	(1 205 996)	(584 100)
Expenditure on loan repayments	799 322	-
Net cash flows to/ from financing activities	(1 146 332)	(1 401 905)
Net cash flow for the year	(30 739)	15 112
Cash and cash equivalents at the beginning of the year	306 262	291 150
Cash and cash equivalents at the end of the year	275 523	306 262

Notes on pages 11 to 23 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
01.01.2023	49 020	980 980	787 616	20 568	(1968 672)	(294 603)	164 115
Revaluation of property, plant and equipment, net	-	-	(72 596)	-	-	-	(72 596)
Loss 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
Revaluation of property, plant and equipment, net	-	-	621 215	-	-	-	621 215
Profit carried forward	-	-	-	-	674 268	(674 268)	-
Loss for year 2024	-	-	-	-	-	(399 887)	(399 887)
Foreign currency revaluation	-	-	-	120	-	-	120
31.12.2024	49 020	980 980	1 336 235	18 425	(999 801)	(399 887)	984 972

Notes on pages 11 to 23 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 not 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.

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.

On December 31, 2024, the Group's short-term liabilities exceed short-term assets by EUR 314 936, and the net result are losses in the amount of EUR 399 887.

The Group's management has drawn up a budget for year 2025 and a cash flow forecast for 2025, 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 2025. 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 2024 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;
- The Group will also evaluate the future operational prospects of its Estonian subsidiary, Arsenal Industrial OU. In 2024, to improve the Group's operational efficiency, the operations of the Estonian subsidiary were reduced, and all long-term assets were either sold or transferred to the parent company's ownership.
- The Group complies with the financial covenants set out in the bond issuance terms. As of 31 December 2024 and after the reporting period, all contractual financial covenants have been met.

successful and supportive cooperation with long-term suppliers.

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

In view of the above, the Group's management believes that there are all grounds for preparing the financial statements for the year 2023 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. 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.

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 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%*

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.

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

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 costs of creating fixed assets and unfinished construction objects are accounted for at 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.

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.

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.

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.

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)***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.

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.

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 2024 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	2024	2023
Renting and re-renting of equipment	4 902 343	5 544 100
Sale of goods	4 783 641	4 347 713
Maintenance services	340 573	404 146
Revenue from construction services	233 845	246 497
Transportation and delivery services	538 405	609 206
TOTAL:	10 798 807	11 151 662

4. Cost of sales

	2024	2023
Cost of goods and materials	3 906 408	3 612 417
Rent expense	1 433 096	1 352 535
Depreciation	1 133 926	913 713
Reduction of the revaluation reserve for the part of the revalued fixed assets depreciation	(415 222)	(159 786)
Staff costs	907 869	935 659
Repairs and maintenance costs	558 710	673 310
Rental space maintenance costs	350 160	391 676
Decrease in inventories	115 522	118 461
Transportation and assembly costs	428 614	532 749
TOTAL:	8 417 056	8 370 734

5. Distribution costs

	2024	2023
Staff costs	1 002 630	1 008 313
Provisions for doubtful receivables	110 336	101 313
Transportation expenses	90 509	89 244
Advertising and marketing	57 714	53 973
Other distribution costs	31 332	36 253
TOTAL:	1 292 521	1 289 096

6. Administrative expense

	2024	2023
Staff costs	473 480	520 094
Transportation expenses	112 653	111 500
Software maintenance	149 626	148 697
Consulting	26 916	29 825
Communications	10 386	12 393
Bank fees	17 259	9 039
Office expense	5 858	7 427
Business trips	8 910	14 374
Other administrative expense	55 767	49 521
TOTAL:	860 855	902 870

7. Other operating income

	2024	2023
Gain on disposal of property, plant and equipment, net (see notes 27)	170 817	134 092
Gain on compensation for property, plant and equipment and inventory	33 012	26 962
Proceeds from reduction of accrued liabilities	712	1 092
Insurance compensation	14 248	17 231
Other operating income	75 581	25 000
TOTAL:	294 370	204 377

8. Other operating expense

	2024	2023
Loss from liquidation of property, plant and equipment, net	15 400	17 223
Administrative expense	17 571	17 205
Penalties paid	7 985	99
Loss from currency rate fluctuations, net	2 245	2 209
Other operating expense	9 100	14 177
TOTAL:	52 301	50 913

9. Other interest and similar income

	2024	2023
Proceeds from the reduction of bonds (see notes 21)	-	780 000
Proceeds from the reduction of loans (see notes 22)	-	103 403
Interest income	5 864	452
TOTAL:	5 864	883 855

10. Interest and similar expense

	2024	2023
Financing costs	80 390	52 000
Loan interest payments	795 805	897 208
TOTAL:	876 195	949 208

11. Staff costs and number of employees

	2024	2023
Wages and salaries	2 047 502	2 041 464
Statutory social insurance contributions	349 476	396 657
TOTAL:	2 396 978	2 438 121
Average number of employees during the reporting year	71	75

12. Intangible assets

	Concessions, patents, licenses, trademarks and similar rights	Intangible assets under development	Intangible assets total
Initial value	EUR	EUR	EUR
31.12.2023.	150 325	5 074	155 399
31.12.2024.	150 325	5 074	155 399
Amortization			
31.12.2023	38 221	-	38 221
Calculated	26 905	-	26 905
31.12.2024.	65 126	-	65 126
Residual balance sheet value 31.12.2023.	112 104	5 074	117 178
Residual balance sheet value 31.12.2024.	85 199	5 074	90 273

13. Property, plant and equipment

	Other fixed assets and inventory	Leasehold improvements	Creation of Fixed Assets	Total
	EUR	EUR	EUR	EUR
Initial/revaluated value 31.12.2023.	11 371 413	185 997	-	11 557 410
Purchased	295 431	41 280	78 346	415 058
Revaluated	1 186 115	-	-	1 186 115
Written off	(1 229 623)	(81 032)	-	(802 868)
Excluded reserve	(278 737)	-	-	(278 737)
31.12.2024.	11 852 386	146 245	78 346	12 076 978
Depreciation 31.12.2023.	4 583 347	107 879	-	4 691 226
Calculated	656 693	41 101	-	691 799
Calculated for reserve	415 222	-	-	415 222
For written off	(525 073)	(81 032)	-	(606 105)
For written off reserve	(129 058)	-	-	(129 058)
31.12.2024.	4 995 136	67 948	-	5 063 084
Residual balance sheet value				
31.12.2023.	6 788 066	78 118	-	6 866 184
31.12.2024.	6 857 250	78 297	78 346	7 013 894

The revaluation was carried out by an independent expert, SIA “JUREAL”. For the year 2024, the valuation was prepared on March 31, 2024, based on the fair values of fixed assets stated in the valuation. A different valuation basis was also used in 2024 - the 2023 valuation was based on determining the market value of fixed assets, while in 2024, replacement cost values were used. If the same valuation method had been used in December 2023, the carrying amount of fixed assets as of December 31, 2023, would have been EUR 600 thousand higher. The company's management believes that the change in valuation method more appropriately reflects the fair values of the fixed assets.

The Group has recognized the difference between the carrying amount of a specific group of fixed assets without revaluation and their market value in the amount of EUR 1 336 235 (as of 31.12.2023: EUR 715 020), presenting this difference in the revaluation reserve within equity.

The carrying amount of other fixed asset and inventory categories as of 31.12.2024, if revaluation had not been performed, would have been EUR 5 521 015 (as of 31.12.2023: EUR 6 073 045).

According to the expert's valuation of leased equipment, a value decrease should be recognized for certain fixed assets, totalling EUR 36 thousand. This adjustment has not been made, as it is not considered material in the context of the financial statements.

Changes in revaluation reserves in 2024

Revaluation reserve 31.12.2023	715 020
Write-off of revalued assets depreciation	(415 222)
Write-off of the remaining part of the revaluation of the sold revalued fixed assets	(129 058)
Other adjustments	(20 620)
Increase in accordance with revaluation made in 2024	1 186 115
Revaluation reserve 31.12.2024	1 336 235

Pledges and other restrictions on property rights

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

On December 31, 2024, property, plant and equipment with a total balance sheet value of EUR 1 931 488 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 3 086 625 (in 2023 EUR 3 180 578), 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

	31.12.2024.	31.12.2023.
Deposit in bank	-	2 000
TOTAL:	-	2 000

15. Inventories

	31.12.2024.	31.12.2023.
Materials, inventory, spare parts	392 027	350 404
Goods for sale	2 004 949	820 704
Prepayments for inventories	35 112	45 169
TOTAL:	2 432 088	1 216 277

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

	31.12.2024.	31.12.2023.
Trade receivables	1 726 514	1 666 765
Provisions for doubtful receivables	(412 042)	(493 716)
TOTAL:	1 314 472	1 173 049

Trade receivables are non-interest bearing.

17. Other receivables

	31.12.2024.	31.12.2023.
Tax overpaid	7 550	6 974
Advances to employees	48	3 527
Deposits paid	10 627	11 503
TOTAL:	18 225	22 004

18. Prepaid expense

Long term:		31.12.2024.	31.12.2023.
Prepaid expenses related to fundraising (not exceeding 5 years)*	EUR	33 496	113 886
TOTAL long term prepaid expense:*		33 496	113 886
Short term:		31.12.2024.	31.12.2023.
Prepaid expenses related to fundraising *	EUR	83 772	80 390
Insurance	EUR	45 070	54 533
Other prepaid expense	EUR	11 671	8 877
TOTAL short term prepaid expense:		140 513	143 800
TOTAL prepaid expense:		174 009	257 686

* See note 21.

19. Cash

	31.12.2024.	31.12.2023.
Cash at bank	270 117	300 089
Cash on hand	5 406	6 173
TOTAL:	275 523	306 262

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	31.12.2024.	31.12.2023.
Loan from Signet Bank AS	EUR 31.05.2026.	4 500 000	4 500 000
Long term bond-secured loan in total:		4 500 000	4 500 000

The nominal value of the bonds is EUR 4.5 million (4 500 bonds with a nominal value of EUR 1 000 each). The fixed annual interest rate is 12%. Interest payments are made monthly. Refinancing-related costs in the amount of EUR 194 thousand have been included in prepaid expenses and will be amortized on a straight-line basis over the term of the bond repayment (see Annex 18).

As of the end of 2024, there are 47 registered bondholders (legal and natural persons).

In 2024, EUR 540 000 was paid in interest, along with an additional 1% (amounting to EUR 34 290) for voting in the bondholders' meeting, during which amendments to the general bond terms (covenants) were presented and approved. The vote was attended by bondholders representing 76% of the total bond volume, all of whom voted in favor of the amendments.

See section (c) of Annex 28 for the status of compliance with the bond issue covenants.

The bonds are secured by commercial pledges. The pledgors are the Group and the Group's majority shareholder. The commercial pledgee is ZAB VILGERTS, SIA (Registration No. 40203309933), acting as the bondholders' representative. The maximum claim amount is EUR 5 670 000.

Description of the pledged property: all of the pledgor's assets as a whole at the time of pledging, as well as future components of that asset pool.

The pledgee has the right to sell the pledged property without an auction. Repledging of the pledged asset is prohibited.

22. Payables to related companies

long-term*		Maturity	31.12.2024.	31.12.2023.
Loan from FlyCap Investment Fund I AIF*	EUR	31.05.2026.	657 633	601 487
Loan from Tehnikas brigāde SIA	EUR	31.05.2028.	54 259	-
TOTAL long-term loan to related parties:*			711 892	601 487

short-term*			31.12.2024.	31.12.2023.
Loan from Tehnikas brigāde SIA	EUR		22 452	-
Payables to suppliers – Tehnikas brigāde SIA	EUR		103 730	10 460
TOTAL short-term loan to related parties:			126 182	10 460

TOTAL payables to related companies: 838 074 611 947

* The loan from FlyCap Investment Fund is subject to a fixed interest rate, depending on the achievement of specific financial indicators. Interest payments are due simultaneously with the repayment of the principal amount. The loan issued by FlyCap Investment Fund is partially secured by ERDF and Latvian state budget funds, which impose future regulatory restrictions on the borrower regarding the eligibility for other forms of state aid.

The loan issued by SIA Tehnikas brigāde does not bear any interest payments.

23. Other loans

Long term:		Maturity	31.12.2024.	31.12.2023.
Loans from suppliers (lease)	EUR	by 2025	204 422	1 177 759
Future interest payments	EUR		(17 747)	(53 437)
Leasing loan - BigBank AS Latvijas filiāle *	EUR	by 2030	414 284	-
Leasing loan - Citadele Leasing SIA	EUR	by 2027	24 904	42 391
TOTAL long term other loans:			625 863	1 166 713
Short term:				
Loans from suppliers (lease)	EUR	within one year of the balance sheet date	1 000 481	1 092 789
Future interest payments	EUR		(37 436)	(121 764)
Leasing loan - BigBank AS Latvijas filiāle	EUR		246 115	-
Leasing loan - Citadele Leasing SIA	EUR		17 487	17 353
TOTAL short term other loans:			1 226 647	988 378
TOTAL other loans:			1 852 510	2 155 091

* The amount of lease liabilities with a term exceeding 5 years is EUR 733.

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

24. Taxes payable

	31.12.2024.	31.12.2023.
Value added tax	261 922	176 500
Statutory social insurance contributions	96 062	65 328
Personal income tax	65 403	42 303
Company car tax	1 782	1 421
Corporate income tax	-	2 805
Natural resource tax	795	713
Risk duty	35	1 310
TOTAL:	425 999	290 380

As of the end of the reporting year, the Group has been granted four tax payment deferrals totaling EUR 266,295, with the final payment due by December 2025.

25. Other liabilities

	31.12.2024.	31.12.2023.
Wages and salaries	84 420	104 816
Security deposits	7 509	8 568
Payables to employees	1 976	-
Other liabilities	619	684
TOTAL:	94 524	114 068

26. Accrued liabilities

	31.12.2024.	31.12.2023.
Vacation pay reserve	123 884	138 250
Accrued interest on bond-secured loans	-	41 440
Other accrued liabilities	16 433	17 071
TOTAL:	140 317	196 761

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	(346 442)	346 223	120 257	120 038
Computers and Data Storage Devices	-	697	-	697
Vehicles	(58 482)	64 341	25 583	31 422
Inventory	(6 855)	25 495	-	18 640
TOTAL:	(411 779)	436 756	145 840	170 817

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 2024 was 200 130 EUR (2023: 204 045 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 issuance agreement specifies the obligation to meet certain financial indicators. The financial indicators are calculated using the Group's consolidated financial data. If any of the financial indicators are not met, the bondholders have the right to receive an additional fee of 1%. As of December 31, 2024, all specified financial covenants have been complied with.

29. Events after the balance sheet date

After the end of the reporting period, the Concern has purchased additional fixed assets in the amount of EUR 1 million, which will expand the portfolio of assets offered to customers and thus contribute to additional turnover.

The refinancing of fixed assets in the amount of EUR 732 thousand was carried out. The financing previously was provided by the supplier, is now refinanced by the bank.

In 2025, it is planned to make additional investments in fixed assets for approximately EUR 1 million. New trade opportunity has been found with a customer (providing services in Germany) that will use the company's technology throughout 2025, providing an additional turnover of approximately EUR 200 thousand.

In March 2025 Concern revalued its fixed assets, registering increase in value.

Except from the above, there were no other additional events that would affect the financial position of the Concern as of December 31, 2024, until the date of signing the annual report.

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 23.

ELECTRONIC SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTING RELATES TO THE FINANCIAL STATEMENTS ON PAGE 3 AND FROM PAGE 6 TO 23.

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

To the shareholders of SIA ARSENAL INDUSTRIAL

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

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 23 of the accompanying consolidated annual report, which comprise:

- the consolidated balance sheet as at 31 December 2024,
- 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 2024, 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 Note 2 "Summary of Significant Accounting Policies" of the financial statements in section "Going Concern of the Group," the Group's current liabilities exceed its current assets by EUR 314 936, and its net result for the reporting year is a loss of EUR 399 887. The aforementioned note outlines the Group management's considerations regarding the going concern assumption. Primarily, the Group's ability to continue as a going concern depends on achieving the planned turnover and profitability indicators in order to provide an adequate revenue base to cover fixed costs and operate profitably, as well as to generate sufficient cash flows to meet its current obligations. The described circumstances indicate that there is significant uncertainty which may raise substantial doubt on the Group's ability to continue as a going concern in the future, if the targets set are not achieved.

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 to 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.
- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes 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
Board Member

ELECTRONIC SIGNATURE OF THE AUDITOR RELATES TO THE AUDITOR'S REPORT ENCLOSED WITH THE ANNUAL REPORT ON PAGES 24 TO 25

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