

Acme Corporation SIA

Un-audited condensed consolidated
Interim Financial Statements
for the year ended 31 December 2014

ACME CORPORATION SIA
UN-AUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS FOR
THE YEAR ENDED 31 DECEMBER 2014

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REPORT OF THE MANAGEMENT

Acme Corporation SIA (hereinafter - 'the Company' or 'Acme Corporation') and its subsidiaries (hereinafter - 'the Group') invest in the operation and management of rental real estates (offices, retail and land development) in Latvia. As at 31 December 2014 Acme Corporation was the parent for four Latvian registered limited liability companies - Apex Investments SIA (grocery anchored retail real estate), Neatkarīgā patentu aģentūra SIA (office anchored real estate), Tukuma Projekts SIA (DIY anchored retail real estate) and Big Truck SIA (logistic development). As of the date of approval of this report Acme Corporation no longer holds shares of Apex Investments SIA and Tukuma Projekts SIA (see below section 'Sale of investments').

In both office and retail segments rents appear to have stabilized. Delinquent rents are being well managed at the moment by our property manager.

For the year ended 2014 the Latvian statistics service report inflation at 0.6%. Currently all of the Euro Zone is threatened with a deflationary spiral. The European Central Bank (ECB) has started a quantitative easing program of EUR 60 BILLION per month to stimulate economy in Europe, inclusive of Latvia. For the first time in history rates at the short end of the curve have gone negative. The US Federal Reserve as expected ended their QE policy, the borrowing rate remains at a historical low however, the US Fed is anticipated to raise rates during 2015. The rate differential between Europe and the USA has created significant pressure on the Euro to USD exchange rate.

Retail

Property at Vienibas Gatve has now stabilized. All indications are that traffic has increased significantly.

Property at Slokas iela has been re-let to Cita Santehnika. A separate company SIA Slokas 161 for the Slokas property was established early in January 2015 since management does not want to mix grocery anchored retail with other anchored retail. Transfer of Slokas property from Apex Investments to Slokas 161 took place in January 2015. In 2015 management intends to invest up to EUR 200 000 in to the Slokas asset as a further refurbishment with the goal of attracting a ground floor tenant.

Office

The office sector has a minor vacancy of 400 meters at the Citadeles iela asset due to TechHub vacating the space. For our offices gross rent has settled to a market rate of €11.00 to €12.00 per square meter per month. There are some historical outliers to the current market rate pulling the offices average below current market.

Land

Management has engaged an architectural firm to prepare the detailed planning for the property. Detailed planning is expected to be complete during 2015.

DIY

The K-Rauta in Tukums traded as expected in 2014. We continue to make some improvements to the structure, additional cost are expected to be less than €50,000.

Bond

Whilst the bond is listed, it continued to demonstrate a significant level of illiquidity in 2014.

Acme Corporation has made the first repayment of principal to bondholders of record with the January 2015 payment.

Acme Corporation has made all coupon payments on the bonds to date. Funds have been reserved for settlement of coupon and principal due on 30 April 2015.

Senior Debt

Borrowings from Swedbank mature in July 2015. Management foresee that it will be extended for another 2 year term since the Group has honoured loan covenants so far and is positive about meeting them as well in the future.

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At the time of writing one month EURIBOR is quoted at approximately 0.00%. The historical low in Euribor is a clear indication of the European Central Banks concern for the stability of the sovereign debt crisis faced by the majority of European nations. These rates are unprecedentedly low rate; movements up in interest rates will have a dramatic impact on the Group's cash flows and, inter-alia, Acme Corporation's ability to repay bondholders.

Sale of investments

In October 2014 management signed a share purchase agreement (SPA) for the sale of Apex Investments SIA and Tukums Projekts SIA to Hili Properties BV. Management believes that the sale offers a significant monetary benefit to the company. Management intends to use the majority of proceeds to deleverage from Swedbank. The delivering will greatly reduce an asymmetrical risk associated with the current portfolio bondholders and equity positions that is amplified in the event of increased interest rates and reductions in gross revenue. The sale is expected to conclude in early 2015.

The Group does not plan on issuing any additional debt or acquiring any assets in 2015, but is focused on conserving its cash flow and internally developing its portfolio. Management's goal is to further streamline and improve operations and pay down bank debt.

David Allen DeRousse
Member of the Board

Riga, 27 February 2015

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STATEMENT OF DIRECTORS' RESPONSIBILITY

The Board of Directors of Acme Corporation SIA is responsible for the preparation of the consolidated financial statements of the Group.

The condensed consolidated interim financial statements on pages 6 to 15 are prepared in accordance with the accounting records and source documents and present fairly the financial position of the Group as of 31 December 2014 and the results of its operations and cash flows for the year then ended. The condensed consolidated interim financial statements are prepared following the guidelines of IAS 34 "Interim Financial Reporting" as adopted in the European Union on a going concern basis. Appropriate accounting policies have been applied on a consistent basis. Prudent and reasonable judgments and estimates have been made by the Board of Directors in the preparation of the condensed consolidated interim financial statements.

The Board of Directors of Acme Corporation SIA is responsible for the maintenance of proper accounting records, the safeguarding of the Group's assets and the prevention and detection of fraud and other irregularities in the Group. The Board of Directors is also responsible for operating the Group in compliance with the legislation of the Republic of Latvia.

These condensed consolidated financial statements are not audited.

David Allen DeRousse
Member of the Board

Riga, 27 February 2015

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

Note	31.12.2014	31.12.2013
	EUR	EUR
	(unaudited)	
ASSETS		
Non-current assets		
	104 492	115 456
6	13 005 544	20 779 203
	8 860	12 365
	4 000	-
	13 122 896	20 907 024
Current assets		
5	10 070 641	-
	11 383	1 219
	12 433	71 260
	-	3 499
	3 876	3 843
	49 042	176 064
	170 150	481 486
	10 317 525	737 371
	23 440 421	21 644 395
EQUITY		
Capital and reserves attributable to equity holders of the Group		
	2 844	2 846
	(12 745 455)	(12 808 454)
	(2)	-
	2 628 130	62 999
	(10 114 483)	(12 742 609)
LIABILITIES		
Non-current liabilities		
	6 498 609	32 124 928
	1 053 117	709 440
	-	22 140
	7 551 726	32 856 508
Current liabilities		
5	332 571	-
	25 304 268	931 502
	366 339	598 994
	26 003 178	1 530 496
	33 554 904	34 387 004
	23 440 421	21 644 395

The notes on pages 10 to 15 are an integral part of these condensed interim consolidated financial statements.

David Allen DeRousse
Member of the Board

Riga, 27 February 2015

ACME CORPORATION SIA
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Note	2014 EUR (unaudited)	2013 EUR
CONTINUING OPERATIONS		
Revenue	1 220 469	3 439 788
Cost of sales	(588 412)	(1 759 596)
Reversal of impairment	2 331 654	-
Gross profit	2 963 711	1 680 192
Selling expenses	(15 098)	(18 473)
Administrative expenses	(59 148)	(305 049)
Other operating income	-	12 500
Other operating expenses	(43 848)	(146 123)
Operating profit	2 845 617	1 223 047
Finance income	228 029	104 138
Finance costs	(531 214)	(1 219 595)
Profit before income tax	2 542 432	107 590
Income tax	(421 639)	(44 591)
Profit for the year from continuing operations	2 120 793	62 999
DISCONTINUED OPERATIONS		
5 Profit for the year from discontinued operations	507 337	-
Profit for the year	2 628 130	62 999
Other comprehensive income	-	-
Total comprehensive income for the year	2 628 130	62 999
Attributable to:		
Equity holders of the Company	2 628 130	62 999

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David Allen DeRousse
Member of the Board

Riga, 27 February 2015

ACME CORPORATION SIA
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to the equity holders of the Company			Total equity EUR
	Share capital EUR	Accumulated deficit * EUR	Profit/ (loss) for the year EUR	
Balance at 31 December 2012	2 846	(11 665 591)	(1 142 863)	(12 805 608)
Transfer to accumulated deficit	-	(1 142 863)	1 142 863	-
Loss for the current financial year	-	-	62 999	62 999
Balance at 31 December 2013	2 846	(12 808 454)	62 999	(12 742 609)
Transfer to accumulated deficit	-	62 999	(62 999)	-
Difference on denomination of share capital from LVL to EUR paid out to shareholders	(2)	-	-	(2)
Rounding difference	-	(2)	-	(2)
Profit for the current financial year	-	-	2 628 130	2 628 130
Balance at 31 December 2014	2 844	(12 745 457)	2 628 130	(10 114 483)

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David Allen DeRousse
Member of the Board

Riga, 27 February 2015

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CONSOLIDATED CASH FLOW STATEMENT

Note	2014 EUR (unaudited)	2013 EUR
Cash flows from operating activities		
Profit before income tax	3 065 366	107 590
Adjustments for:		
▪ Depreciation	955 221	1 172 344
▪ Loss on disposal and write-off of fixed assets and components of investment property	56 966	65 438
▪ Finance income	(528)	(104 137)
▪ Interest expense	1 148 944	1 219 595
▪ Consolidation adjustments	(251 638)	-
▪ Reversal of impairment on investment property	(2 649 285)	-
<i>Changes in working capital</i>		
▪ Inventory	574	(1 219)
▪ Trade and other receivables	91 227	(69 974)
▪ Trade and other payables	(12 776)	(5 220)
Cash generated from operations	2 404 071	2 384 417
Income tax paid and transferred	(8 925)	(19 001)
Net cash generated from operating activities	2 395 146	2 365 416
Cash flows from investing activities		
6 Improvements made to investment properties	(171 607)	(279 023)
Purchases of property, plant and equipment	(78 004)	(27 191)
Purchase of self-issued bonds	(176 277)	-
Repayments on issued loans	3 371	3 241
Interest received	629	760
Net cash used in investing activities	(421 888)	(275 213)
Cash flows from financing activities		
Repayment of share capital	(2)	-
Proceeds from loans	-	8 583 631
Repayment of loans	(869 938)	(9 321 361)
Interest payments	(1 147 650)	(1 272 291)
Net cash used in financing activities	(2 017 590)	(2 010 021)
Net increase/ (decrease) in cash and cash equivalents	(44 332)	80 182
Cash and cash equivalents at the beginning of the period	481 486	401 304
Cash and cash equivalents at the end of the period	437 154	481 486

The notes on pages 10 to 15 are an integral part of these condensed interim consolidated financial statements.

David Allen DeRousse
Member of the Board

Riga, 27 February 2015

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NOTES TO THE INTERIM FINANCIAL STATEMENTS

1. General information

Core activities of Acme Corporation SIA ('the Company') and its subsidiaries (together 'the Group') are operation and management of rental retail real estates and rental office real estates in Latvia.

The Company is a limited liability company incorporated and domiciled in the Republic of Latvia. The address of its registered office is Citadeles 12, Riga LV-1010, Latvia. The Company was formed as a result of restructuring the Group.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on 27 February 2015.

The Company has the following participating interest in subsidiaries:

Name	Country	Participating interest in share capital of subsidiaries at 31.12.2014	Participating interest in share capital of subsidiaries at 31.12.2013
Apex Investments SIA	Latvia	100%	100%
Big Truck SIA	Latvia	100%	100%
Neatkarīgā patentu aģentūra SIA	Latvia	100%	100%
Tukuma Projekts SIA	Latvia	100%	100%

2. Basis of preparation

These condensed consolidated financial statements cover the period from 1 January 2014 to 31 December 2014. They have been prepared following the guidelines of IAS 34 "Interim Financial Reporting". They do not include all of the information required in annual financial statements in accordance with IFRS, and should be read in conjunction with the annual consolidated financial statements of Acme Corporation SIA for the year ended 31 December 2013, which have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in EU.

3. Accounting policies

The accounting policies applied are consistent with those of the annual consolidated financial statements of Acme Corporation SIA for the year ended 31 December 2013, as described in those annual consolidated financial statements.

On 1 January 2014 Latvia joined the euro-zone and the Latvian Lat which was the Group's functional currency, was replaced by the euro. As a result, starting from 1 January 2014 the Group maintains its financial accounting in euro. Comparative information for prior periods was translated into euros using the official exchange rate of LVL 0,702804 to EUR 1.

The condensed consolidated interim financial statements are presented in EUR, which is the Company's functional and presentation currency. Foreign currency transactions are translated into the functional currency using the official exchange rates prevailing at the dates of the transactions as set by the European Central Bank.

Currency exchange rates applied:

	31.12.2014 EUR	31.12.2013 EUR
1 LVL	-	1.423

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A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business;
- Is part of a single co-ordinated plan to dispose of a separate major line of business.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale. When an operation is classified as a discontinued operation, the comparative statement of profit or loss and other comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year. These interim financial statements do not include such re-presentation.

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. Such assets are presented separately and measured at the lower of their carrying amount and fair value less costs to sell. However, some held-for-sale assets such as financial assets or deferred tax assets, continue to be measured in accordance with the Group's relevant accounting policy for those assets. Once classified as held-for-sale, the assets are no longer amortised or depreciated.

4. Financial risk management

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. As at 31 December 2014 the Group's current liabilities exceeded its current assets by EUR 15 685 653 (as at 31 December 2013 the Group's current liabilities exceeded its current assets by EUR 793 125).

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed are contractual undiscounted cash flows.

	31 December 2014			31 December 2013		
	Less than 1 year EUR	Between 1 and 5 years EUR	Later than 5 years EUR	Less than 1 year EUR	Between 1 and 5 years EUR	Later than 5 years EUR
Bank borrowings	24 904 786	-	-	1 826 992	25 406 547	-
Bonds	317 535	1 250 177	3 931 561	177 914	1 954 284	5 015 204
Other borrowings	96 755	-	1 336 220	44 833	256 890	1 656 326
Trade and other payables	366 339	-	-	596 229	-	-
Total	25 685 415	1 250 177	5 267 781	2 645 968	27 617 721	6 671 530

5. Discontinued operations

On 15 October 2014 the Group concluded sales purchase agreement for sale of shares of Apex Investments SIA and Tukuma projekts SIA, representing the Group's grocery and household segments. The closing of transaction took place on 30 January 2015 which is when the new shareholder took over shares of Apex Investments SIA and Tukuma projekts SIA. Consequently, assets and liabilities of Apex Investments SIA and Tukuma projekts SIA on 15 October 2014 were classified as a disposal group. Revenues and expenses, gains and losses relating to the discontinued operations for the reporting period have been eliminated from profit or loss from the Group's continuing operations and are shown as a single line item on the face of the statement of profit or loss.

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Results of discontinued operations

	2014 EUR
Revenue	2 099 114
Cost of sales	<u>(628 639)</u>
Gross profit	1 470 475
Other operating expenses, net	<u>(329 811)</u>
Operating profit	1 140 664
Finance items, net	<u>(617 730)</u>
Profit/ (loss) before income tax	522 934
Income tax expense	<u>(15 597)</u>
Profit for the year from discontinued operations	<u>507 337</u>

The results from the discontinued operations in 2014 are attributable to the owners of the Group.

Assets and liabilities of disposal group held-for-sale

	31.12.2014 EUR
Non-current assets	
Property, plant and equipment	79 145
Investment property	<u>9 592 192</u>
	9 671 337
Current assets	
Inventory	645
Trade receivables	15 464
Other debtors	116 191
Cash and cash equivalents	<u>267 004</u>
	399 304
Assets classified as held-for-sale	<u>10 070 641</u>
Non-current liabilities	
Deferred income tax liabilities	21 878
Other liabilities	<u>19 374</u>
	41 252
Current liabilities	
Trade and other payables	<u>291 319</u>
	291 319
Liabilities classified as held-for-sale	<u>332 571</u>

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6. Investment property

	2014	2013
	EUR	EUR
At start of the year		
Cost	40 993 544	40 930 483
Accumulated depreciation	<u>(20 214 341)</u>	<u>(19 185 077)</u>
Net book amount	20 779 203	21 745 406
Year ended 31 December		
Opening net book amount	20 779 203	21 745 406
Development costs	82 354	252 023
Disposals	(50 063)	(188 962)
Reclassified to assets held-for-sale	(18 803 549)	-
Depreciation charge	(946 016)	(1 155 975)
Depreciation on disposals	30 496	126 711
Depreciation on properties reclassified to assets held-for-sale	9 263 834	-
Reversal of impairment	<u>2 649 285</u>	<u>-</u>
Closing net book amount	13 005 544	20 779 203
At 31 December		
Cost	22 222 286	40 993 544
Accumulated depreciation	<u>(9 216 742)</u>	<u>(20 214 341)</u>
Net book amount	<u>13 005 544</u>	<u>20 779 203</u>

Mairis Žērbelis, an appraiser certified by the Latvian Association of Property Appraisers, performed valuation of:

- Investment property held within the office and property development segment (valuation made with reference to 25 November 2014 and 21 November 2014 accordingly)
- Slokas street property being part of retail segment (valuation made with reference to 27 August 2014).

Having analysed the results of the appraisal and impairment loss on investment property recognised in prior periods, the Group's management recognised reversal to impairment loss in amount of EUR 2 341 960.

Further, based on principles laid down in share purchase agreement for determination of fair value of investment property subject to sale (see Note 4), the Group's management determined the fair value of such investment property. Since fair value of such investment property was found to exceed its carrying value, the Group's management recognised reversal to impairment loss recognised in prior years in amount of EUR 307 325.

Reversal of an impairment loss attributable to each individual investment property does not exceed the carrying amount of such investment property that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

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7. Segment reporting

Management currently identifies the Group's operating segments with reference to the type of real estate that the Group owns. These operating segments are monitored and strategic decisions are made on the basis of operating results for each property which are reported in the same form as general purpose financial statements. Segment information can be analyzed as follows for the year ended 31 December 2014:

	Grocery rent EUR	Household rent EUR	Office rent EUR	Property develop- ment EUR	Total EUR
Revenue from external customers	67 598	-	1 152 871	-	1 220 469
Discontinued operations	1 794 196	304 918	-	-	2 099 114
Revenue from other segments	-	-	-	-	-
Segment revenues	1 861 794	304 918	1 152 871	-	3 319 583
Profit/ (loss) before tax	1 645 361	103 979	2 835 235	83 073	4 667 648
Segment assets	9 411 016	2 121 019	12 648 108	522 323	24 702 466

Segment information for the year ended 31 December 2013 is as follows:

	Grocery rent EUR	Household rent EUR	Office rent EUR	Property develop- ment EUR	Total EUR
Revenue from external customers	1 995 091	304 176	1 140 521	-	3 439 788
Revenue from other segments	-	-	-	-	-
Segment revenues	1 995 091	304 176	1 140 521	-	3 439 788
Profit/ (loss) before tax	26 392	116 614	(83 889)	(56 760)	2 357
Segment assets	13 380 049	2 585 515	10 399 672	403 643	26 768 879

The totals presented for the Group's operating segments reconcile to the Group's loss before tax as presented in its financial statements as follows:

	2014 EUR	2013 EUR
Revenues		
Total segment revenues	1 220 469	3 439 788
Discontinued operations	2 099 114	-
Group revenues	3 319 583	3 439 788
Profit or loss		
Segment profit before tax	4 667 648	2 356
Reversal of credit loss incurred within the Group	(5 505 700)	-
(Gain)/ loss on bonds	(104 959)	53 486
Loss on sale of equity investments within the Group	3 764 500	-
Effect on reclassification of assets held-for-sale	214 995	-
Operating expenses of the Company	(28 923)	(1 145)
Finance items of the Company	(189 656)	-
Finance items within the Group	247 461	52 893
Group profit/ (loss) before tax	3 065 366	107 590

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	31.12.2014	31.12.2013
	EUR	EUR
Assets		
Total segment assets	24 702 466	26 768 879
Total intercompany loans and receivables	(1 376 634)	(5 094 250)
Elimination of intercompany bonds	(120 036)	(66 162)
Effect on reclassification of assets held-for-sale	214 994	-
Total assets of holding company	19 631	35 928
Group assets	23 440 421	21 644 395