

INDEPENDENT AUDITOR'S REPORT

To the shareholders,
Electroarges S.A.

Report on the audit of the consolidated financial statements

Reserved opinion

1. We audited the consolidated financial statements of **Electroarges S.A. ("The Group")** - and its subsidiaries Concifor SA, Amplo SA, Elars SA, Braiconf SA and Mercur SA - with its registered office in Curtea de Arges, str. Albesti nr. 12, Arges County, identified by the tax registration code RO156027, which includes the Consolidated Statement of the Financial Position on December 31st, 2019, and the Consolidated Statement of the Comprehensive Income, the Consolidated Statement of the Changes in Equity and the Consolidated Cash Flow Statement for the financial year ending at this date, as well as a summary of the significant accounting policies and other explanatory notes.

2. The consolidated financial statements on December 31st, 2019 are identified as follows:

➤ Net assets/Total equity:	78,535,265 Lei
➤ Net loss of the financial year:	(7,756,851) Lei

3. In our opinion, except for the possible actual aspects presented in the section *Basis for the reserved opinion* of our report, the attached consolidated financial statements accurately present, under all significant aspects, the Group's financial position on December 31st, 2019, and its financial performance and cash flows related to the financial year ending on this date, according to the Order no. 2844/2016 of the Minister of Public Finance for the approval of the accounting regulations in accordance with the International Financial Reporting Standards ("OMFP 2844/2016").

Basis for the reserved opinion

4. The cash flow statement for the 12-month period ending on December 31st 2018 is not prepared in accordance with the provisions of IAS 7 "Cash Flow Statement".

5. On December 31st 2018, the Group consolidated the financial statements of Braiconf SA for the entire year 2018, although the Group obtained control over this subsidiary starting with July 2018. According to the reporting framework, the consolidation of a subsidiary is made from the date from which control over it is gained. We did not have sufficient and adequate information to be able to estimate the effects on the financial statements for 2018 of this deviation from the reporting framework. Our opinion on the current consolidated financial statements also contains a reservation on the comparability of the financial information presented in the current and previous period.

6. In the consolidated financial statements prepared on December 31st 2017, the Group did not report deferred tax related to temporary differences between the tax base and the accounting basis. The Group recognized the full deferred tax effect by affecting the financial statements as at 31st December 2018. We were unable to obtain sufficient and adequate audit evidence to determine the effect on the comparability of the information presented in the statement of comprehensive income for the financial year ending on 31st December 2018. Our opinion on the current consolidated financial statements also contains a reservation on the comparability of the financial information presented in the current and previous period.

7. As mentioned in note 12 “Financial assets”, the Group holds both on December 31st 2019 and on December 31st 2018, participations in Mobila Rădăuți SA (43.11%), and Mecanoenergetica SA (28.85%), a bankrupt company, respectively on December 31st 2018 at Aurora SA (32.32%) through Amplo SA. These entities meet the conditions to be recognized as entities in which the Group has significant influence. The Group reports, in the consolidated financial statements prepared for 2019 and 2018, the value of investments held in these companies at cost and not by using the equity method as required by IAS 28 Investments in associates and joint ventures. Due to the economic situation of these entities (which are in insolvency proceedings), the Group's management was unable to provide us with sufficient and adequate information to determine the effects on the financial statements on both December 31st 2018 and December 31st 2019, as a result of deviations from the reporting framework.

8. On December 31st 2019, the Group reports goodwill in the amount of 4.5 million Lei (23.5 million lei on December 31st 2018) resulting from the application of specific consolidation procedures. The information available was insufficient to conclude on the completeness, existence and accuracy of goodwill reported on both December 31st 2018 and December 31st 2019. The Group also did not perform a goodwill impairment test, in accordance with IAS 38 Intangible assets. The information available was insufficient to determine those adjustments required on both December 31st 2019 and December 31st 2018, so that goodwill be reported in accordance with the reporting framework.

9. On December 31st 2019, the Group revalued the patrimony buildings on the basis of an evaluation report prepared by an independent expert, the results of these revaluations being fully reflected in the financial year ending on December 31st 2019. The previous revaluation of these fixed assets was performed on December 31st 2012 for Electroargeș SA, respectively December 31st 2015 in the case of Elars SA. The Group's accounting policy is to recognize buildings at revalued values. In accordance with the provisions of OMFP 2844/2016, revaluations must be made with sufficient regularity so that the carrying amount does not differ significantly from that which would be determined using the fair value at the balance sheet date. We did not have sufficient and adequate information to determine the effect on the comparative consolidated financial statements of the full recognition of the impact of the valuation report on 31st December 2019.

The Group also did not apply a uniform treatment with regard to the policy of recognizing buildings at fair values. The buildings in the patrimony of Amplo SA being presented at cost. In the absence of an evaluation report, both on 31st December 2019 and 31st December 2018, we were not able to determine those adjustments necessary to present these buildings at fair values.

10. The Group reports, in the Consolidated Statement of Financial Position, both on December 31st 2019 and December 31st 2018, trade and similar receivables in the amount of 7.4 million lei for which there are indications regarding the uncertainty of recovery. The group estimated that no depreciation adjustments were required. We have not received sufficient and adequate information to allow us to estimate any adjustments that would have been necessary to relate

these assets to the net recoverable amount in the accompanying consolidated financial statements as well as the impact on the "Trade and similar receivables" balance sheet position and current and previous financial year performance.

11. We conducted our audit in accordance with International Standards on Auditing ("ISA"), EU Regulation no. 537 of the European Parliament and of the Council (hereinafter "the Regulation") and Law no. 162/2017 ("Law"). Our responsibilities under these standards are described in detail in the "Auditor's Responsibilities in an Audit of Financial Statements" section of our report. We are independent of the Company, according to the Code of Ethics for Professional Accountants issued by the Council for International Standards of Ethics for Accountants (IESBA Code), according to ethical requirements that are relevant for auditing financial statements in Romania, including Regulation and Law, and we have fulfilled our responsibilities ethics according to these requirements and according to the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our reserved opinion.

Highlighting some aspects

We want to draw attention to the following aspects:

12. Note 15 "Trade and other receivables" to the attached consolidated financial statements presents the situation of the dispute in which the Group is involved, having procedural quality of claimant with the Administration of the Environmental Fund, for recovering the amount of 1.3 million Lei environmental taxes enforced. As the process is at an early stage, possible effects could be determined as the court proceeds;

13. As shown in Note 29 Further Events, the pandemic caused by the COVID-19 virus involves additional challenges and risks for the Group's operations. Electroargeş SA and its subsidiaries have already taken specific measures to ensure the health and safety of its employees. In addition to human risk, the pandemic also presents an economic risk for the Group's future operations.

Our opinion is not reserved on the issues presented above.

Key audit issues

14. The key audit issues are those issues that, based on our professional judgment, were of the utmost importance for the audit of the financial statements for the current period. These issues have been addressed in the context of the audit of the financial statements as a whole and in forming our opinion on them and we do not provide a separate opinion on these key issues.

Key audit issue

Approach within the audit:

a) Income recognition

See **Note 2.12.1 "Accounting Policies - Income Recognition"** and **Note 4 "Income from client contracts"**

The income recognition policy is presented in Note 2.11.1. The turnover consists of income from the sale of finished products to external and internal clients.

According to the ISA, there is an implicit risk in income recognition, due to the pressure that management may feel in relation to obtaining the planned results.

Our audit procedures included, among others:

- evaluation of the principles of income recognition in accordance with the provisions of IFRS;
- testing the control and the processes implemented regarding the reflection in accounting of the sales of finished products, in order to obtain the necessary assurance regarding the existence, completeness and accuracy of the income reported in the consolidated financial statements;

Key audit issue

The Group's income is recognized at the time of the transfer of the risks associated with the customers' assets.

Approach within the audit:

- testing the balance of trade receivables on December 31st 2019, by sending direct confirmation letters;

Other issues

15. At the date of issue of the attached consolidated financial statements, the legal situation of the Group's shareholders is unclear, with uncertainties regarding the structure of the shareholders at this time. The attached consolidated financial statements are not affected by this.

16. The Group's consolidated financial statements for the previous financial year were audited by another auditor, who expressed on April 16th 2019 a reserved opinion on the financial information of Concifor SA taken over in the consolidated financial statements prepared on December 31st 2018 and with a paragraph to highlight non-unitary policy issues.

17. This independent auditor's report is addressed exclusively to the Group's shareholders as a whole. Our audit was performed in order to be able to report to the Group's shareholders those issues that we need to report in a financial audit report, and not for other purposes. To the extent permitted by law, we only accept and assume responsibility for the Group and its shareholders, as a whole, for our audit, for this report or for the opinion formed.

Other information - Administrators' Report

18. The administrators are responsible for the preparation and presentation of other information. That other information includes the Administrators' Report, but do not include the consolidated financial statements and the auditor's report thereon.

Our opinion regarding the consolidated financial statements does not cover that other information and, unless explicitly mentioned in our report, we do not express any assurance conclusion regarding it.

In connection with the audit of the consolidated financial statements for the financial year ending 31st December 2019, it is our responsibility to read that other information and, in doing so, to assess whether that other information is significantly inconsistent with the consolidated financial statements or the knowledge we have acquired during the audit, or if they appear to be significantly distorted.

Regarding the Administrators' Report, we have read and report whether it has been prepared, in all material respects, in accordance with the information provided in paragraphs 15-19 of OMFP 2844/2016.

Based exclusively on the activities to be performed during the audit of the financial statements, in our opinion:

- a) The information presented in the Administrators' Report for the financial year for which the consolidated financial statements have been prepared is in accordance, in all material respects, with the consolidated financial statements;
- b) The Administrators' Report was prepared, in all significant aspects, in accordance with the information required by points 15-19 of OMFP 2844/2016.

In addition, based on our knowledge and understanding of the Group and its environment, acquired during the audit of the consolidated financial statements for the financial year ending on December

31st 2019, we are required to report whether we have identified material misstatement in the Administrators' Report. We have nothing to report on this.

Management's responsibilities and the persons responsible with the governance for the financial statements

19. The management is responsible for the accurate preparation and presentation of the consolidated financial statements in accordance with OMFP 2844/2016 and for that internal control that the management considers necessary to allow the preparation of consolidated financial statements without significant misstatements, caused either by fraud or error.

20. In the preparation of the financial statements, the management is responsible for assessing the Group's ability to continue its activity, presenting, as the case may be, the issues regarding the continuity of the activity and using the principle of continuity of the activity as an accounting basis, except when the management intends to liquidate the Group or to stop operations, or has no other realistic alternative than these.

21. The people responsible for governance are responsible for overseeing the Group's financial reporting process.

Responsabilitatea auditorului într-un audit al situațiilor financiare

22. Our objectives are to obtain reasonable assurance as to the extent to which the financial statements as a whole are free from significant misstatements, caused either by fraud or error, as well as by issuing an auditor's report that includes our opinion. Reasonable assurance represents a high level of assurance, but it is not a guarantee that an audit conducted in accordance with ISAs will always detect a significant misstatement, if any. Misstatements can be caused either by fraud or error and are considered significant if it can be reasonably expected that they, individually or cumulatively, will influence the economic decisions of the users, based on these consolidated financial statements.

23. As part of an audit in accordance with the audit standards adopted by the Romanian Chamber of Financial Auditors, which are based on International Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. Also:

a) We identify and evaluate the risks of significant misstatement of the financial statements, caused either by fraud or error, we design and execute audit procedures in response to those risks and obtain sufficient and adequate audit evidence to provide a basis for our opinion. The risk of not detecting a significant misstatement caused by fraud is higher than that of not detecting a significant misstatement caused by error, because fraud can involve secret agreements, false, intentional omissions, false statements and avoidance of internal control;

b) We understand the internal control relevant to the audit, in order to design audit procedures appropriate to the circumstances, but without having the purpose of expressing an opinion on the effectiveness of the Group's internal control;

c) We assess the adequacy of the accounting policies used and the reasonableness of the accounting estimates and related presentations made by management;

d) We draw a conclusion on the adequacy of the management's use of accounting on the basis of business continuity and determine, based on the audit evidence obtained, whether there is significant uncertainty about events or conditions that could raise significant doubts about the Group's capacity to continue its activity. If we conclude that there is significant uncertainty, we must draw attention in the auditor's report to the related presentations in the financial statements or, if these presentations are inadequate, change our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to operate on the basis of the principle of business continuity;

e) We evaluate the presentation, structure and general content of financial statements, including disclosures, and the extent to which financial statements reflect underlying transactions and events in a manner that delivers fair presentation.

24. We communicate to the persons responsible for governance, among other things, the planned area and the timely scheduling of the audit, as well as the main findings of the audit, including any deficiencies of the internal control that we identify during the audit.

25. We also provide a statement to those responsible for governance that we have met the relevant ethical requirements regarding independence and that we have communicated to them all relationships and other issues that could reasonably be expected to affect our independence and, where appropriate, the related protection measures.

26. From the issues that we have communicated to those in charge of governance, we establish those issues that were most important in the audit of the financial statements of the current period and, therefore, are key audit issues. We describe these issues in our audit report, unless the law or regulation prevents the public presentation of the issue or, in extremely rare circumstances, we consider that an issue should not be disclosed in our report because it is reasonably expected that the benefits of the public interest to be outweighed by the negative consequences of this communication.

Report on other legal and regulatory provisions

27. We were appointed by the General Meeting of Shareholders with decision no. 106 of 25.04.2019 to audit the financial statements of **Group's** for the financial years 2019 - 2021. The total uninterrupted duration of our commitment is 1 year, covering the financial year ending on 31.12.2019.

We confirm that:

- Our audit opinion is consistent with the additional report submitted to the Group's Audit Committee, which we issued on the same date as this report. Also, in conducting our audit, we maintained our independence from the Group's audited entities;
- We did not provide for the Group the non-audit services prohibited, mentioned in Article 5 (1) of the EU Regulation no. 537/2014.

On behalf of **BDO Audit S.R.L.**

Registered in the Public Electronic Register with no. FA18

Partner full-name: Razvan Cocei

Registered in the Public Electronic Register with no. AF2568

Bucharest, Romania

July 7th 2020