

REPORT OF THE INDEPENDENT AUDITOR

To the Shareholders of Intercapital Property Development

Report on the Financial Statements

Qualified Opinion

We have performed an audit of the Financial Statements of the company Intercapital Property Development, Special Purpose Investment Company (SPIC), which comprises the Statement of account as of 31.12.2019 and the Comprehensive Income Statement, the Changes in Equity Statement, Cash Flow Statement for the year ending on this date, as well as the summary of significant accounting policies.

In our opinion, except for the possible effect of the matter described in the Section of the Report: Basis for Qualified Opinion, the attached Financial Statements give a true and fair view in all essential aspects, of the financial position of the Company as of 31 December 2019 as well as of its financial performance and its cash flows for the year then ended, in conformity with the International Financial Reporting Standards (IFRS), accepted by the European Union (EU).

Basis for expressing a Qualified Opinion

1. The Statement of account of the Company as of 31 December 2019 presents trade and other receivables in the amount of BGN 5 039 thous. as disclosed in Notes 12. Trade receivables, 14. Other receivables and 33. Receivables from Related parties. The Company has over 79% overdue, unimpaired receivables of over one year. In our opinion, concerning receivables standing at BGN 3 055 thous., the value of receivables exceeds the value of the net assets of the debtors, which gives rise to uncertainty whether the Company will be able to collect the full amount of its receivables.

As a result, we did not succeed in obtaining sufficient assurance that the carrying amount of the receivables presented in the Statement of account as of 31 December 2019 does not exceed their recoverable value. For this reason, we are not in a position to determine whether there are and what are the effects of the receivables presented like that, on the net assets of the Company as of 31 December 2019.

2. In 2017, the company concluded a contract for the sale of its subsidiary Marina Cape Management EOOD in exchange for repayment of interest liabilities in the amount of BGN 12 604 thousand. The shares of the company should have been transferred by 31 March 2018. the date of this report has not been resolved. The termination of the contract of sale would have a material effect on the financial statements of the company.

We have performed our audit in conformity with the International Standards on Auditing (ISA). Our responsibilities according to these standards are described in the section of our Report - Auditor's Responsibility for the Audit of the Financial Statements.

We are independent from Intercapital Property Development Special Purpose Investment Company in compliance with the Code of Ethics for professional accountants of the International Ethics Standards Board for Accountants (IESBA Code) together with the ethical requirements, applicable to our audit of the Financial Statements in the Republic of Bulgaria, and we have fulfilled our other ethical responsibilities in conformity with the requirements of the IESBA Code.

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

Key Audit Matters

Key audit matters are the ones which according to our professional judgment have been most significant in the audit of the Financial Statements for the current period. These issues were examined as part of our audit of the Financial Statements as a whole and the formation of our opinion on it, while we provide a separate opinion on these matters.

Investment Properties – Assessment See Note (4) to the Financial Statements

| Key audit issue | <i>How this key audit matter was addressed in the audit we performed</i> |
|---|---|
| The Company possesses investment properties with carrying amount of BGN 23 695 thous. The properties are evaluated at fair value. In addition, the Company reimbursed impairment charges based on fair values of assets under construction for a total value of 14 695. The Company uses the services of an independent evaluator to determine the fair values of the investment properties. This is an important evaluation, since it accounts for 88% of the Company's assets. It is possible that the evaluation is not appropriate. There exists a risk that the said properties are not correctly presented in the Financial Statements. | In this respect our audit procedures included a verification of the adequacy of the assessment of the management and the prepared market evaluation by an independent evaluator of the investment properties. We made additional calculations of the obtained comparative values. We tested selected data on which the evaluation of investment properties was based, by comparing with alternative information sources. We found that the assumptions and the estimates derived from them were balanced. |

Material uncertainty, associated with the assumption of going concern

We draw the attention to Note to the Financial Statements - Principle of Going Concern, which describes the uncertainty connected with the ability of the Company to realize

sufficient cash flows through its activity, which in turn does not allow it to pay currently its liabilities.

These conditions are an indication that there exists material uncertainty, which might give rise to significant doubts concerning the ability of the Company to continue functioning as a going concern. Our opinion has not been modified with respect to this issue.

Emphasis of Matter

I draw attention to the explanatory application of material events after the balance sheet date in the financial statements, which discloses a material non-adjusting event related to the occurrence of the coronavirus pandemic (COVID-19). The disruption of normal economic activity in the Republic of Bulgaria as a result of COVID-19 may adversely affect the operations of Intercapital Property Development REIT, in particular the income from the sale and management of holiday properties.

Due to the unpredictable dynamics of COVID-19, it is virtually impossible at this stage to make a reliable assessment and measurement of the potential impact of a pandemic. Our opinion has not been modified on this point.

Report on other legal and regulatory Requirements

In addition to our responsibility and reporting in conformity with ISA, with respect to the Activity Report we have also performed the procedures added to the ones required under ISA. These procedures refer to checks of the availability, as well as checks of the form and content of this other information with the aim of helping us in forming our opinion on whether that other information includes the disclosures and reporting, foreseen in Chapter Seven of the Accountancy Act and in the Public Offering of Securities Act (Article 100n, (10) of POSA in conjunction with Article 100n (8), it.3) and it.4) of POSA) applicable in Bulgaria.

Opinion in connection with Article 37 (6) of Accountancy Act

On the basis of performed procedures, our opinion is that:

- The information contained in the Activity Report for the financial year for which the Financial Statements were drawn up, is in conformity with the Financial Statements.
- The Activity Report was drawn up in compliance with the requirements of Chapter Seven of Accountancy Act and Article 100(n), (7) of Public Offering of Securities Act.
- The Report on Corporate Governance for the financial year, for which the Financial Statements were drawn up, is presented in conformity with the requirement of Chapter Seven of Accountancy Act and Article 100(n) (8) of the Public Offering of Securities Act.
- The Non-financial Statement for the financial year, for which the Financial Statements were drawn up, was developed in conformity with the requirements of Chapter Seven of Accountancy Act.

Opinion in connection with Article 100(n (10)), in conjunction with Article 100 n (8), it 3) and 4) of Public Offering of Securities Act

On the basis of the performed procedures and of the acquired knowledge and understanding of the activity of the enterprise and environment in which it operates, in our opinion, the description of the basic characteristics of the internal control and risk management systems of the enterprise in connection with the financial reporting process, which is part of the Activity Report (as an element of the content of the Report on Corporate Governance) and the information as per Article 10 (1) c), d),f), h), i) and i) of Directive 2004/25/EC of the European Parliament and the Council of 21 April 2004 regarding the acquisition proposals do not contain cases of material incorrect reporting.

Additional reporting as regards the audit of the financial statement in connection with art.100(n), para 4, it.3 of the Public offering of securities act (POSA).

Statement in connection with art.100(n), para 4, it.3, b. "b" of the Public offering of securities act

Information regarding the related parties' transactions is disclosed in Enclosure 33. Related party transactions to the financial statement. On the basis of the auditing procedures, made by us over the transactions with related parties as a part of our audit of the financial statement as a whole, we are not aware of facts, circumstances or other information, on the basis of which to make a conclusion, that the transactions with related parties are not disclosed in the enclosed financial statement for the year, ending on 31.12.2019, in all essential aspects, in accordance with the requirements of IAS 24 "Related party disclosures". The results of our auditing procedures on the related party transactions have been examined by us in the context of forming our opinion as regards the financial statement as a whole, not with a purpose to express an individual opinion on the related party transactions.

Statement in connection with art.100(n), para 4, it.3, b. "c" of the Public offering of securities act

Our responsibilities for audit of the financial statement as a whole in the section of our report "Responsibility of the auditor for the audit of the financial statement" include evaluation whether the financial statement the important transactions and events in a way, which reaches reliable presentation. On the basis of the auditing procedures made by us on the important transactions, which appear fundamental for the financial statement for the year, ending on 31.12.2019, we are not aware of facts, circumstances or other information, on the basis of which to draw a conclusion, that there are cases of significant non-correct presentation and disclosure in accordance with the applicable requirements of IFRS, adopted by the European Union. The results of our auditing procedures about transactions and events of the Company, important for the financial statement, have been examined by us in the context of forming our opinion on the financial statement as a whole, not with a purpose to express an individual opinion on these important transactions.

Reporting under art.10 of Regulation (EU) No537/2014 in connection with the requirements of art.59 of the Independent financial audit act

According to the requirements of the Independent financial audit act in connection with art.10 of Regulation (EU) No537/2014, we hereby report further the below information:

- Nikolay Polinchev is appointed as a statutory auditor of the financial statement for the year, ending on 31.12.2019 of Intercapital property development ICPD (“the Company”) by the general meeting of the shareholders, held on 29th of June 2019, for a period of one year;
- The audit of the financial statements of the company for the year, ending on 31.12.2019, appears first full commitment for a statutory audit of that enterprise, made by us;
- We hereby conform that the auditor’s opinion, expressed by us, corresponds to the additional report, presented to the Audit committee of the Company, according to the requirements of art.60 of the Independent financial audit act;
- We hereby confirm that we have not provided prohibited services except the audit, which services are specified in art.64 of the Independent financial audit act;
- We hereby confirm that upon making the audit we have reserved our independency from the Company;
- For the period, concerned by the statutory audit, made by us, except the audit we have not provided other services to Intercapital property development ICPD and the enterprises, controlled by it, which are not specified in the report for the activity or the financial statement of Intercapital property development ICPD.

Other information different from the financial statement and the auditors’ report on it

The management shall be responsible for the other information. The other information comprises a report for the activity, developed by the management according to chapter seventh of the Accountancy act, but it does not conclude the financial statement and our auditors ‘report on it.

Our opinion on the financial statement does not comprise the other information and we do not express any form of conclusion for certainty as far as it is concerned, unless it is explicitly specified in our report and till the extent it is specified.

In relation to our audit of the financial statement, our responsibility is to read the other information and thus to judge whether that other information is materially inconsistent with the financial statement or our knowledge, obtained during the audit, or in another way it seems to contain significant incorrect reporting. If on the basis of the work we have done, we have reached a conclusion that it exists significant incorrect reporting in that other information, we are required to report this fact.

As it is described in the section “Basis for expression of a qualified opinion”, we were not able to receive sufficient and proper auditing evidence as regards the recoverable cost of the receivables of the company at 31 of December 2019, respectively we are not able to reach a conclusion whether other information does not contain in relation to these issues significant incorrect reporting of the financial indicators and the accompanying disclosures of these objects.

Responsibilities of the management for the financial statement

The Management bears responsibility for the development and proper presentation of this financial statement in accordance with the International accounting standards, adopted by the European Union and for such internal control system, as the management determines as necessary for ensuring the development of financial statements, which do not contain significant incorrect reporting, regardless whether (these are) due to a deceit or a mistake.

Upon developing the financial statements the management is responsible for evaluating the capacity of the company to continue functioning as a going concern, disclosing, when appropriate, issues related to the assumption for a going concern and using the accounting basis on the grounds of the assumption for a going concern, unless the management intends to liquidate Intercapital property development ICPD or to suspend its activity, or if in fact the management does not have other alternative but to act this way.

The persons, empowered with the general management, shall be responsible for making supervision on the process of financial reporting of the company.

Responsibilities of the auditor for the audit of the financial statements

Our intentions are to obtain a reasonable level of certainty as regards the fact whether the financial statement as a whole contains significant diversions, irrespective whether due to a deceit or a mistake and to issue an auditors' report, which to contain our opinion. The reasonable level of certainty is a high level of certainty, but it is not a guarantee that an audit, made in accordance with the International auditing standards (IAS), shall always reveal a significant diversion, when such diversion exists. The diversions may appear as a result of a deceit or a mistake and they are considered as being significant if it would be expected that they, independently or as totality, shall influence the economic decisions of the consumers, taken on the basis of this auditors' report.

Further details about our responsibility are placed in Enclosure to the present report.

Certified auditor:

Nikolay Polinchev

Date: 27 of March 2019

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Oval stamp with inscription:

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Nikolay Polinchev

Certified auditor

ENCLOSURE to a report of the independent auditor on the financial statements of Intercapital property development ICPD for 2019

Responsibilities of the auditor for the audit of the financial statement

As a part of the audit in accordance with the IAS, we hereby use a professional evaluation and we keep professional skepticism during the entire audit.

We also:

- Identify and assess the risks of significant diversions in the financial statement, regardless whether due to a deceit or a mistake, we develop and implement auditing procedures as a response to these risks and we obtain auditing evidence, which to appear sufficient and proper in order to provide grounds for our opinion. The risk not to be revealed a significant diversion, which is a result of a deceit is higher than the risk of significant diversion, which is a result of a mistake, because the deceit might comprise secret agreement, falsification, intentional omissions, statements for misleading the auditor, as well as neglecting or avoiding the internal control.
- We obtain understanding about the internal control, related to the audit, in order to develop auditing procedures, which to be appropriate at the particular circumstances, but not with intention to express opinion regarding the internal control of the company;
- We evaluate the relevance of the used accounting policies and the rationality of the accounting estimates and the related disclosures made by the management;
- We draw conclusion regarding appropriateness of use from the management of the accounting basis, on the grounds of the assumption for a going concern and, on the basis of the received auditing evidence, regarding (the fact) whether it exists material uncertainty, concerning events or conditions, which could rise significant doubts as regards the capacity of the company to continue functioning as a going concern. If we reach to a conclusion that it exists material uncertainty, we are required to attract attention in the auditors' report to the disclosures in the financial statement related to that uncertainty or in case these disclosures appear inadequate, (we are required) to modify our opinion. Our conclusions are based on the auditing evidence, received till the date of our auditors' report. Future events or conditions however may be a reason for the company to suspend its functioning as a going concern.
- We evaluate the entire presentation, structure and contents of the financial statements, including the disclosures and whether the financial statements present the underlying transactions and events in a way, which reaches reliable presentation.

We communicate with the persons, entrusted with general management, along with the other issues, the planned scope and time of the audit implementation and the significant findings of the audit, including significant faults in the internal control, which we identify during the audit we make.

We also provide the persons, entrusted with general management, with a statement that we have implemented the applicable ethical requirements in connection with the independency and that we shall communicate to them (these persons) all relations and other issues, which could reasonably be considered as related to our independence and when applicable, the related protective measures.

Amongst the issues, communicated with the persons, entrusted with general management, we determine these issues, which have been of greatest importance upon the audit of the financial statements for the current period and which therefore appear key auditing issues. We describe these issues in our auditors' report, except in the cases, when a law or normative act prevents the public disclosure of information on that issue or when in exceptionally rare cases we (will) decide that a certain issue should not be communicated in our report, because it would be reasonably expected that the unfavorable consequences of such action would exceed the benefits as far as the public interest of such communication is concerned.