

INDEPENDENT AUDITORS' REPORT

(Free translation)

To the Shareholders of TURISM, HOTELURI, RESTAURANTE MAREA NEAGRĂ S.A MANGALIA

1. We have audited the accompanying consolidated financial statements of Turism, Hoteluri, Restaurante Marea Neagră SA Mangalia and its subsidiary („the Group”), which comprise the statement of financial position as at December 31, 2016, and the statement of comprehensive income, statement of changes in equity, statement of cash flows and notes to consolidated financial statements for the year then ended, represented by:

- Net profit:	4,399,514 lei
- Income:	48,174,341 lei
- Total assets:	263,357,756 lei

2. In our opinion, except for the effects of the matter described at point 3 and 4 in the *Basis for Qualified Opinion*, paragraph 7, the consolidated financial statements present fairly, in all material respects, the financial position of Turism, Hoteluri, Restaurante Marea Neagră SA Mangalia as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Accounting Law no. 82/1991, republished, including subsequent amendments and additions, Order of the Minister of Public Finance of Romania no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and the Order of the Minister of Public Finance no. 2844/2016 for approval the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, including subsequent amendments and additions.

Basis for Qualified Opinion

3. Upon the finalization of audit procedures for verification of commercial receivables, other than using the confirmation procedure, led us to the conclusion of doubtful receivables, probably uncollectable, in the amount of 1,265,103 RON for which the group has not set up adjustments for depreciation, which in our opinion is not in accordance with the international financial reporting standards that calls for making adjustments for depreciation or loss value uncertainties when they are identified. Commercial receivables represent a significant component in the structure of financial position at the end of the financial year.

4. We conducted our audit in accordance with International Standards on Auditing (ISA) elaborated by International Federation of Accountants (IFAC) and adopted by Financial Auditors' Chamber of Romania (CAFR). Those Standards require that, we must agree with ethical requirements and planning and performing the audit in order to obtain reasonable assurance about whether the financial statements are free from material misstatement.

We consider that the audit evidences we have obtained are sufficient and appropriate in order to form a basis for our audit opinion.

Observations

5. Without further qualifying our opinion on the consolidated financial statements prepared by the Group for the financial year ended 31 December 2016, we consider necessary to present the existence of litigations - as disclosed in Note 24 "Contingencies" may involve risks of ownership of assets, along with evidence of losses from other operating activities, as the litigation against Mangalia Tax Department and Eforie Tax Department which highlights the risk of increasing debts and additional penalties beyond the amounts recognized and assumed by the Group as at 31 December 2016 depending on evolution of the litigation.

Key audit matters

6. The key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters.

i) Revenue recognition

At the level of revenue recognition there are risks of material misstatements like the situations where there may not be recognized by the group's management in accordance with applicable accounting regulations. There may be risks both in terms of the amount of revenue recognized as well as the time of their recognition of possible significant material misstatements regarding the application of the principle of accrual-based accounting.

Our response to these risks of material misstatements have resulted in performing audit procedures with the purpose of: analysis of contracts, testing the revenue recognition method in accordance with the contract clause, to obtain sufficient audit evidence and adequate both in connection with the recognition of revenue, but also with accuracy assertions testing.

ii) Valuation of receivables

According to the applicable accounting regulations, requirements management achieves assertions concerning the assessment of receivables at the reporting date, presenting them at the value at which they are expected to be completed

Our response concerning the risks of material misstatement relating to the management of the group's related to the valuation of such receivables at the reporting date, resulted in audit procedures whereby we tested the recognition of doubtful receivables as well as tests for the recalculation of the provisions for doubtful receivables, for those receivables whose due date had been exceeded by more than a year, i.e. claims involved in litigation.

Material misstatements identified in these tests led us, moreover, to amend the opinion as a result of significant material misstatements.

iii) *Valuation of tangible assets*

The management's assertions regarding the valuation of tangible fixed assets can pose risks of significant material misstatements that would manifest itself in the sense of the non-provision of applicable accounting regulation to assessment in accordance with IAS 16 Tangible assets", at the time of reporting.

Our response to these risks of misstatements regarding the valuation, meant using tests by which we observed the nature of expenditure capitalized into the cost of the upgraded asset during the year 2016. We had in mind the risks identified in accounting treatments presented by the group in the preceding financial years in connection with the refurbishment carried out on the existing tangible asset that existed at the reporting date, and we performed procedures whereby we obtained reasonable assurance that there are no significant material misstatements with respect to these assertions.

iv) *Materiality threshold*

Materiality threshold determined by the auditor as a result of the application of professional judgement as it is prescribed the International Standards on Auditing.

The benchmark used as a basis in determining materiality was represented by operational revenue taking into account the specifics of the industry in which the group operates. Materiality threshold calculated for the audit mission was 524,000 RON.

v) *Continuity of activity*

The management of the entity is responsible for the evaluation and assessment of preconditions for the continuity in the establishment of the financial statements.

Our response was the understanding of the existing risk of material misstatements in connection with the management's assertion regarding on-going concern and we analyzed aspects of developments, the budget of income and expenditure for the financial year approved for 2017, we have examined the records and the minutes of the Management Board and the General meetings of shareholders, as well as existing assumptions for tourist season for 2017.

All of this led us to the assessment that:

- presumption of going concern in the preparation of the annual financial statements, assumed by the group's management, is adequate; and
- we have not identified any significant uncertainty that could question the Group's ability to continue working, in the foreseeable future.

Other matters

7. This independent auditor's report is addressed exclusively to the shareholders of the Group. Our audit was conducted in order to be able to report to the shareholders in accordance with the reporting requirements of a financial audit, and not for other purposes. To the extent to which the law allows it, we do not accept and assume any responsibility except for the Group and its Shareholders in respect to our audit, to the report on the separate financial statements and the report on conformity or the opinion.

8. The annexed consolidated financial statements are not meant to show the financial position, the financial performance and a complete set of notes to the separate consolidated statements in accordance to accounting regulations and principles in other countries and jurisdictions than Romania. Therefore, the annexed consolidated financial statements are not for the use of persons who are not familiar with International Financial Reporting Standards and legal regulations in Romania.

Management's Responsibility for the Separate Financial Statements

9. Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Accounting Law no. 82/1991, republished, including subsequent amendments and additions, Order of the Minister of Public Finance of Romania no. 881/2012 on application by companies whose securities are admitted to trading on a regulated market of International Financial Reporting Standards and the Order of the Minister of Public Finance no. 2844/2016 for approval the Accounting Regulations in accordance with International Financial Reporting Standards and is also responsible for the internal control considered necessary for the preparation of the consolidated management report that is free from material misstatement due to fraud or error.

10. In preparing the 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

11. Those charged with governance are responsible for supervising the financial reporting process of the Group.

Auditor's Responsibility

12. Our objectives are to obtain reasonable assurances regarding the extent to which the financial statements, taken as a whole, contain no significant material misstatements, caused by either fraud, or error, as well as the issuance of a report from the Auditor that includes our opinion. Reasonable assurance means a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA will always detect a significant material misstatement, if it exists. Any misstatements can be caused either by fraud or by error and are considered significant if it is foreseeable, reasonably, that they, singly or in the aggregate, will influence the economic decisions of users taken on the basis of these financial statements.

13. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. 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. We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communications.

Report on the Consolidated management report

14. The management is responsible for preparing and presenting the consolidated management report in accordance with Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards applicable to companies whose securities are admitted to trading on a regulated market, chapter III, Section 4, points 26 – 28, that is free from material misstatements and is also responsible for the internal control considered necessary for the preparation of the consolidated management report that is free from material misstatement due to fraud or error.

The Consolidated Management Report presented at page 1 to page 29 and is not part of the consolidated financial statements. Our opinion on the consolidated financial statements does not cover the consolidated management report.

Regarding our audit on the consolidated financial statements, we read the consolidated management report annexed to the consolidated financial statements and presented at page 1 to page 29 and we conclude that:

- a) In the consolidated management report, we did not find information that is not consistent, in all material aspects, with the information presented in the annexed consolidated financial statements;
- b) The consolidated management report identified above includes, in all material aspects, the information requested by Order of the Minister of Public Finance no. 2844/2016 for approval of the Accounting Regulations in accordance with International Financial Reporting Standards, chapter III, Section 4, points 26 - 28;
- c) Based on our knowledge and understanding acquired during the audit of the consolidated financial statements for the financial year ended at 31 December 2016, regarding the Group and its environment, we did not identify any information contained in the consolidated management report that are significantly misstated.

Timișoara, 22 March 2017

On behalf of A.B.A. AUDIT SRL

Registered with the Chamber of Financial Auditors from Romania
No. 305/23 December 2002

Dr. Dumitrescu Alin Constantin

Registered with the Chamber of Financial Auditors from Romania
No. 4227/29 February 2012