

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of XYZ Company Limited

Report on the Audit of the Financial Statements

Opinion with Emphasis of Matter

We have audited the accompanying financial statements of XYZ Company Limited ("the Company"), which comprise the statement of financial position as at 31 December 2023, and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, except for the matter described in the **Basis for Modified Opinion** section of our report, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

BASIS FOR MODIFIED OPINION

As discussed in Note 14 to the financial statements, the Company has not recognized a provision for litigation claim amounting to \$600,000. In our opinion, this should have been recognized, as required by IAS 37: Provisions, Contingent Liabilities and Contingent Assets. If the provision had been recognized, current liabilities and operating expenses would have increased, and profit for the year and shareholders' equity would have decreased by that amount.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our modified opinion.

EMPHASIS OF MATTER

We draw attention to Note 20 to the financial statements, which describes the uncertainty related to the outcome of the litigation claim. Our opinion is not further modified in respect of this matter.

OTHER INFORMATION

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the 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.

Authorised Signature

ABC Audit Firm

[Auditor's Name]

[Professional Qualification]

[Date]

IMPORTANT NOTES

- This type of opinion is issued when the auditor concludes that, except for certain matters, the financial statements present fairly the company's financial position.
- The "modified unqualified opinion" draws attention to specific areas of non-compliance or uncertainty, without fully disclaiming the statements.
- An emphasis of matter paragraph highlights significant issues that users should be aware of but does not further modify the audit opinion.
- This report must clearly state the basis for the modification to ensure transparency for stakeholders.
- Users should read the notes referenced in the report for additional details on the matters raised.