

**INDEPENDENT AUDITOR'S  
REPORT**

**TO  
THE GENERAL MEETING OF SHAREHOLDERS  
OF  
TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.  
SOFIA  
UIC No. 103524525**

**Opinion**

We have audited the financial statements of Tchaikapharma High Quality Medicines Inc. (the Company) containing the statement of financial position as of the 31<sup>st</sup> of December 2016 and the comprehensive income statement, statement of changes in equity and cash flow statement for the year ended that date, and the explanatory notes to the financial statements contained, and a summary of significant accounting policies.

In our opinion, the attached financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

**Basis for the opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA). Our responsibilities under these standards are further described in the section of our report “Responsibilities of the auditor for the audit of the financial statements”. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants of the International Ethics Standards Board for Accountants (IESBA Code ), together with the ethical requirements of the Independent Financial Audit Act (IFAA) applicable to our audit of the financial statements in Bulgaria and we have fulfilled our other ethical responsibilities in accordance with the requirements of IFAA and the IESBA Code. We believe that the audit evidence obtained by us are sufficient and appropriate to provide a basis for our opinion.

**Key audit issues**

Key audit issues are those issues which according to our professional judgment were of the greatest significance in the audit of the financial statements for the current period. These issues are addressed as part of our audit of the financial statements as a whole and the formation of our opinion on it, as we do not provide a separate opinion on these issues.

<b>Key audit issue</b>	<b>How this key audit issue was addressed in the conducted audit</b>
<p><i>Due to macroeconomic and internal organizational reasons for the company's established risk of formation of cost, write-off in consumption and sales, confirmation with inventory, possible understatement of inventories in the financial statements of the company. The Company operates in a dynamic market with strong competitiveness and sometimes unexpected changes in demand, which requires periodic changes in the production program and technology.</i></p> <p><i>Inventories are a significant part of the company's assets and are about BGN 5 million at book value, almost entirely in the form of materials, to a lesser extent as goods and merchandise. Over the year there were about BGN 32 million from revenues and written-off inventories. On the basis of cost of production, which includes mainly materials, vast majority of the company's profit after selling the produce is accumulated. The reliability of financial statements depends largely on formation and write-off of cost of inventories, on conduct of annual inventory and, if necessary, on the impairment of certain nomenclatures of assets.</i></p>	<p>During our audit we evaluated the adequacy and consistency of the applied accounting policy of the Company in connection with the formation of the cost of inventories.</p> <p>During our audit we evaluated the adequacy and consistency of the applied accounting policy of the Company in connection with the write-off of inventories in consumption and sales.</p> <p>During our audit we evaluated the adequacy and consistency of the company applied accounting policy in relation to conduct of inventory before the annual financial statements.</p> <p>During our audit we evaluated the adequacy and consistency of the applied accounting policy of the Company in connection with the testing for impairment of inventories. We checked the methods used to form the cost of materials and goods and cost of production.</p> <p>We checked the methods used to write off at standard prices of materials used and of production and goods sold, with subsequent adjustments to the actual cost.</p> <p>We checked the procedures used for inventory before the annual financial</p>

<p><i>Due to the substantial value of inventories for us, as auditors, this suggests that particular attention should be paid and analysis of the proper evaluation of inventories in the financial statements of the Company at year-end should be carried and we have defined this issue as a key issue.</i></p>	<p>statements, by taking part in the inspections. We checked the methodologies used to calculate immobilisation of inventories and the potential for future use in the production or sale in a dynamic market conditions.</p> <p>We reviewed for adequacy the market data used by the company in the test for impairment of inventories. We tested the effectiveness and successive application of the company control procedures relating to current and annual evaluation of inventories.</p> <p>Based on our procedures we have not found any significant problems with the formation of the cost, write-off in consumption and sales, inventory confirmation, possible overstatement of inventories in the financial statements of the company.</p>
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**The responsibilities of the Management for the Financial Statements**

The Management is responsible for the preparation and fair presentation of these financial statements in accordance with the IFRS as adopted by the EU, and for such internal control as the management determines are necessary to ensure the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

In preparing the financial statements the management is responsible for assessing the Company's ability to continue as a going concern, disclosing, when applicable, issues related to the going concern assumption and using the accounting basis for the going concern assumption, unless the management does not intend to liquidate the Company or to cease trading, or if the management has no alternative but to do so.

**The responsibilities of the Auditor for the audit of the Financial Statements**

Our goals are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an audit report which includes our audit opinion. Reasonable level of assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with the Independent Financial Audit act and ISA will always reveal material misstatements where such exist. Misstatements can occur as a result of fraud or error and are considered material if it could reasonably be expected

that they, individually or as a group, could influence the economic decisions of users taken on the basis of this financial statements.

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

- identify and assess the risks from material misstatements in the financial statements, whether due to fraud or error, develop and implement audit procedures in response to these risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not revealing significant misstatements, resulting from fraud is higher than the risk of material misstatements resulting from error, because fraud may involve secret collusion, forgery, deliberate omissions, statements aimed to deceive the auditor and neglect or circumvention of internal controls;
- obtain an understanding of internal controls 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 internal control of the Company;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management;
- reach a conclusion on the appropriateness of the use by management of the accounting based on the going concern assumption and based on the audit evidence obtained as to whether there is a material uncertainty related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we reach the conclusion that there is significant uncertainty, we are required to attract attention in the audit report to the uncertainty disclosures in the financial statements or in the event that such disclosures are inadequate to modify our opinion. Our conclusions are based on audit evidence obtained to date of our audit report. Future events or conditions may, however, cause the Company to cease its operations as a going concern;
- evaluate the overall presentation, structure and content of financial statements, including the disclosures and whether the financial statements present the fundamental transactions and events in a manner that achieves fair presentation.

We communicate to the management, among other issues, the planned scope and timing of the audit and significant audit findings, including significant deficiencies in internal control that were identified during our audit.

**Information other than the financial statements and the auditor's report thereon**

The Management is responsible for the other information. The other information comprises activity report prepared by management in accordance with Chapter Seven of the Accounting Act, but does not include the financial statements and our audit report thereon.

Our opinion on the financial report does not cover other information and we do not express any form of conclusion of certainty about it, unless explicitly stated

in our report and to the extent it is stated.

In connection with our audit of the financial statements, our responsibility is to read the other information and thus to assess whether this other information is materially inconsistent with the financial statements or with the knowledge we gained during the audit or it seems to contain substantially incorrect reporting. In case, on the basis of the work that we have done, we reach the conclusion that there is a substantial incorrect reporting in this other information, we are required to report this fact.

We have nothing to report in this regard.

### **Report in relation to other legal and regulatory requirements**

#### *Additional questions raised for reporting by the Accounting Act and the Public Offering of Securities Act*

In addition to our responsibilities and reporting under ISA described above in section “Information other than the financial statements and the auditor's report thereon” with regard to the activity report, we have performed also procedures added to the required according to the ISA, in accordance with the Guidelines of the Professional organization of Certified Public Accountants and registered auditors in Bulgaria – Institute of Certified Public Accountants (ICPA), issued after approval by its Board of 29.11.2016. These procedures relate to the controls of the form and content of such other information to help us in forming an opinion on whether the other information includes disclosures provided in Chapter Seven of the Accountancy Act and the Public Offering of Securities Act applicable in Bulgaria.

#### *Opinion in conjunction with Art. 37, para. 6 of the Accounting Act*

Based on the procedures performed, our opinion is that:

- a) The information included in the activity report for the financial year for which financial statements was prepared is in line with the financial statements;
- b) The activity report was prepared in accordance with the requirements of Chapter Seven of the Accountancy Act and Art. 100 (n), para. 7 of the Public Offering of Securities Act.

#### *Opinion in conjunction with Art. 100 (n), para. 10 in conjunction with Art. 100, Para. 8 pt. 3 and 4 of the Public Offering of Securities Act*

Based on the procedures performed and the acquired knowledge and understanding of the company and the environment in which it operates, in our opinion, the description of the main features of the internal control and risk management of the company in connection with the financial reporting process, which is part of the activity report (as part of the contents of the corporate governance statement) and information under Art. 10, para. 1, “c”, “d”, “e”, “h” and “i” of the Directive 2004/25 / EC of the European Parliament and of the Council of 21 April 2004 on takeover bids, do not contain cases of materially incorrect reporting.

**Additional reporting on the audit of financial statements in connection with Art. 100 (n), para. 4 pt. 3 of the Public Offering of Securities Act**

*Statement in relation to Art. 100 (n), para. 4 pt. 3 b."b" of the Public Offering of Securities Act.*

Information on related party transactions is disclosed in Appendix No.23 to the financial statements. On the basis of our audit procedures on related party transactions, as part of our audit of the financial statements as a whole, we have not become aware of facts, circumstances or other information on the basis on which to conclude that the transactions with related parties were not disclosed in the accompanying financial statements for the year ended December 31, 2016, in all material respects, in accordance with IAS 24 "Related Party Disclosures". The results of our audit procedures on related party transactions were reviewed by us in the context of the formation of our opinion on the financial statements as a whole and not to express a separate opinion on transactions with related parties.

*Statement in relation to Art. 100 (n), para. 4 pt. 3 b."b" of the Public Offering of Securities Act.*

Our responsibilities for the audit of the financial statements as a whole, described in the section of our report "The responsibilities of the Auditor for the audit of the Financial Statements" include assessing whether financial statements present the significant transactions and events in a manner that achieves fair presentation. On the basis of tests carried out by our audit procedures on essential transactions underlying the financial statements for the year ended December 31, 2016, we have not become aware of facts, circumstances or other information on the basis on which to conclude that there are cases of significant corrupt presentation and disclosure in accordance with the requirements of IFRS as adopted by the European Union. The results of our audit procedures on the essential to the financial statements transactions and events of the Company are considered by us in the context of the formation of our opinion on the financial statements as a whole and not to express a separate opinion on these significant transactions.

Auditor:

(Todor Krastev – Certified Public Accountant, responsible for the audit)

Sofia, 9 Tayanova vrata str., ap. 2  
17.03.2017