

## INDEPENDENT AUDITOR'S REPORT

**TO  
THE SHAREHOLDERS OF  
TCHAIKAPHARMA HIGH QUALITY MEDICINES INC.  
SOFIA, BULGARIA**

### **Opinion**

We have made an audit of the financial statements of Tchaikapharma High Quality Medicines Inc. (the Company) containing the statement of financial position as of December 31, 2021 and the statement of comprehensive income, the statement of changes in equity and the cash flow statement for the year ended on that date, as well as the clarification notes to the financial statements, containing also summary disclosures of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and its financial results of operations and cash flows for the year ending on that date, in accordance with the International Financial Reporting Standards (IFRS) as adopted by the European Union (EU).

### **Basis of the opinion**

We have made our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under these standards are further described in the section "Auditor's responsibilities for the audit of the financial statements" of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Standards of Independence) of International Ethics Standards Board for Accountants (Code of IESBA), together with the ethical requirements of the Independent Financial Audit Act (IFAA) applicable to our audit of the financial statements in Bulgaria, having fulfilled all our other ethical responsibilities in accordance with the IFAA and the Code of IESBA. We believe that the audit evidence we have received is sufficient and appropriate to provide a basis for our opinion.

### **Key auditors' issues**

Key audit issues are those that, in our professional judgment, have been of the highest importance 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 for the formation of our opinion thereon, and we do not provide a separate opinion on these issues.

Key auditor's issue	How this key audit issue was addressed in our audit
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<p><i>For macroeconomic and internal organizational reasons, the company has identified a risk of cost formation, write-off in consumption and sales, confirmation with inventory checks, possible overestimation of inventory in the financial statements of the company. The company operates in a dynamic market with strong competitiveness and sometimes unanticipated changes in demand, which necessitates periodic changes in the production program and technology. Inventories have a significant share in the company's assets, and are around 11 million BGN at book value as at 31.12.2021, almost entirely in the form of materials, and to a lesser extent in the form of production and goods. During the year, turnovers around 44 million BGN are generated from the receipts and write-offs of inventories. Based on the formed cost of production, in which materials are mainly involved, a large part of the company's profit after the sale of production is accumulated. The reliability of the financial statement depends to a large extent on the formation and write-off of the cost of inventories, the carrying out of an annual inventory and, if necessary, the impairment of individual asset nomenclatures. Due to the material value of inventories, for us as auditors, this requires special attention and analysis of the proper valuation of inventories in the financial statements of the company at the end of the financial year, and we have identified this issue as a key one.</i></p>	<p>During our audit, we have evaluated the adequacy and consistency of the accounting policies applied by the company in relation to the inventories cost formation. During our audit, we have evaluated the adequacy and consistency of the accounting policies applied by the company in relation to inventory write-offs for consumption and sales. During our audit, we have evaluated the adequacy and consistency of the accounting policies applied by the company in relation to the carrying out of inventory checks prior to the preparation of the annual financial statements. During our audit, we have evaluated the adequacy and consistency of the accounting policies applied by the company in relation to inventory impairment testing. We checked the methodologies used to determine the cost of materials and goods and the cost of production. We checked the methodologies used to write off at the standard cost of materials in use and of products and goods at sale, with subsequent adjustments to the actual cost of acquisition. We checked the inventory-check procedures used before the annual financial statements preparation, and participated in part of the inspections. We checked the methodologies used for calculating the immobility of inventories and the possibilities for their future use in production or sale under dynamic market conditions. We have reviewed for adequacy the market data used by the company in the inventory impairment test. We tested the effectiveness and consistent application of the control procedures put in place by the company related to the current and annual inventory assessment. Based on our procedures, we have not identified any material problems related to cost formation, write-offs for consumption and sales, inventory-check confirmation, possible overestimation of inventories in the company's financial statements.</p>
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### **Emphasis of matter**

We draw attention to Explanatory Note 22 Events Following the Report Date to the Annual Financial Report, which describes the continuing effects of the pandemic during 2022 has a positive tendency for the removal of part of the restrictive measures, implemented by the government. It is possible that additional effects on the company's business activities may

arise. Those possible effects depend on factors beyond the influence of the company, which does not allow for the company's management to measure them sufficiently.

Our opinion is not modified in respect of this matter.

We draw attention to Explanatory Note 22 Events Following the Report Date to the Annual Financial Report, which describes the management's evaluation of the actual and potential influence of the consequences of the military actions in Ukraine, on the company. Those possible consequences depend on factors beyond the influence of the company, which does not allow for the company's management to measure them sufficiently.

Our opinion is not modified in respect of this matter.

**Other information, different from the financial statement and the auditor's report thereon**

The management is responsible for the other information. Other information consists of an activity report, incl. corporate governance statement and the report on the implementation of the remuneration policy prepared by the management under Chapter Seven of the Accounting Act but does not include the financial statement and our audit report thereon that we received before the date of our auditor's report.

Our opinion on the financial statement does not cover other information, and we do not express any form of security conclusion about it unless explicitly stated in our report and to the extent that it is stated.

In connection with our audit of the financial statements, it is our responsibility to read the other information and thus evaluate whether that other information is materially inconsistent with the financial statement or our knowledge acquired during the audit, or otherwise seems to contain material misreporting. If, on the basis of the work we have done, we conclude that there is material misreporting in this other information; we are required to report this fact.

We have nothing to report in this regard.

**Responsibilities of the management and the people in charge of the general management for the financial statements**

The management is responsible for the preparation and fair presentation of these financial statements in accordance with IFRSs applicable in the EU and for such internal control systems as the management deems necessary to ensure the preparation of the financial statements that do not contain material misstatements, whether due to fraud or mistake.

In the financial statements preparation, the management is responsible for evaluating the ability of the Company to continue to function as a going concern, disclosing, where applicable, issues related to the going concern assumption and using the accounting basis based on the going concern assumption, unless the management intends to liquidate the Company or to cease its activity, or if the management has practically no alternative but to do so.

The persons in charge of the general management are responsible for the Company's financial reporting process supervision.

**Auditor's Responsibilities for the Financial Statements Audit**

Our goals are to obtain a reasonable degree of certainty as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our audit opinion. A reasonable degree of security is a high degree of certainty, but there is no guarantee that an audit performed in accordance with the Independent Financial Audit Act and ISA will always reveal material misstatement, if available. Misstatements may result from fraud or error and are considered material if it could reasonably be expected that they, alone or as a whole, could influence the economic decisions of consumers made on the basis of this financial report.

As part of the ISA-compliant audit, we use professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and evaluate the risks of material misstatements in the financial statements, whether due to fraud or error, develop and implement audit procedures to address those risks, and obtain audit evidence that is sufficient and relevant to provide a basis for our opinion. The risk of not detecting material misstatement resulting from fraud is greater than the risk of material misstatement resulting from an error, as fraud may include collusion, falsification, deliberate omissions, statements to mislead the auditor, as well as neglecting or circumventing internal control.
- obtain an understanding of the internal control relevant to the audit to develop audit procedures that are appropriate in the particular circumstances, but not aimed to express an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- conclude on the appropriateness of the management's use of accounting basis on the assumption of a going concern and on the audit evidence obtained, whether there is a material uncertainty about events or conditions that could give rise to significant doubts about the Company's ability to continue to operate as a going concern. If we conclude that there is a material uncertainty, we are required to draw attention in our audit report to the disclosures related to that uncertainty, or if those disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained by the date of our audit report. However, future events or conditions may cause the Company to cease operating as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including disclosures, and whether the financial statements present the underlying transactions and events in such a way as to achieve fair presentation.

We communicate with the management, among other issues, the intended scope and timing of the audit and the material audit findings, including material deficiencies in the internal control that we identify during our audit.

We also provide the people in charge of the general management with a statement that we have met the applicable ethical requirements regarding independence and that we will communicate with them all relationships and other issues that might reasonably be considered relevant to our independence, and, where applicable, related precautions.

Among the issues communicated with the people in charge of the general management, we identify those matters that were most relevant to the audit of the financial statements for the current period and which are therefore key audit matters. We describe these issues in our audit report, except in cases where a law or regulation impedes the public disclosure of information about that matter or when, in very rare cases, we decide that a matter should not be communicated in our report, as it would reasonably be expected that the

adverse effects of this action would outweigh the public interest benefits of such communication.

### **Report related to other legal and regulatory requirements**

#### ***Additional reporting issues stipulated in the Accounting Act and the Public Offering of Securities Act***

In addition to our responsibilities and reporting under ISA described above in the section "Other information, different from the financial statement and the audit report thereon" in respect of the activity report, the corporate governance statement and the report on the implementation of the remuneration policy, we also implemented the procedures added to the ISAs required under the "Guidelines for New and Extended Audit Reports and Auditor Communication" of the professional organization of registered auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures concern checks for the availability and format and content of such other information in order to assist us in forming an opinion on whether the other information includes disclosures and reporting, provided for in Chapter Seven of the Accountancy Act and the Public Offering of Securities Act, (Art. 100(n), para. 10 of POSA in connection with Art. 100(n), para. 8, items 3 and 4 of POSA) applicable in Bulgaria.

#### ***Opinion in connection 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 the financial statement was prepared for is consistent with the financial statement.
- b) The activity report has been prepared in accordance with the requirements of Chapter Seven of the Accounting Act and of Art. 100(n), para. 7 of the Public Offering of Securities Act.
- c) The corporate governance statement for the financial year the financial statements have been prepared for presents the information required under Chapter Seven of the Accounting Act and Art. 100(n), para. 8 of the Law on Public Offering of Securities.
- d) The report on the implementation of the remuneration policy for the financial year for which the financial statements are drawn up has been submitted and complies with the requirements laid down in the regulation referred to in Article 116c(1). 116(1) of the Public Offering of Securities Act.

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

Based on the procedures performed and the knowledge and understanding of the enterprise's activities and the environment in which it operates, in our opinion, the description of the main features of the entity's internal control and risk management systems in relation to the financial reporting process, which is part of the activity report (as an element of the contents of the corporate governance statement) and the information under Art. 10, para. 1, letters "c", "d", "f", "h" and "i" of Directive 2004/25/EC of the European Parliament and of the

Council of April 21, 2004 on takeover proposals do not contain cases of material misreporting.

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

***Statement regarding Art 100(n), para. 4, item 3, "b" of the Public Offering of Securities Act***

Information concerning related party transactions is disclosed in the Appendix to the financial statements. Based on our audit procedures for related party transactions as part of our audit of the financial statements as a whole, we are not aware of facts, circumstances, or other information that may lead us to conclude that related party transactions have not been disclosed in the accompanying financial statements for the year ended December 31, 2021, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of our audit procedures for related party transactions are considered by us in the context of forming our opinion on the financial statements as a whole, and not for the purpose of expressing a separate opinion on related party transactions.

***Statement regarding Art. 100(n), para. 4, item 3,1. "C" of the Public Offering of Securities Act***

Our audit responsibilities for the financial statements as a whole, described in the section of our report titled "Auditor's Responsibilities for the Audit of the Financial Statements", include evaluating whether the financial statements present material transactions and events in a way to achieve fair presentation. Based on our audit procedures for the material transactions underlying the financial statements for the year ended December 31, 2021, we are not aware of any facts, circumstances or other information from which we can conclude that there are cases of material misstatement and disclosure in accordance with the applicable IFRS requirements adopted by the European Union. The results of our audit procedures for the material 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 for the purpose of expressing a separate opinion on those material transactions.

***Reporting in accordance with the electronic format of the financial report, included in the annual individual financial report in connection with Art. 100(n), para. 4 of the Public Offering of Securities Act in regards with the requirements of the ESEF Regulation.***

In addition to our responsibilities and reporting in regards to the ISAs, described above in the paragraph named "Auditor's Responsibilities for the Financial Statements Audit" we implemented the procedures in accordance with the "Instructions regarding the basis of auditor's opinion in relation to the implementation of the application of the European Single Electronic Format (ESEF) for the financial statements of companies with securities listed on an European Union (EU) regulated market" by the professional organization of the statutory auditors of Bulgaria, The Institute of Certified Public Accountants (ICPA). These procedures concern the revision of the format and the conformity between the human-readable part of this electronic format and the audited individual financial statement, and the basis of opinion in regards to the conformity of the electronic format of the financial statement of Tchaikapharma High Quality Medicines Inc. (the Company) for the year ending at the 31<sup>st</sup> December 2021, applied in the file named "5299003VDHTK75D1JE38-20211231-BG-SEP", with the

requirements of the Commission Delegated Regulation (EU) 2019/815 of 17 December 2018 supplementing Directive 2004/109/EC of the European Parliament and of the Council with regard to regulatory technical standards on the specification of a single electronic reporting format (ESEF Regulation). In regards to those requirements the electronic format of the financial statement, included in the individual annual financial statement in connection with Art. 100(n), para. 4 of the Public Offering of Securities Act in regards with the requirements of the ESEF Regulation.

The company's management is responsible for the application of the requirements of the ESEF Regulation when preparing the electronic format of the financial statement in XHTML.

Our opinion is solely in regards to the electronic format of the financial statement applied in the file named "5299003VDHTK75D1JE38-20211231-BG-SEP" and does not include the other information included in the annual financial statement in connection with Art. 100(n), para. 4 of the Public Offering of Securities Act.

Based on the preformed procedures, our opinion is that the electronic format of the company's financial statement the year ending at the 31<sup>st</sup> December 2021, contained in the file named "5299003VDHTK75D1JE38-20211231-BG-SEP" is completed in all material respects in accordance with the requirements of the ESEF Regulation.

***Reporting under Art. 10 of Regulation (EU) No 537/2014 in connection with the requirements of Art. 59 of the Independent Financial Audit Act***

In accordance with the requirements of the Independent Financial Audit Act in connection with Art. 10 of Regulation (EU) No 537/2014, we further report the information below.

- Asen Kitov was appointed as a statutory auditor of the financial statements for the year ending December 31, 2021 at Tchaikapharma High Quality Medicines Inc. at the General Meeting of Shareholders held on 14.06.2021 for a period of one year.
- The audit of the financial statements for the year ended December 31, 2021 of the Company is the first commitment to statutory audit of that entity as a business of public interest, carried out by us.
- We confirm that our auditor's opinion is in accordance with the supplementary report submitted to the Audit Committee of the Company in accordance with the requirements of Art. 60 of the Independent Financial Audit Act.
- We confirm that we have not provided the prohibited services specified in Art. 64 of the Independent Financial Audit Act outside the audit.
- We confirm that in the course of our audit we have maintained our independence from the Company.
- For the period covered by our statutory audit, apart from the audit, we have not provided additional services to the Company that are not specified in the Company's activity report or financial statements.

**Sofia, Bulgaria**  
**29.03.2022**

**Registered Auditor:**  
**/Asen Kitov /**



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**TO  
THE  
SHAREHOLDERS OF  
TCHAIKAPHARMA HIGH QUALITY  
MEDICINES INC. SOFIA, BULGARIA**

***DECLARATION under Art.  
100n, para. 4, item 3 of the  
Public Offering of Securities  
Act***

***UNDERSIGNED:***

Asen Kostov Kitov in my capacity as a registered auditor (with Reg. No 0234 of the register of ICPA under Art. 20 of the Independent Financial Audit Act) **hereby declare that**

I was engaged to carry out the statutory audit of the financial statements of "Tchaikapharma high quality medicines" Inc. for 2021, compiled in accordance with the International Financial Reporting Standards adopted by the EU, a common name of the accounting basis, as defined in item 8 of the AR of the Accounting Act under the name "International Accounting Standards", **and that** I am responsible for the audit commitment on my own behalf/on behalf of "AK Consult" Ltd company/.

As a result of the audit I made, I issued an audit report on 29.03.2022.

***I HEREBY CONFIRM THAT AS REPORTED IN MY AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF TCHAIKAPHARMA HIGH QUALITY MEDICINES INC. FOR 2021, PREPARED ON 25.03.2022:***

1. ***Art. 100n, para. 4, item 3, letter "a" Auditor's opinion:*** In my opinion, the accompanying financial statements present fairly, in all material aspects, the financial position of the Company as of December 31, 2021 and its financial results from its activities and cash flows for the year ending on that date, in accordance with the International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).
2. ***Art. 100n, para. 4, item 3, letter "b" Information relating to the transactions of Tchaikapharma High Quality Medicines Inc. with related parties.*** Information on related party transactions is duly disclosed in the Appendix to the financial statements. Based on the audit procedures I carried out for related party transactions as part of the audit of the financial statements as a whole, I was not aware of facts, circumstances or other information that would lead me

to conclude that any related party transactions have not been disclosed in the accompanying financial statements for the year ended December 31, 2021, in all material respects, in accordance with the requirements of IAS 24 *Related Party Disclosures*. The results of my audit procedures for related party transactions have been reviewed by me in the context of forming my opinion on the financial statements as a whole, not for the purpose of expressing a separate opinion on related party transactions.

- 3. Art 100n, para. 4, item 3, letter "c" Information relating to material transactions.** My audit responsibilities for the financial statements as a whole, described in the section "Auditor's Responsibilities for the Audit of the Financial Statements" of my report, include evaluating whether the financial statements present material transactions and events in a manner that achieves fair presentation. Based on the audit procedures performed by me on the material transactions underlying the financial statements for the year ended December 31, 2021, I was not aware of any facts, circumstances or other information from which I could conclude that there were cases of material misstatement and disclosure in accordance with the applicable IFRS requirements adopted by the European Union. The results of my audit procedures on the Company's material transactions and events are considered by me in the context of forming my opinion on the financial statements as a whole and not in order to express a separate opinion on those material transactions.

*The representations made with this declaration should be considered only in the context of the audit report issued by me on 29.03.2022 as a result of the independent financial audit of Tchaikapharma High Quality Medicines Inc.'s financial statements for the reporting period, ending on 31.12.2021, compiled on 25.03.2022. This declaration is intended solely for the above-mentioned addressee and has been prepared solely and only to fulfill the requirements set out in Art. 100(n), para. 4, item 3 of the Public Offering of Securities Act (POSA) and should not be taken as a substitute for my conclusions contained in the audit report issued by me on 29.03.2022 regarding the issues covered by Art. 100(n), item 3 of POSA.*



**Auditor:**  
**(Asen Kitov, Registered auditor)**

**Sofia, Bulgaria, 35 Trakia str., 2<sup>nd</sup> floor, office 6**  
**29.03.2022**