

**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 31st of December 2017 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, 2017 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.

Key audit issue	How this key audit issue was addressed in the conducted audit
<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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Information other than the financial statements and the auditor's report thereon

The management is responsible for the other information. The other information comprises an activity report, including a corporate governance statement, prepared by the management pursuant to Chapter Seven of the Accounting Act but does not include the financial statements and our auditor's report thereon, which we obtained prior to the date of our auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of conclusion regarding it unless expressly stated in our report and to the extent specified.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report this fact.

We have nothing to report in this regard.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and 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 communication.

Report on Other Legal and Regulatory Requirements

Additional reporting issues under the Accounting Act and the Public Offering of Securities Act

In addition to our accountability and reporting under the ISAs described above and the "Information other than the financial reports and the auditor's report thereon" section in relation to the activity report, the corporate governance statement, the non-financial statement and the government payments report, we have also implemented the procedures added to the required ISAs under the Guidelines for New and Extended Auditor's Reports and Communication by the Auditor of the Professional Organization of Registered Auditors in Bulgaria, the Institute of Certified Public Accountants (ICPA). These procedures cover verification of availability and the form and content of such other information in order to assist us in forming an opinion as to whether the other information includes the required statements and disclosures, (Article 100n, para 10 of the Accountancy Act and the Public Offering of Securities Act in conjunction with Article 100 (n), para 8, points 3 and 4 of the Public Offering of Securities Act), as well as the provisions of Chapter VII of the Accounting Act and the Public Offering of Securities Act, applicable in Bulgaria.

Opinion in connection with Art. 37, para. 6 of the Accounting Act

Based on the conducted procedures, our opinion is that:

a) The information included in the activity report for the financial year covered by the financial statements is consistent with the financial statements.

b) The activity report has been 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.

c) The corporate governance statement for the financial year covered by the financial statements includes the information required under Seventh Chapter of the Accountancy Act and Art. 100(n), para 8 of the Public Offering of Securities Act.

Opinion in connection with Art. 100 (n), para. 10 in conjunction with Art. 100(n), para. 8, points 3 and 4 of the Public Offering of Securities Act

Based on the procedures performed and the acquired knowledge and understanding of the enterprise 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 enterprise in connection with the financial reporting process, which is part of the activity report (as an element of the corporate governance statement) and the information under Art. 10, para. 1 (c), (d), (f), (h) and (i) of Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids do not contain any material misstatements.

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

Statement in connection with Art. 100 (n), para. 4, point 3, "b" of the Public Offering of Securities Act

Information on related party transactions is disclosed in Appendix No 23 to the financial statements. Based on the audit procedures performed by us on related party transactions as part of our audit of the financial statements as a whole, we have not become aware of any facts, circumstances or other information that might lead me to conclude that any related party transactions have not been disclosed in the accompanying financial statements for the year ended 31 December 2017, in all material respects, in accordance with the requirements of IAS 24 Related Party Disclosures. The results of my audit procedures on related party transactions have been dealt with by me in the context of forming my opinion on the financial statements as a whole and not for the purpose of expressing an opinion on related party transactions

Statement in connection with Art. 100 (n), para. 4, point 3, "c" of the Public Offering of Securities Act

Our responsibilities for auditing the financial statement as a whole, described in the "Auditor's Responsibilities for the Audit of the Financial Statement" section of my report include assessing whether the financial statements give a true and fair presentation of the essential transactions and events. Based on the audit procedures conducted by me on the essential transactions underlying the financial statements for the year ended December 31, 2017, we have not become aware of any facts, circumstances or other information that might lead us to conclude that there is any material untrue presentation or disclosure according to the applicable IFRS requirements adopted by the European Union. The results of our audit procedures on the Company's essential transactions in the financial statements have been dealt with by us in the context of forming our opinion on the financial statements as a whole, but not to express a separate opinion on these significant transactions.

Reporting under Art. 10 of Regulation (EC) No 537/2014 in relation to the requirements of Art. 59 of the Independent Financial Audit Act

According to the requirements of the Independent Financial Audit Act in relation to Art. 10 of Regulation (EC) No 537/2014, we further report the following information

– Todor Krustev has been appointed as statutory auditor of the financial statement for the year ended 31 December 2017 of Tchaikapharma High Quality Medicines AD by the General Meeting of Shareholders held on 08.06.2017 for a period of

one year.

– The audit of the financial statements for the year ended 31 December 2017 of the Company is the third full continuous statutory audit assignment of this public-interest entity performed by us.

– We confirm that our audit opinion is consistent with the additional 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 any of the forbidden services referred to in Art. 64 of the Independent Financial Audit Act outside the audit.

– We confirm that we maintained our independence in relation to the Company in conducting the audit.

– In the period covered by our statutory audit, beside the audit, we did not provide any additional services to the Company not disclosed in the Company's activity report or the financial statements.

Auditor: *Signature - illegible*

(Todor Krustev, registered auditor responsible for the audit)

Oval stamp: 0155 Todor Krustev, Registered Auditor

Sofia, 9 Trayanovi Vrata Str., flat No 2

08.03.2018

Auditor:

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

Sofia, 9 Tayanova vrata str., ap. 2

17.03.2017