

MedCan Pharma A/S

Dandyvej 19, 7100 Vejle

CVR no. 37 63 39 25

Annual report 2018

Approved at the Company's annual general meeting on 31 May 2019

Chairman:


.....





Contents

Statement by the Board of Directors and the Executive Board	2
Independent auditor's report	3
Management's review	5
Financial statements 1 January - 31 December	7
Income statement	7
Balance sheet	8
Statement of changes in equity	9
Notes to the financial statements	10

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of MedCan Pharma A/S for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

We recommend that the annual report be approved at the annual general meeting.

Vejle, 31 May 2019
Executive Board:

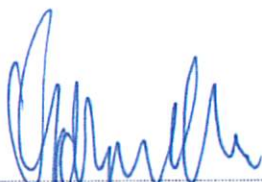


Morten La Cour Pedersen

Board of Directors:



Søren Birn
Chairman



Michael Henrik Thomsen



Christopher Beck Lambert

Independent auditor's report

To the shareholders of MedCan Pharma A/S

Opinion

We have audited the financial statements of MedCan Pharma A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act 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.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to 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 and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism 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.

Independent auditor's report

- ▶ 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 Company'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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the Management's review

Management is responsible for the Management's review.


Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 31 May 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Jes Lauritzen
State Authorised Public Accountant
mne10121



Tom B. Lassen
State Authorised Public Accountant
mne24820



Management's review

Company details

Name	MedCan Pharma A/S
Address, Postal code, City	Dandyvej 19, 7100 Vejle
CVR no.	37 63 39 25
Registered office	Vejle
Financial year	1 January - 31 December
Board of Directors	Søren Birn, Chairman Michael Henrik Thomsen Christopher Beck Lambert
Executive Board	Morten La Cour Pedersen
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark



Management's review

Business review

The Company's purpose is to develop, produce and sell innovative cannabinoid products within food supplements and pharmaceutical products and to own and manage related IP (patents, trademarks, etc.) as well as directly og indirectly related business activitites based on the Board of Director's assessment.

Financial review

The income statement for 2018 shows a loss of DKK 7,747 thousand against a loss of DKK 7 thousand last year, and the balance sheet at 31 December 2018 shows equity of DKK 1,865 thousand.

Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.



Financial statements 1 January - 31 December

Income statement

Note	DKK'000	2018	2017
	Gross margin	-8,299	-6
2	Staff costs	-1,545	0
	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-77	0
	Profit/loss before net financials	-9,921	-6
	Financial expenses	-54	-1
	Profit/loss before tax	-9,975	-7
	Tax for the year	2,228	0
	Profit/loss for the year	<u>-7,747</u>	<u>-7</u>
	Recommended appropriation of profit/loss		
	Other statutory reserves	417	0
	Retained earnings/accumulated loss	-8,164	-7
		<u>-7,747</u>	<u>-7</u>



Financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	2018	2017
	ASSETS		
	Fixed assets		
3	Intangible assets		
	Development projects in progress and prepayments for intangible assets	930	396
		<u>930</u>	<u>396</u>
4	Property, plant and equipment		
	Plant and machinery	650	0
	Other fixtures and fittings, tools and equipment	314	0
		<u>964</u>	<u>0</u>
	Total fixed assets	<u>1,894</u>	<u>396</u>
	Non-fixed assets		
	Receivables		
	Deferred tax assets	0	2
	Income taxes receivable	2,285	0
	Other receivables	813	44
	Deferred income	10	0
		<u>3,108</u>	<u>46</u>
	Cash	489	55
	Total non-fixed assets	<u>3,597</u>	<u>101</u>
	TOTAL ASSETS	<u>5,491</u>	<u>497</u>
	EQUITY AND LIABILITIES		
	Equity		
	Share capital	500	500
	Reserve for development costs	726	309
	Retained earnings	639	-328
	Total equity	<u>1,865</u>	<u>481</u>
	Provisions		
	Deferred tax	54	0
	Total provisions	<u>54</u>	<u>0</u>
	Liabilities other than provisions		
	Current liabilities other than provisions		
	Trade payables	183	7
	Payables to group entities	2,297	0
	Other payables	1,092	9
		<u>3,572</u>	<u>16</u>
	Total liabilities other than provisions	<u>3,572</u>	<u>16</u>
	TOTAL EQUITY AND LIABILITIES	<u>5,491</u>	<u>497</u>

1 Accounting policies

5 Contractual obligations and contingencies, etc.



Financial statements 1 January - 31 December

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2018	500	309	-328	481
Transfer through appropriation of loss	0	417	-8,164	-7,747
Contribution from group	0	0	9,131	9,131
Equity at 31 December 2018	500	726	639	1,865

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of MedCan Pharma A/S for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

Income statement

Gross margin

The items revenue and external expenses have been aggregated into one item in the income statement called gross margin in accordance with section 32 of the Danish Financial Statements Act.

External expenses

Other external expenses include the year's expenses relating to the Company's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pension to the Company's employees, as well as other social security contributions, etc. The item is net of refunds from public authorities.

Depreciation

The item comprises depreciation of property, plant and equipment.

The basis of amortisation/depreciation, which is calculated as cost less any residual value, is amortised/depreciated on a straight line basis over the expected useful life. The expected useful lives of the assets are as follows:

Development projects in progress and prepayments for intangible assets	5-15 years
Plant and machinery	5-20 years
Other fixtures and fittings, tools and equipment	3-5 years

Financial expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity is jointly taxed with other group entities. The total Danish income tax charge is allocated between profit/loss-making Danish entities in proportion to their taxable income (full absorption).

Jointly taxed entities entitled to a tax refund are reimbursed by the management company based on the rates applicable to interest allowances, and jointly taxed entities which have paid too little tax pay a surcharge according to the rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities. Some external customers are paying for part of the development costs. These payments are offset against the booked asset.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are identifiable and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 years, but not exceeding 15 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight line basis over the remaining term of the patent, and licences are amortised over the term of the licence, but not exceeding 15 years.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates is assessed for impairment on an annual basis.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Prepayments

Prepayments recognised under "Assets" comprise prepaid expenses regarding subsequent financial reporting years.

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.



Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

DKK'000	2018	2017
2 Staff costs		
Wages/salaries	1,400	0
Pensions	137	0
Other social security costs	8	0
	<u>1,545</u>	<u>0</u>
Average number of full-time employees	<u>2</u>	<u>0</u>

3 Intangible assets

DKK'000	Development projects in progress and prepayments for intangible assets
Cost at 1 January 2018	396
Additions in the year	<u>534</u>
Cost at 31 December 2018	<u>930</u>
Carrying amount at 31 December 2018	<u>930</u>

Financial statements 1 January - 31 December

Notes to the financial statements

4 Property, plant and equipment

DKK'000	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Additions in the year	698	342	1,040
Cost at 31 December 2018	698	342	1,040
Amortisation/depreciation in the year	48	28	76
Impairment losses and depreciation at 31 December 2018	48	28	76
Carrying amount at 31 December 2018	650	314	964
Depreciated over	5-20 years	3-5 years	

5 Contractual obligations and contingencies, etc.

Other financial obligations

Other rent and lease liabilities:

DKK'000	2018	2017
Rent and lease liabilities	202,352	0