

Medican A/S

Skovgårdsvej 27
3200 Helsingør

CVR no. 39 01 56 84

Annual report for 2018/19

(2nd Financial year)

Adopted at the annual general meeting
on 10 December 2019

Ole F. Sigetty
chairman

Table of contents

	Page
Statements	
Statement by management on the annual report	1
Independent auditor's report	2
Management's review	
Company details	5
Management's review	6
Financial statements	
Accounting policies	7
Income statement 1 July 2018 - 30 June 2019	11
Balance sheet at 30 June 2019	12
Notes to the annual report	14

Statement by management on the annual report

The supervisory and executive boards have today discussed and approved the annual report of Medican A/S for the financial year 1 July 2018 - 30 June 2019.

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 company's financial position at 30 June 2019 and of the results of the company's operations for the financial year 1 July 2018 - 30 June 2019.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Helsinge, 6 December 2019

Executive board

Farzad Jahanshahi
CEO

Supervisory board

Deepak Satish Anand
chairman

Dennis Ian Beker

Klaus Snej Jensen

Ole Frands Sigetty

Christian Linde Espersen

Kim Holm

Independent auditor's report

To the shareholder of Medican A/S

Opinion

We have audited the financial statements of Medican A/S for the financial year 1 July 2018 - 30 June 2019, which comprise a summary of significant accounting policies, income statement, balance sheet and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 30 June 2019 and of the results of the company's operations for the financial year 1 July 2018 - 30 June 2019 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 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 requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 the 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 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 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

Independent auditor's report

- 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.
- 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 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 management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover 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 management's review and, in doing so, consider whether 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 management's review provides the information required under the Danish Financial Statements Act.

Independent auditor's report

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

Hellerup, 6 December 2019

CVR no. 33 25 68 76



Søren Jonassen
Statsautoriseret revisor
MNE no. mne18488

Company details

The company

Medican A/S
Skovgårdsvej 27
3200 Helsingø

CVR no.: 39 01 56 84

Reporting period: 1 July 2018 - 30 June 2019

Incorporated: 12. October 2017

Domicile: Helsingø

Supervisory board

Deepak Satish Anand, chairman
Dennis Ian Beker
Klaus Snej Jensen
Ole Frands Sigetty
Christian Linde Espersen
Kim Holm

Executive board

Farzad Jahanshahi

Auditors

Crowe
Statsautoriseret Revisionsinteressentskab v.m.b.a.
Rygårds Allé 104
2900 Hellerup

Management's review

Business activities

The purpose of the company is Medicinal production of medical cannabis in Denmark controlling subsidiaries and investments internationally in the same industry.

Business review

The company's income statement for the year ended 30 June shows a loss of DKK 27.056.952, and the balance sheet at 30 June 2019 shows equity of DKK 22.879.826.

Significant events occurring after end of reporting period

The Company has approved capital increase of DKK 14,85 million in July 2019. No other events have occurred after the balance sheet date which could significantly affect the company's financial position.

Accounting policies

The annual report of Medican A/S for 2018/19 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B.

Pursuant to sections §110 subsection 1, of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Gross profit

In pursuance of section 32 of the Danish Financial Statements Act, the company does not disclose its revenue.

Gross profit reflects an aggregation of revenue, production costs and other operating income.

Revenue

Income from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Distribution costs

Distribution costs comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to distribution activities.

Accounting policies

Administrative costs

Administrative costs comprise expenses for Management, administrative staff, office expenses, depreciation, etc. Amortisation of goodwill is also included to the extent that goodwill relates to administrative activities.

Staff costs

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

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

The company is subject to the Danish rules on compulsory joint taxation.

The company acts as management company for all jointly taxed entities and, in its capacity as such, pays all income taxes to the Danish tax authorities.

Tax for the year, which comprises the current tax charge for the year and changes in the deferred tax charge, is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Tangible assets

Items of fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

Accounting policies

Other fixtures and fittings, tools and equipment	3-5	years
Leasehold improvements	7	years

Assets costing less than DKK 13.800 are expensed in the year of acquisition.

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses, respectively.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at the proportionate share of the net asset value of the entities, calculated on the basis of the group's accounting policies, less or plus unrealized intra-group gains or losses and plus or less any remaining value of positive or negative goodwill made up according to the purchase method.

Investments in subsidiaries and associates with a negative net asset value are measured at DKK 0, and the carrying amount of any receivables from these entities is reduced to the extent that they are considered irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the receivable, the balance is recognised under provisions.

Net revaluations of investments in subsidiaries and associates are taken to the net revaluation reserve according to the equity method in so far as that the carrying amount exceeds the cost. Dividends from subsidiaries which are expected to be declared before the annual report of Medican A/S is adopted are not taken to the net revaluation reserve.

Stocks

Stocks are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct cost of labour and production/production overheads.

Production overheads include the indirect cost of materials, wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not recognised in the cost.

The net realisable value of stocks is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Receivables

Receivables are measured at amortised cost.

Accounting policies

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable is impaired, an impairment loss for that individual asset is recognised.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Equity

Dividends

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability when declared by the annual general meeting of shareholders.

Income tax and deferred tax

As management company, Medican A/S is liable for payment of the subsidiaries' corporate income taxes to the tax authorities.

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax adjustments resulting from changes in tax rates are recognised in the income statement, with the exception of items taken directly to equity.

Liabilities

Liabilities are measured at amortized cost, which is usually equivalent to nominal value.

Income statement 1 July 2018 - 30 June 2019

	<u>Note</u>	<u>2018/19</u> DKK	<u>2017/18</u> DKK
Gross profit		-12.456.628	-898.028
Distribution costs		-405.849	-29.865
Administrative costs		-4.849.933	-1.798.028
Operating profit/loss		-17.712.410	-2.725.921
Income from investments in subsidiaries		-12.971.671	7.884.364
Income from investments in associates		-171.886	0
Financial income	1	3.970	0
Financial costs		-87.140	-1.349
Profit/loss before tax		-30.939.137	5.157.094
Tax on profit/loss for the year	2	3.882.185	598.824
Net profit/loss for the year		<u>-27.056.952</u>	<u>5.755.918</u>
Reserve for net revaluation under the equity method		-7.884.364	7.884.364
Retained earnings		-19.172.588	-2.128.446
		<u>-27.056.952</u>	<u>5.755.918</u>

Balance sheet at 30 June 2019

	<u>Note</u>	<u>2018/19</u> DKK	<u>2017/18</u> DKK
Assets			
Other fixtures and fittings, tools and equipment		1.345.014	1.125.547
Leasehold improvements		<u>7.719.923</u>	<u>5.869.281</u>
Tangible assets	3	<u>9.064.937</u>	<u>6.994.828</u>
Investments in subsidiaries	4	30.625	8.634.364
Investments in associates	5	<u>458.099</u>	<u>0</u>
Fixed asset investments		<u>488.724</u>	<u>8.634.364</u>
Total non-current assets		<u>9.553.661</u>	<u>15.629.192</u>
Finished goods and goods for resale		<u>0</u>	<u>2.694.091</u>
Stocks		<u>0</u>	<u>2.694.091</u>
Receivables from subsidiaries		3.122.011	531.780
Receivables from associates		2.853.970	0
Other receivables		364.753	931.057
Deferred tax asset		4.481.009	598.824
Prepayments		<u>0</u>	<u>49.394</u>
Receivables		<u>10.821.743</u>	<u>2.111.055</u>
Cash at bank and in hand		<u>4.895.967</u>	<u>13.984.869</u>
Total current assets		<u>15.717.710</u>	<u>18.790.015</u>
Total assets		<u>25.271.371</u>	<u>34.419.207</u>

Balance sheet at 30 June 2019

	<u>Note</u>	<u>2018/19</u> DKK	<u>2017/18</u> DKK
Equity and liabilities			
Share capital		852.455	770.680
Reserve for net revaluation under the equity method		0	7.884.364
Retained earnings		<u>22.027.371</u>	<u>24.926.734</u>
Equity	6	<u>22.879.826</u>	<u>33.581.778</u>
Trade payables		563.234	405.915
Payables to subsidiaries		45.000	50.000
Other payables		<u>1.783.311</u>	<u>381.514</u>
Total current liabilities		<u>2.391.545</u>	<u>837.429</u>
Total liabilities		<u>2.391.545</u>	<u>837.429</u>
Total equity and liabilities		<u>25.271.371</u>	<u>34.419.207</u>
Staff	7		
Contingencies, etc.	8		

Notes

	<u>2018/19</u> DKK	<u>2017/18</u> DKK
1 Financial income		
Interest received from associates	<u>3.970</u>	<u>0</u>
	<u>3.970</u>	<u>0</u>
	<u>2018/19</u> DKK	<u>2017/18</u> DKK
2 Tax on profit/loss for the year		
Deferred tax for the year	<u>-3.882.185</u>	<u>-598.824</u>
	<u>-3.882.185</u>	<u>-598.824</u>
3 Tangible assets		
	Other fixtures and fittings, tools and equipment	Leasehold improvements
	<u>1.185.265</u>	<u>6.086.662</u>
Cost at 1 July 2018		
Additions for the year	<u>514.121</u>	<u>2.971.866</u>
Cost at 30 June 2019	<u>1.699.386</u>	<u>9.058.528</u>
Impairment losses and depreciation at 1 July 2018	59.719	217.381
Depreciation for the year	<u>294.653</u>	<u>1.121.224</u>
Impairment losses and depreciation at 30 June 2019	<u>354.372</u>	<u>1.338.605</u>
Carrying amount at 30 June 2019	<u>1.345.014</u>	<u>7.719.923</u>

Notes

	<u>2018/19</u>	<u>2017/18</u>
	DKK	DKK
4 Investments in subsidiaries		
Cost at 1 July 2018	750.000	0
Additions for the year	<u>4.367.932</u>	<u>750.000</u>
Cost at 30 June 2019	<u>5.117.932</u>	<u>750.000</u>
Revaluations at 1 July 2018	7.884.364	0
Net profit/loss for the year	<u>-12.971.671</u>	<u>7.884.364</u>
Revaluations at 30 June 2019	<u>-5.087.307</u>	<u>7.884.364</u>
Carrying amount at 30 June 2019	<u><u>30.625</u></u>	<u><u>8.634.364</u></u>

Investments in subsidiaries are specified as follows:

<u>Name</u>	<u>Registered office</u>	<u>Ownership interest</u>
Medican Nordic Grow ApS under frivillig likvidation	Gribskov	100%
Nube Serena Holding B.V.	Amsterdam, Holland	56%
Medican Pharma Ltd.	London, UK	100%

Notes

	<u>2018/19</u>	<u>2017/18</u>
	DKK	DKK
5 Investments in associates		
Cost at 1 July 2018	0	0
Additions for the year	<u>629.985</u>	<u>0</u>
Cost at 30 June 2019	<u>629.985</u>	<u>0</u>
Revaluations at 1 July 2018	0	0
Net profit/loss for the year	<u>-171.886</u>	<u>0</u>
Revaluations at 30 June 2019	<u>-171.886</u>	<u>0</u>
Carrying amount at 30 June 2019	<u><u>458.099</u></u>	<u><u>0</u></u>

Investments in associates are specified as follows:

<u>Name</u>	<u>Registered office</u>	<u>Ownership interest</u>
Medizinalhenf GmbH	Hamborg, Germany	25%
Aureum A/S	Allerød	25%
Seach Germany GmbH	Germany	40%

Notes

6 Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
Equity at 1 July 2018	770.680	7.884.364	24.926.734	33.581.778
Cash capital increase	81.775	0	16.273.225	16.355.000
Net profit/loss for the year	0	-7.884.364	-19.172.588	-27.056.952
Equity at 30 June 2019	852.455	0	22.027.371	22.879.826

The share capital has developed as follows:

	2018/19	2017/18	2016/17	2015/16	2014/15
	DKK	DKK	DKK	DKK	DKK
Share capital at 1 July 2018	770.680	770.680	0	0	0
Additions for the year	81.775	0	0	0	0
Share capital	852.455	770.680	0	0	0

Notes

	<u>2018/19</u>	<u>2017/18</u>
	DKK	DKK
7 Staff		
Wages and Salaries	5.782.578	1.042.298
Pensions	214.830	0
Other social security expenses	<u>62.949</u>	<u>4.355</u>
	<u>6.060.357</u>	<u>1.046.653</u>
Wages and Salaries, pensions and other social security expenses are recognised in the following items:		
Cost of sales	4.446.598	557.198
Distribution expenses	<u>1.613.759</u>	<u>489.455</u>
	<u>6.060.357</u>	<u>1.046.653</u>
Average number of employees	<u>10</u>	<u>7</u>

8 Contingencies, etc.

The parent company is jointly taxed with its danish group entities. The entities are jointly and severally liable for danish income taxes as well as withholding taxes on dividends, interest and royalties payable by the group of jointly taxed entities. Due income taxes and withholding taxes payable by the group of jointly taxed entities totals DKK 0 thousand at 31 December 2019. Any subsequent corrections of income taxes and withholding taxes may increase the tax payable by the entities. The group as such is not liable to any third parties.

Other contingent liabilities

The Company has entered commercial leasing tenancy agreement with a remaining contract period to 32 months with a residual commitment at the amount of DKK 4.4 million. DKK 1.7 is fall due within an year.

The Company has entered commercial leasing contracts with an average remaining period of 47 month. The total leasing commitment as of June 30, 2019 is TDKK 532.