

## **Medican A/S**

Skovgårdsvej 27  
3200 Helsinge

CVR no. 39 01 56 84

### **Annual report for 2017/18**

(1st Financial year)

Adopted at the annual general meeting  
on 21 September 2018

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Ole F. Sigetty  
Chairman

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## **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 12 October 2017 - 30 June 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 company's financial position at 30 June 2018 and of the results of the company's operations for the financial year 12 October 2017 - 30 June 2018.

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 at the annual general meeting.

Helsingø, 31 August 2018

### **Executive board**

Brian Palm Svaneeng Mertz  
CEO

Bahram Daneshvar  
Director of Regulatory Affairs &  
Quality

Danny Joe Grabowski  
COO

### **Supervisory board**

Ole Frands Sigetty  
Chairman

Kevin Francis Smith

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 12 October 2017 - 30 June 2018, 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 2018 and of the results of the company's operations for the financial year 12 October 2017 - 30 June 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 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 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

## **Independent auditor's report**

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:

- 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.

## **Independent auditor's report**

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.

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, 31 August 2018  
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: 12 October 2017 - 30 June 2018

Incorporated: 12. October 2017

Domicile: Helsingø

### Supervisory board

Ole Frands Sigetty, Chairman  
Kevin Francis Smith  
Christian Linde Espersen  
Kim Holm

### Executive board

Brian Palm Svaneeng Mertz, CEO  
Bahram Daneshvar, Director of Regulatory Affairs & Quality  
Danny Joe Grabowski, COO

### Auditors

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

## **Management's review**

### **Business activities**

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

### **Business review**

Medican A/S was founded in October 2017 and applied for a Danish license for cultivation of medical cannabis on October 22, 2017. On December 15, 2018, Medican and 11 other applicants were licensed to grow medical cannabis.

On January 2, 2018 Medican moved into its headquarters in Helsingør and commenced construction of the Company's GACP indoor growing facility, 380 sqm. office and administration, 550 sqm. GMP-certified production facility for cannabis intermediates and cannabis end products, 200 sqm. irrigation facility as well as 2.600 sqm. GACP-certified cannabis cultivation area.

Medican intends to will produce products for both the Danish market and for export to the rest of Europe. In February 2018, Medican established the English company Medican Pharma Ltd. with 60% ownership in a joint venture with Mapesbury Capital Ltd. The company is preparing for the up-coming legalization in the UK and will apply for licenses in UK when tender is published.

In March 2018, Medican acquired 50.5% of the shares in the Dutch company Nube Serena BV ([www.nubeserena.com](http://www.nubeserena.com)), which produces high-content industrial hemp with high content of CBD in Uruguay. Nube Serena has been through a 2-year course of testing products and development of partnerships in Uruguay and sales channels in Switzerland. The company has acquired 30 hectares and gained own cultivation license.

In June 2018 Medican acquired 25% ownership of Medizinalhanf GmbH that has applied for an import and distribution license for Germany. The partnership will be a sales and distribution channel for Medican. Medican submitted in July 2018 two application to the Danish Medicines Agency applying for export authorization, cultivation of cannabis bulk, manufacturing of intermediates and consumer-ready cannabis products.

Management is satisfied with the overall results of 2017/2018 and expect future growth and investments in 2018/2019.

### **Significant events occurring after end of reporting period**

No 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 2017/18 has been prepared in accordance with the provisions of the Danish Financial Statements Act concerning reporting class B entities.

As 2017/18 is the company's first reporting period, no comparatives have been presented.

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

Assets are recognized 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 recognized 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 amortized cost using the effective interest method. Amortized 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 recognized 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.

## **Accounting policies**

### **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.

### **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 recognized 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, realized and unrealized 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, including changes arising from changes in tax rates, is recognized in the income statement 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.

## Accounting policies

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:

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

Assets costing less than DKK 13.500 are expensed in the year of acquisition.

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

### Investments in subsidiaries

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 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 to the extent 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 using the FIFO method. Where the net realizable value is lower than the cost, inventories are recognized at this lower value.

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

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

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 recognized in the cost.

## **Accounting policies**

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

### **Receivables**

Receivables are measured at amortized cost.

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 recognized.

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 realizable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

### **Equity**

#### **Dividend**

Proposed dividends are disclosed as a separate item under equity. Dividends are recognized as a liability at the date of declaration by the annual general meeting.

#### **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 recognized 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 loss allowed for carry forward are measured at the value to which the asset is expected to be realized, either by elimination in tax on future income or by offsetting against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realizable 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 crystallize as current tax. Deferred tax adjustments resulting from changes in tax rates are recognized in the income statement, with the exception of items taken directly to equity.

## **Accounting policies**

### **Liabilities**

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

## Income statement 12 October 2017 - 30 June 2018

	<u>Note</u>	<u>2017/18</u> <u>DKK</u>
<b>Gross profit</b>		<b>-898.028</b>
Distribution costs		-29.865
Administrative costs		<u>-1.798.028</u>
<b>Operating profit/loss</b>		<b>-2.725.921</b>
Income from investments in subsidiaries		7.884.364
Financial costs		<u>-1.349</u>
<b>Profit/loss before tax</b>		<b>5.157.094</b>
Tax on profit/loss for the year	1	<u>598.824</u>
<b>Net profit/loss for the year</b>		<b><u>5.755.918</u></b>
Reserve for net revaluation under the equity method		7.884.364
Retained earnings		<u>-2.128.446</u>
		<b><u>5.755.918</u></b>

## Balance sheet at 30 June 2018

	<u>Note</u>	<u>2017/18</u> DKK
<b>Assets</b>		
Other fixtures and fittings, tools and equipment		1.125.547
Leasehold improvements		5.869.281
<b>Tangible assets</b>	2	<b><u>6.994.828</u></b>
Investments in subsidiaries	3	8.634.364
<b>Fixed asset investments</b>		<b><u>8.634.364</u></b>
<b>Fixed assets total</b>		<b><u>15.629.192</u></b>
Finished goods and goods for resale		2.694.091
<b>Stocks</b>		<b><u>2.694.091</u></b>
Receivables from subsidiaries		531.780
Other receivables		931.057
Deferred tax asset		598.824
Prepayments		49.394
<b>Receivables</b>		<b><u>2.111.055</u></b>
<b>Cash at bank and in hand</b>		<b><u>13.984.869</u></b>
<b>Current assets total</b>		<b><u>18.790.015</u></b>
<b>Assets total</b>		<b><u><u>34.419.207</u></u></b>

## Balance sheet at 30 June 2018

	<u>Note</u>	<u>2017/18</u> <u>DKK</u>
<b>Liabilities and equity</b>		
Share capital		770.680
Reserve for net revaluation under the equity method		7.884.364
Retained earnings		<u>24.926.734</u>
<b>Equity</b>	4	<b><u>33.581.778</u></b>
Trade payables		405.915
Payables to subsidiaries		50.000
Other payables		<u>381.514</u>
<b>Short-term debt</b>		<b><u>837.429</u></b>
<b>Debt total</b>		<b><u>837.429</u></b>
<b>Liabilities and equity total</b>		<b><u><u>34.419.207</u></u></b>
Staff	5	
Contingent assets, liabilities and other financial obligations	6	



## Notes

	<u>2017/18</u>	
	DKK	
<b>1 Tax on profit/loss for the year</b>		
Deferred tax for the year		<u>-598.824</u>
		<u><b>-598.824</b></u>
<b>2 Tangible assets</b>		
	Other fixtures and fittings, tools and equipment	Leasehold improvements
	<u>                    </u>	<u>                    </u>
Cost at 12 October 2017	0	0
Additions for the year	1.185.265	6.086.662
Cost at 30 June 2018	<u>1.185.265</u>	<u>6.086.662</u>
Impairment losses and depreciation at 12 October 2017	0	0
Depreciation for the year	59.718	217.381
Impairment losses and depreciation at 30 June 2018	<u>59.718</u>	<u>217.381</u>
<b>Carrying amount at 30 June 2018</b>	<u><b>1.125.547</b></u>	<u><b>5.869.281</b></u>

## Notes

	<u>2017/18</u> DKK
<b>3 Investments in subsidiaries</b>	
Cost at 12 October 2017	0
Additions for the year	<u>750.000</u>
Cost at 30 June 2018	<u>750.000</u>
Revaluations at 12 October 2017	0
Net profit/loss for the year	<u>7.884.364</u>
Revaluations at 30 June 2018	<u>7.884.364</u>
<b>Carrying amount at 30 June 2018</b>	<b><u><u>8.634.364</u></u></b>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Ownership
Medican Nordic Grow ApS	Gribskov	100,0%
Nube Serena Holding B.V.	Amsterdam, Holland	50,5%
Medican Pharma Ltd.	London, UK	60,0%
Medizinalhenf GmbH	Hamborg, Germany	25,0%

## Notes

### 4 Equity

	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
Equity at 12 October 2017	0	0	0	0
Cash capital increase	720.680	0	27.055.180	27.775.860
Net profit/loss for the year	0	7.884.364	-2.128.446	5.755.918
Cash payments concerning formation of entity	50.000	0	0	50.000
<b>Equity at 30 June 2018</b>	<b>770.680</b>	<b>7.884.364</b>	<b>24.926.734</b>	<b>33.581.778</b>

The share capital has developed as follows:

	2017/18 DKK	2016/17 DKK	2015/16 DKK	2014/15 DKK	2013/14 DKK
Share capital at 12 October 2017	0	0	0	0	0
Additions for the year	770.680	0	0	0	0
<b>Share capital</b>	<b>770.680</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

## Notes

	<u>2017/18</u>
	DKK
<b>5 Staff</b>	
Wages and Salaries	1.042.298
Other social security expenses	<u>4.355</u>
	<b><u>1.046.653</u></b>

Wages and Salaries and other social security expenses are recognised in the following items:

Cost of sales	557.198
Administrative expenses	<u>489.455</u>
	<b><u>1.046.653</u></b>

Average number of employees	<u>7</u>
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## 6 Contingent assets, liabilities and other financial obligations

The parent company is jointly taxed with its Danish group entities. The jointly taxed entities have joint and several unlimited liability for Danish income taxes and withholding taxes on dividends, interest and royalties within the group of jointly taxed entities. Income taxes and withholding taxes payable within the group of jointly taxed entities amount to DKK 0 thousand at June 30, 2018. Any subsequent corrections to income and withholding taxes may result in an increase in the entities' liability. The group as a whole is not liable towards any third parties.

### Other contingent liabilities

The company has entered commercial tenancy agreement with a remaining contract period to 44 months with a residual commitment at the amount of DKK 5,6 million. DKK 1,5 million is fall due within a year.

The Company has entered commercial leasing contracts with an average remaining period of 59 month. The total leasing commitment as of June 30, 2018 is TDKK 684.