

Medican A/S

Skovgårdsvej 27, 3200 Helsingør

CVR no. 39 01 56 84

**Annual report for the period
1 July 2021 to 30 June 2022**

Adopted at the annual general meeting on 16
December 2022

Ole Sigetty
chairman



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Statement by management on the annual report

The supervisory board and executive board have today discussed and approved the annual report of Medican A/S for the financial year 1 July 2021 - 30 June 2022.

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 2022 and of the results of the company's operations for the financial year 1 July 2021 - 30 June 2022.

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.

Helsingø, 16 December 2022

Executive board

Morten Larsen Snede
CEO

Supervisory board

Brian Palm Svaneeng Mertz
chairman

Karsten Engholm Lynghus

Gert Haugaard Pedersen

Independent auditor's report

To the shareholders of Medican A/S

Qualified Opinion

We have audited the financial statements of Medican A/S for the financial year 1 July 2021 - 30 June 2022, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under the Danish Financial Statements Act.

In our opinion, except for the potential effects of the matter(s) described in the "Basis for Qualified Opinion" paragraph, the financial statements give a true and fair view of the company's financial position at 30 June 2022 and of the results of the company's operations for the financial year 1 July 2021 - 30 June 2022 in accordance with the Danish Financial Statements Act.

Basis for Qualified Opinion

We have not been able to obtain sufficient and suitable audit evidence for the valuation of the deferred tax asset as of 30 June 2022. We have thus not received sufficient documentation that the tax losses can be utilized in the form of operating profits within a short number of years. According to our assessment, the tax asset of DKK 15,636k should be recognized at DKK 0.

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 and IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Material uncertainty related to going concern

Going concern of the company depends on delayed repayment of convertible loans as well as new sales agreements and capital injection from investors. We refer to Note 1 in the annual report for Management's comments.

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.

Independent auditor's report

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 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.
- 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.

Independent auditor's report

- 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.

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.

Copenhagen, 16 December 2022

Baker Tilly Denmark

Godkendt Revisionspartnerselskab
CVR no. 35 25 76 91

Morten Friis Munksgaard
statsautoriseret revisor
MNE no. mne34482

Company details

The company	Medican A/S Skovgårdsvej 27 3200 Helsingør CVR no.: 39 01 56 84 Reporting period: 1 July 2021 - 30 June 2022 Incorporated: 12 October 2017 Domicile: Helsingør
Supervisory board	Brian Palm Svaneeng Mertz, chairman Karsten Engholm Lynghus Gert Haugaard Pedersen
Executive board	Morten Larsen Snede, CEO
Auditors	Baker Tilly Denmark Godkendt Revisionspartnerselskab Poul Bundgaards Vej 1, 1. 2500 Valby

Management's review

Business review

The purpose of the company is production and sale of medical cannabis with production facility in Denmark and sales and distribution in Europe. The company delivers products in consumer packing as well as supplying API for refined cannabis-based medicines.

Financial review

The company's income statement for the year ended 30 June 2022 shows a loss of DKK 39,688,347, and the balance sheet at 30 June 2022 shows equity of DKK 15,546,276.

Year 2021/2022 for Medican has been in line with the general trend in the cannabis industry. The revenue has been lower than expected and regulatory delays are postponing the market entrance for the new products. There has been a perception between producers that the growth would increase in all segments, but the market for cannabis-based medicines, magistral compounds with cannabinoids and full spectrum products have been almost flat in the main markets over the last 12-18 months. No new countries with significant markets have legalized medical cannabis in Europe, however, there are positive signals from several countries have disclosed intentions to setup new pilots or extended pilot programs for cannabis as opening of sales in recreational markets in Germany, Czech Republic and other countries opening up for a significant new market which will likely change the medicinal cannabis market structure.

The development in the industry has been extensive in the year with many new product introductions in Medican's core market segment resulting in some pressure on sales prices. Simultaneously the production costs have increased as result of energy crises adding another layer of insecurity into the industry.

Access to capital remains one of the toughest issues for this emerging industry being capital intensive while new technologies are being continuously introduces and changing the landscape. Energy efficiency and product quality are the main drivers for the intensive research and development work done in the industry.

The combination of continuously oversupply outdated equipment and limited access to capital indicates a trend towards consolidation in the industry for the established players.

The fiscal year has equivalently challenged Medican resulting in instability during the year.

Management's review

Followed by the recession and declining sales:

- Medican reduced the organization in sales and in production.
- Executive management and board have been replaced and adding another multiplier in the instability equation.
- Withdraw product application for the flower product on the Danish market.
- Finalized the oil product development with external contract manufacturer and preparing for entering the Germany and Danish market.
- Scale down production on biomass to save energy, labor costs and other operational expenditures.
- Sale of daughter companies in Holland and Uruguay.

Expectation for the year 2022/2023

- Ramping up and boost sales in Germany.
- Creating new partnerships to reduce costs and increase sales.
- Introducing new products and new markets with a diversification strategy in mind.
- Upgrading production facility with energy saving equipment and extend where appropriate.
- Strengthening of the capital structure and raising sufficient funds to upgrade and cover running costs until profitability is reached which is expected within 2023.
- Kick off on the Medican 2.0 strategy prepared and implemented by a new executive management with extensive knowledge and experience from the market with focus on meeting the market demands and diversify from the largest competitors' product portfolios.

Medican A/S is going concern but rely on continuously support from its shareholders and lenders as well as new capital will be required to achieve the objectives described above. Negotiations regarding delay of repayment with the last note holders are still ongoing, but Management expects that an agreement is possible. It is also expected that further investments from convertible loans will be made, so the company has cash to meet its ongoing liabilities.

Management's review

Significant events occurring after the end of the financial year

Received approval from the German Medicines Agency BfArM (Bundesinstitut für Arzneimittel und Medizinprodukte) for oil product. First shipment from Denmark in November 2022.

Income statement 1 July - 30 June

	Note	2021/22 DKK	2020/21 DKK
Gross profit		-9.237.284	-10.145.377
Staff costs	2	-10.810.036	-12.774.262
Profit/loss before amortisation/depreciation and impairment losses		-20.047.320	-22.919.639
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-3.462.875	-3.317.465
Profit/loss before net financials		-23.510.195	-26.237.104
Loss from investments in subsidiaries		-20.029.989	0
Income from investments in associates		150.070	5.157.731
Financial income	3	365.715	246.098
Financial costs	4	-3.184.121	-1.345.551
Profit/loss before tax		-46.208.520	-22.178.826
Tax on profit/loss for the year	5	6.520.173	7.141.500
Profit/loss for the year		-39.688.347	-15.037.326
Transferred to reserve for development expenditure		2.360.623	461.375
Retained earnings		-42.048.970	-15.498.701
		-39.688.347	-15.037.326

Balance sheet 30 June

	Note	2021/22 DKK	2020/21 DKK
Assets			
Development projects in progress		3.617.946	591.506
Intangible assets	6	3.617.946	591.506
Other fixtures and fittings, tools and equipment		974.288	1.222.461
Leasehold improvements		8.047.232	10.291.188
Tangible assets	7	9.021.520	11.513.649
Investments in subsidiaries	8	673.524	12.906.309
Deposits		100.000	0
Fixed asset investments		773.524	12.906.309
Total non-current assets		13.412.990	25.011.464
Work in progress		223.887	574.902
Finished goods and goods for resale		2.574.465	1.588.126
Stocks		2.798.352	2.163.028
Receivables from subsidiaries		13.988	4.624.968
Other receivables		1.426.440	19.596.100
Deferred tax asset		15.635.688	11.542.415
Corporation tax		4.368.972	3.766.546
Prepayments		53.665	41.872
Receivables		21.498.753	39.571.901
Cash at bank and in hand		1.895.420	1.077.160
Total current assets		26.192.525	42.812.089
Total assets		39.605.515	67.823.553

Balance sheet 30 June

	Note	2021/22	2020/21
		DKK	DKK
Equity and liabilities			
Share capital		1.239.214	1.039.671
Reserve for development expenditure		2.821.998	461.375
Retained earnings		11.485.064	29.896.442
Equity		15.546.276	31.397.488
Other credit institutions		3.264.040	3.113.000
Convertible and profit-yielding instruments of debt		0	26.505.278
Other payables		816.327	772.174
Total non-current liabilities	9	4.080.367	30.390.452
Short-term part of long-term debet	9	17.872.408	0
Trade payables		1.198.249	1.250.130
Payables to subsidiaries		0	662.530
Other payables		897.286	4.108.233
Deferred income		10.929	14.720
Total current liabilities		19.978.872	6.035.613
Total liabilities		24.059.239	36.426.065
Total equity and liabilities		39.605.515	67.823.553
Contingent liabilities	10		

Statement of changes in equity

	Share capital	Share premium account	Reserve for development expenditure	Retained earnings	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 July	1.039.671	0	461.375	29.896.442	31.397.488
Increase of capital by conversion of debt	156.601	16.380.441	0	0	16.537.042
Cash capital increase	42.942	7.257.151	0	0	7.300.093
Net profit/loss for the year	0	0	2.360.623	-42.048.970	-39.688.347
Transfer from share premium account	0	-23.637.592	0	23.637.592	0
Equity at 30 June	1.239.214	0	2.821.998	11.485.064	15.546.276

Notes

1 Uncertainty about the continued operation (going concern)

Medican A/S is going concern but rely on continuously support from its shareholders and lenders as well as new capital will be required to achieve the objectives described above. Negotiations regarding delay of repayment with the last note holders are still ongoing, but Management expects that an agreement is possible. It is also expected that further investments from convertible loans will be made, so the company has cash to meet its ongoing liabilities.

	2021/22	2020/21
	DKK	DKK
2 Staff costs		
Wages and salaries	9.323.819	11.334.151
Pensions	1.334.836	1.327.823
Other social security costs	151.381	112.288
	10.810.036	12.774.262
Average number of employees	16	17
3 Financial income		
Interest received from subsidiaries	365.715	240.967
Other financial income	0	5.131
	365.715	246.098
4 Financial costs		
Other financial costs	3.184.121	1.345.551
	3.184.121	1.345.551
5 Tax on profit/loss for the year		
Current tax for the year	-2.426.900	-1.942.071
Deferred tax for the year	-4.093.273	-5.199.429
	-6.520.173	-7.141.500

Notes

6 Intangible assets

	Development projects in progress <u>DKK</u>
Cost at 1 July	591.506
Additions for the year	<u>3.026.440</u>
Cost at 30 June	<u>3.617.946</u>
Carrying amount at 30 June	<u><u>3.617.946</u></u>

Special assumptions regarding development projects and tax assets

The development projects are related to testing of the quality of the production, that is expected to begin and generate income in the following financial year. The future income is also expected to make the company utilize the recognized tax asset.

7 Tangible assets

	Other fixtures and fittings, tools and equipment <u>DKK</u>	Leasehold improvements <u>DKK</u>
Cost at 1 July	2.603.525	16.282.991
Additions for the year	<u>384.081</u>	<u>586.665</u>
Cost at 30 June	<u>2.987.606</u>	<u>16.869.656</u>
Impairment losses and depreciation at 1 July	1.381.064	5.991.803
Depreciation for the year	<u>632.254</u>	<u>2.830.621</u>
Impairment losses and depreciation at 30 June	<u>2.013.318</u>	<u>8.822.424</u>
Carrying amount at 30 June	<u><u>974.288</u></u>	<u><u>8.047.232</u></u>

Notes

	2021/22	2020/21
	DKK	DKK
8 Investments in subsidiaries		
Cost at 1 July	12.906.309	12.906.309
Disposals for the year	-12.232.785	0
Cost at 30 June	673.524	12.906.309
Carrying amount at 30 June	673.524	12.906.309

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest
Medican Pharma Ltd.	London, UK	100%
Medican Pharma GmbH	Weimar, Germany	90%

9 Long term debt

	Debt at 1 July	Debt at 30 June	Instalment next year	Debt outstanding after 5 years
	DKK	DKK	DKK	DKK
Other credit institutions	3.113.000	3.264.040	0	0
Convertible and profit-yielding instruments of debt	26.505.278	0	17.100.234	0
Other payables	772.174	816.327	772.174	0
	30.390.452	4.080.367	17.872.408	0

10 Contingent liabilities

The Company has entered commercial leasing tenancy agreement with a remaining contract period until 31 December 2030 with a residual commitment at the amount of DKK 14,3 million. DKK 1,6 is fall due within an year.

Notes

10 Contingent liabilities (continued)

The Company has entered commercial leasing contracts with an average remaining period of 16 months. The total leasing commitment at 30 June 2022 is DKK 488 thousand.

Accounting policies

The annual report of Medican A/S for 2021/22 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B, as well as provisions applying to reporting class C entities.

The annual report for 2021/22 is presented in DKK

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 installments 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, changes in inventories of finished goods and work in progress and other operating income less costs of raw materials and consumables and other external expenses.

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.

Accounting policies

Expenses for raw materials and consumables

Costs of raw materials and consumables include the raw materials and consumables used in generating the year's revenue.

Other external costs

Other external costs include expenses related 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 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 that relate 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, liabilities and foreign currency transactions, amortisation of financial assets and liabilities and surcharges and allowances under the Danish Tax Prepayment Scheme, etc.

Tax on profit/loss for the year

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

Development costs

Development projects, patents and licences

Development costs comprise costs, wages/salaries and amortisation losses that are directly and indirectly attributable to the company's development activities.

Accounting policies

Developments projects recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 10 years.

Tangible assets

Items of plant and machinery and fixtures and fittings, tools and equipment 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. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

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

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

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

Investment in subsidiaries, associates and participating interests are measured at cost. If cost exceeds the recoverable amount, a write-down is made to this lower value.

Receivables

Receivables are measured at amortised cost.

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Accounting policies

Income tax and deferred tax

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 is 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.

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.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the net proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency instruments are considered cash flow hedges, any unrealised value adjustments are taken directly to a fair value reserve under 'Equity'.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.