

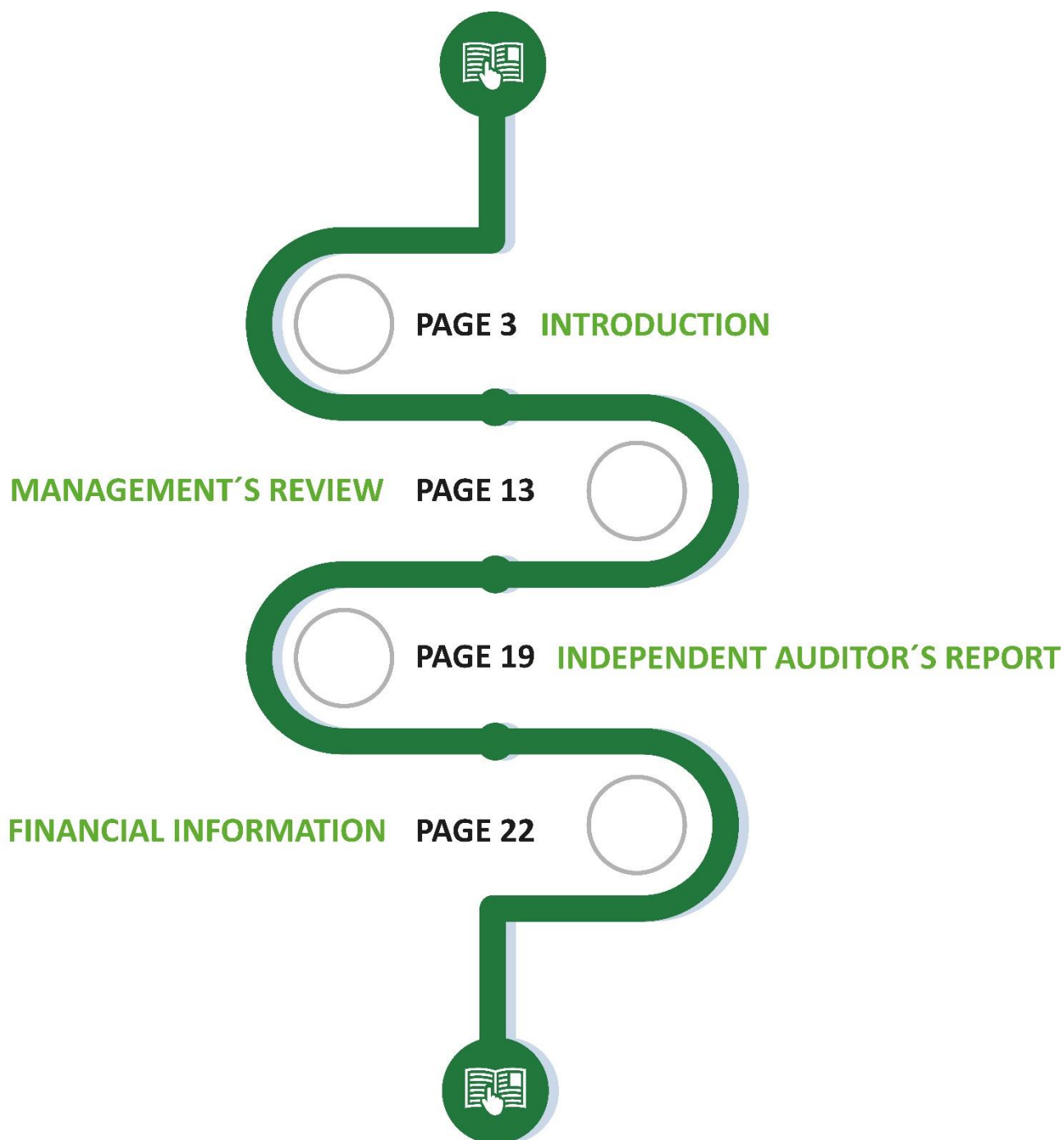


ANNUAL REPORT 2021 1. januar – 31. december

This annual report has been adopted at the
company's annual general meeting on 19.05.22

Chairman of the meeting

Ulrik Bayer



In this document, the following definitions shall apply unless otherwise specified: the "Company" or "STENOCARE" refers to STENOCARE A/S, CVR number 39024705.

INTRODUCTION

ANNUAL REPORT 2021

STENOCARE A/S was founded in 2017 with the purpose of supplying medical cannabis to patients in Denmark and internationally with a clear vision of creating a better quality of life for patients using medical cannabis as an alternative and/or a supplement to traditional medicine. Medical cannabis has the potential to help and relieve patients' daily pain and suffering in many indications (i.e. illnesses), for instance, patients with multiple sclerosis, chronic pain or patients suffering from nausea and vomiting as a result of chemotherapy.

STENOCARE was the first company in the Danish market that received approval from the Danish Medicines Agency ("DMA") to cultivate and produce medical cannabis as well as import and distribute approved medical cannabis oil products for further sale.

STENOCARE was first listed on Spotlight Growth Market in 2018 and then moved to Nasdaq Growth Market Denmark in June 2020 to raise further capital for the ambitious STENOCARE 2.0 growth strategy. STENOCARE's ambition is to establish itself as a leading European brand in the medical cannabis industry. Denmark is recognized as a leading agricultural producer, and due to the very strict requirements for pesticide-free cultivation and uniform quality in the Danish medical cannabis regulations, STENOCARE expects to have a competitive advantage when entering new European markets.

Since the company was founded, the STENOCARE 1.0 strategy included distribution and sales of imported products to the Danish market and local cultivation and production of its own medical cannabis products. During 2019 the company outlined the STENOCARE 2.0 strategy that builds on four areas of key assets:

STENOCARE is aiming and well underway to become a
Leading European pharma grade medical cannabis brand.

IT IS ALL ABOUT BUILDING the four ASSETS:



REGULATORY ASSETS

Having **relevant licenses from relevant authorities** to operate legally in a given market with a specific products.



SUPPLY CHAIN ASSETS

Having a **secure and flexible supply of a high-quality product** that is or can be licensed and sold to a relevant market and category of patients.



COMMERCIAL ASSETS

Having **doctors prescribe and pharmacies deliver branded products** in any market with relevant sales channels and distribution logistics in place.



PARTNERSHIP ASSETS

Having **strategic partners in the Pharma Industry**. Examples: Formulation of next generation products, Pharma industry partnerships.

1) The Regulatory Assets consists of relevant licenses from relevant authorities to operate legally in a given market with specific products. This both include licenses to handle, package, store and sell prescription-based medical cannabis products. 2) The Supply Chain Assets secure and flexible supply of a high-quality product that is or can be licensed and sold to a relevant market and category of patients. STENOCARE both have their own state of art indoor cultivation facility, and a multi-supplier strategy to have capacity to meet market demand and scale as more markets are added to the portfolio. 3) The Commercial Assets enable STENOCARE to expand into new markets and having doctors prescribe and pharmacies deliver branded products in any market with relevant sales channels and distribution logistics in place. 4) The Partnership Assets is the company investments with strategic partners in the Pharma Industry. Examples: Formulation of next generation products, Pharma industry partnerships. This is a longer term investment, that will position STENOCARE to become a leading supplier in a market that will move towards higher pharma standards and requirements.

With STENOCARE 2.0 the company is well-positioned to become a market-leading brand in Europe. The strategy is to be represented in 8-10 markets by 2025. STENOCARE was the first in Denmark to receive approval to supply medical cannabis oil products to the Danish Pilot Programme, and the company is still the sole supplier of oil products for this programme. STENOCARE is also the only supplier of medical cannabis oil products to Sweden. The company has a good pipeline of new markets that are being qualified, and the UK market has also been added to the list of markets where STENOCARE and their partners have received approval to supply prescription-based medical cannabis oil products.



CEO COMMENTS:

“SIGNIFICANT SALES IN SIGHT BY END OF 2022”

Looking back at 2021, it was a year of hard work, with little to celebrate, financially. Nevertheless, significant value was created in 2021 that will prove important for 2022 and beyond.



Thomas Skovlund Schnegelsberg, CEO STENOCARE

We continued selling our products in Sweden, completed the Danish facility upgrade and added more supply capacity. Towards the end of the year, the Danish legalization fell into place which provided assurance that medical cannabis is here to stay and our investments in the Danish facility are secured with the permanent legalization.

All our hard work in 2021 has already produced very significant news at the beginning of 2022. First, STENOCARE is now once again the only supplier of oil based medical cannabis products under the Pilot programme in Denmark. Second, we announced that the ongoing process of developing premium product is making real progress and third, we received approval to sell three new products in the UK.

These milestones are not matched by others in Europe and point to a very interesting 2022 with an expected revenue run rate by the end of the year that will enable an annual run rate of 15-20 million DKK (annualization of Q4 runrate).

Sweden

Sweden is a market that has only allowed for experimental treatment, which means that sales are enabled by doctors that prescribe specially imported products such as ours. This process started in 2020 and we accumulated valuable learnings during 2021 that point to growth in the new year. Together with our partners, we are so far the only suppliers of medical cannabis oil products in Sweden.

World class in-door facility developing to plan

In 2021, our upgraded and scaled up indoor cultivation facility in Denmark was completed and put into operation. The grow team is very satisfied with the performance of the facility and the new capabilities to manage the daily work with the plants. We are optimistic that both cannabinoid strength and yield will be higher than was realized in our smaller scale, phase one facility.



We expect to be ready and licensed for bulk sales of our own products towards the end of 2022 leading to expected sales of own products in 2023.

Multi supplier strategy proves its worth

In Q4, we announced our new supply agreement with Canadian AgMEDICA Bioscience. This was the culmination of a period of intense cooperation with the AgMEDICA team. They have impressed us with their pharma mindset and ability to understand our needs and requirements for Europe.

Danish Legalization and patient funding in place

The year ended with the formal signing of the new Danish law for medical cannabis. The Danish Parliament confirmed that all doctors can prescribe medical cannabis to their patients within the next four years. They also confirmed the permanent legalization of Danish cultivation and production of medical cannabis.



This was great news for our world class indoor cultivation facility. It was an added bonus, that Parliament also agreed on funding for patient's product subsidy and funding for clinical studies of the efficacy of medical cannabis.

Denmark and UK ready to go

STENOCARE has worked relentlessly and with patience for more than two years to once again receive approval from the Danish Medical Agency to sell medical cannabis oil-products to the Danish home-market. In parallel, the regulatory team has also been working to enter the UK and have three medical cannabis oil products approved. These all-important milestones were reached in January 2022 with first sales due to materialize in the coming months. It should be noted that STENOCARE was the only approved supplier when the license was first issued in June 2018. Now, with a new approval in Denmark, STENOCARE is once again

the only supplier with a license to sell medical cannabis oil products under the new legislation in Denmark. This has put us back on track to grow our revenue during 2022 and beyond.

Premium products in sight

In a parallel track to the commercial activities, we continued the work that started in December 2019 with our partner Solural Pharma. This partnership is about development of the products of the future, with premium features relating to solubility, neutralization of food-effects (dosing difficulties before/after intake of food, etc).



This work progressed well in 2021, and we were pleased to announce the positive outcome of a feasibility study at the beginning of the new year. We expect that this will lead to premium STENOCARE products reaching the market in 2023.

All in all, I am pleased to say that we have significant sales in sight by end of 2022, so we will experience a good runrate into 2023.

Thomas Skovlund Schnegelsberg, CEO

ABOUT STENOCARE A/S

On January 1st, 2018, medical cannabis was legalized in Denmark under a four-year Pilot-programme (“the Programme”), enabling all Danish doctors to prescribe cannabis for medical use. This Programme also allows vendors that have been licensed by the Danish Medicines Agency (DMA) to cultivate, produce, import and distribute medical cannabis. On January 1st, 2022, the Pilot programme was expended with another four years that allow all Danish doctors to prescribe medical cannabis for patient’s treatment.

On January 1st, 2022, the Danish Parliament also passed the law to permanently legalize Danish cultivation and production of prescription-based medical cannabis.

STENOCARE was the first company in the Danish market that received approvals from the Danish Medicines Agency to cultivate and produce medical cannabis as well as import and distribute medical cannabis oil products for sale to Danish patients.

STENOCARE has created a leadership role in Denmark through its ability to secure approvals from the Danish Medicines Agency. The Company’s business operations include the distribution and sales of imported products to the Danish market and will also include local cultivation and production of its medical cannabis products. STENOCARE is well-positioned to become a market leader in Denmark and a significant vendor in Europe.

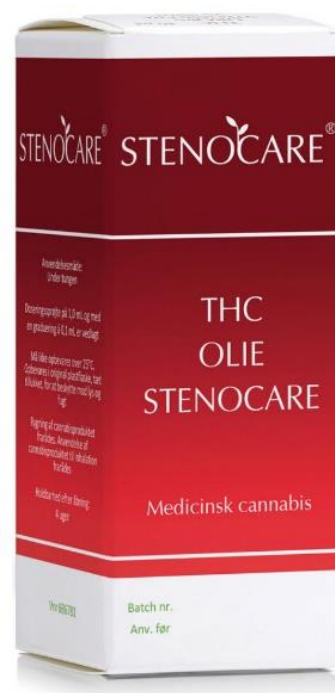
The products

In September 2018, STENOCARE was the first to introduce three imported medical cannabis oil products, which contain three different types or combinations of cannabis oils. It is the individual physician who decides which of the products a patient is to be treated with. These three products were withdrawn from the Danish market during Q3 2019 when STENOCARE terminated the supply agreement with the supplier.

During 2020 the company started two regulatory processes to bring new medical cannabis oil products to patients. The first license for experimental treatment in Sweden was granted and products were delivered in December 2020 and is still being supplied for patient’s treatment. In December 2021 the Danish regulatory review was completed and the Danish Medicines Agency approved the new THC Oil product for the Danish Pilot Programme. The company is still in process with the regulatory process that is targeting the Danish market to introduce more products.

The company has a multi-supplier strategy to secure a predictable supply chain for the growing number of patients and to offer more choice for treatment. During the fourth quarter of 2019, STENOCARE signed partnerships with Emerald Health Therapeutics Inc. for the supply of medical cannabis oil products, and Solural Pharma to develop and test future product formulations. In the first quarter of 2020, STENOCARE further strengthened its supply chain by signing an agreement with market-leading Israeli company Panaxia Pharmaceutical Industries Israel Ltd. to source medical cannabis products for Denmark. In November 2021 the company announced the supply agreement with Canadian AgMEDICA Bioscience. These agreements will further help the Company to source, develop, and commercialize cannabis-based medical products.

It is STENOCARE’s intention to expand its existing business with manufacturing of medical cannabis in their state of art facility in addition to the distribution and sales of imported products. STENOCARE intends to start selling the self-produced products when they have been accepted into the Programme by the Danish Medicines Agency (“DMA”) for the Danish Medicine List.



Together with products from its suppliers and own products, STENOCARE will both offer more choice for patient treatments and secure the future supply chain for its markets.



Target groups

There is a total of about 40+ indications in which medical cannabis may potentially show results in terms of efficacy. STENOCARE's initial target groups are patients with treatment indications recommended by the Danish Medicines Agency ("DMA"), which include multiple sclerosis, chronic pain, spinal cord injury, and nausea and vomiting as a result of cytotoxic drugs/chemotherapy treatment for various cancerous diseases. As the company enter more markets, like Sweden and UK, the target groups will evolve to reflect local regulation and opportunities.

Market for prescription-based medical cannabis

The European market is a young market and industry. Eventhough countries like Germany, UK, Denmark, Italy, France have legalized medical cannabis – they have not realized the hyper growth that was expected by industry analysts back in 2017/2018. The hype is being replaced with a healthy mentality and forecasts by analysts.

The European market is expected to grow 67% annually and become a significant medical cannabis market over the next 3-5 years, where industry analyst Prohibition Partners project European sales will reach 3.2 billion Euro by 2025.

Germany announced during 2021 their plans to legalize recreational cannabis. It is not clear which model and timing they will apply. This is not a market that STENOCARE is targeting, but it is expected that the German decision will be a catalysts for further European legalization of medical cannabis. The logic behind this is, that the first step is to legalize medical use and then learn from this. Then the recreational legalization might be the next step after a through review of the medical use.

BOARD OF DIRECTORS AND EXECUTIVE MANAGEMENT TEAM

Marianne Wier

Chairman of the Board since September 2018



Marianne Wier, born in 1963, holds a law degree from University of Copenhagen. Marianne Wier has a background as a lawyer and has, through her previous experience acquired extensive knowledge in leadership and a good strategic understanding. Wier's core competence mainly covers development and innovation as well as change management. Wier has been responsible for implementing a major digital transformation regarding efficiency, digital solutions, and innovation at Topdanmark with successful business results. Marianne Wier currently holds the position of CEO at Taksatorringen in Denmark, where she within the past 3 years has implemented a major digital transformation with huge value for the business for the 24 insurance companies, who has membership in Taksatorringen. Previous experience includes, among other things, COO and Deputy Director of Topdanmark, President and Attorney at Johan Schlüter Law Firm, Group Public Affairs Manager at Danske Bank, and Corporate & Government Affairs Manager at Microsoft Denmark.

Søren Melsing Frederiksen

Member of the Board since September 2018



Søren Melsing Frederiksen, born in 1976, holds a chemical engineering bachelor and a Master of Industrial Drug Development (MIND) from University of Copenhagen. Søren Melsing Frederiksen's experience ranges from R&D, project management, sales management, marketing, and product launch and he has been engaged in all elements of the commercial work including market access, medical affairs, commercial strategy, and sales execution. Søren Melsing Frederiksen currently holds the position as Vice President, Commercial Rx and Product Development at Orifarm Healthcare A/S.

Jeppe Bo Petersen

Independent Member of the Board since September 2018



Jeppe Bo Petersen, born 1966, is currently the CEO of Olivia Danmark A/S and Focus People A/S, market area director of Personal Assistance in Denmark, which is one of the largest actors in Denmark's within personal aid and support schemes and member of the board of "Handicapbranchen Danmark". Jeppe Bo Petersen has extensive experience within strategic work, operational goals, risk analysis, compliance and sales, and marketing. Prior to his contribution at Olivia Danmark A/S, Jeppe Bo Petersen has been CFO at, for instance, Valad Europe A/S and Nordicom A/S. In total, Jeppe Bo Petersen has approximately 30 years of experience in the field of economics.



Thomas Skovlund Schnegelsberg

CEO since October 2017 and co-founder

Thomas Skovlund Schnegelsberg, born in 1965, holds a Master of Science in Economics and Business Administration (cand. Merc), Copenhagen Business School and has extensive experience in management, strategy, business development, and brand marketing. Thomas Skovlund Schnegelsberg has been working at Microsoft in Denmark, Nordic, UK, and Europe, where he has been employed in senior leadership roles for some 20 years. In addition, Thomas Skovlund Schnegelsberg held the professional role of board member at Lauritz.com where he has spent some 11 years.



Rolf Steno

CCO since October 2017 and Member of the Board since 2021

Rolf Steno, born 1965, is a serial entrepreneur and has extensive experience in business innovation, strategy, and global sales and marketing. Rolf Steno has been working as CEO at LFP Scandinavia for 14 years and the Techsage/Spinjet case for 16 years with sales in 130+ countries, where Rolf Steno was the inventor and partial patent holder of the IP to the Spinjet. Rolf Steno has held professional roles within the areas of senior management, global support and service, and business development.



Søren Kjær

COO since October 2017 and co-founder

Søren Kjær, born 1964, holds a Master of Science in Horticulture from University of Copenhagen and has extensive experience with project management, innovation processes and biotechnology from the horticultural industry. Experience includes 20 years of consultancy.



Peter Bugge Johansen

CFO since August 2018

Peter Bugge Johansen, born 1962, State Authorized Public Accountant. Peter Bugge Johansen has worked for 20 years at Interdan Holding A/S, the last 6 years as CEO and before that CFO. Peter Bugge Johansen has acquired extensive knowledge in financial and strategic issues such as financing, internal and external reporting, change management, group structure, asset management, and merges and acquisitions. Previous experience includes 3 years as Tax Manager at A.P. Møller-Mærsk and auditor for 14 years at Deloitte in Denmark and Italy.

OTHER INFORMATION

Shareholders

The table below presents the current shareholders with more than 5 percent of the votes and capital in STENOCARE as per 17 March 2022.

Name	Number of shares	The proportion of votes and capital (%)
Steno Group IVS (Rolf Steno, CCO)	1,645,497	14.1
Prana Holding ApS (Thomas S. Schnegelsberg, CEO)	1,449,136	12.4
MS Kjær Holding ApS (Søren Kjær, COO)	1,411,763	12.1
Others	7,169,730	61.4
Total	11,676,126	100.0

The share

The shares of STENOCARE A/S were listed on Spotlight Stock Market on the 26th of October 2018. On 18th of May 2020 the shares were delisted on Spotlight and listed on Nasdaq First North Growth Market Copenhagen. The short name/ticker is unchanged STENO and the ISIN code is DK0061078425.

The total number of shares as of 31 December 2021, amounted to 11,676,126. Every stock share equals the same rights to the Company's assets and results.

Warrants

As at the date of this annual report there are no outstanding warrants.

Options

The Company has an option programme for individual employees who, based on the opinion of the board of directors, make a special effort for the Company or who possess very special qualities that the Company benefits from. The employees will be entitled to Treasury Shares free of charge after the end of each year over a period of up to 5 years. The shares are delivered from the balance of Own Shares kept by the Company. At the date of this Report, and as previously announced, options for 46,960 shares have been granted. 6,800 of the options have been vested in 2021, leaving a balance of outstanding options of 40,160.

Proposed appropriation of STENOCARE's profit or loss

The Board of Directors of STENOCARE proposes that no dividend shall be paid for the financial year 2021-01-01 – 2021-12-31.

Financial calendar and annual general meeting

The Annual General Meeting of STENOCARE will be held in Copenhagen, Denmark on the 19th of May 2022.

January – March 2022 (Q1):	05.05.2022
January – June 2022 (Q2):	15.08.2022
January – September 2022 (Q3):	03.11.2022
January – December 2022 (Q4 and Year End)	23.02.2023
Annual report 2022:	16.03.2023

MANAGEMENT'S REVIEW

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FINANCIAL HIGHLIGHTS

Key figures

Figures in DKK '000	01.01.21 31.12.21	01.01.20 31.12.20	01.01.19 31.12.19	19.10.17 31.12.18
Profit/loss				
Sales	1,575	198	4,942	4,145
Operating profit/loss before depreciation (EBITDA) ¹⁾	-12,991	-11,829	4,417	-3,591
Total net financials	-181	-1,648	-2,112	-13
Profit/loss for the year	-12,732	-11,786	1,702	-3,276

¹⁾ Operating profit for 2019 includes special items from one-off settlement with former supplier

Balance				
Total assets	43,936	56,340	31,608	21,710
Investments in property, plant and equipment	3,270	18,540	8,395	21
Equity	40,243	52,571	13,474	20,472
Cashflow				
Operating activities	-13,343	-12,703	-2,545	-5,575
Investing activities	-2,539	-18,545	-8,877	-27
Financing activities	1,243	35,882	15,000	23,749
Cash flows for the year	-14,640	4,635	3,578	18,147

Ratios

Profitability				
EBITDA	-12,991	-11,831	4,417	-3,591
Result per share	-1.09	-1.12	0.19	-0.47
Equity ratio				
Solidity (%)	92	93	43	94
EBITDA	Profit/loss before depreciation, amortisation, write-downs of property, plant and equipment, income tax and financial items			
Result per share:	Profit/loss for the year divided by average number of shares			
Solidity (%):	Equity, end of year x 100 divided by total assets			

PRIMARY ACTIVITIES

STENOCARE A/S was founded in 2017 with the purpose of supplying medical cannabis to patients in Denmark and internationally with the vision of creating a better quality of life for patients through the use of medical cannabis as an alternative and/or a supplement to traditional medicine. The Company was first to receive the Danish Medicines Agency's permission to import, distribute as well as cultivate and produce medical cannabis. The Company has been a supplier of medical cannabis oil for patients in Denmark and Sweden. STENOCARE has an indoor production facility for the cultivation and production of medical cannabis at the Company's premises in Jutland, Denmark. STENOCARE has one subsidiary, STENOCARE Ireland Ltd. The Subsidiary has no financial activity and no consolidated figures apply.

DEVELOPMENT IN ACTIVITIES AND FINANCIAL AFFAIRS

STENOCARE worked intensively in 2021 with the four strategic assets



In all four assets STENOCARE have made progress although it was realised that regulatory processes takes time.

In the first quarter an additional product (THC:CBD) was approved by the Swedish Medicines Agency for sale to swedish patients. In 2021 products for DKK 1,575,000 were sold in Sweden.

In the third quarter the upgrade of the state of the art indoor production facility was finalised and production in large scale commenced. The cultivation time for cannabis plants is 12-16 weeks and the first harvest was made in beginning of 2022.

To strenghtend the supply chain of the company a new supply agreement with Canadian AgMEDICA Bioscience was signed in the fourth quarter.

During the financial year STENOCARE worked intensively with medicine agencies in several countries including Denmark to have products approved for sales to patients. The result of this worked materialised not in 2021, but in beginning of 2022 products were approved in Denmark and in UK.

For the year an operating loss of DKK -14.078.472 includes cost related to increased activity in commercial, regulatory and supply chain activities. The number of employees are increased from 7 to 9 due to increased activity in the production facility. Depreciations are increased from DKK 240,649 to 1,087,403 as the production facility is operational from beginning of the fourth quarter.

STENOCARE realised an EBITDA for the financial year of DKK -12,991,069 and a net profit at DKK -12,732,465. The result is in line with expectations. The balance sheet shows an equity of DKK 40,242,569 and total assets of DKK 43,935,737.

OUTLOOK

Products approved in Denmark, Sweden and UK, and the learnings from these approval processes adding even more markets during 2022 gives confidence in increased sales for 2022.

STENOCARE expects to file an application with the Danish Medicine Agency for producing and selling medical cannabis bulk products from the production facility during 2022. The timing of the approval depends on the process time at the Danish Medicine Agency.

Therefore expectations to EBITDA in 2022 is a loss lower than realised in 2021. The Company expects the sales to reach an annual runrate of 15-20 mio. kr. towards the end of 2022 (annualization of Q4 run rate).

STENOCARE has with cash in bank, increased sales due to recent product approvals in Denmark and UK and the current plans adequate liquidity for 2022.



KNOWLEDGE RESOURCES

STENOCARE's operations are managed by highly trained and experienced employees in various areas and knowledge, covering managing of start-up companies, local and international sales and production in the bio-tech and horticultural industry.

SPECIAL RISKS

STENOCARE is operating under a four-year pilot-programme, enabling all Danish physicians to prescribe cannabis for medical use. The programme was initialised January 1st, 2018 and was in December 2021 extended with additional four years to December 31st, 2025. Also in December 2021 the parliament confirmed the permanent legalization of Danish cultivation and production of medical cannabis.

There is a risk allocated to the suppliers of the Company regarding compliance of the products. The Company has established procedures to minimize these risks. In addition to ordinary risks related to the industry in which the Company is operating, the Company is exposed to currencies as finished products from suppliers are purchased in EUR and CAD and sold in DKK and SEK.

EXTERNAL ENVIRONMENT

In 2021, STENOCARE's operations included distribution of medical cannabis products from its suppliers. The Company is engaged in cultivation of Cannabis plants in the facility in Jutland and has established procedures on limiting the impact of the environment from the cultivation.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2021, STENOCARE's operations included distribution of medical cannabis products from its strategic partner in Canada. Thus, the Company has not conducted any research and development activities related to products. Also, the Company continued to develop the High-Tech Indoor Cultivation Facility aiming for a pharma-grade production facility and working with product approval processes in various countries. In 2022 STENOCARE aims to begin cultivation and production of medical cannabis in the Company's premises in Jutland and begin the approval process at the Danish Medicines Agency. In 2019 the Company signed a strategic partnership agreement to develop, test and commercialize advanced cannabis-based medical products with Danish company Solural Pharma Aps.

SUBSEQUENT EVENTS

No important events have occurred after the end of the financial year which have a significant impact of the financial position.

Of other events the company received approval for a new product from The Danish Medicines Agency and is again the only supplier of medical cannabis oil products for the Pilot Programme in Denmark. Also the company received approval for three new products from the health authorities in UK (MHRA) for sales to patients in UK.

TREASURY SHARES

Treasury shares consists of:

	Acquisition value - DKK	No. of shares	Nominal value - DKK	Percentage of share capital
Treasury shares as at 01.01.21	8,699,991	272,727	21,818	2.34%
Shares transferred to employees as part of the option program	- 216,920	- 6,800	- 544	- 0.06%
Treasury shares as at 31.12.21	8,483,071	265,927	21,274	2.28%

STATEMENT BY THE BOARD OF DIRECTORS AND MANAGEMENT ON THE ANNUAL REPORT

The Board of Directors and the Executive management have today considered and approved the annual report of STENOCARE A/S for the financial year 01.01 – 31.12.2021. The annual report is presented in accordance with the Danish Financial Statements Act. In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2021 and the results of its operations for the financial year 01.01 - 31.12.2021. We believe that the management's review contains a fair review of the affairs and conditions referred to therein. We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 17 March 2022

Executive Board

Thomas Skovlund Schnegelsberg
CEO

Board of Directors

Marianne Wier
Chairman of the Board

Rolf Steno
Member of the Board

Jeppe Bo Petersen
Member of the Board

Søren Melsing Frederiksen
Member of the Board

INDEPENDENT AUDITOR'S REPORT

ANNUAL REPORT 2021

TO THE SHAREHOLDERS OF STENOCARE A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2021, and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Stenocare A/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of cash flows, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

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' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review pages 14-17.

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, in our view, 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 in Management's Review.

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.

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.

Hellerup, 17 March 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Allan Knudsen

State Authorised Public Accountant

Mne29465

FINANCIAL INFORMATION

ANNUAL REPORT 2021

Income statement

Note		2021	2020
		DKK	DKK '000
	Gross loss	-5,756,288	-5,993
2	Staff costs	-7,234,781	-5,836
	Loss before depreciation, amortisation, write-downs and impairment losses	-12,991,069	-11,829
	Depreciation and impairments losses of property, plant and equipment	-1,087,403	-241
	Operating loss	-14,078,472	-12,070
3	Income from equity investments in group enterprises	-7	0
	Financial income	32,161	32
	Financial expenses	-213,232	-1,680
	Loss before tax	-14,259,550	-13,718
4	Tax on loss for the year	1,527,085	1,932
	Loss for the year	-12,732,465	-11,786

5 Proposed appropriation account

Balance sheet

ASSETS			
		31.12.21	31.12.20
Note		DKK	DKK '000
	Leasehold improvements	1,004,803	693
	Plant and machinery	26,836,299	341
	Other fixtures and fittings, tools and equipment	516,003	258
	Property, plant and equipment under construction	0	25,363
6	Total property, plant and equipment	28,357,105	26,655
8	Deposits	493,129	493
	Total investments	493,129	493
	Total non-current assets	28,850,234	27,148
	Trade receivables	0	105
	Receivables from group enterprises	18,391	0
8	Deferred tax asset	1,377,398	1,213
	Income tax receivable	1,362,524	857
	Other receivables	454,316	494
10	Prepayments	152,852	163
	Total receivables	3,365,481	2,832
	Cash	11,720,022	26,360
	Total current assets	15,085,503	29,192
	Total assets	43,935,737	56,340

Balance sheet

EQUITY AND LIABILITIES

Note		31.12.21 DKK	31.12.20 DKK '000
11	Share capital	934,090	934
	Retained earnings	39,308,479	51,636
	Total equity	40,242,569	52,570
12	Other provisions	315,000	0
	Total provisions	315,000	0
13	Lease commitments	988,114	0
13	Other payables	0	80
	Total long-term payables	988,114	80
13	Short-term part of long-term payables	254,592	0
	Trade payables	1,188,068	2,566
	Other payables	947,394	1,124
	Total short-term payables	2,390,054	3,690
	Total payables	3,378,168	3,770
	Total equity and liabilities	43,935,737	56,340
14	Contingent liabilities		
15	Related parties		

Statement of changes in equity

Figures in DKK	Share capital	Share premium	Retained earnings	Total equity
Statement of changes in equity for 01.01.20 - 31.12.20				
Balance as at 01.01.20	715,421	0	12,759,194	13,474,615
Capital increase	218,669	53,956,068	0	54,174,737
Cost of changes in capital	0	-3,292,507	0	-3,292,507
Transfers to/from other reserves	0	-50,663,561	50,663,561	0
Net profit/loss for the year	0	0	-11,786,282	-11,786,282
Balance as at 31.12.20	934,090	0	51,636,473	52,570,563
Statement of changes in equity for 01.01.21 - 31.12.21				
Balance as at 01.01.21	934,090	0	51,636,473	52,570,563
Share-based payments	0	0	404,471	404,471
Net profit/loss for the year	0	0	-12,732,465	-12,732,465
Balance as at 31.12.21	934,090	0	39,308,479	40,242,569

Cash flow statement

Note	2021 DKK	2020 DKK '000
Loss for the year	-12,732,465	-11,786
16 Adjustments	-105,205	-44
Change in working capital:		
Receivables	137,166	139
Trade payables	-1,377,543	1,799
Other payables relating to operating activities	-256,869	632
Other provisions	315,000	0
Cash flows from operating activities before net financials	-14,019,916	-9,260
Interest income and similar income received	32,161	32
Interest expenses and similar expenses paid	-213,232	-2,792
Income tax paid / received	857,398	-682
Cash flows from operating activities	-13,343,589	-12,702
Purchase of property, plant and equipment	-3,269,978	-18,540
Sale of property, plant and equipment	731,240	0
Loans	0	-5
Cash flows from investing activities	-2,538,738	-18,545
Raising of additional capital	0	54,175
Expenses related to changes in capital	0	-3,293
Arrangement of financial lease commitments	1,371,448	0
Repayment of financial lease commitments	-128,742	0
Repayment of other long-term payables	0	-15,000
Cash flows from financing activities	1,242,706	35,882
Total cash flows for the year	-14,639,621	4,635
Cash, beginning of year	26,359,643	21,725
Cash, end of year	11,720,022	26,360
Cash, end of year, comprises:		
Cash	11,720,022	26,360
Total	11,720,022	26,360

1. Uncertainty concerning recognition and measurement

In the financial statements for 2021, it is important to note the following uncertainty as regards recognition and measurement as it has had a significant influence on the assets and liabilities recognised in the financial statements:

STENOCARE A/S is operating under a four-year trial program, enabling all Danish physicians to prescribe cannabis for medical use. The trial program is prolonged by the Danish Parliament with additional 4 years to December 31, 2025. The Parliament also confirmed the permanent legalization of Danish cultivation and production of medical cannabis securing the future operation for STENOCARE's world class indoor cultivation facility.

STENOCARE A/S has with cash in bank, increased sales due to recent product approvals in Denmark and UK and the current plans adequate liquidity for 2022.

The recognition and measurement of assets, liabilities, expenses, depreciation and impairments is in all material aspects under the assumption that the necessary approvals of products and production are obtained. Management expects such approvals to be received in 2022.

	2021	2020
	DKK	DKK '000

2. Staff costs

Wages and salaries	6,836,030	5,620
Pensions	180,150	106
Other social security costs	20,154	16
Other staff costs	198,447	94

Total	7,234,781	5,836
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Average number of employees during the year	9	7
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Remuneration for the management:

Total remuneration for the Executive Board	804,000	810
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Remuneration for the Board of Directors	350,000	350
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Remuneration for the Executive Board and Board of Directors	1,154,000	1,160
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Expense arising from equity-settled share-based payment transactions amount in 2021 to DKK 404.471 (2020: DKK 0).

3. Income from equity investments in group enterprises

Share of profit or loss of group enterprises	-7	0
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Total	-7	0
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	2021	2020
	DKK	DKK '000

4. Tax on loss for the year

Current tax for the year	-1,362,568	-857
Adjustment of deferred tax for the year	-164,517	-1,075
Total	-1,527,085	-1,932

5. Proposed appropriation account

Retained earnings	-12,732,465	-11,786
Total	-12,732,465	-11,786

6. Property, plant and equipment

Figures in DKK	Leasehold improve- ments	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment under construction
Cost as at 01.01.21	857,922	426,166	308,262	25,363,325
Additions during the year	992,921	0	378,227	1,898,830
Disposals during the year	-731,484	0	0	0
Transfers during the year to/from other items	0	27,262,155	0	-27,262,155
Cost as at 31.12.21	1,119,359	27,688,321	686,489	0
Depreciation and impairment losses as at 01.01.21	-165,363	-85,233	-50,381	0
Depreciation during the year	-200,509	-766,789	-120,105	0
Reversal of depreciation of and impairment losses on disposed assets	251,316	0	0	0
Depreciation and impairment losses as at 31.12.21	-114,556	-852,022	-170,486	0
Carrying amount as at 31.12.21	1,004,803	26,836,299	516,003	0
Carrying amount of assets held under finance leases as at 31.12.21	915,232	0	319,772	0

7. Equity investments in group enterprises

Figures in DKK	Equity investments in group enterprises
Cost as at 01.01.21	7
Cost as at 31.12.21	7
Net profit/loss from equity investments	-7
Depreciation and impairment losses as at 31.12.21	-7
Carrying amount as at 31.12.21	0
Name and registered office:	Ownership interest
Subsidiaries:	
STENOCARE Ireland Ltd., Ireland	100%

8. Other non-current financial assets

Figures in DKK	Deposits
Cost as at 01.01.21	493,000
Additions during the year	129
Cost as at 31.12.21	493,129
Carrying amount as at 31.12.21	493,129

	31.12.21	31.12.20
	DKK	DKK '000

9. Deferred tax

Provisions for deferred tax as at 01.01.21	1,212,881	-857
Deferred tax recognised in the income statement	164,517	2,070

Provisions for deferred tax as at 31.12.21	1,377,398	1,213
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Deferred tax is distributed as below:

Property, plant and equipment	-883,378	-3
Share-based payments	10,861	0
Provisions	69,300	0
Liabilities	273,396	0
Tax losses	1,907,219	1,216
Total	1,377,398	1,213

As at 31.12.21, the company has recognised a deferred tax asset of DKK 1,377k. The total tax losses carried forward amounts to DKK 27,452k, corresponding to a deferred tax asset value of DKK 6,039k. The recognised deferred tax asset related to tax losses carried forward amounts to DKK 1,907k, corresponding to 32% of the total tax losses carried forward, and is recognised on the basis of expectations of positive operating results for the coming years.

	31.12.21 DKK	31.12.20 DKK '000
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10. Prepayments

Prepaid expenses	152,852	163
Total	152,852	163

11. Share capital

The share capital consists of:

	Quantity	Total nominal value
Share capital	11,676,126	934,090
Total		934,090

The Company has an option programme for individual employees who, based on the opinion of the board of directors, make a special effort for the Company or who possess very special qualities that the Company benefits from. The employees will be entitled to Treasury Shares free of charge after the end of each year over a period of up to 5 years. The shares are delivered from the balance of Own Shares kept by the Company.

At the date of this Annual Report, options for a total of 46,960 shares have been granted. 6,800 of the options have been vested leaving a balance of outstanding options of 40.160. On vesting, the shares are transferred to the employee from Treasury Shares and the movement in Q1 2021 therefore reduces the number of Treasury Shares outstanding to 265,927.

12. Other provisions

Figures in DKK	Other provisions
Provisions during the year	315,000
Provisions as at 31.12.21	315,000

	31.12.21 DKK	31.12.20 DKK '000
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Other provisions are expected to be distributed as follows:

Current liabilities	315,000	0
Total	315,000	0

Other provisions comprise provisions to take back expired products.

13. Long-term payables

	Repayment first year DKK	Outstanding debt after 5 years DKK	Total payables at 31.12.21 DKK	Total payables at 31.12.20 DKK '000
Lease commitments	254,592	0	1,242,706	0
Other payables	0	0	0	80
Total	254,592	0	1,242,706	80

14. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 110 months and average lease payments of DKK 132k, a total of DKK 14.476k.

15. Related parties

Related party transactions are not disclosed, as all transactions are entered into in the ordinary course of business at arms' length.

Remuneration for the management is specified in note 2. Staff costs.

	2021 DKK	2020 DKK '000
16. Adjustments for the cash flow statement		
Other operating income	-251,072	0
Depreciation and impairments losses of property, plant and equipment	1,087,403	241
Share-based payments	404,471	0
Income from equity investments in group enterprises	7	0
Financial income	-32,161	-32
Financial expenses	213,232	1,680
Tax on profit or loss for the year	-1,527,085	-1,933
Total	-105,205	-44

17. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C.

The accounting policies have been applied consistently with previous years.

In accordance with section 110 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 depreciation, amortisation, impairment losses and write-downs, 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 such assets 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 such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

17. Accounting policies - continued -**LEASES**

Leases relating to assets where the company has substantially all the risks and benefits incidental to the ownership of the asset (finance leases) are recognised in the balance sheet. On initial recognition, assets held under finance leases and related lease commitments are measured at the lower of the fair value of the leased asset and the present value of future lease payments. Subsequently, assets held under finance leases are treated like other similar assets.

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as payables. Subsequent to initial recognition, lease commitments are measured at amortised cost according to which the interest element of the lease payment is recognised in the income statement over the lease term.

Lease payments relating to operating leases are recognised in the income statement on a straight-line basis over the lease term.

INCOME STATEMENT**Gross loss**

Gross loss comprises revenue, other operating income and cost of sales and other external expenses.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

17. Accounting policies - continued -**Cost of sales**

Cost of sales comprises cost of sales for the year measured at cost plus any changes in inventories, including write-downs to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

Share-based payments

Employees receive remuneration in the form of share-based payments, whereby employees render services as consideration for shares (equity-settled transactions). The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity, over the period in which the service are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the best estimate of the number of equity instruments that will ultimately vest.

17. Accounting policies - continued -**Depreciation and impairment losses**

The depreciation of property, plant and equipment aim at systematic depreciation over the expected useful lives of the assets. Assets are depreciated according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value, per cent
Leasehold improvements	5	0
Plant and machinery	5-10	0
Other plant, fixtures and fittings, tools and equipment	5	0

The basis of depreciation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Income from equity investments in group enterprises

For equity investments in equity investments in subsidiaries, measured using the equity method, the share of the enterprises' profit or loss is recognised in the income statement after elimination of unrealised intercompany profits and losses and less any goodwill amortisation and impairment losses.

Income from equity investments in equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

Other net financials

Interest income and interest expenses, the interest element of finance lease payments, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

17. Accounting policies - continued -**Tax on profit/loss for the year**

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

BALANCE SHEET**Property, plant and equipment**

Property, plant and equipment comprise leasehold improvements, plant and machinery as well as other fixtures and fittings, tools and equipment.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation and impairment losses' section.

Property, plant and equipment under construction

Property, plant and equipment under construction are measured at cost. Costs incurred on property, plant and equipment under construction are transferred to the relevant asset category when the asset is ready for use.

Prepayments for property, plant and equipment

Prepayments for property, plant and equipment comprise prepayments to suppliers.

Gains and losses on the disposal of property, plant and equipment

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

17. Accounting policies - continued -**Equity investments in group enterprises**

Equity investments in subsidiaries are recognised and measured according to the equity method. For equity investments in subsidiaries, the equity method is considered a measurement method.

On initial recognition, equity investments measured according to the equity method are measured at cost. Transaction costs directly attributable to the acquisition are recognised in the cost of equity investments.

Under subsequent recognition and measurement of equity investments according to the equity method, equity investments are measured at the proportionate share of the enterprises' equity value, determined according to the accounting policies of the parent, adjusted for the remaining value of goodwill and gains and losses on transactions with the enterprises in question. Equity investments, where information for recognition according to the equity method is not known, are measured at cost.

Gains or losses on disposal of equity investments are determined as the difference between the disposal consideration and the carrying amount of net assets at the time of sale, including non-amortised goodwill, as well as the expected costs of divestment or discontinuation. Gains and losses are recognised in the income statement under income from equity investments.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

17. Accounting policies - continued -

Impairment losses are reversed when the reasons for the impairment no longer exist.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

The net revaluation of equity investments measured according to the equity method is recognized in the net revaluation reserve in equity according to the equity method to the extent that the carrying amount exceeds the cost.

Provisions

Other provisions comprise expected expenses incidental to taking back expired products and are recognised when the company has a legal or constructive obligation at the balance sheet date and it is probable that such obligation will draw on the financial resources of the company. Provisions are measured at net realisable value or fair value if the provision is expected to be settled over the longer term.

17. Accounting policies - continued -**Current and deferred tax**

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

17. Accounting policies - continued -**CASH FLOW STATEMENT**

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the company's share capital and associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables. Cash flows from financing activities also comprise finance lease payments.

Cash and cash equivalents at the beginning and end of the year comprise cash.