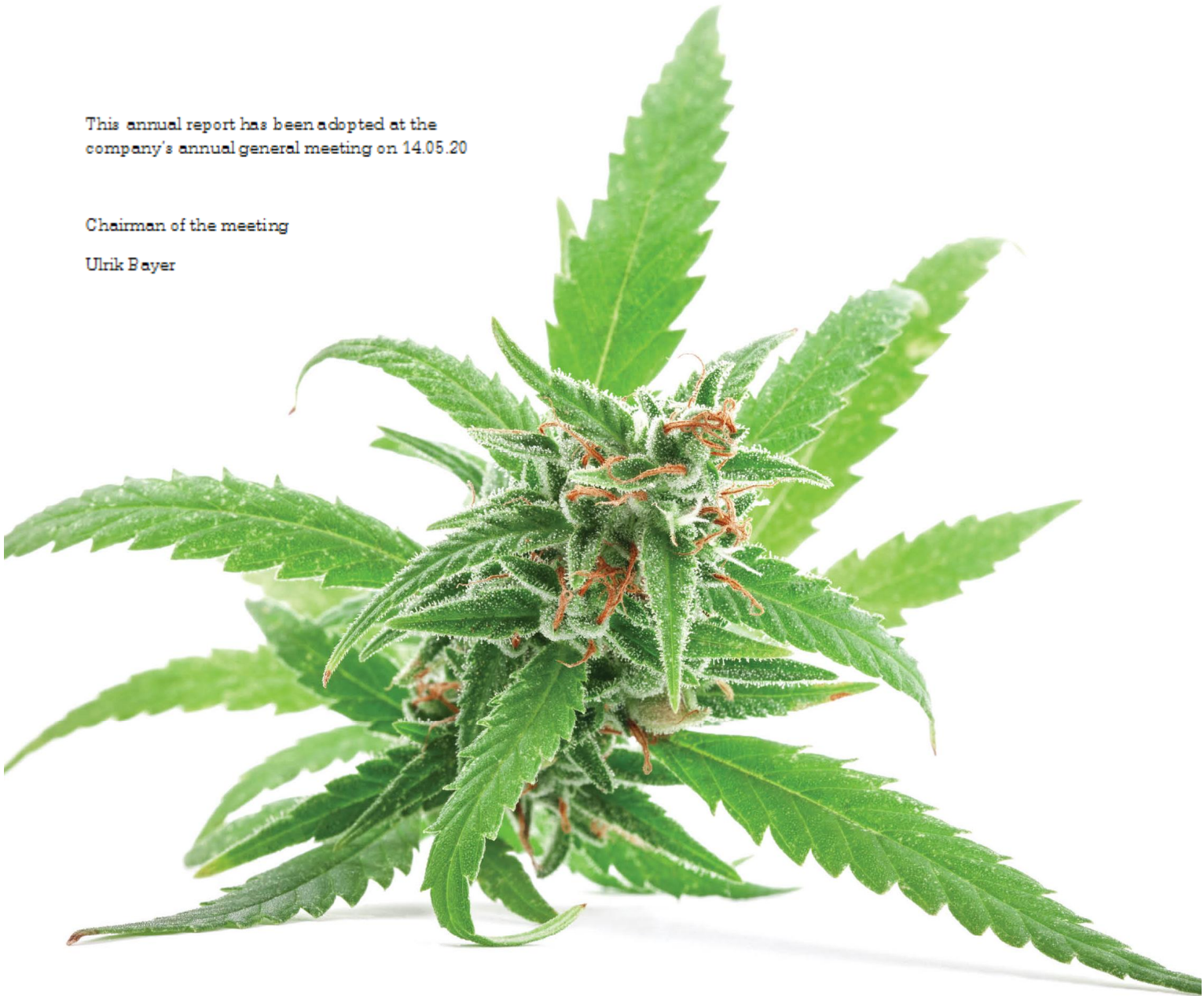


STENOCCARE®

This annual report has been adopted at the
company's annual general meeting on 14.05.20

Chairman of the meeting

Ulrik Bayer



2019 ANNUAL REPORT

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

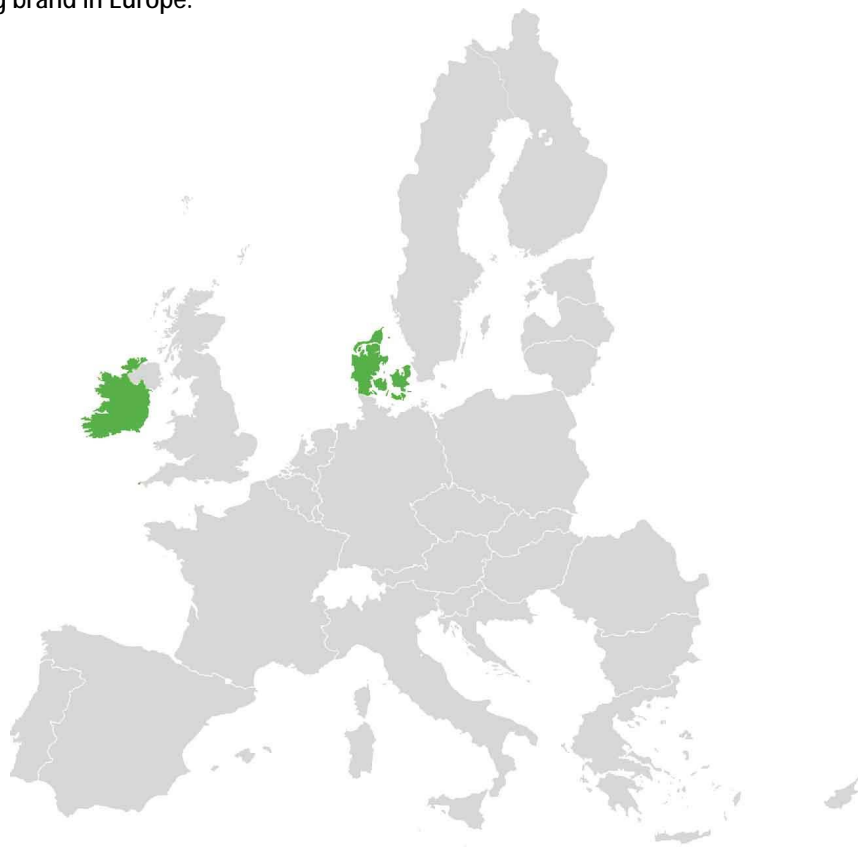
INTRODUCTION

STENOCARE A/S was founded in 2017 to be an active participant in the Danish medical cannabis pilot program 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 listed on Spotlight Stock Market in October 2018 to develop a production facility for the cultivation and production of its medical cannabis products. STENOCARE's ambition is to establish itself as a leading European brand in the medical cannabis industry. Having Danish production is an important strategic asset, as very few European markets have legalized local production of medical cannabis and, therefore, depend on imports. 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: 1) Commercial assets to establish more markets in Europe for distribution of medical cannabis, with STENOCARE Ireland Ltd as the first new market. 2) Product development partnership assets to formulate and test new innovative medical cannabis oil products that can target the growing diverse group of patients, with Solural Pharma as the first partnership. 3) Supply Chain assets in the Danish cultivation facility to further enable the company to be a leader within high quality and "pharma-grade" medical cannabis production, with a turn-key solution delivered by Havecon Horticultural Projects. This is supplemented with a multi-supplier strategy for finished products, that further extend the product portfolio to meet the needs of the growing group of patients. 4) regulatory assets as the ability to obtain licenses from DMA and other authorities, as a part of STENOCARE's international strategy already proven in Denmark and Ireland. With STENOCARE 2.0 the company is well-positioned to become a market-leading brand in Europe.



COMMENT FROM THE CEO

"2019 may have taken unexpected turns, but all in all, we can look back at a year where we fully delivered on the STENOCARE 1.0 goals and ended the year with profit. As we summarize 2019, it is tempting to also think back at the decade that just passed. Looking at our own industry, significant cultural and political steps were taken, particularly in Europe, to ease restrictions (and mindsets) regarding the use of cannabis in medical treatments. This important leap forward will enable thousands and thousands of patients who suffer from numerous forms of painful indications to gain access to efficient cannabis-based treatments. This is something to applaud, and good reason to be optimistic about the decade ahead.

Now, as I alluded to above, we certainly experienced some bumpy parts, connected to the unexpected events that surrounded our previous supplier CannTrust Inc. In the midst of the summer, it became clear from a Health Canada inspection that CannTrust had used cultivation rooms that were not compliant. The circumstances were that all batches received from CannTrust were put in quarantine. This new reality both affected patients' access to treatment with medical cannabis oil products and our business severely, leading to a halt in revenues during Q3 and Q4 2019.

Ultimately, though, we have used the autumn months to rethink our supply chain, that will be based on multiple suppliers in the future. The first new supplier was evaluated and signed in November. This will strengthen us in the long-term and help us become more efficient in how we source, develop, and commercialize cannabis-based medical products. We will also be able to offer more choice for patients, with a broader product portfolio. Moreover, a final settlement has been reached with CannTrust, making sure that STENOCARE receives a compensation of CAD 500,000 as well as 272,727 existing shares in STENOCARE. Now, we can continue our own path with no restrictions for entering into new and valuable partnerships that can fuel our growth.

As mentioned, we remain optimistic about the company's future and have evolved our strategy into STENOCARE 2.0, which was presented to the

public in Q3 2019. Our expectations are supported by the fact that we are seeing a likely continuation of further legalization across European markets. According to one estimate, the market size in Europe alone is expected to grow to EUR 2.2 billion in 2024 (European Cannabis Report 2020). Our vision to become a leading brand in the medical cannabis industry remains intact.

Several highlights in our performance to date support us in this. Our ability to work with the medicines agencies to receive approvals and licenses and the successful cultivation of our very first harvest without the use of pesticides. This was a tough one, and a breakthrough we should be proud of. Our stated objectives were thus met. Furthermore, debt financing of DKK 15 million, announced in July, will enable us to gradually scale up our indoor production facilities in Jutland, Denmark, moving closer to the end goal of a state-of-the-art facility with world-class capacity.

Other good news, albeit of a different kind, was of course the *IPO of the Year 2018*-award, given to STENOCARE in May 2019 by SvD Börsplus. We are delighted to have received such a recognition, that highlights our quality of execution.

All in all, then, 2019 was a year when we, despite drastic changes in our supply chain, made significant strides and realized an EBITDA of DKK 4.4 million for the full year, allowing us to remain confident as we enter the next decade.



Thomas Skovlund Schnegelsberg,
CEO STENOCARE A/S

ABOUT STENOCARE A/S

On 1 January 2018, medical cannabis was legalized in Denmark under a four-year pilot-program ("the Programme"), enabling all Danish physicians to prescribe cannabis for medical use. This Programme also allows vendors that have been licensed by the Danish Medicines Agency to cultivate, produce, import and distribute medical cannabis.

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 doctor who decides which of the products a patient is to be treated with. These products have been quarantined since July 2019, and STENOCARE is currently qualifying new suppliers of medical cannabis products that can comply with the strict Danish regulatory requirements. STENOCARE has established distribution agreements with Denmark's two leading distributors, Nomeco A/S and Tjellesen Max Jenne A/S, whereby the Company has secured a distribution channel to all pharmacies and hospitals in Denmark. For the Irish market, the company has established partnership with Georgelle that is one of Ireland's leading wholesale pharmaceutical companies, supplying the country's network of hospitals and 1,700 retail pharmacies. The Company has during the fourth quarter of 2019, signed partnerships with Emerald Health Therapeutics Inc. for supply of medical cannabis oil products. This agreement will further help the Company to source and commercialize cannabis-based medical products. STENOCARE have established the first pharma-grade development partnership with Denmark based Solural Pharma to develop new advanced Medical Cannabis oil products. This includes products that target individual conditions, best-in-class efficacy (better effect at smaller doses).

It is STENOCARE's ambition to expand its existing business with local manufacturing of medical cannabis 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 DMA for the Danish Medicine List. Having its own production capacity will enable STENOCARE to meet supply demand in a European market with potential capacity constraints and will also allow STENOCARE to serve the patients in the wider European market with its own products. 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 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. However, all types of illnesses are covered by

the Danish legalization – as all physicians have the authorization to prescribe medical cannabis to all their patients and all types of illnesses.

Business model

The Vision behind STENOCARE remains to improve the quality of lives of millions of patients who can benefit from the use of high-quality Medical Cannabis products. The Mission – which will lead to the fulfilment of the Vision – is to make STENOCARE a leading European brand in high-quality, prescription-based Medical Cannabis, also referred to as STENOCARE 2.0. The “how” of the business model is best addressed by describing the four underlying key strategic elements covering 1: Commercial, 2: Regulatory, 3: Supply chain and 4: Strategic partnerships. The strategy is simple and powerful, yet difficult for others to replicate.

1&2: Commercial and regulatory strategy: By 2025, STENOCARE will expand its operations to up to 10 markets by scaling what works in Denmark and based on close dialogue with local regulators. This is performed with reference to the stamp of approval that STENOCARE has acquired by abiding by the advanced Danish regulatory requirements as well as establishment of distribution through classic pharma channels. This strategy has been vetted by the dialogue with local authorities in other countries and the consequential establishment of STENOCARE Ireland Ltd. More countries are in the pipeline.

3: Supply chain strategy: STENOCARE’s multi-supplier strategy is based on a combination of imports from highly qualified suppliers and own production in the highest possible consistent quality. Going forward, the combination of own production and imports will enable STENOCARE to offer a highly competitive product portfolio targeted at individual patient groups. The Danish cultivation facility is being built to meet pharma-grade requirements, and STENOCARE will make further investments in the facility to create the leading indoor production environment of Medical Cannabis. Own production will continue to take place in Denmark and in a secondary facility to be located in another European market to be decided in due time.

4: Strategic partnerships: The medical cannabis industry landscape is changing rapidly. Being agile and independent is a unique strength that enables STENOCARE to form the best possible partnerships at any time to support its ambitious STENOCARE 2.0 strategy. STENOCARE has already been approached by several vendors and research companies in the pharma industry who would like to source prime quality Medical Cannabis from STENOCARE and develop advanced products in partnership with STENOCARE. This fits well with STENOCARE’s continued appetite for partnerships that can add intellectual property (IP) to STENOCARE based on research & development (R&D) and testing.



No medical supplier in Denmark can provide its products directly to pharmacies. STENOCARE has established distribution agreements with Nomeco A/S and Tjellesen Max Jenne A/S, through which the Company has secured a distribution channel to all pharmacies and hospitals in Denmark. These two wholesale partners have a duopoly in Denmark, meaning that there are no other wholesalers of medical products in Denmark. Nomeco A/S is the largest wholesale partner with a market share of approximately 70 percent in Denmark. Tjellesen Max Jenne A/S has the remaining market share of approximately 30 percent.

STENOCARE's imported medical cannabis is sold at a final price to patients of approximately DKK 2,749 incl. VAT for their 40 ml product. The final price is wholly or partly (50 percent) subsidized by the Danish state. Thus, the patient does not have to bear the full cost. Currently, STENOCARE base the recurring sales on the following principles:

- Patients suffering from nausea and vomiting as a result of cytotoxic drugs/chemotherapy treatment for various cancerous diseases could use the product for eight weeks per year (average two products per patient per year).
- Furthermore, the Company assesses that multiple sclerosis patients and patients with chronic indications could use medical cannabis every month (average of twelve products per patient per year).
- STENOCARE's medical cannabis oil product equals one month of use for an average patient based on their Canadian experience.

MARKET OVERVIEW

The industry for medical cannabis is a new market in Denmark and Europe. Canada, with its 36 million population, is a frontrunner that has seen a growth from 4,000 to 375,000 medical cannabis patients during 2014-2019. This is equal to a market value (i.e. aggregate annual revenue) growth from DKK 50 million to DKK 6 billion in just four years, and the Canadian market is projected to reach DKK 11 billion in 2021. The Danish and European medical cannabis industries are, with a combined population of approximately 741 million people in Europe, at the very start of high potential growth like, for example, Canada.

Denmark

Medical cannabis is a new field of medical treatment in Denmark. In Canada, medical cannabis received an initial impact with approximately 0.08 percent of the population. The Company assesses that the corresponding figure may be relevant even in Denmark when similar products are available to patients. However, for 2019 it may occur that approximately 2-2,500 patients will be treated with medical cannabis during a full year in Denmark.



In Denmark, approximately 50,000 patients are being treated annually for multiple sclerosis or with cytotoxic drugs to fight cancer. Individuals with multiple sclerosis and patients undergoing treatment with cytotoxic drugs are large patient groups in Denmark, with an annual growth of approximately 35,600 patients. Further,

approximately 850,000 patients in Denmark suffer from chronic pain (e.g. osteoarthritis, osteoporosis), of whom approximately 485,000 patients are treated with opiates (i.e. morphine). According to the Company's assessment, there is potential for treating some of these patients with medical cannabis as a supplement to morphine. Also, there are 40+ other indications in which medical cannabis may potentially affect. Indications of epilepsy and Parkinson's Disease together comprise an additional approximately 57,000 patients. Before the Programme came into effect on January 1, 2018, access to medical cannabis was extremely limited.

For this reason, there is a segment of the patients who self-medicate with medical cannabis illegally to relieve their pain and/or deal with cramps. The Company assesses that approximately 200,000 people have used medical cannabis illegally in Denmark so far. However, now that a legal alternative has been opened via the Programme, the Company assesses that the illegal usage can be reduced.

The executive management team estimates that the patient groups in Denmark have a potential market size of approximately DKK 1 billion in 2024 and the Company's objective is to take a significant market share initially – as it is currently the sole supplier of medical cannabis oil products at scale.

Europe

Denmark is STENOCARE's priority. In Q3 2019 STENOCARE announced that they had successfully completed its first cycle of cultivation and harvest in line with the very strict requirements of the Danish Medical cannabis programme. The Company's aim is thereby to identify which European markets will be the focus of sales of STENOCARE products. Currently, eighteen EU countries have legalized treatment with medical cannabis and the market is estimated to amount to approximately EUR 2.2 billion in 2024 (European Cannabis Report, Feb 2020). Denmark is currently one of the few European countries to legalize the cultivation of medical cannabis, in addition to imports. The strict Danish requirements for product quality and pesticide-free production will constitute a competitive advantage for Danish manufacturers such as STENOCARE in global markets.

Countries that have legalised cannabis in some form



Source: STENOCARE assessment of national legislation

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 Copenhagen University. 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. 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 Master of Industrial Drug Development (MIND) from Copenhagen University. Søren Melsing Frederiksen's experience ranges from R&D, project management, sales management, marketing, and product launch and 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 Head of Commercial Operations at Aspen Pharma Nordic.

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, which is one of the largest actors in Denmark's within personal aid and support schemes. 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.



Rolf Steno

CCO and Member of the Board since 2017

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. Steno Petersen holds the role of CCO in STENOCARE.



Thomas Skovlund Schnegelsberg

CEO and co-founder

Thomas Skovlund Schnegelsberg, born in 1965, has extensive experience in management, strategy, business development, and brand marketing. Thomas Skovlund Schnegelsberg has been working at Microsoft in Denmark, Nordic, UK, and EMEA, 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. Thomas Skovlund Schnegelsberg holds the role of CEO in STENOCARE.



Søren Kjær

COO and co-founder

Søren Kjær, born 1964, has extensive experience with project management, innovation processes and biotechnology from the horticultural industry. Experience includes 20 years of consultancy services at DEVCON and participation in EU projects in Ghana. Søren Kjær holds the role of COO in STENOCARE.



Peter Bugge Johansen

CFO

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 26 February 2020.

Name	Number of shares	The proportion of votes and capital (%)
Steno Group IVS (Rolf Steno, CCO)	2,000,000	22.4
Prana Holding ApS (Thomas S. Schnegelsberg, CEO)	1,761,365	19.7
MS Kjær Holding ApS (Søren Kjær, COO)	1,715,910	19.2
Others	3,465,488	38.7
Total	8,942,763	100.0

The share

The shares of STENOCARE A/S were listed on Spotlight Stock Market on the 26th of October 2018. The short name/ticker is STENO and the ISIN code is DK0061078425.

The total number of shares as of 31 December 2019, amounted to 8,942,763. Every stock share equals the same rights to the Company's assets and results.

Warrants

The Board of Directors of STENOCARE has issued a warrant program to Gemstone Capital ApS. The warrant program gives Gemstone Capital the right to a total of 88,977 shares, equivalent to 1 percent of the total number of shares in the Company after the listing on Spotlight Stock Market. Each warrant entitles Gemstone Capital the right to subscribe for one new share in the Company at a subscription price of DKK 8.80. Gemstone Capital has exercised 45,000 warrants at the agreed subscription price of DKK 8.80 per share. Thus, Gemstone Capital has acquired 45,000 shares in STENOCARE, corresponding to DKK 396,000. At the date of this annual report, Gemstone Capital ApS has 43,977 remaining warrants that can be exercised anytime over a five-year period from the first day of trading on Spotlight Stock Market, i.e. October 26th, 2018.

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 2019-01-01 – 2019-12-31.

Financial calendar and annual general meeting

The Annual General Meeting of STENOCARE will be held in Copenhagen, Denmark on the 14th of May

January – March 2020 (Q1):	07.05.2020
January – June 2020 (Q2):	20.08.2020
January – September 2020 (Q3):	05.11.2020
Year-end report 2020:	25.02.2021

MANAGEMENT'S REVIEW

This is the second financial year of the Company. STENOCARE's first financial year was extended to 2017-10-19 – 2018-12-31 and will hereafter be between the 1st of January until the 31st of December.

FINANCIAL HIGHLIGHTS

Key figures

Figures in DKK '000	01.01.19 – 31.12.19	19.10.17 – 31.12.18
<i>Profit/loss</i>		
Operating profit/loss ¹⁾	4,417	-3,591
Total net financials	-2,111	-13
Profit/loss for the year	1,702	-3,276

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

<i>Balance</i>		
Total assets	31,608	21,710
Investments in property, plant and equipment	8,395	21
Equity	13,475	20,472

<i>Cashflow</i>		
Net cash flow:		
Operating activities	-2,545	-5,575
Investing activities	-8,877	-27
Financing activities	15,000	23,749
Cash flows for the year	3,578	18,147

Ratios

	01.01.19 – 31.12.19	19.10.17 – 31.12.18
<i>Profitability</i>		
EBITDA	4,417	-3,591
Result per share	0.19	-0.47
<i>Equity ratio</i>		
Solidity (%)	43	94

EBITDA	Profit/loss before depreciation, amortisation, write-downs of property, plan and equipment and financial items
Solidity (%):	Equity, end of year x 100
	Total assets
Result per share:	Profit/loss for the year
	Average number of shares

PRIMARY ACTIVITIES

STENOCARE A/S was founded in 2017 to be an active participant in the Danish medical cannabis pilot programme 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 offers medical cannabis oil that comply with the strict Danish regulatory requirements. STENOCARE has also started the process of developing a 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

In the first quarter of 2019 STENOCARE had a sale of DKK 4,316,711 and an operating profit of DKK 1,524,424 or 35%. In the second quarter of 2019 STENOCARE received notice that the former supplier had produced and shipped products without the necessary production approvals from the Canada authorities. Hence products were in agreement with the Danish Medicine Agency revoked from the Danish market, and STENOCARE had no sales for the third and the fourth quarter of 2019. A new supplier has been contracted, and as soon as renewed product approvals from DMA have been obtained, STENOCARE will re-enter the market. STENOCARE received an one-of settlement of the agreements with the former supplier. This compensation has cleared all matters between the parties and consisted of CAD 500,000 and 272,727 existing shares in STENOCARE. The net effect on the result of the year was DKK 8,448,446 and is detailed in note 2.

The project plan for establishing the production facility is progressing and STENOCARE completed an important milestone with our first harvest without the use of pesticides in our Danish small-scale cultivation facility. This success was made possible by a strategic decision to grow in a highly controlled indoor facility.

In summer 2019 STENOCARE announced that the Company entered into an agreement with the Dutch company Havecon Horticultural Projects, to establish a state-of-the-art facility with world-class capacity strategic medical cannabis cultivation facility in Denmark. STENOCARE also secured DKK 15 million in debt financing which in combination with cash at hand shall finance the contract.

STENOCARE realised an EBITDA for the financial year of DKK 4,417,074 and a net profit , at DKK 1,702,421 including the one-off settlement with the former supplier of a net effect on profit of DKK 8,448,466. The balance sheet shows an equity of DKK 13,474,618 and total assets of DKK 31,608,373.

OUTLOOK

STENOCARE's primary financial objective is to grow within the Danish market and command a leading market share in 2020. Over the next years of operation, STENOCARE has the aim to establish a position for itself in the European market for medical cannabis, to become a leading European brand.



The objective for 2020 is to establish the production facility in Denmark and commence cultivation to expand supply capacity and supply chain. STENOCARE also have the objectives to start exploring and mapping expansion opportunities in the European market and to harvest its self-cultivated medical cannabis and begin the approval process at the Danish Medicines Agency. Expectations to the profit or loss in 2020 is depending on sales of imported products as well as the investments in the production facility, start-up costs and thus the development of own produced products.

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 will end by December 31st, 2021. In December 2019, the Minister for Health indicated that an extension of the programme could possibly be granted¹ to better gain experience with treatment with Medical Cannabis and, thereby, enabling politicians to evaluate the Pilot Programme and decide how to best proceed with the Danish legislation. In the opinion of the

¹ Article on expected prolongation of trial programme: <https://sundhedspolitisktidsskrift.dk/nyheder/2823-heunicke-klar-til-at-forlaenge-forsogsordning-med-medicinsk-cannabis.html>

management this programme will be prolonged. 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.

EXTERNAL ENVIRONMENT

In 2019, STENOCARE's operations included import and distribution of medical cannabis products from its suppliers. The Company is engaged in small scale 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 2019, STENOCARE's operations included import and distribution of medical cannabis products from its strategic partner in Canada. Thus, the Company has not conducted any research and development activities. In 2020 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.

TREASURY SHARES

Treasury shares consists of:

	Acquisition value - DKK	No. of shares	Nominal value - DKK	Percentage of share capital
Treasury shares as at 01.01.19		0	0	0
Additions in 2019	8,699,991	272,727	21,818	3%
Treasury shares as at 31.12.19		272,727	21,818	3%

Treasury Shares with an acquisition value of 8.7 mDKK are received as a component of the one-off settlement with the former supplier.

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 – 31.12.2019. 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 31.12.2019 and the results of its operations for the financial year 01.01 - 31.12.2019. 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, 17.03.2020

Executive Board

Thomas Skovlund Schnegelsberg

CEO

Board of Directors

Marianne Wier

Chairman of the Board

Rolf Steno Petersen

Member of the Board

Jeppe Bo Petersen

Member of the Board

Søren Melsing Frederiksen

Member of the Board

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF STENOCARE A/S

Opinion

We have audited the financial statements of STENOCARE A/S for the financial year 01.01 – 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes inclusive of accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.2019 and of the results of the company's operations and cash flows for the financial year 01.01 – 31.12.2019 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for opinion

We conducted our audit by International Standards on Auditing 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 the auditor's report. We are independent of the company per the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Denmark, and we have fulfilled our other ethical responsibilities per 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.

Management's responsibilities for the financial statements

The management is responsible for the preparation and fair presentation of the financial statements in accordance with the Danish Financial Statements Act and for such internal control as the 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, the 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 unless the 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 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 by International Standards on Auditing 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 based on these financial statements.

As part of an audit conducted by International Standards on Auditing 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 to design audit procedures that are appropriate in the circumstances, but not to express 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 the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting in its preparation of 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 content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 regarding the management's review

The management is responsible for the management's review page 14-17.

Our opinion on the financial statements does not include the management's review, and we do not express any form of opinion on the management's review.

In connection with our audit of the financial statements, it is our responsibility to read the management's review and, in this connection, consider whether the management's review is materially inconsistent with the financial statements or the knowledge we have obtained during our audit, or in any other way appears to be materially misstated.

Furthermore, it is our responsibility to consider whether the management's review contains the information required under the Danish Financial Statements Act.

Based on the work performed, we believe that the management's review as per the financial statements and has been prepared in accordance with the provisions of the Danish Financial Statements Act. We have not detected any material misstatement in the management's review.

Søborg, Copenhagen, 17.03.2020

Beierholm

Statsautoriseret Revisionspartnerselskab

CVR no. 32 89 54 68

Jan Robert Molin

State Authorized Public Accountant

mne10848

FINANCIAL INFORMATION

Income statement

Note		2019	19.10.17
		DKK	DKK '000
	Gross result	8,784,408	-1,124
3	Staff costs	-4,367,334	-2,467
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	4,417,074	-3,591
	Depreciation, amortisation, impairment losses and write-downs of property, plant and equipment	-58,924	-1
	Profit/loss before net financials	4,358,150	-3,592
	Financial income	9,417	0
	Financial expenses	-2,121,110	-13
	Profit/loss before tax	2,246,457	-3,605
4	Tax on profit or loss for the year	-544,036	329
	Profit/loss for the year	1,702,421	-3,276
Proposed appropriation account			
	Retained earnings	1,702,421	-3,276
	Total	1,702,421	-3,276

ASSETS		31.12.19	31.12.18
Note		DKK	DKK '000
	Leasehold improvements	500,604	20
	Other fixtures and fittings, tools and equipment	126,223	0
	Prepayments for property, plant and equipment	7,728,823	0
6	Total property, plant and equipment	8,355,650	20
7	Equity investments in group enterprises	7	0
8	Deposits	488,350	6
	Total investments	488,357	6
	Total non-current assets	8,844,007	26
	Manufactured goods and goods for resale	0	84
	Total inventories	0	84
	Trade receivables	0	3,050
11	Deferred tax asset	137,390	329
	Other receivables	637,830	0
9	Prepayments	264,050	74
	Total receivables	1,039,270	3,453
	Cash	21,725,096	18,147
	Total current assets	22,764,366	21,684
	Total assets	31,608,373	21,710

EQUITY AND LIABILITIES

Note		31.12.19 DKK	31.12.18 DKK '000
10	Share capital	715,421	715
	Share premium	0	23,033
	Retained earnings	12,759,197	-3,276
	Total equity	13,474,618	20,472
	Trade payables	816,273	603
	Income taxes	682,044	0
	Other payables	16,635,438	635
	Total short-term payables	18,133,755	1,238
	Total payables	18,133,755	1,238
	Total equity and liabilities	31,608,373	21,710

12 Contingent liabilities

13 Related parties

Statement of changes in equity

Figures in DKK	Share capital	Share premium	Retained earnings
Statement of changes in equity for 19.10.17 - 31.12.18			
Capital contributed on establishment	100	0	0
Capital increase	715,321	24,274,060	0
Cost of changes in capital	0	-1,241,000	0
Net profit/loss for the year	0	0	-3,276,293
Balance as at 31.12.18	715,421	23,033,060	-3,276,293
Statement of changes in equity for 01.01.19 - 31.12.19			
Balance as at 01.01.19	715,421	23,033,060	-3,276,293
Treasury shares received	0	0	-8,699,991
Transfers to/from other reserves	0	-23,033,060	23,033,060
Net profit/loss for the year	0	0	1,702,421
Balance as at 31.12.19	715,421	0	12,759,197

Cash flow statement

Note	2019 DKK	19.10.17
		31.12.18 DKK '000
Net profit/loss for the year	1,702,421	-3,276
14 Adjustments	-5,985,338	-315
Change in working capital:		
Inventories	84,222	-84
Receivables	2,223,103	-3,125
Trade payables	213,378	603
Other payables relating to operating activities	-112,547	635
Cash flows from operating activities before net financials	-1,874,761	-5,562
Interest income and similar income received	9,417	0
Interest expenses and similar expenses paid	-1,008,610	-13
Income tax received	329,356	0
Cash flows from operating activities	-2,544,598	-5,575
Purchase of property, plant and equipment	-8,394,933	-21
Security deposits	-482,350	-6
Acquisition of enterprise	-7	0
Cash flows from investing activities	-8,877,290	-27
Paid in share capital and share premium	0	23,749
Arrangement of short term loans from private investors	15,000,000	0
Cash flows from financing activities	15,000,000	23,749
Total cash flows for the year	3,578,112	18,147
Cash, beginning of year	18,146,984	0
Cash, end of year	21,725,096	18,147
Cash, end of year, comprises:		
Cash	21,725,096	18,147
Total	21,725,096	18,147

1. Uncertainty concerning recognition and measurement

In the financial statements for 2019, 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 programme, enabling all Danish physicians to prescribe cannabis for medical use. The trial programme will end by December 31. 2021. The management expects that the trial programme will be prolonged. The recognition and measurement of assets, liabilities, expenses, depreciation and impairments is in all material aspects under the assumption that the trial programme is prolonged.

2. Special items

Special items are income and expenses that are special due to their size and nature. The following special items were recorded in the financial year:

Special items:	Recognised in the income statement in:	2019 DKK	19.10.17
			31.12.18 DKK '000
Other operating income	Gross result	11,255,492	0
Other external costs	Gross result	-424,125	0
Tax on special items	Tax on profit or loss for the year	-2,382,901	0
Total		8,448,466	0

The Company has entered into a settlement agreement with a main supplier. Income and costs related to the settlement has been recognized in the income statement as above.

	19.10.17
2019	31.12.18
DKK	DKK '000

3. Staff costs

Wages and salaries	4,255,153	2,454
Pensions	25,799	12
Other social security costs	7,763	1
Other staff costs	78,619	0
Total	4,367,334	2,467

Average number of employees during the year	6	4
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Remuneration for the management:

Salaries, Board of Executives	811,691	369
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Remuneration for the Board of Directors	350,000	250
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Remuneration for the Executive Board and Board of Directors	1,161,691	619
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4. Tax on profit or loss for the year

Current tax for the year	682,044	0
Adjustment of deferred tax for the year	-138,008	-329
Total	544,036	-329

5. Distribution of net profit

Retained earnings	1,702,421	-3,276
Total	1,702,421	-3,276

6. Property, plant and equipment

Figures in DKK	Leasehold improvements	Other fixtures and fittings, tools and equipment	Prepayments for property, plant and equipment
Cost as at 01.01.19	21,044	0	0
Additions during the year	532,464	133,646	7,728,823
Cost as at 31.12.19	553,508	133,646	7,728,823
Depreciation and impairment losses as at 01.01.19	-1,403	0	0
Depreciation during the year	-51,501	-7,423	0
Depreciation and impairment losses as at 31.12.19	-52,904	-7,423	0
Carrying amount as at 31.12.19	500,604	126,223	7,728,823

7. Equity investments in group enterprises

Figures in DKK	Equity investments in group enterprises
Additions during the year	7
Cost as at 31.12.19	7
Carrying amount as at 31.12.19	7

Name and registered office:	Ownership interest
Subsidiaries:	
STENOCARE Ireland Ltd., Ireland	100%

8. Investments

Figures in DKK	Deposits
Cost as at 01.01.19	6,000
Additions during the year	482,350
Cost as at 31.12.19	488,350

	31.12.19 DKK	31.12.18 DKK '000
9. Prepayments		
Prepaid rent	157,810	17
Other prepayments	106,240	57
Total	264,050	74

10. Share capital

The share capital consists of:

Shares, number of shares	8,942,762	8,942,762
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The share capital capital has been fully paid in at the balance sheet date.

The Company has a warrant programme. The warrant programme allows for the subscription of up to 43,977 shares corresponding to a nominal value of DKK 3,518. The exercise price is DKK 8.80 per share. The utilization period expires on 25 October 2023. There are no conditions of exploitation of the warrants nor will the issued shares have any special rights.

	31.12.19 DKK	31.12.18 DKK '000
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11. Deferred tax

Deferred tax recognised in the income statement	137,390	329
Total as at 31.12.19	137,390	329

Deferred tax comprises:

Property, plant and equipment	-19,360	-1
Liabilities	156,750	0
Tax losses	0	329
Total	137,390	328

12. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity up to 17 months and average lease payments of DKK 113k , a total of DKK 1,921k.

Other contingent liabilities

The company has entered into an agreement with an external supplier regarding construction of production facilities. The contract amounts to EUR 3.255k of which EUR 977k has been paid and is recognized in the balance sheet under prepayments for property, plant and equipment.

13. 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 3. Staff costs.

		19.10.17
	2019	31.12.18
	DKK	DKK '000

14. Adjustments for the cash flow statement

Depreciation, amortisation, impairment losses and write-downs	58,924	1
Financial income	-9,417	0
Financial expenses	2,121,110	13
Tax on profit or loss for the year	544,036	-329
Treasury shares received	-8,699,991	0
Total	-5,985,338	-315

15. 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, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

On recognition of foreign subsidiaries which are independent entities, the income

15. Accounting policies - continued -

statements are translated at the exchange rates applicable at the transaction date or approximate average exchange rates. The balance sheet items are translated using the exchange rates applicable at the balance sheet date. Foreign currency translation adjustments arising from the translation of equity at the beginning of the year using the exchange rates applicable at the balance sheet date and from the translation of income statements from average exchange rates to the exchange rates applicable at the balance sheet date are recognised directly in equity.

Translation adjustments of intercompany balances with independent foreign subsidiaries, measured using the equity method and where the balance is considered to be part of the overall investment, are recognised directly in equity. On the divestment of foreign entities, accumulated exchange differences are recognised in the income statement.

LEASES

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

INCOME STATEMENT**Gross result**

Gross result 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.

15. 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.

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
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.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognised in other net financials.

15. 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 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.

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.

Equity investments in group enterprises

Equity investments in subsidiaries are recognised and measured according to the equity method, meaning that these 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 positive or negative goodwill and gains and losses on transactions with the enterprises in question.

15. Accounting policies - continued -

Gains or losses on the divestment of subsidiaries are determined as the difference between the divestment 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.

The proportionate share of the equity value of subsidiaries is determined according to the accounting policies of the enterprise, which are stated in the other sections.

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.

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

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

15. Accounting policies - continued -**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 in subsidiaries is recognised in the net revaluation reserve in equity according to the equity method to the extent that the carrying amount exceeds the cost.

Acquisition costs and consideration for treasury shares as well as dividends therefrom are recognised directly in equity under retained earnings.

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

15. Accounting policies - continued -

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

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables. Loan expenses are recognised in the income statement as a financial expense over the term of the payable.

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 the purchase and sale of treasury shares and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables.

Cash and cash equivalents at the beginning and end of the year comprise cash and short-term payables to credit institutions.