

Valcon Medical A/S

Industrivej 12
3540 Lyngø

CVR no. 40 08 67 14

Annual report for 2021

(3rd Financial year)

Adopted at the annual general meeting on
23 June 2022

Mike Steen Hansen
chairman

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Statement by management on the annual report

The supervisory board and executive board have today discussed and approved the annual report of Valcon Medical A/S for the financial year 1 January - 31 December 2021.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2021 and of the results of the company's operations for the financial year 1 January - 31 December 2021.

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

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

Lynge, 25 May 2022

Executive board

Pete Patterson
CEO

Peter Emil Sigetty
director

Supervisory board

Joel David Sherlock
chairman

Nelson Camargo Cury

Mike Steen Hansen

William Muecke

Diego Francisco Gomez Dueñas

Independent auditor's report

To the shareholder of Valcon Medical A/S

Opinion

We have audited the financial statements of Valcon Medical A/S for the financial year 1 January - 31 December 2021, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under the Danish Financial Statements Act.

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

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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

Management is responsible for the preparation of financial statements, that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless management either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Independent auditor's report

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on management's review

Management is responsible for management's review.

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

In connection with our audit of the financial statements, our responsibility is to read management's review and, in doing so, consider whether management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

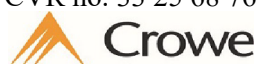
Independent auditor's report

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

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

Hellerup, 25 May 2022

CVR no. 33 25 68 76



Søren Jonassen
Statsautoriseret revisor
MNE no. mne18488

Company details

The company

Valcon Medical A/S
Industrivej 12
3540 Lyngø

CVR no.: 40 08 67 14

Reporting period: 1 January - 31 December 2021

Incorporated: 13 December 2018

Domicile: Lyngø

Supervisory board

Joel David Sherlock, chairman
Nelson Camargo Cury
Mike Steen Hansen
William Muecke
Diego Francisco Gomez Dueñas

Executive board

Pete Patterson, CEO
Peter Emil Sigetty, director

Auditors

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

Management's review

Business review

The purpose of the company is to offer contract processing services, white label products, and supply of raw material.

Valcon Medical is a European contract manufacturing organization, specialized in the manufacturing of medical cannabis extracts. We offer a complete outsourcing solution covering every phase from development of products to regulatory documentation and market introduction.

Our promise is to deliver the highest quality of products while assuring consistent and scalable supply.

Valcon Medical is GMP-certified by the Danish Medicines Agency. Products are manufactured under EU-GMP and tested in accordance with DAB Eingestellter Cannabisextract, and the European Pharmacopeia, Ph. Eur.

Financial review

The company's income statement for the year ended 31 December 2021 shows a loss of DKK 10.627.248, and the balance sheet at 31 December 2021 shows equity of DKK 49.435.413.

The year result is as expected and in line with the company's growth strategy. The GMP-certification obtained in 2021, the significant leasehold improvements and the investments made in machinery, equipment and human resources will allow the company to continue the growth strategy in 2022.

Significant events occurring after the end of the financial year

No events have occurred after the balance sheet date which could significantly affect the company's financial position.

Accounting policies

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

The accounting policies applied are consistent with those of last year.

Basis of recognition and measurement

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

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

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

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

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

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

Income statement

Gross profit

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

Gross profit reflects an aggregation of revenue, changes in inventories of finished goods and work in progress and other operating income less costs of raw materials and consumables and other external expenses.

Revenue

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

Accounting policies

Financial income and expenses

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

Tax on profit/loss for the year

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

Balance sheet

Intangible assets

Development projects

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

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

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

Gains and losses on the disposal of development projects are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Tangible assets

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

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

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

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

	Useful life
Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	11 år years

Assets costing less than DKK 30.700 are expensed in the year of acquisition.

Accounting policies

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

Stocks

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

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

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

Production overheads include the indirect cost of materials, wages and salaries as well as maintenance and rent of production facility.

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

Impairment of fixed assets

The carrying amount of intangible assets, other fixtures and fittings, tools and equipment and leasehold improvements is tested annually for impairment, other than what is reflected through normal amortisation and depreciation.

Receivables

Receivables are measured at amortised cost.

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

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

Prepayments

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

Accounting policies

Equity

Reserve for development costs

An amount corresponding to capitalised development costs is recognised in the reserve. The reserve is reduced as development costs are amortised.

Dividends

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

Income tax and deferred tax

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

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

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

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

Liabilities

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

Foreign currency translation

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

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

Income statement
1 January 2021 - 31 December 2021

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Gross profit		-6.235.445	-1.132.718
Staff costs	1	<u>-3.067.396</u>	<u>-2.695.358</u>
Profit/loss before amortisation/depreciation and impairment losses		-9.302.841	-3.828.076
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		<u>-3.583.859</u>	<u>0</u>
Profit/loss before net financials		-12.886.700	-3.828.076
Financial income		1.991	98.679
Financial costs		<u>-1.437.435</u>	<u>-785.847</u>
Profit/loss before tax		-14.322.144	-4.515.244
Tax on profit/loss for the year	2	<u>3.694.896</u>	<u>997.065</u>
Profit/loss for the year		<u>-10.627.248</u>	<u>-3.518.179</u>
 Recommended appropriation of profit/loss			
Transferred to reserve for development projects		6.167.061	0
Retained earnings		<u>-16.794.309</u>	<u>-3.518.179</u>
		<u>-10.627.248</u>	<u>-3.518.179</u>

Balance sheet at 31 December 2021

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Assets			
Development projects in progress		7.906.488	<u>0</u>
Intangible assets	3	<u>7.906.488</u>	<u>0</u>
Other fixtures and fittings, tools and equipment		7.875.045	6.069.768
Leasehold improvements		21.789.534	0
Leashold improvements in progress		<u>0</u>	<u>19.162.914</u>
Tangible assets	4	<u>29.664.579</u>	<u>25.232.682</u>
Deposits		<u>263.100</u>	<u>263.100</u>
Fixed asset investments		<u>263.100</u>	<u>263.100</u>
Total non-current assets		<u>37.834.167</u>	<u>25.495.782</u>
Finished goods and goods for resale		<u>816.317</u>	<u>0</u>
Stocks		<u>816.317</u>	<u>0</u>
Trade receivables		42.675	24.462
Other receivables		548.129	371.941
Deferred tax asset		4.177.754	2.222.285
Corporation tax		1.739.427	0
Prepayments		<u>0</u>	<u>19.774</u>
Receivables		<u>6.507.985</u>	<u>2.638.462</u>
Cash at bank and in hand		<u>11.994.152</u>	<u>4.405.547</u>
Total current assets		<u>19.318.454</u>	<u>7.044.009</u>
Total assets		<u><u>57.152.621</u></u>	<u><u>32.539.791</u></u>

Balance sheet at 31 December 2021

	<u>Note</u>	<u>2021</u> DKK	<u>2020</u> DKK
Equity and liabilities			
Share capital		1.830.777	608.047
Reserve for development projects		6.167.061	0
Retained earnings		41.437.575	31.495
Equity		<u>49.435.413</u>	<u>639.542</u>
Trade payables		1.801.279	3.326.047
Other payables		0	25.083.806
Total non-current liabilities	5	<u>1.801.279</u>	<u>28.409.853</u>
Short-term part of long-term debet	5	1.801.280	0
Banks		375	0
Trade payables		1.838.590	1.888.094
Other payables		2.275.684	1.602.302
Total current liabilities		<u>5.915.929</u>	<u>3.490.396</u>
Total liabilities		<u>7.717.208</u>	<u>31.900.249</u>
Total equity and liabilities		<u>57.152.621</u>	<u>32.539.791</u>
Contingent liabilities	6		
Mortgages and collateral	7		

Statement of changes in equity

	Share capital	Share premium account	Reserve for development projects	Retained earnings	Total
Equity at 1 January 2021	608.047	0	0	31.495	639.542
Increase of capital by conversion of debt	673.489	26.693.630	0	0	27.367.119
Cash capital increase	549.241	31.506.759	0	0	32.056.000
Net profit/loss for the year	0	0	6.167.061	-16.794.309	-10.627.248
Transfer from share premium account	0	-58.200.389	0	58.200.389	0
Equity at 31 December 2021	1.830.777	0	6.167.061	41.437.575	49.435.413

The company owned 150.000 treasury shares at year end and contain 8,19% of the total share capital.

Notes

	<u>2021</u>	<u>2020</u>
	DKK	DKK
1 Staff costs		
Wages and salaries	7.647.697	6.148.123
Pensions	814.771	279.044
Other social security costs	117.458	38.869
Wages and salary capitalized in fixed assets and stocks	<u>-5.512.530</u>	<u>-3.770.678</u>
	<u>3.067.396</u>	<u>2.695.358</u>
Average number of employees	<u>12</u>	<u>8</u>
2 Tax on profit/loss for the year		
Current tax for the year	-1.739.427	0
Deferred tax for the year	<u>-1.955.469</u>	<u>-997.065</u>
	<u>-3.694.896</u>	<u>-997.065</u>
3 Intangible assets		
		Development projects in progress
		<u>0</u>
Cost at 1 January 2021		0
Additions for the year		<u>7.906.488</u>
Cost at 31 December 2021		<u>7.906.488</u>
Carrying amount at 31 December 2021		<u>7.906.488</u>

Notes

4 Tangible assets

	Other fixtures and fittings, tools and equipment	Leasehold improvements	Leashold improvements in progress
Cost at 1 January 2021	6.069.768	0	19.162.914
Additions for the year	3.363.830	23.814.840	0
Disposals for the year	0	0	-19.162.914
Cost at 31 December 2021	<u>9.433.598</u>	<u>23.814.840</u>	<u>0</u>
Impairment losses and depreciation at 1 January 2021	0	0	0
Depreciation for the year	<u>1.558.553</u>	<u>2.025.306</u>	<u>0</u>
Impairment losses and depreciation at 31 December 2021	<u>1.558.553</u>	<u>2.025.306</u>	<u>0</u>
Carrying amount at 31 December 2021	<u>7.875.045</u>	<u>21.789.534</u>	<u>0</u>

5 Long term debt

	Debt at 1 January 2021	Debt at 31 December 2021	Instalment next year	Debt outstanding after 5 years
Trade payables	0	3.602.559	1.801.280	0
Other payables	<u>25.083.806</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>25.083.806</u>	<u>3.602.559</u>	<u>1.801.280</u>	<u>0</u>

6 Contingent liabilities

The Company has entered into rent agreements and operating leases amounting TDKK 2,129.

Notes

7 Mortgages and collateral

None