

Bedrocan International B.V.

Annual report 2022

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Directors report

The Board of Directors of the Company hereby presents its directors report for the financial year ended on 31 December 2022.

General information

Vision

Bedrocan is an experienced pharmaceutical raw material producer of legal medicinal cannabis. Bedrocan believes herbal cannabis can, and should, meet all of the existing regulations for medicines. At Bedrocan we strive to achieve the registration of herbal cannabis and/or its' derivatives as an official medicine through a regulatory process that is acceptable to patients, regulators, and healthcare professionals.

Mission

Bedrocan aims to bridge the gap between patient's need and the regulatory demands of modern medicine by using rigorous scientific methods and testing to achieve safety and efficacy of all our products.

Bedrocan produces standardised medicinal cannabis flos (the whole, dried female flower) in 5 distinct varieties, each with a constant composition of cannabinoids and terpenes. Bedrocan's products are fully standardised - each variety, batch-to-batch, contains a constant composition of cannabinoids and terpenes. Standardisation is the only method of ensuring a consistent therapeutic effect over time.

Standardisation is important for:

- *Physicians & Patients* To ensure the same dose is taken each time, and to monitor treatment progress;
- *Researchers* To enable the comparison of findings from different clinical trials and studies across time;
- *Industry* To develop and manufacture novel cannabis-based medicines.

Because of its pharmaceutical quality, the variety of products and the possibility to export these products, many governments, scientists and pharmaceutical companies have chosen to work with Bedrocan. Our products are currently available in Australia, Austria, Brazil, Canada, Czech Republic, Denmark, Finland, Germany, Italy, Israel, Macedonia, Malta, the Netherlands, New Zealand, Norway, Poland, Sweden and the UK.

The legal structure is composed of the following entities:

- Bedrocan International B.V., Veendam, The Netherlands;
- Bedrocan Nederland B.V., Veendam, The Netherlands (100%);
- Bedrocan R&D B.V., Veendam, The Netherlands (100%);
- Bedrocan Deutschland GmbH, Düsseldorf, Germany (100%)
- Bedrocan Australia Pty Ltd, St Kilda, Australia (100%);

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- Bedrocan Danmark ApS, Copenhagen, Denmark (100%).

The board of directors consist of three members.

Financial information

Revenues

Net revenues remained stable at 14.2 million (2021: EUR 14.5 million).

Operating result

The operating result before depreciation and amortisation (EBITDA) decreased strongly from EUR 5.6 million in 2021 to EUR 2.5 million in 2022 and is explained by a strong increase in electricity rates, a strong increase in personnel expenses and lower production yields in the first half year of 2022.

Net result

The net result for 2022 was EUR 0.6 million compared to EUR 3.2 million in 2021.

Currency

Almost all transactions are in euros, consequently foreign exchange risk is minimal.

Investments

Investments in property, plant and equipment amount to EUR 4.5 million (2021: EUR 0.7 million) and relate to investments in production expansion, plant research and equipment for existing production facilities.

Cash flows

Cash flow from operating activities in 2022 amounts to EUR 2.9 million (2021: EUR 5.1 million) and was negatively affected by higher energy rates, higher personnel expenses and marginally lower production yields.

Net cash flow amounts to EUR 4.5 million negative compared to a positive cash flow in 2021 of EUR 3.1 million. The variance is largely explained by a lower cash flow from operations as well as investments in capacity expansion and a dividend payment.

Financial position as at balance sheet date

The company has a strong financial position. At the end of the year, group equity amounts to EUR 19.1 million. The equity ratio (group equity / balance sheet total) decreased from 81,4% at 31 December 2021 to 78.1% at 31 December 2022. This was mainly driven by a decreased net result in 2022 and a dividend payment that resulted in a decrease in equity. Loans and borrowings at year end remained relatively stable at EUR 1.0 million (2021: EUR 0.9 million).

Risk Management

Risk management at the Company is an integral management task and focuses on identifying significant risks to which the Company is exposed and effectively controlling them with a sensible degree of certainty.

Strategy

The goal of the company's strategy is to effectively navigate a yet unstable regulatory environment and to actively contribute its development towards a mature pharmaceutical model. Changes in market requirements and legislation in this space are still ongoing. There is a risk that the Company may not handle these challenges effectively. This risk is mitigated by keeping informed, up-to-date and involved in new regulatory developments within countries that have newly legalized cannabis for medicinal use.

Due to a lack of international standards and harmonization there continues to exist a wide variety of definitions as to what constitutes a cannabis product. Even within the United States and the European Union the definitions of cannabis products and their place within the framework of both pharmaceutical and controlled substance laws and regulations can still vary wildly. However last year has been an important year with regard to the international treaties on controlled substances, since the UN decided take cannabis out of schedule 4. Doing so the international community has agreed that cannabis has medical value, making it easier for governments and the pharmaceutical industry to work on development of cannabis-based therapies. The United States Pharmacopoeia (USP) and the US based standards organization ASTM have taken steps now to set up a standardization framework for cannabis as a medicine partially based on Bedrocan's standardization efforts that are laid down in the company's Good Medicinal Cannabis Cultivation Practices (GMCCP). A Bedrocan white paper on these guidelines has been published in 2022.

Currently the European Medicines Agency (EMA) is working towards providing the foundations for common standards for cannabis products by releasing an EU monograph for cannabis in the European Pharmacopeia. Our expectation is that this monograph will be released within the next year. Bedrocan welcomes this as it will anchor our products more firmly within the existing framework of pharmaceutical raw material manufacturing. Thereby making it easier for companies wishing to make finished products out of our materials to gain access to them. Bedrocan aims to further reduce this barrier by applying for a Certificate of Suitability (CEP) to the new EU monograph entry for cannabis. Thereby further advancing the lead that Bedrocan products currently have as the raw material most suitable for the production of true registered medicines containing cannabis.

Initially export is the safest method to begin the sale of products in new markets, eventually followed by local production once the market has reached the required scale and is stable enough to last long term. Overall, our global presence alongside our consistently high quality and long-lasting relationships with stakeholders (especially pharmaceutical companies and governmental regulatory bodies) continue to be the drivers helping us achieve our strategic goals.

Operational activities

The pharma world in which Bedrocan operates is highly regulated. To receive marketing authorization, pharmaceutical companies have to demonstrate that their product is safe and efficacious including data on the pharmaceutical quality, both nonclinical and clinical data. The identification, management and minimization of risk is a major topic, and relates to the pharmaceutical quality as well as pharmacovigilance.

The Failure Mode and Effect Analysis (FMEA) as included in the ICH Quality Risk Management Q9 helps Bedrocan detect failure in a preventive way, to implement corrective action and continuously record the improvements. Moreover, the FMEA process itself triggers a great team building spirit amongst team members as well as training in quality awareness: a central aspect to ensure excellent products and processes.

Financial position

At the end of the year the Company has a strong financial position. The Company is constantly focusing on the well-balanced financing of its operational activities and large investment projects. The Company has a strong operational cash flow that covers increases in working capital and small investments.

For large investment projects the Company is cooperating with banks and other investors for long term loans. Availability of external long-term funding is essential for future investment projects and further growth of the company.

Financial reporting

Financial reporting at the Company is structured within a framework of budgeting, reporting and forecasting. A distinction is made between reports for internal and external use. External reporting at group level consists of an annual report, including financial statements audited by the external auditor (KPMG).

Since 2018 the company applies International Financial Reporting Standards (IFRS). The most important aspects of our financial reporting systems are set out in accounting guidelines and procedures. Staff are trained in how to apply accounting standards, guidelines and procedures.

Law and regulations

Currently the Company is mainly active in the Netherlands. Within the Netherlands the Company is dealing with a wide range of diverse legislation and regulation. These risks are as much as possible mitigated by the Company's internal risk management and control systems.

As for the internal risk management and compliance control, the Company has employed an in-house Legal Counsel that monitors and advises the Company on all potential risks and the management thereof, whilst continuously monitoring the Company's compliance with applicable laws and regulations. Occasionally, the Company engages external experts, depending on the issue at hand, to help with the mitigation of potential risks.

Personnel-related information

The overall headcount of permanent staff at the end of the financial reporting period 2022 is 79 (66 FTE). The flexible workforce (temporary labour) amounts to 11 FTE.

Information regarding financial instruments

For exposures endeavoured by the Company and group companies for price, credit, liquidity and cash flow risks reference is made to section 17 of the financial statements.

Research and development information

Clinical research

Two studies were completed in 2022:

- Market research/psychopharmacological study – Maastricht University, The Netherlands
- Influence of THC on oxycodone induced ventilatory depression healthy volunteers – Leiden University Medical Center, The Netherlands

The study at Maastricht University resulted in a study report in which the differences between various cannabis products forms were analysed. The study will also potentially lead to a scientific publication in 2023, but that it is still work in progress on the side of the University. As for the completed research at Leiden University Medical Center, a scientific publication with the data from the study will be available in early 2023.

In 2023 we plan to continue scientific 3 projects and to start our own Clinical Research Unit. We plan to start 1 clinical study in the new Unit in 2023:

- *Influence of Bediol co-treatment on the emergence of opioid side-effects in chronic pain patients with fibromyalgia – Leiden University Medical Center, The Netherlands*

This study will stop recruiting patients in May 2023. It is likely that we will have a scientific publication available before the end of the year.

- *Anti-tumor effect of cannabis oil in patients with untreatable hepatocellular carcinoma – University Medical Center Groningen, The Netherlands*

This research is suffering from a slow recruitment rate and unfortunately patients are likely to die during the course of the study, due to their medical condition. As such, the study is not likely to be finished until 2025-2026.

- *Medicinal use of non-pharmaceutical grade cannabis – Trimbos Institute, The Netherlands*

This field study has started to recruit participants in January 2023. The aim of the research is to gain insight into the population of people who use non-pharmaceutical grade cannabis for medicinal purposes in the Netherlands.

- *Risk factors for adverse effects of cannabis – Bedrocan Clinical Research Unit, The Netherlands*

This study was initially planned to be conducted at Utrecht Medical Center. However, it has been transferred to our own Clinical Research Unit (see below). This clinical trial will explore how THC concentration, CBD/THC ratio, gender and endocannabinoid

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functioning are involved in the acute adverse effects of cannabis. The end result is to provide Bedrocan patients with a guide on how to safely use Bedrocan cannabis.

- *Bedrocan Clinical Research Unit – Utrecht, The Netherlands*

We are starting our own Clinical Research Unit in 2023. The focus this year is to satisfy all the necessary conditions to be able to conduct clinical research with cannabis at the new location. The first study that we will conduct there will serve as a proof-of-concept for the Unit.

Product development

In 2021 Bedrocan started a product development department to have different options for patients beside granulate and floss and to improve the availability of our products on the market taking into consideration the regulatory frameworks.

The scope of product development is as follows:

- a) Developing concepts for new products and processes;
- b) Testing of new concepts and production processes;
- c) Design and developing new equipment's/production processes and facilities;

In 2022 the Company has been working on several product development projects such as:

- Development of high quality placebo that can be used in clinical trials. Currently a high quality placebo is not available on the market. In 2022, the Company has further developed a small scale production method for production of placebo for all of our products. The placebo looks, smells and tastes the same as the original products but does not include any CBD and/or THC.
- Development of trichome powders that can be used for the production of medicinal cannabis products.

In 2023 the Company will start new projects including the execution of various stability studies:

- Design and implementation of stability studies for products from production facilities in the Netherlands and in Denmark.
- Finding partners and working with them to bring the products from trichome powder to the market.
- Monitoring stability studies for trichome powder and cannabis oil produced from trichome powder.

Plant research

Bedrocan has established an in-house laboratory for DNA extraction, amplification, and visualization. This has already facilitated and supported the ongoing research projects listed below.

We have been cooperating with a foreign government to study local cannabis diversity and to share knowledge on producing medical cannabis for patients in that country. Whole-genome sequencing data have been analysed and results suggests high levels of genetic variation within the sampled cannabis. In close collaboration with Wageningen University, we have found sequence variation in a cannabinoid biosynthesis gene that can explain plant chemotype. This provides fundamental insights in enzyme function.

Our cultivars have been maintained chemically stable for decades. We started a scientific study to assess genetic stability by using state-of-the-art genome sequencing techniques and comparing Bedrocan germplasm across different years. Sequences will be analysed in 2023.

Bedrocan is studying the potential health benefits of novel medicinal plants from Suriname in close collaboration with Forest Health.

Other information

Quality assurance

Our quality department is responsible for the quality of products and maintaining the EU GMP quality management system that applies to the Company's operating company Bedrocan Nederland B.V.

In 2021 the Company developed and successfully implemented the ISO 9001 Quality Management that applies to Bedrocan International B.V. The system was tailored according to the needs of the organisation with the goal of aligning the internal processes with the company goals, therefore forming a more organized operating environment for the management and employees. By implementing the ISO 9001:2015 standard the Company has set the fundamental mechanism for continuous improvement which ultimately places the company and its products in a more competitive position on the market.

Operational effectiveness of our quality systems is monitored continuously and is tested on a regular basis by conducting internal and regulatory audits including audits by the Dutch Health and Youth Care Inspectorate and the ISO certification body.

Implementation of the 'Wet Bestuur en Toezicht'

This law aims for a more balanced division between men and women within the executive and supervisory boards. One requirement of this is a legally binding disclosure in the director's report if a balance between the sexes is not achieved (a minimum of 30% women). Currently none of the directors are female.

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With the appointment of members of the board of directors the requirements of the 'Wet Bestuur en Toezicht', will, as fairly as possible, be taken into account as contained in the provisions of Article 2:166 BW and Article 2:276 BW.

Outlook

The demand for medicinal cannabis is expected to expand further in 2023 and beyond, driven by an increasing demand from patients. In addition, several national governments are in the process of changing their policies for the use of medicinal cannabis.

To be able to meet the increased demand we will expand our production capacity by 6,000 kilograms to approximately 12,000 kilograms. This will be accomplished by expanding our current cultivation facility in Emmeloord, The Netherlands and establishing a new cultivation facility in Denmark. First revenues from the additional capacity are expected in the second quarter of 2023, respectively the first quarter of 2024. The related total investment will amount to EUR 19 million of which EUR 4 million is already spent in 2022. For the expansion in Denmark reference is made to section 27 of the financial statements

In 2023 Bedrocan will start with the renovation of the company's R&D facility in Veendam. After the renovation is completed in 2024, the location will be suited to house its future R&D activities, which are expected to increase further over the course of years. The relating investment in 2023 and 2024 will amount to EUR 2 million.

Based on the current capacity of our cultivation and production facilities and the expected completion dates of the company's expansion projects, we expect revenues to increase by EUR 5 million in 2023. In addition, we expect that operating results in 2023 will increase by more than EUR 3 million.

There are a number of clinical studies which started in 2022 and that will continue in 2023. In addition, we plan to initiate several clinical studies in 2023 and beyond.

Veendam, 28 March 2023

The Board of Directors

Tjalling Erkelens

Benjamin Bronfman

Lars Peter Brunse

Financial statements

- Consolidated financial statements
- Separate financial statements

Consolidated financial statements

- Consolidated statement of financial position
- Consolidated statement of profit or loss and comprehensive income
- Consolidated statement of changes in equity
- Consolidated statement of cash flows
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Consolidated statement of financial position as at 31 December 2022

(Before profit appropriation)

		31 December 2022	31 December 2021
		EUR 1,000	EUR 1,000
Assets			
Property, plant and equipment	5	16,781	13,603
Intangible assets	6	9	9
Deferred tax assets	22	30	0
Trade and other receivables	8	200	101
		<hr/>	<hr/>
Non-current assets		17,020	13,713
Biological assets	7	1,690	1,695
Inventories	9	1,515	1,327
Current tax assets	22	12	19
Trade and other receivables	8	523	388
Other current assets		490	282
Cash and cash equivalents	10	3,135	7,633
		<hr/>	<hr/>
Current assets		7,365	11,344
		<hr/>	<hr/>
Total assets		24,385	25,057
		<hr/>	<hr/>

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

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		31 December 2022	31 December 2021
		EUR 1,000	EUR 1,000
Equity			
Share capital	11	86	86
Share premium	11	11,888	11,888
Retained earnings		7,065	8,454
		<hr/>	<hr/>
Equity attributable to owners of the Company		19,039	20,428
Liabilities			
Loans and borrowings	13	661	617
Provisions	16	126	125
Employee benefits	14	613	0
Deferred tax liabilities	22	639	655
		<hr/>	<hr/>
Non-current liabilities		2,039	1,397
Current tax liabilities		161	458
Loans and borrowings	13	313	308
Employee benefits	14	578	890
Trade and other payables	15	2,255	1,576
		<hr/>	<hr/>
Current liabilities		3,307	3,232
		<hr/>	<hr/>
Total liabilities		5,346	4,629
		<hr/>	<hr/>
Total equity and liabilities		24,385	25,057
		<hr/>	<hr/>

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of profit or loss and comprehensive income for the year 2022

		2022		2021	
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Revenue	18		14,227		14,464
Change in finished goods and work in progress	9		158		85
Fair value changes in biological assets	7,9		25		117
Net income			14,410		14,666
Cost of raw materials and consumables	9		2,961		1,954
Employee benefits	20		5,029		4,590
Depreciation and amortization			1,749		1,823
Research and development expenses		573		399	
Selling and distribution expenses		127		57	
Other expenses	19	3,234		2,067	
Other operating expenses			3,934		2,523
Operating profit			737		3,776
Finance costs		(87)		(98)	
Net finance costs	21		(87)		(98)
Profit before tax			650		3,678
Income tax expense	22		(39)		(459)
Profit for the period			611		3,219

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

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	2022		2021	
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Other comprehensive income for the period, net of tax		0		0
		<hr/>		<hr/>
Total comprehensive income for the period		611		3,219
		<hr/>		<hr/>

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

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	2022	2021
	EUR 1,000	EUR 1,000
Profit attributable to:		
— Shareholders of Bedrocan International B.V.	611	3,219
	<hr/> 611	<hr/> 3,219
	<hr/>	<hr/>
Total comprehensive income attributable to:		
— Shareholders of Bedrocan International B.V.	611	3,219
	<hr/> 611	<hr/> 3,219
	<hr/>	<hr/>

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year 2022

	Attributable to owners of the Company					
	Share capital	Share premium	Translation reserve	Retained earnings	Unappropriated result	Total equity
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Balance as at 1 January 2022	86	11,888	0	5,235	3,219	20,428
Total comprehensive income						
Appropriation of result	0	0	0	3,219	(3,219)	0
Result for the period	0	0	0	0	611	611
Other comprehensive income	0	0	0	0	0	0
Total comprehensive income for the period	0	0	0	3,219	(2,608)	611
Transactions with owners of the Company						
Contributions by and distributions to owners of the Company:						
— Dividends	0	0	0	(2,000)	0	(2,000)
Total transactions with owners of the Company	0	0	0	(2,000)	0	(2,000)
Balance as at 31 December 2022	86	11,888	0	6,454	611	19,039

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

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	Attributable to owners of the Company					
	Share capital	Share premium	Translation reserve	Retained earnings	Unappropriated result	Total equity
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Balance as at 1 January 2021	86	11,888	0	3,675	2,560	18,209
Total comprehensive income						
Appropriation of result	0	0	0	2,560	(2,560)	0
Result for the period	0	0	0	0	3,219	3,219
Other comprehensive income	0	0	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive income for the period	0	0	0	2560	659	3,219
Transactions with owners of the Company						
Contributions by and distributions to owners of the Company:						
— Dividends	0	0	0	(1,000)	0	(1,000)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total transactions with owners of the Company	0	0	0	(1,000)	0	(1,000)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance as at 31 December 2021	86	11,888	0	5,235	3,219	20,428
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year 2022

		2022 EUR 1,000	2021 EUR 1,000
Cash flows from operating activities			
Operating profit for the period		737	3,776
Adjustments for:			
— Depreciation	5	1,749	1,823
— Change in fair value of biological assets	7	(25)	(117)
— Provisions		1	1
Changes in:			
— Inventories	9	(158)	(86)
— Trade and other receivables and other current assets		(343)	190
— Trade and other payables and other liabilities		399	287
Cash generated from operating activities		2,360	5,874
Interest paid		(84)	(94)
Income taxes paid		(437)	(688)
Net cash from operating activities		1,839	5,092
Cash flows from investing activities			
Acquisition of property, plant and equipment	5	(3,903)	(678)
Acquisition of intangible fixed assets	6	0	0
Acquisition of financial fixed assets	8	(99)	0
Net cash used in investing activities		(4,002)	(678)
Cash flows from financing activities			
Dividends paid		(2,000)	(1,000)
Repayment of borrowings	13	0	0
Payment of lease liabilities	13	(335)	(332)
Net cash used in financing activities		(2,335)	(1,332)
Net increase/(decrease) in cash and cash equivalents		(4,498)	3,082
Cash and cash equivalents at 1 January**		7,733	4,551
Cash and cash equivalents at 31 December**	10	3,135	7,633

** Cash and cash equivalents includes bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

The notes on pages 20 to 70 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1 General

(a) Reporting entity and relationship with parent company

Bedrocan International B.V. (the 'Company') is a private limited liability company domiciled in The Netherlands. The Company was incorporated in The Netherlands. The Company's registered office is at De Zwaaihoek 4 9641 KV Veendam. The Company was founded on 29 April 1998 and is registered in the Trade Register at the Chamber of Commerce under number 02062255 0001.

The shares of the Company are held by:

T. Erkelens Beheer B.V. (13.81%)
IWAB B.V. (20.00%)
VMI Beheer B.V. (20.00%)
Op Zich B.V. (20.00%)
Bedrock 1 B.V. (26.19%)

These consolidated financial statements comprise the Company and its subsidiaries (collectively the 'Group' and individually 'Group companies'). The Company and the Group are primarily involved in the production of standardised medicinal cannabis flos with a constant composition of cannabinoids and terpenes.

(b) Financial reporting period

These financial statements cover the year 2022, which ended at the balance sheet date of 31 December 2022.

(c) Going concern

The financial statements of the Company have been prepared on the basis of the going concern assumption.

(d) Application of Section 402, Book 2 of the Netherlands Civil Code

The financial information of the Company is included in the consolidated financial statements. For this reason, in accordance with Section 402, Book 2 of the Netherlands Civil Code, the separate statement of profit and loss of the Company exclusively states the share of the result of participating interests after tax and the other income and expenses after tax.

For an appropriate interpretation of these statutory financial statements, the consolidated financial statements of the Company should be read in conjunction with the separate financial statements, as included under pages 71 to 90.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and with section 2:362(9) of the Netherlands Civil Code.

The consolidated financial statements were authorised for issue by the Board of Directors on 28 March 2023.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following items, which are measured on an alternative basis on each reporting date:

- non-derivative financial instruments at FVTPL are measured at fair value;
- equity securities at FVOCI are measured at fair value;
- biological assets are measured at fair value less costs to sell;

(c) Functional and presentation currency

These consolidated financial statements are presented in euros, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

(d) Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

Judgements, assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the year ending 31 December 2022 is included in the following notes:

- Note 7 – determining the fair value of biological assets on the basis of significant unobservable inputs;

i. Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values, and reports directly to the CFO.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- *Level 1*: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- *Level 2*: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- *Level 3*: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

Further information about the assumptions made in measuring fair values is included in the following notes:

- Note 7 – biological assets;
- Note 17 – financial instruments.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

(i) Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group (see (a)(iii)). The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment (see (q)(ii)). Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities (see (p)).

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

(ii) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any non-controlling interests and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

However, foreign currency differences arising from the translation of the following items are recognised in OCI:

- an investment in equity securities designated as at FVOCI;
- a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- qualifying cash flow hedges to the extent the hedges are effective.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into euro at exchange rates at the

reporting date. The income and expenses of foreign operations are translated into euros at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to NCI.

When a foreign operation is disposed of in its entirety or partially such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Group disposes of part of its interest in a subsidiary but retains control, then the relevant proportion of the cumulative amount is reattributed to NCI. When the Group disposes of only part of an associate or joint venture while retaining significant influence or joint control, the relevant proportion of the cumulative amount is reclassified to profit or loss.

c) Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Group becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

On initial recognition, a financial asset is classified as measured at: amortised cost; fair value through other comprehensive income (FVOCI) – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Group changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial assets – Business model assessment

The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

Financial assets – Assessment whether contractual cash flows are solely payments of principal and interest:

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and

administrative costs), as well as a profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amount plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

Financial assets – Subsequent measurement and gains and losses:

Financial assets at FVTPL

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Equity investments at FVOCI

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

(iii) Derecognition

Financial assets

The Group derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

(iv) Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

(v) Share capital

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares, net of any tax effects, are recognised as a deduction from equity. Income tax relating to transaction costs of an equity transaction is accounted for in accordance with IAS 12.

d) Impairment

(i) *Non-derivative financial assets*

Financial instruments and contract assets

The Group recognises loss allowances for ECLs on:

- financial assets measured at amortised cost; and

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable

data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or being more than 90 days past due;
- the restructuring of a loan or advance by the Group on terms that the Group would not consider otherwise;
- it is probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

e) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are measured at cost, which includes capitalised borrowing costs less accumulated depreciation and any accumulated impairment losses. Assets that qualify for the capitalization of interest cost during their construction period are evaluated on a per project basis and, if material, the costs are capitalized.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Group.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

The estimated useful lives of property, plant and equipment for current and comparative periods are as follows:

- | | |
|-------------------------------|----------------|
| — Land and buildings: | 10 - 30 years. |
| — Machines and installations: | 5 - 10 years. |
| — Equipment and computers: | 5 years. |
| — Transportation: | 5 years. |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

f) Intangible assets

(i) Recognition and measurement

Research and development

Expenditure on research activities is recognised in profit or loss as incurred.

Development expenditure is capitalised only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognised in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortisation and any accumulated impairment losses.

(ii) Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

(iii) Amortisation

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss.

The estimated useful lives for current and comparative periods are as follows:

— Software: 5 years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

g) Biological assets

The Company's biological assets consist of cannabis plants. Biological assets are measured at fair value less costs to sell, with any change therein recognised in profit or loss. Cost to sell includes post-harvest production, shipping and fulfilment costs.

h) Inventories

Inventories are measured at the lower of cost and net realisable value. Inventories of harvested cannabis are transferred from biological assets at their fair value less cost to sell up to the point of harvest, which becomes the initial deemed cost. All subsequent

direct and indirect post-harvest costs are capitalized to inventory as incurred, including labour related costs, consumables, materials, packaging supplies, utilities, facilities costs, quality and testing costs, and production related depreciation. Net realizable value is determined as the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Raw materials and consumables are valued at the lower of costs and net realizable value. The cost of inventories is based on the first-in first-out principle.

i) Employee benefits

(i) Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(ii) Defined contribution plans

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iii) Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

(iv) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

j) Provisions

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

k) Revenue

Revenue is measured based on the consideration specified in a contract. The Group recognises revenue when it transfers control over a product to a customer. The company is a principal as part of all transactions.

l) Operating profits

Operating profit is the result generated from the continuing principal revenue producing activities of the Group as well as other income and expenses related to operating activities. Operating profit excludes net finance costs and income taxes.

m) Finance income and finance costs

The Group's finance income and finance costs include:

- interest expense;
- the foreign currency gain or loss on financial assets and financial liabilities;

Interest expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest expense, the effective interest rate is applied to the amortised cost of the liability.

n) Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in OCI.

Interest and penalties related to income taxes, including uncertain tax treatments, are accounted for under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans for individual subsidiaries in the Group. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves.

Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

o) Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:
 - o the Group has the right to operate the asset; or

- the Group designed the asset in a way that predetermines how and for what purpose it will be used.

At inception or on reassessment of a contract that contains a lease component, for the leases of land and buildings and cars in which it is a lessee, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

(i) As a lessee

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position

The Group has elected not to recognise right-of-use assets and lease liabilities for short-term leases of land and buildings that have a lease term of 12 months or less. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(ii) As a lessor

The Group does not act as a lessor.

p) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

When one is available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Group determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

q) Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2022 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards.*
- *Definition of a Business (Amendments to IFRS 3).*
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- *IFRS 17 Insurance Contracts.*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)*

As the aforementioned amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements, the estimated impact is not further disclosed, quantitatively and/or qualitatively.

4 List of subsidiaries

The consolidation includes the financial information of Bedrocan International B.V. and the following companies (all companies are 100% participations unless stated otherwise):

Bedrocan Nederland B.V., The Netherlands;

Bedrocan R&D B.V., The Netherlands;

Bedrocan Deutschland GmbH, Germany;

Bedrocan Australia Pty Ltd, Australia.

Bedrocan Danmark ApS, Denmark.

5 Property, plant and equipment

Property, plant and equipment comprise owned and leased assets.

	2022 EUR 1,000	2021 EUR 1,000
Property, plant and equipment owned	15,827	12,687
Right-of-use assets	954	916
	<u>16,781</u>	<u>13,603</u>

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Reconciliation of the carrying amount of property, plant and equipment owned

	Land and Buildings	Machines and installations	Equipment and Computers	Others	Assets under Construction	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000		EUR 1,000
Cost						
Balance at 1 January 2021	11,222	5,743	1,526	22	102	18,615
Additions	172	163	88	0	255	678
Disposals	0	0	0	0	(69)	(69)
Balance at 31 December 2021	11,394	5,906	1,614	22	288	19,224
Balance at 1 January 2022	11,394	5,906	1,614	22	288	19,224
Additions	45	56	315	0	4,126	4,542
Disposals	0	0	0	0	0	0
Balance at 31 December 2022	11,439	5,962	1,929	22	4,414	23,766

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Accumulated depreciation and impairment losses

Balance at 1 January 2021	(2,159)	(2,138)	(778)	(16)	(69)	(5,160)
Depreciation	(519)	(624)	(299)	(4)	0	(1,446)
Disposals	0	0	0	0	69	69
Impairment loss	0	0	0	0	0	0
Balance at 31 December 2021	(2,678)	(2,762)	(1,077)	(20)	0	(6,537)
Balance at 1 January 2022	(2,678)	(2,762)	(1,077)	(20)	0	(6,537)
Depreciation	(524)	(603)	(273)	(2)	0	(1,402)
Disposals	0	0	0	0	0	0
Impairment loss	0	0	0	0	0	0
Balance at 31 December 2022	(3,202)	(3,365)	(1,350)	(22)	0	(7,939)
Carrying amounts						
At 1 January 2021	9,063	3,605	748	6	33	13,455
At 31 December 2021	8,716	3,144	537	2	288	12,687
At 31 December 2022	8,237	2,597	579	0	4,414	15,827

Right-of-use assets

The Group leases land and buildings, and vehicles. Information about leases for which the Group is a lessee is presented below.

	Property EUR 1,000	Machinery EUR 1,000	Vehicles EUR 1,000	Total EUR 1,000
2021				
Balance at 1 January	741	0	363	1,104
Additions to the right-of-use assets	111	0	64	175
Remeasurement	6	0	0	6
Depreciation charge for the year	(161)	0	(208)	(369)
Balance at 31 December	697	0	219	916
2022				
Balance at 1 January	697	0	219	916
Additions to the right-of-use assets	226	0	101	327
Remeasurement	31	0	28	59
Depreciation charge for the year	(170)	0	(178)	(348)
Balance at 31 December	784	0	170	954

6 Intangible assets

Reconciliation of carrying amount

	Development costs EUR 1,000
Cost	
Balance at 1 January 2021	31
Acquisitions	0
Effect of movements in exchange rates	0
	<hr/>
Balance at 31 December 2021	31
	<hr/>
Balance at 1 January 2022	31
Acquisitions	0
Effect of movements in exchange rates	0
	<hr/>
Balance at 31 December 2022	31
	<hr/>
Accumulated amortisation and impairment losses	
Balance at 1 January 2021	(14)
Effect of movements in exchange rates	(8)
	<hr/>
Balance at 31 December 2021	(22)
	<hr/>
Balance at 1 January 2022	(22)
Amortisation	0
	<hr/>
Balance at 31 December 2022	(22)
	<hr/>
Carrying amounts	
At 1 January 2021	17
At 31 December 2021	9
At 31 December 2022	9
	<hr/>

7 Biological assets

The Company's biological assets consists of cannabis plants. The movements in biological assets for the years ended 31 December 2022 and 31 December 2021 were as follows:

Reconciliation of carrying amount

2021

EUR 1,000

Balance at 1 January 2021	1,609
Purchases/production	2,058
Change in fair value less costs to sell of cannabis plants (realized)	11,540
Harvested cannabis transferred to inventories	(13,512)
Balance at 31 December 2021	1,695

2022

EUR 1,000

Balance at 1 January 2022	1,695
Purchases/production	3,331
Change in fair value less costs to sell of cannabis plants (realized)	8,752
Harvested cannabis transferred to inventories	(12,088)
Balance at 31 December 2022	1,690

At 31 December 2022, cannabis plants comprised approximately EUR 1,690,000 (2021: EUR 1,695,000), which ranged from newly established plantations to plantations that were 15 weeks old.

Measurement of fair values

Fair value hierarchy

The fair value measurements for cannabis plants have been categorised as Level 3 fair values based on the inputs to the valuation techniques used.

Level 3 fair values

The following table shows a breakdown of the total gains (losses) recognised in respect of Level 3 fair values (cannabis plants).

	2022 EUR 1,000	2021 EUR 1,000
Gain included in the statement of Comprehensive Income:		
— Change in fair value (realised)	25	117
— Change in fair value (unrealised)	0	0
Gain included in OCI:		
— Effect of movements in exchange rates	0	0

Total output of agricultural produce

	2022 Gram 1,000	2021 Gram 1,000
Harvested cannabis	5,756	6.180

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Valuation techniques and significant unobservable inputs

The following table shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used.

Type	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
1.	<i>Discounted cash flows:</i> The valuation model considers the present value of the net cash flows expected to be generated by the plantation. The cash flow projections include specific estimates for 0-6 months. The expected net cash flows are discounted using a risk-adjusted discount rate.	<ul style="list-style-type: none"> — Estimated future market prices per gram of cannabis — Estimated yields per plant — Estimated harvest and transportation costs — Risk-adjusted discount rate 	<p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> — the estimated prices per gram were higher (lower); — the estimated yields per plant were higher (lower); — the estimated harvest and transportation costs were lower (higher); or — the risk-adjusted discount rates were lower (higher).

Risk management strategy related to agricultural activities

The Group is exposed to the following risks relating to its cannabis cultivating and production facilities.

Regulatory and environmental risks

The Group is subject to laws and regulations in the countries in which it operates. The Group closely monitors developments in this regard. The Group has established policies and procedures aimed at compliance with local laws.

Supply and demand risk

In 2022 the Group had one customer, the Dutch Government. Cultivation and production is only executed when an order from the Dutch Government has been received. On average, orders are placed for a period of 6 to 12 months prior to delivery with a fixed price.

Climate and other risks

The Group's products are grown indoors in rooms that are fully climate controlled and classified as ISO-class 8. The effects of the outside climate are therefore very limited. Only extreme heat or aridness poses a risk, and will mostly result in somewhat lower yields. Air being drawn from the outside is filtered.

Pests are dealt with through the implementation of the pest control plan. This prevents the product from being exposed to pests during production and/or storage and thus coming into contact with pathogenic germs. During packaging and until the moment the products leave the company, the integrity of the packaging is assessed. Damaged packaging is immediately removed.

8 Trade and other receivables

	2022 EUR 1,000	2021 EUR 1,000
Trade receivables	523	388
Other receivables	200	101
	723	489
Non-current	200	101
Current	523	388
	723	489

Trade receivables did not include amounts invoiced in advanced (2021: EUR 303).

Credit and market risks, and impairment losses

Information about the Group's exposure to credit and market risks, and impairment losses for trade and other receivables, excluding construction contracts in progress, is included in note 17.

9 Inventories

The following is a breakdown of inventories at 31 December 2022:

	Capitalised cost EUR 1,000	Fair value adjustment EUR 1,000	Carrying value EUR 1,000
Raw materials and consumables	17	0	17
Work in progress	0	0	0
Finished goods	553	945	1,498
	584	945	1,515

The following is a breakdown of inventories at 31 December 2021:

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	Capitalised cost EUR 1,000	Fair value adjustment EUR 1,000	Carrying value EUR 1,000
Raw materials and consumables	17	0	17
Work in progress	0	0	0
Finished goods	370	940	1,310
	<hr/>	<hr/>	<hr/>
	387	940	1,327
	<hr/>	<hr/>	<hr/>

In 2022, inventories of EUR 13,296 thousand (2021: EUR 13,943 thousand) were recognised as an expense during the period in the statement of profit or loss and comprehensive income, which included EUR 8,587 thousand (2021: EUR 10,517 thousand) of non-cash expense related to the changes in fair value of inventory sold.

10 Cash and cash equivalents

	2022 EUR 1,000	2021 EUR 1,000
Bank balances	3,135	7,633
	<hr/>	<hr/>
Cash and cash equivalents in the statement of financial position	3,135	7,633
	<hr/>	<hr/>
	<hr/>	<hr/>
Cash and cash equivalents in the statement of cash flows	3,135	7,633
	<hr/>	<hr/>

11 Capital and reserves

Share capital and share premium

	Ordinary shares	
	2022 EUR 1,000	2021 EUR 1,000
In issue at 1 January	86	86
Issued for cash	0	0
In issue at 31 December – fully paid	86	86

At 31 December 2022 8,607,410 shares are issued and fully paid (2021: 8,607,410). All shares have a par value of EUR 0.01. All ordinary shares rank equally with regard to the Company's residual assets.

Ordinary shares

Holders of these shares are entitled to dividends as declared from time to time, and are entitled to one vote per share at general meetings of the Company. All rights attached to the Company's shares held by the Group are suspended until those shares are reissued.

Nature and purpose of reserves

Dividends

After the reporting date 31 December 2022 no dividend was proposed by the board of directors (2021: EUR 2,000,000). All shareholders receive a dividend of EUR 0.00 per share (2021: EUR 0.23). There are no tax consequences.

12 Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders.

The capital structure of the Company consists of € 20,013 thousand (2021: € 21,353 thousand) in shareholders' equity and debt. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. The Company plans to use existing funds, as well as funds from the future sale of products to fund operations and expansion activities.

13 Loans and borrowings

Non-current liabilities

	2022 EUR 1,000	2021 EUR 1,000
Bank loans	0	0
Other loans	0	0
Lease liabilities	661	617
	<hr/>	<hr/>
	661	617
	<hr/>	<hr/>

Current liabilities

	2022 EUR 1,000	2021 EUR 1,000
Current portion of bank loans	0	0
Current portion of other loans	0	0
Current portion of lease liabilities	313	308
	<hr/>	<hr/>
	313	308
	<hr/>	<hr/>

Information about the Group's exposure to interest rate, foreign currency and liquidity risk is included in note 17.

Terms and repayment schedule

The terms and conditions of outstanding loans are as follows:

	Currency	Nominal interest rate	Year of maturity	Face value 31 December 2022	Carrying amount 31 December 2022	Face value 31 December 2021	Carrying amount 31 December 2021
		%		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Overdraft							
Facility A	EUR	4.0	2023	0	0	0	0
Lease liabilities	EUR	5.9	2028	974	974	925	925
				<hr/>	<hr/>	<hr/>	<hr/>
Total interest-bearing liabilities				974	974	925	925
				<hr/>	<hr/>	<hr/>	<hr/>

In 2019 the Company closed an overdraft facility at Deutsche Bank with a limit of EUR 5.0 million. At 31 December 2022 no funds were drawn. The termination date of the facility is 1 January 2024. The limit of the facility will be reduced by EUR 1 million at the end of each quarter in 2023, except for the fourth quarter when the limit will be reduced by EUR 2 million. The facility is secured with the Company's land and buildings in Emmeloord and (trade) receivables.

Lease liabilities

	2022 EUR 1,000	2021 EUR 1,000
Maturity analysis – contractual undiscounted cash flows		
Less than one year	357	354
One to five years	711	597
More than five years	14	90
Total undiscounted lease liabilities at 31 December	1,082	1,041
Lease liabilities included in the statement of financial position at 31 December		925
Non-current	661	617
Current	313	308
	974	925

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Reconciliation of movements of liabilities to cash flows arising from financing activities

	Lease liabilities EUR 1,000	Equity Share capital/premium EUR 1,000	Reserves EUR 1,000	Retained earnings EUR 1,000	NCI EUR 1,000	Total EUR 1,000
balance at 1 January 2022	925	11,974	0	8,454	0	21,353
Changes in financing cash flows:						
— Proceeds from issue of share capital	0	0	0	0	0	0
— Proceeds from issue of convertible loans	0	0	0	0	0	0
— Proceeds from loans and borrowings	0	0	0	0	0	0
— Transaction costs related to loans and borrowings	0	0	0	0	0	0
— Acquisition of NCI	0	0	0	0	0	0
— Repayment of borrowings	0	0	0	0	0	0
— Payment of lease liabilities	(335)	0	0	0	0	(335)
— Dividend paid	0	0	0	(2,000)	0	(2,000)
Total changes from financing cash flows	(335)	0	0	(2,000)	0	(2,335)
The effect of changes in foreign exchange rates	0	0	0	0	0	0
Changes in fair value	0	0	0	0	0	0
Other changes	57	0	0	0	0	57
Liability related						
Change in bank overdraft	0	0	0	0	0	0
New leases	327	0	0	0	0	327

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Interest expense	47	0	0	0	0	47
Interest paid	(47)	0	0	0	0	(47)
Total equity-related other changes	0	0	0	611	0	611
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total equity-related other changes	327	0	0	611	0	938
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Balance at 31 December 2022	974	11,974	0	7,065	0	20,013
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

14 Employee benefits

	2022 EUR 1,000	2021 EUR 1,000
Liability for social security contributions	120	229
Other liabilities	1,071	661
Total employee benefits liabilities	1,226	890
Non-current	613	0
Current	578	890
	1,191	890

For details on the related employee benefit expenses, see note 20.

15 Trade and other payables

	2022 EUR 1,000	2021 EUR 1,000
Trade and due to related parties	1,466	734
Accrued expenses	362	404
Trade payables	1,828	1,138
Other payables	427	438
	2,255	1,576
Non-current	0	0
Current	2,255	1,576
	2,255	1,576

Information about the Group's exposure to currency and liquidity risk is included in note 17.

16 Provisions

	Provision for dismantling costs EUR 1,000	Jubilee provision EUR 1,000	Total EUR 1,000
Balance at 1 January 2022	120	5	125
Provisions made during the year	0	1	1
Provisions used during the year	0	0	0
Provisions reversed during the year	0	0	0
Unwind of discount	0	0	0
Balance at 31 December 2022	120	6	126
Non-current	120	6	126
Current	0	0	0
	120	6	126

Provision for dismantling costs

A provision of EUR 120,000 was made in respect of the Company's obligation to dismantle machinery and equipment in their leased premises at the end of the lease contract. The Company has been calculated using a discount rate of nil, which is the risk free rate in The Netherlands.

Jubilee provision

A provision of EUR 6 thousand was made in respect of the Company's obligation to pay a jubilee allowance. Employees are entitled to 25% of a monthly salary for an employment of 12.5 years and a full month salary for an employment of 25 years.

17 Financial instruments

a) Accounting classifications and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount			Fair value			
	FVOCI – equity instruments	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
2022							
Financial liabilities measured at fair value							
Loans and borrowings	0	974	974	0	0	974	974

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	Carrying amount			Fair value			
	FVOCI – equity instruments	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
2021							
Financial liabilities measured at fair value							
Loans and borrowings	0	925	925	0	0	925	925

b) Measurement of fair values

(i) Valuation techniques and significant unobservable inputs

The following tables show the valuation techniques used in measuring Level 3 fair values, for financial instruments measured at fair value in the statement of financial position, as well as the significant unobservable inputs used.

Financial instruments not measured at fair value

Type	Valuation technique
Other financial liabilities*	<i>Discounted cash flows:</i> The valuation model considers the present value of expected payment, discounted using a risk-adjusted discount rate.

* Other financial liabilities include bank loans, loans from related parties and finance lease liabilities.

c) Financial risk management

The Group has exposure to the following risks arising from financial instruments:

- credit risk;
- liquidity risk;
- market risk.

Risk management framework

The Board of Directors is responsible for developing and monitoring the Group's risk management policies. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

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Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and investments in debt securities.

The carrying amounts of financial assets and contract assets represent the maximum credit exposure.

Impairment losses on financial assets and contract assets recognised in profit or loss were as follows.

	2022	2021
	EUR 1,000	EUR 1,000
Impairment loss on trade receivables and contract assets arising from contracts with customers	0	0

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. For more than 10 years the Dutch Government has been the only customer of the Group and none of these customers' balances have been written off or are credit-impaired at the reporting date.

The Group limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one month.

The Group does not require collateral in respect of trade and other receivables. The group does not have trade receivable for which no loss allowance is recognised because of collateral.

At 31 December 2022, the carrying amount of receivables of the Group's only customer was EUR 523 thousand (2021: EUR 387 thousand). Trade receivables at reporting date no not include amounts invoiced in advanced (2021: -/- EUR 303 thousand).

As at 31 December 2021 and 31 December 2022, the expected credit loss assessment for corporate customers was nil.

Cash and cash equivalents

The Group held cash and cash equivalents of EUR 3,135 thousand at 31 December 2022 (2021: EUR 7,633 thousand). The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on Standard & Poor's ratings.

Impairment on cash and cash equivalents has been measured on a 12-month expected

loss basis and reflects the short maturities of the exposures. The Group considers that its cash and cash equivalents have low credit risk based on the external credit ratings of the counterparties.

The Group uses a similar approach for assessment of ECLs for cash and cash equivalents to those used for debt securities.

The Group recognised an impairment allowance as at 1 January 2022 in the amount of nil. The amount of the allowance did not change during 2022.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group aims to maintain the level of its cash and cash equivalents and other highly marketable debt investments at an amount in excess of expected cash outflows on financial liabilities (other than trade payables) over the next 60 days. The Group also monitors the level of expected cash inflows on trade and other receivables together with expected cash outflows on trade and other payables.

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In addition, the Group maintains the following lines of credit:

- EUR 5.0 million overdraft facility. Interest would be payable at the rate of 1 month Euribor plus 400 basis points.

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include estimated interest payments and excluding the impact of netting agreements:

31 December 2022	Carrying amount	Contractual cash flows					
		Total	2 months or less	2 -12 months	1 - 2 years	2 - 5 years	More than 5 years
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Non-derivative financial liabilities							
Lease liabilities	974	1,082	67	290	272	439	14
Trade payables and accrued liabilities	2,128	2,128	2,128	0	0	0	0
	3,102	3,210	2,195	290	272	439	14

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

In 2019 the Company closed a new overdraft facility with Deutsche Bank with a limit of EUR 5.0 million. At 31 December 2022 no funds were drawn. Reference is made to section 13 for more details.

Market risk

Market risk is the risk that changes in market prices – such as foreign exchange rates, interest rates and equity prices – will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

a. Currency risk

The Group is exposed to transactional foreign currency risk to the extent that there is a mismatch between the currencies in which sales, purchases, receivables and borrowings are denominated and the respective functional currencies of Group companies. The functional currencies of Group companies are primarily the euro. The exposure to

transactional foreign currency risk is assessed as limited as transactions of the company are primarily denominated in euro.

b. Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Cash and cash equivalents bear interest at market rates. The Company's loans have fixed rates of interest.

Exposure to interest rate risk

The interest rate profile of the Group's interest-bearing financial instruments as reported to the management of the Group is as follows.

	Nominal amount	
	2022	2021
	EUR 1,000	EUR 1,000
Fixed-rate instruments		
Financial liabilities	974	925
Variable-rate instruments		
Financial liabilities	0	0

Fair value sensitivity analysis for fixed-rate instruments

The Group does not account for any fixed-rate financial liabilities at FVTPL, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

A change of 100 basis points in interest rates would have increased or decreased equity by 0 after tax (2021: 0). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant.

18 Revenue

A. Revenue streams

The Group generates revenue from the sale of cannabis.

	2022 EUR 1,000	2021 EUR 1,000
Sale of cannabis	14,227	14.464
Total revenue	14,227	14.464

Revenues from the sale of cannabis are recognized at a point in time, and these revenues arise solely from the Dutch market.

b. Performance obligations and revenue recognition policies

Revenue is measured based on the consideration specified in a contract with a customer. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies.

Type of product/service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Revenue recognition under IFRS 15
Cannabis	Customers obtain control of cannabis when the goods are placed in a storage safe and tests results indicate that goods satisfy customer's quality requirements. Invoices are generated at that point in time. Invoices are usually payable within 30 days.	Revenue is recognised when the goods are placed in a storage safe and tests results indicate that goods satisfy customer's quality requirements.

19 Other expenses

Other expenses consists of cost of advisors, management fees, conferences, hiring of contractors, insurance, office supplies and other expenses related to operating activities.

20 Employee benefit expenses

	2022 EUR 1,000	2021 EUR 1,000
Wages and salaries	3,934	3,607
Social security contributions	742	634
Pension contributions	353	349
	<hr/>	<hr/>
	5,029	4,590
	<hr/>	<hr/>

During the 2022 financial year, the average number of staff employed by the Company, converted into full-time equivalents, amounted to 65 people (2021: 65 people), of which 0 (2021: 0) were employed outside the Netherlands.

The employees are working in the following departments:

	2022 FTE	2021 FTE
Management	2	3
Cultivation and processing	37	33
Staff	26	29
	<hr/>	<hr/>
	65	65
	<hr/>	<hr/>

21 Net finance costs

	2022	2021
	EUR 1,000	EUR 1,000
Interest income under the effective interest method on:		
Financial liabilities measured at amortised cost – interest expense	37	43
Lease liabilities - interest expense	47	52
Net foreign exchange loss	3	3
Finance costs – other		
Net finance costs recognised in profit or loss	87	98

22 Income taxes

a) Amounts recognised in profit or loss

	2022	2021
	EUR 1,000	EUR 1,000
Current tax expense		
Current year	83	436
Changes in estimates related to prior years	(4)	(60)
	79	376
Deferred tax expense		
Origination and reversal of temporary differences	(40)	63
Increase in tax rate	0	20
Recognition of previously unrecognised tax losses	0	0
Recognition of previously unrecognised (derecognition of previously recognised) deductible temporary differences	0	0
	(40)	83
Tax expense on continuing operations	39	459

b) Amounts recognised in OCI

	Before tax	2022 Tax (expense) benefit	Net of tax	Before tax	2021 Tax (expense) benefit	Net of tax
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Items that will not be reclassified to profit or loss						
Equity investments at FVOCI – net change in fair value	0	0	0	0	0	0
Items that are or may be reclassified subsequently to profit or loss						
Foreign operations – foreign currency translation differences	0	0	0	0	0	0
	0	0	0	0	0	0

c) Reconciliation of effective tax rate

	2022	2021
	%	%
	EUR 1,000	EUR 1,000
Profit before tax from continuing operations	650	3,678
Tax using the Company's domestic tax rate	25.8%	25.8%
Effect of tax rates in foreign jurisdictions	168	949
Changes in tax rates	5	0
Effect of lower tax rate applicable for taxable income up to EUR 395.000	0	(22)
	(42)	0
Tax effect of:		
— Non-deductible expenses	0	0
— Tax-exempt income	0	0
— Tax incentives	(82)	0
— Current year losses for which no deferred tax asset was recognised	0	(433)
Recognition of previously unrecognised tax losses	0	0
Recognition of previously unrecognised (derecognition of previously recognised) deductible temporary differences	0	25
Change in estimates related to prior years	(10)	(60)
	6.5%	12.5%
	39	459

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d) Movement in deferred tax balances

2022	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	Net balance at 31 December	Deferred tax assets	Deferred tax liabilities	Total deferred taxes
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Biological assets	(1,695)	5	0	0	(1,690)	0	(436)	(436)
Inventory	(905)	(22)	0	0	(927)	0	(239)	(239)
Property plant & equipment	(42)	66	0	0	24		6	6
Right of use assets	105	10	0	0	115	0	30	30
Carry forward tax loss	0	137	0	0	137	30	0	30
Tax assets (liabilities) before set-off	(2,537)	196	0	0	(2,341)			
Set off of tax						0	0	0
Net tax assets (liabilities)						30	(639)	(609)

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2021	Net balance at 1 January	Recognised in profit or loss	Recognised in OCI	Recognised directly in equity	Net balance at 31 December	Deferred tax assets	Deferred tax liabilities	Total deferred taxes
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Biological assets	(1,602)	(93)	0	0	(1,695)	0	(437)	(437)
Inventory	(829)	(76)	0	0	(905)	0	234)	234)
Property plant & equipment	53	(95)	0	0	(42)	0	(11)	(11)
Right of use assets	91	14	0	0	105	25	0	25
Carry forward tax loss	0	0	0	0	0	0	0	0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Tax assets (liabilities) before set-off	(2,287)	250	0	0	(2,537)			
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>			
Set off of tax						0	0	0
						<hr/>	<hr/>	<hr/>
Net tax assets (liabilities)						25	(682)	657
						<hr/>	<hr/>	<hr/>

e) Tax losses carried forward

Unrecognised tax losses carried forward expire as follows:

	2022 EUR 1,000	Expiry date	2021 EUR 1,000	Expiry date
Expire	0	0	0	0
Never expire	216	N/A	213	N/A

f) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items (related to Bedrocan Australia Pty Ltd and Bedrocan Deutschland GmbH), because it is not probable that future taxable profit will be available against which the Group can use the benefits there from:

	2022 EUR 1,000	2021 EUR 1,000
Deductible temporary differences	0	0
Tax losses	216	213
	<u>216</u>	<u>213</u>

g) Uncertainty over income tax treatments

The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience.

23 Leases

a) Real estate leases

The Group leases a building located in Veendam, an office located in Amsterdam and a clinical research unit in Utrecht.

The leases run for a period of 5 years till February 2028, December 2024, respectively November 2027. All lease contracts contains an indefinite extension option exercisable by the Group for periods of 5 years.

The current lease contract for the building located in Veendam includes the option for the Group to cancel the contract at the end of each calendar year with a cancellation period of one year.

Where practicable, the Group seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the

Group and not by the lessors. Based on its business plan, the Group assesses at lease commencement whether it is reasonably certain to exercise the extension options. The Group reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant change in circumstances within its control.

b) Vehicles

The Group leases vehicles, with lease terms of 4 or 5 years. There are no residual value guarantees at the reporting date.

24 Commitments

The Group is committed to incur capital expenditure of EUR 631 thousand.

25 Contingencies

The Group has no material contingencies at the reporting date.

26 Related parties

Parent and ultimate controlling party

In 2022 there was no single ultimate controlling party.

Transactions with key management personnel

Key management personnel compensation

Key management personnel compensation amounts to €157 thousand in 2022 (2021: €216 thousand).

Other related party transactions

Transaction		Transaction values for the		Balance outstanding	
		year ended 31 December		as at 31 December	
		2022	2021	2022	2021
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
T. Erkelens Beheer BV	(i)	152	220	0	0
IWAB BV, VMI Beheer BV and Op Zich BV	(ii)	233	0	0	0
BZB Industries LLC	(iii)	18	99	0	99

- (i) During 2022 T. Erkelens Beheer B.V., which is fully owned by the Company's director Mr T. Erkelens and held 14% of the shares in the Company, received a management fee of EUR 152,000. Mr T. Erkelens did not receive other compensation.

- (ii) During 2022 IWAB BV, VMI Beheer BV and Op Zich BV, which are fully owned by Mr J.L. Erkelens, Mr D. Erkelens, respectively Mr J. Erkelens and each held 20% of the shares in the Company, received a total management fee of EUR 233,000. Mr J.L. Erkelens, Mr D. Erkelens, respectively J. Erkelens also received a total salary of EUR 189,000.
- (iii) During 2022 the company paid a fee for management services amounting to EUR 17,500 to BZB Industries LLC, which is owned by the Company's director B.Z Bronfman.

All outstanding balances with these related parties are priced on an arm's length basis and are to be settled in cash within two months following the end of the reporting period. None of the balances is secured. No expense has been recognised in the current year or prior year for bad or doubtful debts in respect of amounts owed by related parties. No guarantees have been given or received.

27 Subsequent events

Credit facility

In March 2023 the Company closed a new credit facility at Rabobank consisting of a EUR 5.0 million loan and a EUR 1.0 million overdraft facility. This new facility will replace the Company's facility at Deutsche Bank that would have expired at 31 December 2023. The termination date of the new facility is 31 December 2025.

The interest rate on the loan is set at 5.15% for the full term of the loan. The loan will be repaid in eight quarterly repayments of EUR 625,000 starting 31 March 2024.

The interest rate on the overdraft facility is set at 1 month Euribor + 1.75%.

Expansion of production capacity

In 2023 the Company will expand its production capacity by 4,000 kilograms by establishing a new cultivation facility in Denmark. The facility will be constructed in an existing hall that will be leased for a period of 10 years starting April 1st, 2023. The annual lease expense will amount to EUR 1.0 million. The expected related investment will amount to EUR 12 million.

Separate financial statements

- Separate statement of financial position
- Separate statement of profit or loss
- Notes to the separate financial statements

Separate statement of financial position as at 31 December 2022

(Before profit appropriation)

		31 December 2022		31 December 2021	
		EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Fixed assets					
Intangible fixed assets	30	9		9	
Tangible fixed assets	31	1.169		890	
Financial fixed assets	32	27,538		23,205	
Total fixed assets			28,716		24,104
Current assets					
Trade and other receivables	33	189		319	
Cash and cash equivalents	34	45		198	
Total current assets			234		517
Total assets			28,950		24,621
Shareholders' equity	35				
Issued share capital		86		86	
Share premium		11,888		11,888	
Translation reserve		0		0	
Other legal reserves		9		9	
Other reserves		6,445		5,226	
Net result for the year		611		3,219	
			19,039		20,428
Provisions	36		3		2
Deferred tax liabilities	22		639		682
Non-current liabilities	37		855		272
Current liabilities	38		8,414		3,237
Total equity and liabilities			28,950		24,621

The notes on pages 74 to 90 are an integral part of these separate financial statements.

Separate statement of profit or loss for the year 2022

		2022 EUR 1,000	2021 EUR 1,000
Share in results from participating interests, after taxation	42	1,075	2,705
Other income and expenses, after taxation		(464)	514
Net result		611	3,219

The notes on pages 74 to 90 are an integral part of these separate financial statements.

Notes to the separate financial statements

28 General

These separate financial statements and the consolidated financial statements together constitute the statutory financial statements of Bedrocan International B.V. (hereafter: 'the Company'). The financial information of the Company is included in the Company's consolidated financial statements, as presented on pages 11 to 70.

29 Basis of preparation

These separate financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil Code. For setting the principles for the recognition and measurement of assets and liabilities and determination of results for its separate financial statements, the Company makes use of the option provided in section 2:362(8) of the Netherlands Civil Code. This means that the principles for the recognition and measurement of assets and liabilities and determination of the result (hereinafter referred to as principles for recognition and measurement) of the separate financial statements of the Company are the same as those applied for the consolidated EU-IFRS financial statements. These principles also include the classification and presentation of financial instruments, being equity instruments or financial liabilities. In case no other principles are mentioned, refer to the accounting principles as described in the consolidated financial statements. For an appropriate interpretation of these statutory financial statements, the separate financial statements should be read in conjunction with the consolidated financial statements.

Information on the use of financial instruments and on related risks for the group is provided in the notes to the consolidated financial statements of the group.

All amounts in the separate financial statements are presented in EUR thousand, unless stated otherwise.

Participating interests in group companies

Group companies are all entities in which the Company has directly or indirectly control. The Company controls an entity when it is exposed, or has rights, to variable returns from its involvement with the group company and has the ability to affect those returns through its power over the group company. Group companies are recognised from the date on which control is obtained by the Company and derecognised from the date that control by the Company over the group company ceases. Participating interests in group companies are accounted for in the separate financial statements according to the equity method, with the principles for the recognition and measurement of assets and liabilities and determination of results as set out in the notes to the consolidated financial statements.

Participating interests with a negative net asset value are valued at nil. This measurement also covers any receivables provided to the participating interests that are, in substance, an extension of the net investment. In particular, this relates to loans for which settlement is neither planned nor likely to occur in the foreseeable future. A share

in the profits of the participating interest in subsequent years will only be recognised if and to the extent that the cumulative unrecognised share of loss has been absorbed. If the Company fully or partially guarantees the debts of the relevant participating interest, or if has the constructive obligation to enable the participating interest to pay its debts (for its share therein), then a provision is recognised accordingly to the amount of the estimated payments by the Company on behalf of the participating interest.

Share of result of participating interests

The share in the result of participating interests consists of the share of the Company in the result of these participating interests. Results on transactions involving the transfer of assets and liabilities between the Company and its participating interests and mutually between participating interests themselves, are eliminated to the extent that they can be considered as not realised.

The Company makes use of the option to eliminate intragroup expected credit losses against the book value of loans and receivables from the Company to participating interests, instead of elimination against the equity value of the participating interests.

Corporate income tax

The Company is the head of the fiscal unity. The Company recognises the portion of corporate income tax that it would owe as an independent tax payer, taking into account the allocation of the advantages of the fiscal unity.

Settlement within the fiscal unity between the Company and its subsidiaries takes place through current account positions.

30 Intangible fixed assets

Reconciliation of carrying amount

	Development costs
Cost	
Balance at 1 January 2021	31
Acquisitions	0
Effect of movements in exchange rates	0
	<hr/>
Balance at 31 December 2021	31
	<hr/>
Balance at 1 January 2022	31
Acquisitions	0
Effect of movements in exchange rates	0
	<hr/>
Balance at 31 December 2022	31
	<hr/>
Accumulated amortisation and impairment losses	
Balance at 1 January 2021	(14)
Impairment loss	(8)
Effect of movements in exchange rates	0
	<hr/>
Balance at 31 December 2021	(22)
	<hr/>
Balance at 1 January 2022	(22)
Amortisation	0
Effect of movements in exchange rates	0
	<hr/>
Balance at 31 December 2022	(22)
	<hr/>
Carrying amounts	
At 1 January 2021	17
At 31 December 2021	9
At 31 December 2022	9
	<hr/>

31 Tangible fixed assets

Property, plant and equipment comprise owned and leased assets.

	2022 EUR 1,000	2021 EUR 1,000
Property, plant and equipment owned	582	398
Right-of-use assets	587	492
	<u>1,169</u>	<u>890</u>

Reconciliation of the carrying amount of property, plant and equipment owned

	Land and Buildings EUR 1,000	Machines and installations EUR 1,000	Equipment and Computers EUR 1,000	Others EUR 1,000	Assets under Construction EUR 1,000	Total EUR 1,000
Cost						
Balance at 1 January 2021	155	114	284	16	0	569
Additions	5	4	51	0	24	84
Disposals	0	0	0	0	0	0
Effect of movements in exchange rates	0	0	0	0	0	0
Balance at 31 December 2021	<u>160</u>	<u>118</u>	<u>335</u>	<u>16</u>	<u>24</u>	<u>653</u>
Balance at 1 January 2022	160	118	335	16	24	653
Additions	263	0	67	0	103	433
Disposals	0	0	0	(1)	0	(1)
Effect of movements in exchange rates	0	0	0	0	0	0
Balance at 31 December 2022	<u>423</u>	<u>118</u>	<u>402</u>	<u>15</u>	<u>127</u>	<u>1,085</u>

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Accumulated depreciation and impairment losses

Balance at 1 January 2021	(38)	(28)	(86)	(11)	0	(163)
Depreciation	(12)	(15)	(62)	(3)	0	(92)
Impairment loss	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Effect of movements in exchange rates	0	0	0	0	0	0
Balance at 31 December 2021	(50)	(43)	(148)	(14)	0	(255)
Balance at 1 January 2022	(50)	(43)	(148)	(14)	0	(255)
Depreciation	(168)	(15)	(64)	(1)	0	(248)
Impairment loss	0	0	0	0	0	0
Disposals	0	0	0	0	0	0
Effect of movements in exchange rates	0	0	0	0	0	0
Balance at 31 December 2022	(218)	(58)	(212)	(15)	0	(503)

Carrying amounts

At 1 January 2021	117	86	198	5	0	406
At 31 December 2021	110	75	187	2	24	398
At 31 December 2022	205	60	190	0	127	582

Right-of-use assets

	Property EUR 1,000	Vehicles EUR 1,000	Total EUR 1,000
2021			
Balance at 1 January	278	292	570
Additions to the right-of-use assets	111	83	194
Remeasurement	3	0	3
Depreciation charge for the year	(96)	(179)	(275)
Balance at 31 December	296	196	492

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2022

Balance at 1 January	296	196	492
Additions to the right-of-use assets	226	108	334
Remeasurement	10	29	40
Depreciation charge for the year	(102)	(176)	(278)
	<hr/>	<hr/>	<hr/>
Balance at 31 December	430	157	587
	<hr/>	<hr/>	<hr/>

32 Financial fixed assets

	2022 EUR 1,000	2021 EUR 1,000
Participating interests in group companies	27,495	23,142
Accounts receivable from group companies	0	0
Accounts receivable from other participating interests	0	0
Other securities	0	0
Deferred tax assets	0	27
Other receivables	53	36
	27,538	23,205

Movements in financial fixed assets were as follows:

	Participating interests in group companies EUR1,000	Accounts receivable from group companies EUR 1,000	Accounts receivable from other participating interests EUR 1,000	Deferred tax assets EUR 1,000	Other receivables EUR 1,000	Total EUR 1,000
Balance at 1 January 2022:						
— Net equity value	23,142	0	0	0	0	23,142
— Cost of acquisition	0	0	0	27	36	63
— Accumulated depreciation and impairment	0	0	0	0	0	0
Carrying amount	23,142	0	0	27	36	23,205

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Changes during the financial year:

— Exchange differences	0	0	0	0	0	0
— Investments and loans provided	3,005	0	0	0	17	3,022
— Redeemed loans	0	0	0	0	0	0
— Impairments	0	0	0	0	0	0
— Recognition of temporary differences	0	0	0	(27)	0	(27)
— Reversal of impairments	0	0	0	0	0	0
— Share in result of participating interests	1,348	0	0	0	0	1,348
— Dividends received from participating interests	0	0	0	0	0	0
Total changes	4,353	0	0	(27)	17	4,343

Balance at 31 December 2022:

— Net equity value	27,495	0	0	0	0	27,495
— Cost of acquisition	0	0	0	0	53	53
— Accumulated depreciation and impairment	0	0	0	0	0	0
Carrying amount	27,495	0	0	0	53	27,548

For details on deferred tax assets reference is made to note 22.

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The Company, based in Veendam in The Netherlands, is the holding company and has the following financial interests:

Name	Legal address	Share in issued capital %
Consolidated participating interests		
Bedrocan Nederland B.V.	Veendam, The Netherlands	100%
Bedrocan R&D B.V.	Veendam, The Netherlands	100%
Bedrocan Deutschland GmbH	Düsseldorf, Germany	100%
Bedrocan Australia Pty Ltd	St Kilda, Australia	100%
Bedrocan Danmark ApS	Copenhagen, Denmark	100%

33 Trade and other receivables

	2022 EUR 1,000	2021 EUR 1,000
Trade receivable	0	0
From group companies	129	267
From other participating interests	0	0
Other receivables due from shareholders	0	0
Corporate income tax	18	0
Other receivables	0	1
Prepayments and accrued income	42	51
	189	319

All other receivables have an estimated maturity shorter than one year.

The carrying values of the recorded receivables are a reasonable approximation of their respective fair values, given the short maturities of the positions and the fact that allowances for doubtful debts have been recognised, if necessary.

To an amount of EUR 129 thousand (2021: EUR 267 thousand), receivables relate to amounts receivable from associated companies in which the Company / the Group can exercise significant influence.

Further details concerning the receivables can be found in note 8 of the consolidated financial statements

34 Cash and cash equivalents

	2022 EUR	2021 EUR
Cash funds	45	198
	<hr/>	<hr/>
	45	198
	<hr/>	<hr/>

Shareholders' equity

Reconciliation of movements in capital and reserves

	Issued share capital EUR 1,000	Share premium EUR 1,000	Trans- lation reserve EUR 1,000	Other legal reserves EUR 1,000	Other reserves EUR 1,000	Unappro- priated result EUR 1,000	Total EUR 1,000
Balance at 1 January 2021	86	11,888	0	17	3,658	2,560	18,209
Changes in financial year 2021:							
— Issued ordinary shares	0	0	0	0	0	0	0
— Appropriation of result	0	0	0	0	2,560	(2,560)	0
— Result for the year	0	0	0	0	0	3,219	3,219
— Dividends to equity holders	0	0	0	0	(1,000)	0	(1,000)
— Translation differences	0	0	0	0	0	0	0
— Legal reserve	0	0	0	(8)	8	0	0
Balance at 1 January 2022	86	11,888	0	9	5,226	3,219	20,428
Changes in financial year 2022:							
— Issued ordinary shares	0	0	0	0	0	0	0
— Appropriation of result	0	0	0	0	3,219	(3,219)	0
— Result for the year	0	0	0	0	0	611	611
— Dividends to equity holders	0	0	0	0	(2,000)	0	(2,000)
— Translation differences	0	0	0	0	0	0	0
— Legal reserve	0	0	0	0	0	0	0
Balance at 31 December 2022	86	11,888	0	9	6,445	611	19,039

Share capital and share premium

	Ordinary shares	
	2022 x 1,000	2021 x 1,000
On issue at 1 January	86	86
Issued for cash	0	0
On issue at 31 December	86	86

Ordinary shares and preference shares

At 31 December 2022 8,607,410 shares are issued and fully paid (2021: 8,607,410). All shares have a par value of EUR 0.01.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Share premium

The share premium concerns the income from the issuing of shares in so far as this exceeds the nominal value of the shares (above par income).

Translation reserve

The legal translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

Other legal reserves

Other legal reserves consisted of a legal reserve for capitalised (software) development costs.

Unappropriated result

Appropriation of profit of 2021

The financial statements for the reporting year 2021 have been adopted by the General Meeting on 31 March 2022. The General Meeting has adopted the appropriation of profit after tax as proposed by the Board of Management.

Proposal for profit appropriation 2022

The Board of Management proposes to the General Meeting to appropriate the profit after tax for 2022 as follows: to add the amount of EUR 611,000 to the other reserves.

The profit after tax for 2022 is included in the item unappropriated result within equity.

The Company can only make payments to the shareholders and other parties entitled to the distributable profit in so far as (1) the Company can continue to pay its outstanding debts after the distribution (the so-called distribution test), and (2) the shareholders' equity exceeds the legal reserves and statutory reserves under the articles of association to be maintained (the so-called balance sheet test). If not, management of the Company shall not approve the distribution.

36 Provisions

	Jubilee provision
Balance at 1 January 2022	2
Provisions made during the year	1
Provisions used during the year	0
Provisions reversed during the year	0
Unwind of discount	0
	<hr/>
Balance at 31 December 2022	3
	<hr/>
Non-current	3
Current	0
	<hr/>
	3
	<hr/>

For details on the provision for participating interests reference is made to note 32.

37 Non-current liabilities

	2022 EUR 1,000	2021 EUR 1,000
Other loans	0	0
Employee benefits	613	0
Lease liabilities	242	272
	855	272

38 Current liabilities

	2022 EUR 1,000	2021 EUR 1,000
To credit institutions	0	0
To suppliers and trade creditors	343	267
To group companies	7,202	1,589
To participating interests	0	0
To shareholders	0	0
Employee benefits	207	443
Income tax liability	0	333
Other taxes and social security contributions due	241	137
Lease liabilities	360	236
Accruals and deferred income	61	232
	8,414	3,237

39 Financial instruments

General

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the separate financial statements of Bedrocan International B.V., except those risks related to trade receivables and inventories.

Further quantitative disclosures are included below:

Fair value

The fair values of most of the financial instruments recognised on the statement of financial position, including trade and other receivables, cash at bank and in hand and current liabilities, is approximately equal to their carrying amounts.

The fair value of the other financial instruments recognised on the statement of financial position can be specified as follows:

	2022		2021	
	Fair value	Carrying amount	Fair value	Carrying amount
	EUR 1,000	EUR 1,000	EUR 1,000	EUR 1,000
Financial fixed assets				
Other receivables	53	53	36	36
Non-current liabilities				
Lease liabilities	222	222	272	272

40 Off-balance sheet assets and liabilities

Joint and several liability and guarantees

The Group has no short term lease commitments (less than one year).

Fiscal unity

Together with its subsidiaries Bedrocan Nederland B.V. and Bedrocan R&D B.V., the Company forms a fiscal unity for corporate income tax purposes; the standard conditions stipulate that each of the companies is liable for the tax payable by all companies belonging to the fiscal unity.

41 Employee benefits and number of employees

Wages and salaries, social security and pension charges relating to the employees of the Company can be specified as follows:

	2022 EUR	2021 EUR
Wages and salaries	2,531	2,405
Social security charges	403	373
Pension charges	194	221
	<u>3,128</u>	<u>2,999</u>

During the 2022 financial year, the average number of staff employed by the Company, converted into full-time equivalents, amounted to 31 people (2021: 31 people), of which 0 (2021: 0) were employed outside the Netherlands.

42 Share in results from participating interests after tax

An amount of EUR 1,075 thousand (2021: EUR 2,705 thousand) of share in results from participating interests relates to group companies.

43 Auditor's fee

The following fees were charged by KPMG Accountants N.V. to the company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a(1) and (2) of the Netherlands Civil Code.

	KPMG Accountants N.V. 2022 EUR 1,000	Other KPMG network 2022 EUR 1,000	Total KPMG 2022 EUR 1,000
Audit of the financial statements	94	0	94
Other audit engagements	0	0	0
Tax-related advisory services	0	47	47
Other non-audit services	0	0	0
	<u>94</u>	<u>47</u>	<u>141</u>

The fees mentioned in the table for the audit of the financial statements 2022 relate to the total fees for the audit of the financial statements 2022, irrespective of whether the activities have been performed during the financial year 2022.

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The auditor's fee in 2021 is as follows

	KPMG Accountants N.V. 2021 EUR 1,000	Other KPMG network 2021 EUR 1,000	Total KPMG 2021 EUR 1,000
Audit of the financial statements	88	0	88
Other audit engagements	0	0	0
Tax-related advisory services	0	42	42
Other non-audit services	0	0	0
	<hr/> 88	<hr/> 42	<hr/> 130

44 Related parties

Reference is made to note 26.

45 Remuneration of managing directors

The emoluments, including pension costs as referred to in Section 2:383(1) of the Netherlands Civil Code, charged in the financial year to the company, its subsidiaries and consolidated other companies amounted €157 thousand in 2022 (2021 EUR 216 thousand) for managing directors.

46 Subsequent events

Credit facility

In March 2023 the Company closed a new credit facility at Rabobank consisting of a EUR 5.0 million loan and a EUR 1.0 million overdraft facility. This new facility will replace the Company's facility at Deutsche Bank that would have expired at 31 December 2023. The termination date of the new facility is 31 December 2025.

The interest rate on the loan is set at 5.15% for the full term of the loan. The loan will be repaid in eight quarterly repayments of EUR 625,000 starting 31 March 2024.

The interest rate on the overdraft facility is set at 1 month Euribor + 1.75%.

Veendam,

28 March 2023

The Board of Directors:

Tjalling Erkelens

Benjamin Bronfman

Lars Peter Brunse

Other information

Provisions in the Articles of Association governing the appropriation of profit

Under article 23 of the Company's Articles of Association, the profit is at the disposal of the General Meeting, which can allocate said profit either wholly or partly to the formation of – or addition to – one or more general or special reserve funds.

Auditor's report

The auditor's report with respect to the consolidated and separate financial statements is set out on the next pages.

Independent auditor's report

To: the Board of Directors of Bedrocan International B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2022 of Bedrocan International B.V., based in Veendam. The financial statements include the consolidated financial statements and the company financial statements.

In our opinion:

- the accompanying consolidated financial statements give a true and fair view of the financial position of Bedrocan International B.V. as at 31 December 2022 and of its result and its cash flows for the year 2022 in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code;
- the accompanying separate financial statements give a true and fair view of the financial position of Bedrocan International B.V. as at 31 December 2022 and of its result for the year 2022 in accordance with Part 9 of Book 2 of the Dutch Civil Code.

The consolidated financial statements comprise:

- 1 the consolidated statement of financial position as at 31 December 2022;
- 2 the following consolidated statements for the year 2022: the income statement, the statements of comprehensive income, changes in equity and cash flows; and
- 3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The company financial statements comprise:

1. the company balance sheet as at 31 December 2022;
- 4 the company profit and loss account for the year 2022; and
- 5 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Bedrocan International B.V. in accordance with the 'Wet toezicht accountantsorganisaties' (Wta, Audit firms supervision act), the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We designed our audit procedures in the context of our audit of the financial statements as a whole and in forming our opinion thereon. The information in respect of fraud and non-compliance with laws and regulations and going concern was addressed in this context, and we do not provide a separate opinion or conclusion on these matters.

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

Information in support of our opinion

Audit response to the risk of fraud and non-compliance with laws and regulations

As part of our audit, we gained insights into the Company and its business environment, and assessed the design and implementation of the Company's risk management in relation to fraud and non-compliance. Our procedures included, amongst other things, assessing the Company's code of conduct, whistleblowing procedures, incidents registers and its procedures to investigate indications of possible fraud and non-compliance. Furthermore, we performed relevant inquiries with management and other relevant functions, including Legal Counsel and Compliance.

As part of audit procedures, we:

- 1 we obtained an understanding of how the company uses information technology (IT) and the impact of IT on the financial statements, including the potential for cybersecurity incidents to have a material impact on the financial statements;
- 2 assessed other positions held by the Board of Directors and other employees, and paid special attention to procedures and governance/compliance in view of possible conflicts of interest; and
- 3 evaluated investigation reports on indications of possible fraud and non-compliance.

In addition, we performed procedures to obtain an understanding of the legal and regulatory frameworks that are applicable to the Company and identified the following areas as those most likely to have a material effect on the financial statements:

- 4 employment law (reflecting the Company's significant and geographically diverse work force);
- 5 health and safety law (reflecting the nature of the Company's production and distribution processes);
- 6 consumer product law, including product safety and product liability claims (reflecting the nature of the Company's diverse product base); and
- 7 environmental law (reflecting environmental impact restrictions, waste and contamination related to the Company's production and distribution processes).

We evaluated the fraud and non-compliance risk factors to consider whether those factors indicate a risk of material misstatement in the financial statements.

Based on the above and on the auditing standards, we identified the following fraud risks that are relevant to our audit, including the relevant presumed risks laid down in the auditing standards, and responded as follows:

Management override of controls (a presumed risk)

Risk:

Management is in a unique position to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

This fraud risk relates to high-risk manual journal entries, significant accounts with a high amount of judgment involved and significant transactions that are outside the normal course of business.

Responses:

- 8 we evaluated the design and the implementation of internal controls that mitigate fraud and non-compliance risks, such as processes related to journal entries;
- 9 we assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates;
- 10 we assessed the appropriateness of the accounting for significant transactions that are outside the Bedrocans normal course of business, or are otherwise unusual; and
- 11 we performed a data analysis of high-risk journal entries and evaluated key estimates and judgments for bias by the Company's management, including retrospective reviews of prior years' estimates with respect to inventories, biological assets and property, plant and equipment. Where we identified instances of unexpected journal entries or other risks through our data analytics, we performed additional audit procedures to address each identified risk, including testing of transactions back to source information.

Revenue recognition (a presumed risk)

Risk:

We identified a risk of fraud related to manual adjustments to revenues (outside the regular process), which presents an opportunity and/or incentive for management to inappropriately increase revenue in order to improve profitability.

Responses:

- 12 we evaluated controls over manual journal entries related to revenues;

13 we searched for fraudulent journal entries on revenues. Where we identified instances of unexpected journal entries, we tested these transactions back to source information.;

14 we requested and received of a confirmation of revenues;

15 we included an element of unpredictability in our audit by performing a cash proof in which we matched all billings in the confirmation to subsequent cash receipts.

Audit response to going concern - no significant going concern risks identified

The Board of Directors has performed its going concern assessment and has not identified any significant going concern risks. We have performed the following procedures on this assessment:

16 we assessed the cash flow forecast prepared by the Board of Directors as part of its assessment;

17 we considered whether this assessment included all relevant information;

18 we analyzed the Company's financial position as at year-end; and

19 we analyzed the finance agreements, including the headroom in the covenants;

The outcome of our risk assessment procedure did not give reason to perform additional audit procedures on the Board of Directors' going concern assessment.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code regarding the management report and the other information.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the management report, in accordance with Part 9 of Book 2 of the Dutch Civil Code, and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as the Board of Directors determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during our audit.

Misstatements can arise from fraud or errors 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 the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining 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 errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining 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;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concluding on the appropriateness of management's use of the going concern basis of accounting 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 ceasing to continue as a going concern;

- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

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

Groningen, 28 March 2023

KPMG Accountants N.V.

R.W. van Dijk RA