BEIERHOLM
VI SKABER BALANCE

Medichanical Engineering ApS

Klokkestøbergade 17 st, 9000 Aalborg

CVR no. 33 38 83 81

Annual report
for the financial year 01.10.21 - 30.09.22

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 23.03.23

Eske Winther Petersen
Dirigent

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Company information etc.

The company

Medichanical Engineering ApS
Klokkestøbergade 17 st
9000 Aalborg
Tel.: 51 82 01 05
Website: www.medichanical.com
Registered office: Aalborg
CVR no.: 33 38 83 81
Financial year: 01.10 - 30.09

Executive Board

Eske Winther Petersen

Board of Directors

Renaat Vermeulen
Poul Torben Nielsen
Mads Spangaard Rasmussen

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Subsidiarie

Medichanical USA Inc., USA

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.10.21 - 30.09.22 for Medichanical Engineering ApS.

The annual report is presented in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

In our opinion, the financial statements give a true and fair view of the company's assets, liabilities and financial position as at 30.09.22 and of the results of the company's activities for the financial year 01.10.21 - 30.09.22.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Aalborg, March 23, 2023

Executive Board

Eske Winther Petersen

Board of Directors

Renaat Vermeulen

Poul Torben Nielsen

Mads Spangaard Rasmussen

Independent auditor's report on extended review

To the capital owner of Medichanical Engineering ApS

Adverse Opinion

We have performed an extended review of the financial statements of Medichanical Engineering ApS for the financial year 01.10.21 - 30.09.22 which comprise the income statement, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with the the Danish Financial Statements Act (Årsregnskabsloven).

Based on the work performed, in our opinion, the financial statements, because of the significance of the matter described in the Basis for qualified opinion paragraph, do not give a true and fair view of the company's assets, equity and liabilities and financial position as at 30.09.22 and the company's financial performance for the financial year 01.10.21 - 30.09.22 in accordance with the Danish Financial Statements Act.

Basis for Adverse Opinion

The financial statements has been presentedon a going concern basis. As shown in note 1, it is a prerequisite for the company's continued operation that the company's current credit facilities can be expanded and maintained in line with the financing needs. The company's management has conducted a number of negotiations with various lenders and investors. These negotiations is on going but have not yet given result. We therefore modify our conclusion as a result of the fact that the financial statement have been presentedon on a going concern basis.

We conducted our extended review in accordance with the Danish Business Authority's Assurance Standard for Small Enterprises and FSR – Danish Auditors' standard on extended review of financial statements prepared in accordance with the Danish Financial Statements Act. Our responsibilities under those standards and requirements are further described in the 'Auditor's responsibilities for the extended review of the financial statements' section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Independent auditor's report on extended review

Statement regarding the management’s review

The management is responsible for the management’s review.

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

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

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

Based on the work we have performed, we conclude that management’s review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Acts. We did not identify any material misstatement of management’s review. As stated in the paragraph ”Adverse opinion”, in our opinion, the financial statements do not give a true and fair view of the company's assets, liabilities and financial position at 30.09.22 and of the results of the company's operations for the financial year 01.10.21 - 30.09.22 in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

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

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

Auditor’s responsibilities for the extended review of the financial statements

Our responsibility is to express a conclusion on the financial statements. This requires that we plan and perform procedures in order to obtain limited assurance for our conclusion on the financial statements and in addition perform specifically required supplementary procedures to obtain further assurance for our conclusion.

An extended review comprises procedures primarily consisting of making inquiries of management and others within the company, as appropriate, analytical procedures and the specifically required supplementary procedures as well as evaluation of the evidence obtained.

The procedures performed in an extended review are less than those performed in an audit, and accordingly, we do not express an audit opinion on the financial statements.

Hobro, March 23, 2023

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Jacob Dahl Allentoft
State Authorized Public Accountant
MNE-no. mne46632

Primary activities

The company's activities comprise of the development and sale of medical instruments.

Uncertainty concerning recognition and measurement

In the financial statements for the financial year 01.10.21 - 30.09.22, it is important to note the following uncertainty with regard to recognition and measurement, as it has had a significant influence on the assets and liabilities recognised in the financial statements:

The company has completed product development and is now focusing on establishing sales channels, marketing campaigns etc. in selected markets. The company's value will depend on this market development. If the market development does not succeed, it will be necessary to write down the company's assets.

Development in activities and financial affairs

The income statement for the period 01.10.21 - 30.09.22 shows a profit/loss of DKK -3,667,373 against DKK -1,189,753 for the period 01.10.20 - 30.09.21. The balance sheet shows equity of DKK 3,207,892.

The management considers the net profit for the year to be disappointing since re-commencing the market development in international markets, after lockdowns caused by the COVID-19 pandemic, has progressed slower than anticipated. In october the company signed an agreement with a VP of Sales in the US. Furthermore, the company is in the final negotiations with a large distributor in the US. This leaves the management optimistic that commercial progress in the coming financial year will be sufficient to attract new external capital for growing the sales to the state of cash positive operations and beyond.

Significant uncertainty as regards going concern

The company is in dialogue with creditors to defer repayment of loans and both domestic and foreign investors to provide necessary capital. As agreements are not yet in place, there is uncertainty in the assessment of the company's capital resources. However, it is the management's expectation that it is possible to reach agreements with creditors/investors to provide the necessary capital resources to cover the liquidity needs that will be associated with operations in the coming financial year.

Subsequent events

After the end of the financial year, though efforts to secure capital to cover liquidity needs are not yet concluded, it is the management’s assessment that things are moving in the right direction. Negotiations with several distribution partners in international markets are progressing to the satisfaction of the management as explained in the above.

Income statement

Note		2021/22 DKK	2020/21 DKK
	Gross profit	**772.372**	**1.982.655**
4	Staff costs	-999.771	-1.020.125
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	**-227.399**	**962.530**
	Amortisation and impairments losses of intangible assets	-2.124.220	-2.115.882
	Operating loss	**-2.351.619**	**-1.153.352**
	Financial income	10	19.892
	Impairment losses on financial assets	-1.398.524	0
	Financial expenses	-313.158	-391.549
	Loss before tax	**-4.063.291**	**-1.525.009**
5	Tax on loss for the year	395.918	335.256
	Loss for the year	**-3.667.373**	**-1.189.753**

Proposed appropriation account		
Retained earnings	-3.667.373	-1.189.753
Total	**-3.667.373**	**-1.189.753**

Balance sheet

ASSETS

Note		30.09.22 DKK	30.09.21 DKK
	Completed development projects	15.146.605	17.270.825
6	**Total intangible assets**	**15.146.605**	**17.270.825**
	Equity investments in group enterprises	0	56.315
	Deposits	9.200	9.200
	Total investments	**9.200**	**65.515**
	Total non-current assets	**15.155.805**	**17.336.340**
	Raw materials and consumables	50.086	20.033
	Total inventories	**50.086**	**20.033**
	Trade receivables	0	4.764
	Receivables from group enterprises	0	1.116.134
	Income tax receivable	0	197.635
	Other receivables	123.790	1.633.425
	Prepayments	44.956	6.050
7	**Total receivables**	**168.746**	**2.958.008**
	Cash	**1.648.630**	**631.670**
	Total current assets	**1.867.462**	**3.609.711**
	Total assets	**17.023.267**	**20.946.051**

Balance sheet

EQUITY AND LIABILITIES

Note		30.09.22 DKK	30.09.21 DKK
	Share capital	183.566	183.566
	Reserve for development costs	11.814.351	13.471.243
	Retained earnings	-8.790.025	-6.779.544
	Total equity	**3.207.892**	**6.875.265**
	Provisions for deferred tax	2.272.615	2.668.533
	Total provisions	**2.272.615**	**2.668.533**
8	Other payables	8.019.373	7.587.204
8	Deferred income	1.974.583	2.299.172
	Total long-term payables	**9.993.956**	**9.886.376**
8	Short-term part of long-term payables	693.179	665.890
	Trade payables	454.465	413.556
	Other payables	401.160	436.431
	Total short-term payables	**1.548.804**	**1.515.877**
	Total payables	**11.542.760**	**11.402.253**
	Total equity and liabilities	**17.023.267**	**20.946.051**

9 Contingent liabilities
10 Charges and security

Statement of changes in equity

Figures in DKK	Share capital	Reserve for development costs	Retained earnings
Statement of changes in equity for 01.10.21 - 30.09.22			
Balance as at 01.10.21	183.566	13.471.243	-6.779.544
Transfers to/from other reserves	0	-1.656.892	1.656.892
Net profit/loss for the year	0	0	-3.667.373
Balance as at 30.09.22	183.566	11.814.351	-8.790.025

1. Significant uncertainty as regards going concern

The company is in dialogue with creditors to defer repayment of loans and both domestic and foreign investors to provide necessary capital. As agreements are not yet in place, there is uncertainty in the assessment of the company's capital resources. However, it is the management's expectation that it is possible to reach agreements with creditors/investors to provide the necessary capital resources to cover the liquidity needs that will be associated with operations in the coming financial year.

2. Uncertainty concerning recognition and measurement

In the financial statements for the financial year 01.10.21 - 30.09.22, it is important to note the following uncertainty as regards recognition and measurement as it has had a significant influence on the assets and liabilities recognised in the financial statements:

The company has completed product development and is now focusing on establishing sales channels, marketing campaigns etc. in selected markets. The company's value will depend on this market development. If the market development does not succeed, it will be necessary to write down the company's assets.

3. Special items

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

Special items:	Recognised in the income statement in:	2021/22 DKK	2020/21 DKK
Public grants, Covid-19	Other operating income	1.183.916	2.335.408
Total		1.183.916	2.335.408

	2021/22 DKK	2020/21 DKK

4. Staff costs

	2021/22 DKK	2020/21 DKK
Wages and salaries	876.485	1.008.391
Pensions	112.000	0
Other social security costs	4.544	4.828
Other staff costs	6.742	6.906
Total	999.771	1.020.125
Average number of employees during the year	1	2

5. Tax on loss for the year

	2021/22 DKK	2020/21 DKK
Adjustment of deferred tax for the year	-395.918	-335.256

6. Intangible assets

Figures in DKK	Completed development projects	Acquired rights
Cost as at 01.10.21	21.242.198	2.000.000
Cost as at 30.09.22	21.242.198	2.000.000
Amortisation and impairment losses as at 01.10.21	-3.971.373	-2.000.000
Amortisation during the year	-2.124.220	0
Amortisation and impairment losses as at 30.09.22	-6.095.593	-2.000.000
Carrying amount as at 30.09.22	15.146.605	0

6. Intangible assets - continued -

The development activities primarily include further development of the companys main product "X-pander" which is a medical device specifically for orthopedic surgery. The product will ensure more cost-effective hip surgeries, fewer surgical errors and fewer inconveniences for the patient.

The company has completed product development of its first product and is now focusing on establishing sales channels, marketing campaigns etc. in selected markets. The company's value will depend on this market development. If the market development does not succeed, it will be necessary to write down the company's assets.

It is not considered that there are special prerequisites for the recognition and measurement of development projects.

	30.09.22 DKK	30.09.21 DKK

7. Receivables

	30.09.22 DKK	30.09.21 DKK
Receivables which fall due for payment more than 1 year after the end of the financial year	0	1.116.134

Receivables that fall due for payment more than 1 year after the end of the financial year are included in the accounting item "Receivables from group enterprises.

8. Long-term payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 30.09.22	Total payables at 30.09.21
Other payables	368.590	0	8.387.963	7.928.505
Deferred income	324.589	676.227	2.299.172	2.623.761
Total	693.179	676.227	10.687.135	10.552.266

9. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 3 months and total lease payments of DKK 3k, a total of DKK 9k.

10. Charges and security

As security for debt to credit institutions of DKK 7,266k, a company charge has been provided comprising goodwill, intellectual property rights, motor vehicles, other plant, fixtures and fittings, tools and equipment, inventories and agricultural stock, trade receivables as well as fuels and other ancillary materials. The total carrying amount of the comprised assets is DKK 15.197 k.

11. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for enterprises in reporting class B with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

In accordance with section 110 of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

Basis of recognition and measurement

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

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

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

CURRENCY

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

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

11. Accounting policies - continued -

LEASES

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

GRANTS

Grants are recognised when there is reasonable certainty that the grant conditions have been met and that the grant will be received.

Grants to cover expenses incurred are recognised on a proportionate basis in the income statement over the period in which the expenses eligible for grants are expensed. Grants are recognised under other operating income.

Grants received for the production or construction of assets are recognised as deferred income under payables. For amortisable assets, the grant is recognised as the asset is amortised.

INCOME STATEMENT

Gross profit

Gross profit comprises revenue, other operating income and raw materials and consumables and other external expenses.

Revenue

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

11. Accounting policies - continued -

Other operating income

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

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables to the extent that these do not exceed normal write-downs.

Other external expenses

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

Staff costs

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

Amortisation and impairment losses

The amortisation of intangible assets aim at systematic amortisation over the expected useful lives of the assets. Assets are amortised according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value, per cent
Completed development projects	10	0
Acquired rights	10	0

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

11. Accounting policies - continued -

Intangible assets are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Income from equity investments in group entreprises

Dividends from equity investments measured at cost are recognised as income in the financial year in which the dividend is declared.

Impairment losses on financial assets

Impairment losses on financial assets comprise impairment of investments at a lower recoverable amount and write-downs of financial current assets at a lower net realisable value.

Other net financials

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

Tax on profit/loss for the year

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

BALANCE SHEET

Intangible assets

Completed development projects and development projects in progress

Development projects are recognised in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directlyor indirectly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognised in the income statement in the year in which they are incurred.

11. Accounting policies - continued -

Development projects in progress are transferred to completed development projects when the asset is ready for use.

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

Completed development projects are amortised using the straight-line method based on useful lives, which are stated in the 'Amortisation and impairment losses' section.

Acquired rights

Aquired rights are measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Acquired rights are amortised using the straight-line method based on useful lives, which are stated in the 'Amortisation and impairment losses' section.

Gains and losses on the disposal of intangible assets

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

Equity investments in group entreprises

Equity investments in subsidiaries are measured in the balance sheet at cost less any impairment losses. Transaction costs directly attributable to the acquisition are recognised in the cost of equity investments.

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

Impairment losses on fixed assets

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

11. Accounting policies - continued -

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

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

If dividends are distributed on equity investments in subsidiaries exceeding the year earnings from the enterprise in question, this is considered an indication of impairment.

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

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

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

Inventories

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

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

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

Receivables

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

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

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

11. Accounting policies - continued -

Prepayments

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

Cash

Cash includes deposits in bank account.

Equity

An amount equivalent to internally generated development costs in the balance sheet is recognised in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortisation and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer recognized in the balance sheet, and the remaining amount will be transferred to retained earnings.

Current and deferred tax

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

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

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

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

11. Accounting policies - continued -

Payables

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

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

Deferred income

Deferred income under liabilities comprises payments received in respect of income in subsequent financial years.