Medichanical Engineering ApS

Havneparken 2, 7100 Vejle
CVR no. 33 38 83 81

Annual report
for the financial year 01.10.19 - 30.09.20

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 21.01.21

Claus Hansen
Dirigent

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Company information etc.

The company

Medichanical Engineering ApS
Havneparken 2
7100 Vejle
Tel.: 51 82 01 05
Website: www.medichanical.com
Registered office: Vejle
CVR no.: 33 38 83 81
Financial year: 01.10 - 30.09

Executive Board

Eske Winther Petersen

Board of Directors

Claus Hansen
Renaat Vermeulen
Poul Torben Nielsen
Mads Spangaard Rasmussen

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Subsidiarie

Medichanical USA Inc., USA

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

We have on this day presented the annual report for the financial year 01.10.19 - 30.09.20 for Medichanical Engineering ApS.

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

In our opinion, the financial statements give a true and fair view of the the company's assets, liabilities and financial position as at 30.09.20 and of the results of the the company's activities for the financial year 01.10.19 - 30.09.20.

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.

Vejle, January 21, 2021

Executive Board

Eske Winther Petersen

Board Of Directors

Claus Hansen Chairman	Renaat Vermeulen
Poul Torben Nielsen	Mads Spangaard Rasmussen

To the capital owners of Medichanical Engineering ApS

Opinion

We have audited the financial statements of Medichanical Engineering ApS for the financial year 01.10.19 - 30.09.20, 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 Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 30.09.20 and of the results of the company's operations for the financial year 01.10.19 - 30.09.20 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for conclusion

We conducted our audit in accordance with International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the company in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the financial statements

The Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Furthermore the Management is responsible for the 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 audit of the financial statements

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

As part of an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement regarding the management's review

Management is responsible for management's review.

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

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

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

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

Hobro, January 21, 2021

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Claus Knudsen Tilsted

State Authorized Public Accountant
MNE-no. mne18546

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 01.10.19 - 30.09.20, 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 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.

Development in activities and financial affairs

The income statement for the period 01.10.19 - 30.09.20 shows a profit/loss of DKK -1,411,671 against DKK -599,834 for the period 01.10.18 - 30.09.19. The balance sheet shows equity of DKK 8,065,018.

The management considers the net profit for the year to be satisfactory as the company has focused on the market development in the current financial year. As a result of the COVID-19 virus, market development was reduced during the financial year. It is the management's expectation that the market development will be successful in the coming financial year, enough to attract new external capital for growing the sales to the state of cash positive operations and beyond.

Research and development activities

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.

During the financial year, a total of DKK 1,000,475 was invested in development activities. Last year it was DKK 2.555.891. In the coming financial year, development activities are expected to be at the same level like this year.

Subsequent events

No important events have occurred after the end of the financial year.

Income statement

Note		2019/20 DKK	2018/19 DKK
	Gross profit	**1.376.471**	**714.949**
3	Staff costs	-1.066.970	-1.156.116
	Profit/loss before depreciation, amortisation, write-downs and impairment losses	**309.501**	**-441.167**
	Amortisation and impairments losses of intangible assets	-1.855.491	0
	Loss before net financials	**-1.545.990**	**-441.167**
	Financial income	1.176	0
	Financial expenses	-340.442	-328.827
	Loss before tax	**-1.885.256**	**-769.994**
4	Tax on loss for the year	473.585	170.160
	Loss for the year	**-1.411.671**	**-599.834**

	Proposed appropriation account		
	Retained earnings	-1.411.671	-599.834
	Total	**-1.411.671**	**-599.834**

Balance sheet

ASSETS

Note		30.09.20 DKK	30.09.19 DKK
	Completed development projects	18.386.232	0
	Development projects in progress	1.000.475	20.241.723
5	**Total intangible assets**	**19.386.707**	**20.241.723**
	Equity investments in group enterprises	56.315	56.315
	Deposits	9.200	9.200
	Total investments	**65.515**	**65.515**
	Total non-current assets	**19.452.222**	**20.307.238**
	Raw materials and consumables	75.510	216.016
	Total inventories	**75.510**	**216.016**
	Trade receivables	6.456	22.934
	Receivables from group enterprises	843.223	0
	Income tax receivable	197.635	1.166.242
	Other receivables	87.222	93.964
	Prepayments	37.920	29.955
6	**Total receivables**	**1.172.456**	**1.313.095**
	Cash	**760.080**	**853.037**
	Total current assets	**2.008.046**	**2.382.148**
	Total assets	**21.460.268**	**22.689.386**

Balance sheet

EQUITY AND LIABILITIES

Note		30.09.20 DKK	30.09.19 DKK
	Share capital	183.566	183.566
	Reserve for development costs	15.121.631	15.788.544
	Retained earnings	-7.240.179	-6.495.421
	Total equity	**8.065.018**	**9.476.689**
	Provisions for deferred tax	3.003.789	3.279.739
	Total provisions	**3.003.789**	**3.279.739**
7	Other payables	6.632.733	5.774.485
7	Deferred income	2.623.761	2.741.159
	Total long-term payables	**9.256.494**	**8.515.644**
7	Short-term part of long-term payables	347.499	324.473
	Trade payables	299.563	360.964
	Other payables	487.905	731.877
	Total short-term payables	**1.134.967**	**1.417.314**
	Total payables	**10.391.461**	**9.932.958**
	Total equity and liabilities	**21.460.268**	**22.689.386**

8 Contingent liabilities
9 Charges and security

Statement of changes in equity

Figures in DKK	Share capital	Reserve for develop-ment costs	Retained earnings	Total equity
Statement of changes in equity for 01.10.19 - 30.09.20				
Balance as at 01.10.19	183.566	15.788.544	-6.495.421	9.476.689
Transfers to/from other reserves	0	-666.913	666.913	0
Net profit/loss for the year	0	0	-1.411.671	-1.411.671
Balance as at 30.09.20	183.566	15.121.631	-7.240.179	8.065.018

1. Uncertainty concerning recognition and measurement

In the financial statements for the financial year 01.10.19 - 30.09.20, 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 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.

2. Special items

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

Special items:	Recognised in the income statement in:	2019/20 DKK	2018/19 DKK
Public subsidy	Other oprating income	573.123	0

3. Staff costs

Wages and salaries	1.058.675	1.140.638
Other social security costs	3.976	5.585
Other staff costs	4.319	9.893
Total	1.066.970	1.156.116
Average number of employees during the year	2	2

4. Tax on profit or loss for the year

Current tax for the year	-197.635	-530.450
Adjustment of deferred tax for the year	-275.950	360.290
Total	-473.585	-170.160

5. Intangible assets

Figures in DKK	Completed development projects	Acquired rights	Development projects in progress
Cost as at 01.10.19	0	2.000.000	20.241.723
Additions during the year	0	0	1.000.475
Transfers during the year to/from other items	20.241.723	0	-20.241.723
Cost as at 30.09.20	20.241.723	2.000.000	1.000.475
Amortisation and impairment losses as at 01.10.19	0	-2.000.000	0
Amortisation during the year	-1.855.491	0	0
Amortisation and impairment losses as at 30.09.20	-1.855.491	-2.000.000	0
Carrying amount as at 30.09.20	18.386.232	0	1.000.475

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.

	30.09.20 DKK	30.09.19 DKK

6. Receivables

Receivables which fall due for payment more than 1 year after the end of the financial year	1.040.858	530.450

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

7. Long-term payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 30.09.20	Total payables at 30.09.19
Other payables	22.910	1.282.000	6.655.643	5.794.385
Deferred income	324.589	1.325.405	2.948.350	3.045.732
Total	347.499	2.607.405	9.603.993	8.840.117

8. Contingent liabilities

Lease commitments

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

9. Charges and security

As security for debt to credit institutions of DKK 6,635k, a company charge has been provided comprising goodwill, intellectual property rights, 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 19,462k.

10. 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.

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.

10. Accounting policies - continued -

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

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

LEASES

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

GRANTS

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

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, work performed for own account and capitalised, other operating income and raw materials and consumables and other external expenses.

10. Accounting policies - continued -

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.

Work performed for own account and capitalised

Work performed for own account and capitalised comprises cost of sales, wages and salaries and other internal expenses incurred during the year and included in the cost of self-constructed or self-produced intangible assets.

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.

10. Accounting policies - continued -

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.

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

Other net financials

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

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.

10. Accounting policies - continued -

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.

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.

10. Accounting policies - continued -

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

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.

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 principle. Inventories are written down to the lower of cost and net realisable value.
The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

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

10. Accounting policies - continued -

Receivables

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

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

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

Prepayments

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

Cash

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

Equity

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 associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings. In accordance with act no. 738 amending the Danish Financial Statements Act of 1 June 2015, development costs will initially be recognised in the reserve, with initial recognition in the balance sheet from 1 January 2016.

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.

10. Accounting policies - continued -

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

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

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

Payables

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

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

Deferred income

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