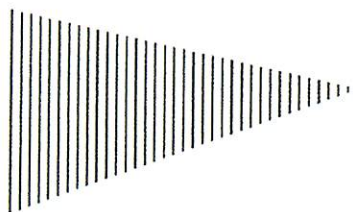


ARO Medical ApS

Viengevej 100, 8240 Risskov

CVR no. 34 62 16 08



Annual report 2015

Approved at the annual general meeting of shareholders on 17 June 2016

Chairman:



Building a better
working world



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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of ARO Medical ApS for the financial year 1 January - 31 December 2015.

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

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of the Company's operations for the financial year 1 January - 31 December 2015.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

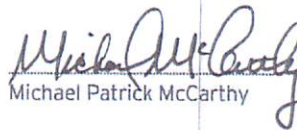
We recommend that the annual report be approved at the annual general meeting.

Risskov, 17 June 2016
Executive Board:


Bruce Harshaw Robie

Board of Directors:


Bruce Harshaw Robie


Michael Patrick McCarthy


Claus Asbjørn Andersson

Independent auditors' report

To the shareholders of ARO Medical ApS

Independent auditors' report on the financial statements

We have audited the financial statements of ARO Medical ApS for the financial year 1 January - 31 December 2015, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility for the financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulations. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2015 and of the results of its operations for the financial year 1 January - 31 December 2015 in accordance with the Danish Financial Statements Act.

Emphasis of matter regarding matters in the financial statements

Without modifying our opinion, we draw attention to note 2 to the financial statements describing the uncertainty related to the valuation of the Company's intangible assets comprising development projects in progress as well as patents and licences.



Independent auditors' report

Statement on the Management's review

Pursuant to the Danish Financial Statements Act, we have read the Management's review. We have not performed any other procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Aarhus, 17 June 2016

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR No. 30 70 02 28

A handwritten signature in blue ink that reads 'Henry Vesterholm'.

Henry Vesterholm

State Authorised Public Accountant

A handwritten signature in blue ink that reads 'Jane Haugaard'.

Jane Haugaard

State Authorised Public Accountant



Management's review

Company details

Name	ARO Medical ApS
Address, Postal code, City	Viengevej 100, 8240 Risskov
CVR No.	34 62 16 08
Established	12 July 2012
Registered office	Aarhus
Financial year	1 January - 31 December
E-mail	brobie@AROMedical.com
Board of Directors	Bruce Harshaw Robie Michael Patrick McCarthy Claus Asbjørn Andersson
Executive Board	Bruce Harshaw Robie
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P O Box 330, 8100 Aarhus C, Denmark

Management's review

Operating review

The Company's business review

The objective of the Company is to develop back implants and related activities.

The Company was established on 12 July 2012 by a contribution of net assets totalling DKK 22,420 thousand comprising development projects, patents, trademark, etc. An additional amount of DKK 3,540 thousand was contributed by a cash capital increase in the Company at 1 August 2012.

Recognition and measurement uncertainties

The Company's most significant assets comprise development project in progress as well as patents and licences. The carrying amount totalled DKK 30,439 thousand at 31 December 2015.

As the Company is still in its development phase in relation to development projects and the use of the patents involved, the valuation thereof is subject to uncertainty as this depends on the future outcome of clinical testing, etc. Based on present stage of the development project and the clinical tests, etc. performed so far, Management is, however, of the opinion that there is no indication of impairment and that consequently there is no need for impairment write-down of the intangible assets.

Financial review

The Company's income statement for 2015 showed a loss of DKK 1,082 thousand. The Company's equity totalled DKK 21,322 thousand at 31 December 2015.

As of December 2015, the Company had completed the initial clinical study of the ARO device, including one year follow-up. The clinical data shows that the device is safe, and meets the primary outcome measures of the study. Secondly, it does not show a statistically significant improvement in comparison to historical controls, which may be due to the relatively small numbers of subjects in this study.

Post balance sheet events

No significant events have occurred subsequent to the financial year, which would influence the evaluation of this annual report.

Outlook

The Company continues to operate at a loss, but has sufficient capital to continue through 2016. The Company directs expenditures toward further development of clinical evidence, protection of associated intellectual property and preparation for commercialization. The Company does this in a virtual form, minimizing ongoing (fixed) expenses. Reliance on partners is required for the Company to continue to make progress.

In the long run, the Company expects to reward investors via the sale of the business and distribution of the received capital. It is unclear when that will occur.

Based on the financial condition of the Company, it is expected that the Company will either need to raise capital or sell the business in 2017. The ability to achieve either of these is uncertain, due to the environment surrounding Healthcare investments (with regard to raising additional capital) and the inherent nature of Mergers & Acquisitions.

Financial statements for the period 1 January - 31 December

Income statement

Note	DKK	2015	2014
	Gross profit/loss	-331,044	-332,695
3	Staff costs	-83,071	-68,406
	Amortisation/depreciation and impairment of intangible assets	-1,310,769	-1,310,769
	Operating profit/loss	-1,724,884	-1,711,870
4	Financial income	303,224	302,245
5	Financial expenses	-553,782	-494,418
	Profit/loss before tax	-1,975,442	-1,904,043
6	Tax for the year	893,529	759,695
	Profit/loss for the year	-1,081,913	-1,144,348
	 Proposed profit appropriation/distribution of loss		
	Retained earnings/accumulated loss	-1,081,913	-1,144,348
		-1,081,913	-1,144,348

Financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK	2015	2014
	ASSETS		
	Non-current assets		
7	Intangible assets		
	Patents and licences	16,712,308	18,023,077
	Development projects in progress	13,726,975	11,865,858
		<u>30,439,283</u>	<u>29,888,935</u>
	Total non-current assets	<u>30,439,283</u>	<u>29,888,935</u>
	Current assets		
	Receivables		
	Receivables from group entities	29,372	29,372
	Income taxes receivable	463,488	348,763
	Other receivables	31,344	50,696
		<u>524,204</u>	<u>428,831</u>
	Cash	1,919,635	3,624,339
	Total current assets	<u>2,443,839</u>	<u>4,053,170</u>
	TOTAL ASSETS	<u><u>32,883,122</u></u>	<u><u>33,942,105</u></u>
	EQUITY AND LIABILITIES		
	Equity		
8	Share capital	92,632	92,632
	Retained earnings	21,229,549	22,311,462
	Total equity	<u>21,322,181</u>	<u>22,404,094</u>
	Provisions		
	Deferred tax	6,296,369	6,726,408
	Total provisions	<u>6,296,369</u>	<u>6,726,408</u>
	Liabilities other than provisions		
9	Non-current liabilities other than provisions		
	Other credit institutions	5,137,269	4,583,765
		<u>5,137,269</u>	<u>4,583,765</u>
	Current liabilities other than provisions		
	Trade payables	90,025	191,874
	Other payables	37,278	35,964
		<u>127,303</u>	<u>227,838</u>
	Total liabilities other than provisions	<u>5,264,572</u>	<u>4,811,603</u>
	TOTAL EQUITY AND LIABILITIES	<u><u>32,883,122</u></u>	<u><u>33,942,105</u></u>

1 Accounting policies

2 Material uncertainties regarding recognition and measurement



Financial statements for the period 1 January - 31 December

Statement of changes in equity

DKK	<u>Share capital</u>	<u>Retained earnings</u>	<u>Total</u>
Equity at 1 January 2015	92,632	22,311,462	22,404,094
Profit/loss for the year	0	-1,081,913	-1,081,913
Equity at 31 December 2015	<u>92,632</u>	<u>21,229,549</u>	<u>21,322,181</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of ARO Medical ApS for 2015 has been prepared in accordance with the provisions applying to reporting class B enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Reporting currency

The financial statements are presented in Danish kroner.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

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

Income statement

Revenue

Revenue is measured at fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, the items 'Revenue', 'Costs of sale', 'Other external expenses' and 'Other operating income' are consolidated into one item designated 'Gross profit/loss'.

Other external expenses

Other external expenses include the year's expenses relating to the entity's core activities, including expenses relating to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Amortisation/depreciation and impairment of intangible assets

The item comprises amortisation/depreciation and impairment of intangible assets.

The basis of amortisation, which is calculated as cost less any residual value, is amortised on a straight-line basis over the expected useful life. The expected useful lives are as follows:

Patents and licenses	16 years
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Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statements at the amounts that concern the financial year. Net financials include interest income and expenses as well as allowances and surcharges under the advance-payment-of-tax scheme, etc.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Balance sheet

Intangible assets

Other intangible assets include development projects and other acquired intangible rights, including software licences, distribution rights and development projects.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement as incurred.

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

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining term of the patent, and licences are amortised over the term of the licence. Consequently, the period of amortisation exceeds five years.

Gains and losses on the sale of intangible assets are recognised in the income statement under 'Other operating income' or 'Other operating expenses', respectively. Gains and losses are calculated by reference to the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Impairment of non-current assets

Intangible assets are subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation. Impairment tests are conducted in respect of individual assets or groups of assets generating separate cash flows when there is indications of impairment. The assets are written down to the higher of the value in use and net realisable value (recoverable amount) of the asset or group of assets if this is lower than the carrying amount.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective indication that a receivable or a group of receivables is impaired. If there is objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are tested for objective indication of impairment on a portfolio basis. The portfolios are primarily composed on the basis of debtors' domicile and credit ratings in accordance with the Company's risk management policy. The objective indicators used for portfolios are determined based on historical loss experience.

Write-downs are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Equity

Proposed dividends

Dividends proposed for the financial year are presented as a separate item under 'Equity'.

Corporation tax

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

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity. Changes in deferred tax due to changes in the tax rate are recognised in the income statement.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan. Financial liabilities also include the capitalised residual liability in respect of finance leases.

Other liabilities are measured at net realisable value.

Financial statements for the period 1 January - 31 December

Notes to the financial statements

2 Material uncertainties regarding recognition and measurement

The Company's most significant assets comprise development project in progress as well as patents and licences. The carrying amount totalled DKK 30,439 thousand at 31 December 2015.

As the Company is still in its development phase in relation to development projects and the use of the patents involved, the valuation thereof is subject to uncertainty as this depends on the future outcome of clinical testing, etc. Based on the present stage of the development project and the clinical tests, etc. performed so far, Management is, however, of the opinion that there is no indication of impairment and that consequently, there is no need for impairment write-down of the intangible assets.

DKK	2015	2014
3 Staff costs		
Wages/salaries	160,500	133,500
Other social security costs	5,462	2,656
Other staff costs	-82,891	-67,750
	<u>83,071</u>	<u>68,406</u>
 Average number of full-time employees	 <u>1</u>	 <u>1</u>
 4 Financial income		
Other financial income	303,224	302,245
	<u>303,224</u>	<u>302,245</u>
 5 Financial expenses		
Other financial expenses	553,782	494,418
	<u>553,782</u>	<u>494,418</u>
 6 Tax for the year		
Estimated tax charge for the year	-463,488	-348,763
Deferred tax adjustments in the year	-741	-124,703
Change in tax rate	-429,300	-286,229
	<u>-893,529</u>	<u>-759,695</u>

Financial statements for the period 1 January - 31 December

Notes to the financial statements

7 Intangible assets

DKK	Patents and licences	Development projects in progress	Total
Cost at 1 January 2015	21,300,000	11,865,858	33,165,858
Additions in the year	0	1,861,117	1,861,117
Cost at 31 December 2015	21,300,000	13,726,975	35,026,975
Impairment losses and amortisation at 1 January 2015	3,276,923	0	3,276,923
Amortisation/depreciation in the year	1,310,769	0	1,310,769
Impairment losses and amortisation at 31 December 2015	4,587,692	0	4,587,692
Carrying amount at 31 December 2015	16,712,308	13,726,975	30,439,283

8 Share capital

The share capital comprises 12,632 A shares and 80,000 Y shares.

Analysis of changes in the share capital over the past 3 years:

DKK	2015	2014	2013
Opening balance	92,632	92,632	80,000
Capital increase	0	0	12,632
	92,632	92,632	92,632

9 Long-term liabilities

DKK	Total debt at 31/12 2015	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other credit institutions	5,137,269	0	5,137,269	0
	5,137,269	0	5,137,269	0