ARO Medical ApS

Viengevej 100, 8240 Risskov

CVR no. 34 62 16 08

Annual report 2018

Approved at the Company's annual general meeting on 26 June 2019

Chairman:

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Contents

Statement by the Board of Directors and the Executive Board

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of ARO Medical ApS for the financial year 1 January - 31 December 2018.

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 financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018.

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, 26 June 2019
Executive Board:

Bruce Harshaw Robie

Board of Directors:

Bruce Harshaw Robie

Michael Patrick McCarthy

Independent auditor's report

To the shareholders of ARO Medical ApS

Opinion

We have audited the financial statements of ARO Medical ApS for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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 rules and requirements.

Material uncertainty related to going concern

We draw attention to the material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Reference is made to note 2 to the financial statements, which states that at present it is uncertain whether the Company’s cash funds suffice for the financing of reduced operations until 31 December 2019. Management assesses that financing will be obtained that will ensure the continued operations until 31 December 2019. We have not modified our opinion in respect of this matter.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of 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 as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

Independent auditor's report

- 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 note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

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

Aarhus, 26 June 2019
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henry Vesterholm
State Authorised Public Accountant
mne10157

Jane Haugaard
State Authorised Public Accountant
mne29379

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
Executive Board	Bruce Harshaw Robie
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25, P.O. Box 330, 8100 Aarhus C, Denmark

Management's review

Business review

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

Unusual matters having affected the financial statements

The Company's intangible assets are recognised at too high amounts in prior financial years, and the financial statements for 2017 do not give a true and fair view. Therefore, the error has been corrected as a material misstatement by restating comparatives and opening equity figures in the current-year financial statements. In consequence of the restatement, amortisation and impairment of intangible assets for 2017 have been adversely affected by DKK 30,549,338 and tax for the year 2017 has been positively affected by DKK 6,012,292. The profit/loss is adversely affected by a total of DKK 24,537,046. Intangible assets at 31 December 2017 have been adversely affected by DKK 30,549,338, provisions for deferred tax at 31 December 2017 have been adversely affected by DKK 6,012,292, and equity at 31 December 2017 has been adversely affected by DKK 24,537,046.

Financial review

The Company's income statement for 2018 showed a loss of DKK 1,677 thousand. The Company's equity totalled DKK -8,655 thousand at 31 December 2018.

There is material uncertainty related to the Company's ability to continue as a going concern as the Company expects to operate at a loss in 2019. The Company’s planned activities are considerably reduced in 2019. The loss is also expected to be reduced in 2019 compared to 2018. Management assesses that financing will be obtained through capital injection or loans from the owners that will ensure the continued operations until 31 December 2019 at a reduced activity level. However, it is materially uncertain, and accordingly there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern, and therefore, the Compay may be unable to realise its assets and discharge its liabilities in the normal course of business. Reference is made to note 2 to the financial statements.

The Company has lost more than half of its share capital at 31 December 2018, and therefore, the Company is subject to the capital provisions in section 119 of the Danish Companies Act.

Events after the balance sheet date

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

Financial statements 1 January - 31 December

Income statement

Note	DKK	2018	2017
	Gross loss	-696,378	-180,222
4	Staff costs	-149,463	-85,425
	Amortisation and impairment of intangible assets	0	-31,860,107
	Profit/loss before net financials	-845,841	-32,125,754
5	Financial income	1,675	0
6	Financial expenses	-813,416	-771,322
	Profit/loss before tax	-1,657,582	-32,897,076
7	Tax for the year	186,085	6,528,794
	Profit/loss for the year	-1,471,497	-26,368,282

	Recommended appropriation of profit/loss		
	Retained earnings/accumulated loss	-1,471,497	-26,368,282
		-1,471,497	-26,368,282

Financial statements 1 January - 31 December

Balance sheet

Note	DKK	2018	2017
	ASSETS		
	Fixed assets		
8	Intangible assets		
	Patents and licences	0	0
	Development projects in progress and prepayments for intangible assets	0	0
		0	0
	Total fixed assets	0	0
	Non-fixed assets		
	Receivables		
	Income taxes receivable	186,085	284,981
	Other receivables	30,522	9,940
		216,607	294,921
	Cash	65,604	514,560
	Total non-fixed assets	282,211	809,481
	TOTAL ASSETS	282,211	809,481
	EQUITY AND LIABILITIES		
	Equity		
9	Share capital	92,632	92,632
	Reserve for development costs	0	0
	Retained earnings	-8,542,364	-7,070,867
	Total equity	-8,449,732	-6,978,235
	Liabilities other than provisions		
10	Non-current liabilities other than provisions		
	Other credit institutions	7,229,140	6,451,507
		7,229,140	6,451,507
	Current liabilities other than provisions		
	Trade payables	57,387	317,443
	Payables to group entities	950,898	759,275
	Other payables	494,518	259,491
		1,502,803	1,336,209
	Total liabilities other than provisions	8,731,943	7,787,716
	TOTAL EQUITY AND LIABILITIES	282,211	809,481

1 Accounting policies
2 Going concern uncertainties
3 Special items

Financial statements 1 January - 31 December

Statement of changes in equity

DKK	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2018	92,632	2,130,643	15,335,537	17,558,812
Correction of material misstatement	0	-2,130,643	-22,406,404	-24,537,047
Adjusted equity at 1 January 2018	92,632	0	-7,070,867	-6,978,235
Transfer through appropriation of loss	0	0	-1,471,497	-1,471,497
Equity at 31 December 2018	92,632	0	-8,542,364	-8,449,732

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of ARO Medical ApS for 2018 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities and elective choice of certain provisions applying to reporting class C entities.

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

Material misstatements

The Company's intangible assets are recognised at too high amounts in prior financial years, and the financial statements for 2017 do not give a true and fair view. Therefore, the error has been corrected as a material misstatement by restating comparatives and opening equity figures in the current-year financial statements. In consequence of the restatement, amortisation and impairment of intangible assets for 2017 have been adversely affected by DKK 30,549,338 and tax for the year 2017 has been positively affected by DKK 6,012,292. The profit/loss is adversely affected by a total of DKK 24,537,046. Intangible assets at 31 December 2017 have been adversely affected by DKK 30,549,338, provisions for deferred tax at 31 December 2017 have been adversely affected by DKK 6,012,292, and equity at 31 December 2017 has been adversely affected by DKK 24,537,046. Reference is also made to the comments in the Management's review.

Reporting currency

The financial statements are presented in Danish kroner (DKK).

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and 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 rate at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the most recent financial statements is recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

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

Gross loss

The items revenue and external expenses have been aggregated into one item in the income statement called gross loss in accordance with section 32 of the Danish Financial Statements Act.

Other external expenses

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

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Staff costs

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

Depreciation

The item comprises amortisation of patens and licenses.

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 of the assets are as follows:

Patents and licenses	16 years

Financial income and expenses

Financial income and expenses are recognised in the income statement 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 areidentifiable 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.

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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 as the difference between the selling price less selling expenses and the carrying amount at the time of sale.

Impairment of fixed 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.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Imparment losses on goodwill are not reversed.

Receivables

Receivables are measured at amortised cost.

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

Receivables in respect of which there is no objective evidence of individual impairment are tested for objective evidence of impairment on a portfolio basis. The portfolios are primarily based on the debtors' domicile and credit ratings in line with the Company's risk management policy. The objective evidence applied to portfolios is determined based on historical loss experience.

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

Equity

Reserve for development costs

The reserve for development costs comprises recognised development costs incurred after 1 January 2016. The reserve cannot be used to distribute dividends or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Proposed dividends

Dividend proposed for the year is recognised as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

Financial statements 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Income taxes

Current tax payables and receivables are recognised in the balance sheet as the estimated income tax charge for the year, adjusted for prior-year taxes and tax paid on account.

Deferred tax is measured according to the liability method on all temporary differences between the carrying amount and the tax base 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. On subsequent recognition, 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 lease liability in respect of finance leases.

Other liabilities are measured at net realisable value.

2 Going concern uncertainties

There is material uncertainty related to the Company's ability to continue as a going concern as the Company expects to operate at a loss in 2019. The Company's planned activities are considerably reduced in 2019. The loss is also expected to be reduced in 2019 compared to 2018. Management assesses that financing will be obtained through capital injection or loans from the owners that will ensure the continued operations until 31 December 2019 at a reduced activity level. However, it is materially uncertain, and accordingly there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern, and therefore, the Compay may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Company has lost more than half of its share capital at 31 December 2018, and therefore, the Company is subject to the capital provisions in section 119 of the Danish Companies Act.

Financial statements 1 January - 31 December

Notes to the financial statements

3 Special items

Special items comprise significant income and expenses of a special nature relative to the Company's revenue-generating operating activities. Special items also comprise significant one-off items.

As disclosed in the Management's review, the profit/loss for the year is affected by impairment losses of intangible assets. As Management does not consider this matter part of the operating activities, it has been included in this note.

Special items for the year are specified below just as are the items under which they are recognised in the income statement.

DKK	2018	2017
Expenses		
Impairment of intangible assets	0	-30,549,338
	0	-30,549,338
Special items are recognised in the below items of the financial statements		
	0	-30,549,338
Net profit/loss on special items	0	-30,549,338

4 Staff costs

	2018	2017
Wages/salaries	144,064	165,664
Other social security costs	5,159	5,001
Other staff costs	240	-85,240
	149,463	85,425
Average number of full-time employees	1	1

5 Financial income

	2018	2017
Other financial income	1,675	0
	1,675	0

6 Financial expenses

	2018	2017
Interest expenses, group entities	32,543	23,068
Other financial expenses	780,873	748,254
	813,416	771,322

7 Tax for the year

	2018	2017
Estimated tax charge for the year	-186,085	-284,981
Deferred tax adjustments in the year	0	-6,243,813
	-186,085	-6,528,794

Financial statements 1 January - 31 December

Notes to the financial statements

8 Intangible assets

DKK	Patents and licences	Development projects in progress and prepayments for intangible assets	Total
Cost at 1 January 2018	21,300,000	16,458,568	37,758,568
Cost at 31 December 2018	21,300,000	16,458,568	37,758,568
Impairment losses and amortisation at 1 January 2018	21,300,000	16,458,568	37,758,568
Impairment losses and amortisation at 31 December 2018	21,300,000	16,458,568	37,758,568
Carrying amount at 31 December 2018	0	0	0

9 Share capital

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

The Company's share capital has remained DKK 92,632 in the past 5 years.

10 Non-current liabilities other than provisions

DKK	Total debt at 31/12 2018	Repayment, next year	Long-term portion	Outstanding debt after 5 years
Other credit institutions	7,229,140	0	7,229,140	0
	7,229,140	0	7,229,140	0