



CONDENSED CARVE-OUT FINANCIAL STATEMENTS

FIRST HALF YEAR 2019

Condensed carve-out statement of comprehensive income

<i>Amounts in NOK</i>	2019	2018
	1 January - 30 June	
Revenue	60 433	51 122
Revenue	60 433	51 122
Cost of materials	544 733	18 583
Payroll expenses	2 464 175	1 979 383
Other operating expenses	2 558 076	2 678 385
Operating result before depreciation and impairment (EBITDA)	-5 506 551	-4 625 228
Depreciation and amortization	2 138 967	1 896 003
Operating result (EBIT)	-7 645 518	-6 521 232
Net currency gains/losses	576 463	722 775
Change in contingent consideration (+ income / - cost)	-1 114 004	-2 148 000
Financial expenses	293 315	121
Net finance	-830 856	-1 425 346
Result before tax	-8 476 374	-7 946 577
Net result for the year	-8 476 374	-7 946 577
Other comprehensive income that may be reclassified subsequently to profit or loss		
Translation differences	-2 135 287	-4 716 991
Total comprehensive income	-10 611 661	-12 663 569
Net result for the year is allocated to:		
Shareholders in the parent company	-8 476 374	-7 946 577
	-8 476 374	-7 946 577
Total comprehensive income is allocated to:		
Shareholders in the parent company	-10 611 661	-12 663 569
	-10 611 661	-12 663 569
Earnings per share (NOK per share)	-0.71	-0.67

Condensed carve-out balance sheet

Amounts in NOK

	30.06.2019	30.06.2018
ASSETS		
Intangible assets	21 317 436	22 586 802
Total intangible assets	21 317 436	22 586 802
Operating equipment, fixtures, office machines, etc.	48 217	484 023
Lease assets	360 991	
Total tangible assets	409 208	484 023
Goodwill	29 482 117	29 231 534
Total other non current assets	29 482 117	29 231 534
Total fixed assets	51 208 762	52 302 359
Current assets		
Inventories	1 142 147	1 308 268
Trade receivables and other receivables	288 784	460 989
Receivables on Navamedic group	0	6 618 339
Prepaid tax	72 962	6 555
Bank deposits	632 104	1 077 795
Total current assets	2 135 997	9 471 947
Total assets	53 344 759	61 774 305

Amounts in NOK

	30.06.2019	30.06.2018
Total equity	6 202 858	4 344 851
LIABILITIES		
Non-current liabilities		
Contingent consideration	13 291 004	28 334 000
Non-current lease liabilities	365 006	
Total non-current liabilities	13 656 010	28 334 000
Current liabilities		
Trade account payables	725 924	1 202 166
Loans from Navamedic group	30 613 025	25 612 073
Payables to Navamedic group	1 043 555	1 303 577
Other current liabilities	1 103 386	977 638
Total current liabilities	33 485 891	29 095 454
Total liabilities	47 141 901	57 429 454
Total equity and liabilities	53 344 759	61 774 305

Oslo, 1 October 2019

The Board of Directors and CEO of Navamedic ASA



Terje Bakken (sign.)
Chair of the Board



Jostein Davidsen (sign.)
Board Member



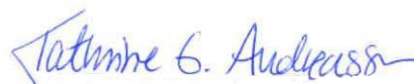
Inger Johanne Solhaug (sign.)
Board Member



Narve Reiten (sign.)
Board Member



Cheng Lu (sign.)
Board Member



Kathrine Gamborg Andreassen (sign.)
CEO

Condensed carve-out cash flow statement

Amounts in NOK

	01.01-30.06.19	01.01-30.06.18
Cash flow from operating activities		
Result before tax	-8 476 374	-7 946 577
Depreciation and impairment	2 042 016	1 896 003
Lease asset depreciation	96 951	0
Change FV contingent consideration with no cash effect	1 114 004	2 148 000
Change in inventories	1 257 076	122 742
Change in trade receivables and other receivables	790 547	-88 438
Change trade account payables and other current liabilities	-1 914 254	953 820
Changes in other current items	-11 117	-1 123 148
Net cash flow from operating activities	-5 101 152	-4 037 598
Cash flow from investing activities		
Purchase / disposal of tangible and intangible assets	-1 035 883	-865 163
Net cash flow used for investing activities	-1 035 883	-865 163
Cash flow from financing activities		
Change in net interest bearing debt to Navamedic	5 580 598	-2 095 067
Equity contribution	-	5 614 400
Payments of lease liabilities	-92 087	0
Net cash flow used for financing activities	5 488 511	3 519 333
Exchange rate fluctuations	659 483	402 282
Changes in cash	10 960	-981 144
Bank deposits as at 1 January	621 144	2 058 940
Bank deposits end of period	632 104	1 077 795

Condensed carve-out statement of changes in equity

Amounts in NOK

	Equity		
	Contributed equity and retained earnings	Translation differences	Total
Equity as at 1 January 2018	9 031 711	2 362 308	11 394 019
Contributed equity (group contribution)	5 614 400	0	5 614 400
Net result for the period	-7 946 577	0	-7 946 577
Translation differences	0	-4 716 991	-4 716 991
Equity as at 30 June 2018	6 699 534	-2 354 683	4 344 851
Equity as at 1 January 2019	16 919 764	-96 912	16 822 852
Contributed equity (group contribution)	0	0	0
Net result for the period	-8 476 374	0	-8 476 374
Translation differences	0	-2 143 619	-2 143 619
Equity as at 30 June 2019	8 443 390	-2 240 531	6 202 858

Notes to the condensed carve-out interim financial statements

General information

Observe Medical ASA is a Norwegian limited liability company incorporated on 13 June 2019 to own and manage the Observe Medical business previously owned by Navamedic ASA. For further details, reference is made to note 1 to the Observe Medical group full-year carve-out financial statements 2016-2018 presented in this prospectus in relation to listing of Observe Medical ASA (OM ASA).

1. Basis of preparation

The basis for preparation of these carve-out interim financial statements are described in note 2 to the Observe Medical group full-year carve-out financial statements 2016-2018 presented in this prospectus. The same basis and accounting principles have been used for these interim financial statements.

These condensed carve-out interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU, except as described below.

IFRS 10 requires the parent company, OM ASA, to control its subsidiaries at the balance sheet date in order to prepare consolidated financial statements. OM ASA will not obtain such control until the demerger and merger is completed in connection with the listing, which is expected in the fourth quarter of 2019. IFRS 10 has therefore not been applied for the carve-out interim financial statements.

These carve-out interim financial statements are condensed and do not include all of the information and footnotes required by IFRS for a complete set of financial statements. These condensed carve-out interim financial statements should be read in conjunction with the Observe Medical group full-year carve-out financial statements 2016-2018 presented in this prospectus. The accounting policies used are consistent with those used in the full-year carve-out financial statements, except as described below for IFRS 16.

These condensed carve-out interim financial statements have not been subject to an audit, but has been subject review procedures in accordance with International Standard on Review Engagements (ISRE 2400) by KPMG as independent auditor. Navamedic's Board of Directors and CEO approved these condensed carve-out interim financial statements on 1 of October 2019.

The functional currencies of the operating companies in the Observe Medical group are SEK and DKK. The presentation currency for these condensed carve-out financial statements is NOK. In the absence of any statement to the contrary, all financial information is reported in NOK.

2. Change in accounting policies

IFRS 16

The group has implemented IFRS 16 on 1 January 2019 without adjusting the comparative figures. The group has used the simplification to recognize the right-of-use assets equivalent to lease liabilities and therefore there are not any impact on equity upon implementation on 1 January 2019. At 31 December 2018, the group had lease contracts for three cars, with total annual lease payments of approximately NOK 220 thousand and remaining lease periods of 2 to 2.5 years. Employees of the group is currently co-located with Navamedic AB. Navamedic AB charges the group for the office space used, but there is no legal contract between Navamedic AB and the group, and the group has evaluated that this does not represent a lease contract that needs to be recognized at 1 January 2019. The annualized rent amount for 2019 is less than NOK 100 thousand.

On implementation, the group recognized lease liabilities and right of use assets of NOK 483 thousand at 1 January 2019. In the first half year 2019, the effect of IFRS 16 was an increase in EBITDA of NOK 101 218, increased depreciation of NOK 96 951 and increased interest expenses of NOK 9 131. Comparable figures have not been restated.

3. Financial risk factors, liquidity risk and going concern risk

See notes 3, 10 and 11 to Observe Medical group full-year carve-out financial statements 2016-2018 for description of financial risk factors and risk management, liquidity risk and contingent consideration.

Per 30.06.2019 Observe Medical ASA's funding is based on loan from Navamedic Group. NOK 30.7 million is interest bearing loan and NOK 1 million is trade payable.

Liquidity and going concern

The group has subsequent to the acquisition by Navamedic in 2015 been dependent on loans and group contributions from the Navamedic group to finance its further development and operations.

The group has had no long-term financing. The contingent consideration is payable only if the group realises substantial future revenues from the sale of Sippi® products. Such revenues is expected to give good headroom to pay out the contingent consideration. The group would not be able to redeem the debt to the Navamedic group, should Navamedic group require redemption. The group is dependent on longer term financing in form of debt and/or equity, to be able to finance its operations until it generates sufficient cash flow from operations. The group expects to reduce its liquidity risk in connection with the expected listing of its shares in the fourth quarter of 2019.

The company has entered into an agreement with Navamedic ASA of a loan arrangement to refinance existing loan and ensure finance to support operations and development going forward. With this funding, management believes the company will be able to carry out planned operations and development for the next 12 months without any further need for additional financing. With weaker or delayed revenue growth than planned during the next 12 months, the group can continuously adjust the variable costs to avoid further financing needs.

In connection with entered into the new loan agreement, Navamedic ASA will also convert NOK 16 million of existing interest bearing debt to equity in OM ASA.

See note 8 for further description of the loan agreement and the debt conversion.

For further information about going concern and loan agreement, see note 1 and 18 in the carve-out financial statements 2016-2018.

Variable interest rate risk

The group is exposed to variable interest rate risk on its interest bearing liabilities to the Navamedic group and on its bank deposits. The group has not hedged its interest rate exposure. Net interest-bearing liabilities less bank deposits amounted to NOK 31 million as at 30 June 2019. A 0.5% rise in interest rates for the net interest-bearing liabilities at 30 June 2019 would increase annual interest expenses by NOK 0.16 million.

4. Earnings per share

Observe Medical ASA will be the parent of the OM group on completion of the demerger from Navamedic ASA. The demerger is conditional on listing of the shares in Observe Medical ASA. Observe Medical ASA and the group had no shares outstanding in the periods presented. Observe Medical ASA was established with a share capital of NOK 1 million and 1 000 000 shares on 13 June 2019. On completion of the demerger and prior to any further capital increase (in form of conversion of debt or issuance of shares for cash), the share capital of Observe Medical ASA will be NOK 3 085 595 with 11 867 673 shares, each with a nominal value of NOK 0.26. Earnings per share has been presented as if these shares were outstanding for all periods presented.

5. Inventories

	30.06.2019	30.06.2018
Goods for resale	1 649 683	1 308 268
Write-down	-507 536	
Total	1 142 147	1 308 268

Write-down for the first half year 2019, and at 30.06.2019 relates to disposable units that had short remaining shelf-life left at 30 June 2019.

6. Related parties

(amounts in NOK)	01.01.-30.06.19	01.01.-30.06.18
Revenues		
Expenses	1 290 482	487 971
Finance expenses	257 986	0
Group contributions received	0	5 614 400
Liabilities	31 656 581	26 915 651

Expenses is primarily management fee (to cover costs and activities as finance and management support) and rent of office space.

7. Share options

Navamedic ASA has employee share option programs. The holders of employee share options at the date of the demerger and merger into Observe Medical ASA are expected to receive the same number of share options in Observe Medical ASA as they have in Navamedic ASA. The strike price per Navamedic share, will be reduced by 26%, and the strike price for shares in Observe Medical ASA will be the same 26%. 26% is the fraction that was used in the demerger plan signed 19 June 2019, which was based on the estimated relative fair values of Navamedic ASA and Observe Medical ASA at that point in time.

Of the 2018 option program, 22,500 options were forfeited in the second quarter 2019, leaving 67,500 options outstanding at 30 June 2019.

During the second quarter 2019, a total of 400,000 new options were granted, divided into 275,000 Series A options and 125,000 Series B options. Each option, when exercised, will give the right to acquire one Navamedic ASA share. The options are granted without consideration. The exercise price was set to NOK 12 per share. Shares received from exercised options are subject to a lock-up period of 12 months for the Series A and 24 months for the Series B options. The lock-up obligations shall not prevent the option holders from selling an amount of the option shares necessary to finance the exercise price, as well as the tax payable as a consequence of the exercise of options.

For the Series A options, 1/3 of the options will vest every 12 months after the day of grant (as long as the option holder is still employed). However, all of the options shall be regarded as vested in the event that the value of the shares in the Company, on a volume-weighted basis, has been traded on the stock exchange or another regulated marketplace at a price equal to minimum NOK 24 for ten consecutive trading days. Options that have not been exercised will lapse 3,5 years after grant date.

For the Series B options, 100% of the options vested on the day of grant. Options that have not been exercised will lapse 31 March 2020.

The estimated fair value at grant date was in total NOK 1.4 million of the Series A options and NOK 0.3 million for the Series B options.

During a period in July and August, the volume-weighted share price has exceeded NOK 24 for ten consecutive trading days, which implies that also all the Series A options has vested in the third quarter of 2019.

The strike price for the 2019 program was NOK 12 per Navamedic share, and will be reduced by 26%, and the strike price for shares in Observe Medical ASA will be the same 26% (NOK 3.12 per Observe Medical ASA share). The total estimated fair value of the Series B options, and NOK 0.1 million of the Series A options was recognized as an expense by Navamedic group in the first half year of 2019, in total NOK 0.4 million. Including the 2018 share options, Navamedic group expensed NOK 0.459 million in the first half year 2019. In addition, estimated social security tax is also expensed over the estimated vesting periods. No carve-out adjustments have been made in these condensed carve-out interim financial statements related to the employee share options.

8. Significant events subsequent to the end of the reporting period

Estimates made for the preparation of this interim financial statement is consistent with estimates made for the same dates in accordance with the preparation of the annual financial statements for Navamedic group, of which the group was a part for the periods presented. The only exception is related to non-recognition of net deferred tax assets when presenting the group separate from the Navamedic group.

Any information after the balance sheet date about estimates that Navamedic had made in relation to the assets and liabilities of the group are treated in the same way as non-adjusting events after the reporting period in accordance with IAS 10 Events after the Reporting Period. Management is however not aware of any such new information.

The information in this note covers events after 30 June 2019.

Demerger from Navamedic

The Company was incorporated as part of Navamedic's reorganisation of its business in order for it to spin-off its medtech division in a separate business group.

On 19 June 2019, the board of directors of Navamedic ASA and the company signed a joint demerger plan (the "Demerger Plan"), pursuant to which all of Navamedic's shares in OMI are to be transferred to the company together with an earn-out obligation (a contingent consideration) to the sellers of OMI related to Navamedic's acquisition of OMI in 2015 (the "Contingent Consideration"), while all other assets, rights and liabilities are to remain with Navamedic. The Demerger plan was approved by the general meetings of Navamedic and the Company on 5 August 2019.

Listing on Oslo Axess

The Company is in process to apply for a listing of its share on Oslo Axess and the Company expects to submit its listing application on 2 October 2019 with expected first day of trading in the beginning of November 2019.

Loan agreement

On 1 of October 2019, Observe Medical ASA, as the borrower, entered into a subordinated convertible bond loan agreement with Navamedic, as the lender, for a loan of an aggregate amount estimated to be around NOK 32,000,000 (the "Bond Loan").

The Bond Loan consists of the two following facilities:

- A subordinated convertible term loan facility for the amount of outstanding loans and payables to Navamedic Group, reduced by the NOK 16 million that was on October 1, 2019 converted to equity shares in Observe Medical ASA, in the amount of NOK 19,000,000 (the "Facility A"); and
- A subordinated convertible term loan facility in the amount of NOK 13,000,000 (the "Liquidity Facility").

The facilities given under the Bond Loan constitute direct, unsecured and fully subordinated obligations of the Company, and rank at least *pari passu* with all other existing and future unsecured and subordinated obligations of the Company, other than in respect of any obligations preferred by mandatory provisions of applicable law, and rank ahead of all amounts payable in respect of the share capital of the Company.

The Facility A was made available to the Company on 1 October 2019, while the Liquidity Facility is divided into four equal loans, each for an amount of no more than NOK 3,250,000. The Company is entitled to draw down on the Liquidity Facility as per 1 November 2019, 1 February 2020, 1 May 2020 and 1 August 2020. The first draw down on the Liquidity Facility for an amount of NOK 3,250,000 will be done on 1 November 2019.

Each loan facility given under the Bond Loan accrue interest at a fixed interest rate of 8.00% per annum. Accrued interest shall on the last day of the three months' interest period be capitalised and added to the aggregate principal amount of the loans outstanding under the Bond Loan.

The Company shall 36 months after 1 October 2019 repay to Navamedic ASA the aggregate amount of each loan then outstanding together with all accrued but unpaid interest. The Company may at any time prepay any loan outstanding in part or in full. Any amount repaid or prepaid may not be re-borrowed.

Navamedic ASA has the right to, following the date falling 12 months after the date of the Bond Loan, request that all, but not parts of, the loans outstanding are converted into Shares (the "Conversion Right"). Following the disbursement of a written notice to the Company informing about the exercise of the Conversion Right, the Company has the optionality to either (i) accept the Conversion Right or (ii) reject such Conversion Right by settling the loans in full in cash or settling parts of any loans in cash and the remainder through conversion. The Company has in the two months' period the right to take all actions necessary to obtain sufficient funding, either by debt capital transactions or equity capital transactions or otherwise at its sole discretion, for the purpose of enabling the Company to repay the loans.

The subscription price in such a conversion shall be equal to the volume weighted average share price of the company shares on the Oslo Axess or any other exchange having replaced Oslo Axess as the market place for the Shares at the time of the conversion for the last ten days prior to the conversion date, but in no event be

less than the nominal value of each share.

The Conversion Right cannot be separated from the loan facility under the Bond Loan.

Debt conversion

On 1 of October 2019, the extraordinary general meeting of the Company resolved the issuance of 3,200,000 shares to Navamedic ASA. The share contribution was settled by contribution in kind by Navamedic ASA setting-off a loan it had to the Company in the amount of NOK 16,000,000. The subscription price per share in the transaction is to be settled at NOK 5.00 (the "Debt Conversion"). The debt conversion will be completed upon completion of the demerger and Navamedic will after the completion own approximately 21% of the total number of shares.

Share option

The holders of employee share options at the date of the demerger and merger into OM ASA are expected to receive the same number of share options in OM ASA as they have in Navamedic ASA contingent upon the completion of the demerger.

On the completion of the demerger, the 467,500 share options issued under Navamedic's long-term incentive program (400,000 options) and other share option programs (67,500 options) is expected to be "mirrored" and split so that these options are transferred to the Company, resulting in the Company having 467,500 share options issued at the time of Listing.

The exercise price for the options will reflect the exchange ratio in the demerger, so that the exercise price of the options in OM ASA will be 26% of the initial exercise price of the options in Navamedic ASA. Each option will give the holder the right to subscribe for one Share. Refer to note 7 for more description of the share options.



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To the Board of Directors of Observe Medical ASA

Report on Review of Interim Financial Information

Introduction

We have reviewed the accompanying condensed consolidated carve-out balance sheet of Observe Medical ASA as at 30 June 2019, the condensed consolidated carve-out statement of comprehensive income, the condensed consolidated carve-out statement of changes in equity and the condensed consolidated carve-out cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes to the interim financial information. Management is responsible for the preparation and fair presentation of this interim financial information in accordance with IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISAs), and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at 30 June 2019 does not present fairly, in all material respects, the financial position of the entity as at 30 June 2019, and its financial performance and its cash flows for the six-month period then ended in accordance with IAS 34 Interim Financial Reporting.

Oslo, 1 October 2019
KPMG AS

John Thomas Sørhaug
State Authorised Public Accountant

Offices in:

Oslo	Elverum	Mo i Rana	Stord
Alta	Finnsnes	Molde	Straume
Arendal	Hamar	Skien	Tromsø
Bergen	Haugesund	Sandefjord	Trondheim
Bodø	Knarvik	Sandnessjøen	Tynset
Drammen	Kristiansand	Stavanger	Ålesund