



Interim report Q2 and first half year 2020

Observe Medical ASA



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Highlights

Significant market volume and value growth expected

Observe Medical driven research confirms current global market potential for Sippi® and indicates 20-30% market volume growth and +100% global market value growth accelerated by Covid-19 outbreak.

Strengthened financial position through rights issue

Rights issue of NOK 45 million completed in July strengthening the Group's financial position to accelerate go-to market strategy and execution, clinical and health-economic evidence program, commercially focused R&D and further business development.

Updated distributor agreement for Sippi® launch in Italy

Updated distribution agreement and strengthened partnership with SIM Italia S.r.l. signed in August for launch and distribution of Sippi® in the Italian market.

Strengthened scientific evidence of clinical benefits of Sippi®

The article "Making medical devices safer - impact of plastic and silicon oil on microbial biofilm formation" was recently published in the Journal of Hospital Infection, demonstrating that silicone oil (patented Sippcoat® technology used in Sippi®) significantly reduces biofilm formation, a risk factor for patient infection, from a series of bacteria, including several multi-resistant strains and from fungi.

Key figures ¹⁾

- Observe Medical had in the second quarter no operating revenues (TNOK 33). The gross result in the quarter was negative TNOK 62 (negative TNOK 473), and the improvement is mainly related to decreased cost of materials due to write-downs of inventories in the second quarter of 2019. In the first half year of 2020, Observe Medical had operating revenues of TNOK 32 (TNOK 60) and a gross result of negative TNOK 89 (negative TNOK 484), the change compared to the same period last year is mainly due to write-downs of inventories in the first half of 2019.
- In the second quarter EBIT was negative TNOK 7,073 (negative TNOK 3,861), due to increased employee benefit expenses and increased other operating expenses related to higher expenses as a standalone listed company. EBIT in the first half of 2020 was negative TNOK 12,262 (negative TNOK 7,646).
- Net finance in the second quarter was negative TNOK 3,070 (negative TNOK 524), due to currency loss and increased interest on interest bearing debt in the quarter. Net finance in the first half of 2020 was positive TNOK 1,695 (negative TNOK 831) related to currency gain that more than offset increased interest on interest bearing debt.
- Result for the second quarter was negative TNOK 10,143 (negative TNOK 4,386) and for the first half year of 2020 it was negative TNOK 10,567 (negative TNOK 8,476).
- Earnings per share in second quarter 2020 was negative NOK 0.66 (negative NOK 0.47), for the first half year of 2020 it was negative NOK 0.69 (negative NOK 0.71).
- At 30 June 2020, Observe Medical had an equity ratio of 9.6% (11.6%) and the equity was TNOK 5,899 (TNOK 6,203).

¹⁾ Figures in brackets = same period prior year.

Amounts in TNOK (excl. earnings per share)	Q2 2020	Q2 2019	H1 2020	H1 2019	FY 2019
Operating revenues	0	33	32	60	177
Gross result	-62	-473	-89	-484	-460
Operating expenses	6 193	2 292	10 576	5 022	11 041
EBITDA	-6 255	-2 766	-10 665	-5 507	-11 501
EBIT	-7 073	-3 861	-12 262	-7 646	-15 787
Net finance	-3 070	-524	1 695	-831	-1 131
Result before tax	-10 143	-4 386	-10 567	-8 476	-16 917
Result	-10 143	-4 386	-10 567	-8 476	-16 917
Earnings per share (NOK per share)	-0.66	-0.47	-0.69	-0.71	-1.36
Total balance	61 360	53 345	61 360	53 345	55 333
Equity	5 899	6 203	5 899	6 203	14 542
Equity ratio	9.6 %	11.6 %	9.6 %	11.6 %	26.3 %
Net interest bearing deb1)	49 110	43 637	49 110	43 637	37 404
Number of employees	7	5	7	5	8

Letter from the CEO

During the first half of 2020 we have all been brutally reminded of the importance of a well-functioning health care system with sufficient capacity, and we, Observe Medical, feel strongly for all those being infected by Covid-19, their families and the health workers who are in the front line in the fight against the virus.

In Observe Medical we are committed to provide *medtech that matters*, and this feels more motivating now than ever. We have spent significant resources during 2020 on strengthening our organization, improving our distribution network, reinforcing our financial resources, which has made us fit for and ready to take advantage of the vast market opportunity for our first product, Sippi®.

During the second quarter of 2020 we continued to drive our ambition of growth for Observe Medical by leveraging our expertise in commercialization of medical technology products in combination with industrial and financial resources and competence. Our first product, Sippi®, is a unique and proprietary solution, which may improve clinical outcome with lower infection rate and improved quality of patient data, as well as enhanced efficacy of care, enabled by automatizing the last manual process of a modern intensive care unit: urine monitoring.

A prioritized task for Management has been to revisit the market potential estimates for Sippi®, and our own market studies confirms the significant opportunity for the Sippi® system. We believe the market is further accelerated by the Covid-19 outbreak, and after receiving strong support from our shareholders in connection with raising NOK 45 million in a rights issue, we are ready to move ahead with the execution of our go-to-market-strategy, with full speed and force.

Our near-term key markets are the Nordics and Europe. Currently, we are recruiting further sales resources for the Nordics, and establishing strengthened relation to distribution partners in other European markets. Subsequent to a July visit to our distributor in Italy we signed an updated distributor agreement and have strengthened our partnership, a foundation for success in a significant market, which has been under severe pressure during the Covid-19 outbreak.

We are also pleased that the Sippi® systems sold to a Hospital in Austria, is now installed.

At the same time, we continue to develop the Sippi® solution. Simplifying the connectivity to the hospital PDMS system of Sippi®, adapted to the requirements in various markets and individual hospitals will help to speed up the commercialization.

In parallel, we focus on establishing further scientific evidence of the positive clinical effects with Sippi®.

A newly published scientific article “Making medical devices safer - impact of plastic and silicon oil on microbial biofilm formation” in the Journal of Hospital Infection, demonstrates that silicone oil (patented Sippcoat® technology used in Sippi®) significantly reduces biofilm formation, - a risk factor for patient infection.

This is fully in line with the mission of Observe Medical, to improve the clinical outcome for patients and enable a more efficient care system, by improved urine monitoring with the Sippi® system - a clinical need further highlighted by the current Covid-19 situation.

Finally, I would like to take the opportunity to thank all our shareholders for your trust and commitment. Let’s continue the Observe Medical journey together - as one strong team!

A handwritten signature in blue ink, appearing to read "Björn Larsson".

Björn Larsson
CEO



Operational Development

Observe Medical has continued the execution of its strategy, building the company as a medtech platform for global growth. The key focus area during the first half of 2020 has been to strengthen the basis for launching Sippi® in Europe, including securing additional financial resources for further acceleration. The company has during the first half year 2020 established systems and infrastructure to support efficient operations as a standalone listed company.

The first half of the year has been characterized by the Covid-19 outbreak. Despite a slowdown in sales activities and customer development projects, the company operations have not been significantly affected.

Market volume and value growth

Observe Medical driven research confirms current global market potential for Sippi® and indicates 20-30% market volume growth and at least 100% global market value growth, accelerated by Covid-19 outbreak.

The current global market potential is estimated to approx. 500,000 Sippi® base units and more than 30 million Sippi® disposable units per year. This is based on the current situation with approx. 400,000 ICU beds and 24 million patients admitted to ICUs annually.

The volume growth is driven by an expected increase in the number of ICU beds and annual patient admissions of 10-15%, as well as an expected increase of contingency capacity and expansion into intermediary wards, triggering a need for similar automation devices.

The market value growth is driven by needs for infection control for patients in long-term hospitalization, automation due to shortage of staff in ICUs, digital patient data monitoring to avoid human errors and remote patient monitoring to reduce staff exposure to infections.

Europe provide a specifically attractive opportunity for Sippi® to focus on in the near-term- with Nordics being Sippi® home market, our good knowledge and connections in the European markets and governments expected to be strongly supporting investments in automation and digitalization within ICUs.

Strengthened financial position

During the second quarter, the company carried out a Rights issue of NOK 45 million, further strengthening the Group's financial position to accelerate go-to market strategy and execution, clinical and health-economic evidence program, commercially focused R&D and further business development. The Rights issue was oversubscribed and successfully allocated in July, with the company receiving strong support from existing shareholders.

Building commercial organization and European distribution network

During the first half of the year, the company has been working on strengthening the commercial organization and is currently recruiting global marketing and product development roles, as well as direct sales staff for the Nordics.

The company is further expanding the distributor network in Europe. Screening, evaluating, and selecting distribution partners is an ongoing process. As a result, an updated and strengthened distribution agreement was signed in August with SIM Italia S.r.l. for launch and distribution of Sippi® in the Italian market. This agreement and partnership include extensive collaboration with short- and long-term initiatives in order to drive the launch and the long-term success of Sippi® in Italy.

Strengthened scientific evidence of clinical benefits with Sippi®

Observe Medical is building a clinical and health-economic evidence program in order to further strengthening the value proposition of Sippi®. The program is developed with inputs from by the Advisory Board, which was established in the first quarter of 2020.

During August, the results of an independent study was published in the Journal of Hospital Infection. The article "Making medical devices safer - impact of plastic and silicon oil on microbial biofilm formation" demonstrates that silicone oil (patented Sippcoat® technology used in Sippi®) significantly reduces biofilm formation, a risk factor for patient infection, from a series of bacteria, including several multi-resistant strains and from fungi.

Customer-focused product improvements

Observe Medical is continuously improving its solutions and product experience, driven by insights from healthcare providers and key stakeholders. As an example, the company continues to develop and simplify the connectivity of Sippi® in order to meet the specific requirements in different markets and individual hospitals. SippBridge® is a solution currently in development, which will facilitate Sippi® connectivity for customers with so-called "thin clients", e.g. Citrix solutions.

Financial Development

Observe Medical's second quarter and first half of 2020 reflects that the company is in a launch phase of Sippi® with strong focus on commercial activities and business development. This effort entails a higher level of operating expenses both in employee benefit expenses, mainly due to increased headcount, and other operating expenses. The financial statement for both second quarter and first half are also strongly affected by currency fluctuation between the reporting currency NOK, and local currency in the Company's subsidiaries in Sweden (SEK) and Denmark (DKK).

Group results second quarter 2020

The Group had **operating revenues** at NOK 0, compared to NOK 33,140 in the same quarter last year. **Gross result** in the quarter was negative NOK 61,945, compared to negative NOK 473,458 in the second quarter of 2019. In the second quarter of 2019, the company had a write-down of inventories amounting to NOK 507,536 related to disposable units that had short remaining shelf-life left at 30 June 2019.

Total **operating expenses** in the quarter was NOK 6,193,253, compared to NOK 2,293,353 in the same quarter last year. Higher employee benefit expenses are mainly related to increased headcount and that the Company has an independent paid Board of Directors from 1 July 2019. Increased other operating expenses were driven by higher operating cost as a standalone listed company with offices both in Gothenburg and Oslo.

EBITDA in the second quarter was negative NOK 6,255,198 compared to negative NOK 2,765,811 in the corresponding period in 2019.

Depreciation and amortization have decreased from NOK 1,095,612 in the second quarter of 2019 to NOK 818,297 in the second quarter of 2020. The decrease is mainly related to the review of estimated useful lives at 31 December 2019, which concluded that estimated remaining useful lives are 10 years from 1 January 2020. In connection with the acquisition of Observe Medical in 2015, the useful lives were estimated to 10 years from 2015. Change in estimated remaining useful lives was concluded after an assessment of the time of patent expiry, as well as assessment of competitors, the market and technological development.

Net financial expenses was NOK 3,069,597 compared to net financial expenses of NOK 524,323 in the second quarter of 2019. The increase is mainly related to net currency loss in the quarter and increased interest expenses related to interest bearing debt.

Profit before tax was negative NOK 10,143,091 compared to negative NOK 4,385,746 in same quarter 2019. The Group had NOK 0 in estimated income tax expenses and the **profit after tax** is equal to the profit before tax in both second quarter 2020 and second quarter 2019.

Earnings per share was in the second quarter 2020 negative NOK 0.66 compared to negative NOK 0.47 in the same quarter 2019.

Group results first half year 2020

The Group had **operating revenues** of NOK 32,220, compared to NOK 60,433 in the same period last year.

Gross result in the first half year of 2020 was negative NOK 89,405, compared to negative NOK 484,300 in the same period last year. In the second quarter of 2019, the company had a write-down of inventories amounting to NOK 507,536 related to disposable units that had short remaining shelf-life left at 30 June 2019.

Total **operating expenses** in the period were NOK 10,576,399, compared to NOK 5,022,251 in the first half year of 2019. Higher employee benefit expenses were mainly related to increased headcount and that the Company has an independent paid Board of Directors from 1 July 2019. Increased other operating expenses were driven by higher operating cost as a standalone listed company and establishment of the office in Oslo.

EBITDA in the first half year of 2020 was negative NOK 10,665,444 compared to negative NOK 5,506,551 in the same period last year.

Depreciation and amortization decreased from NOK 2,138,967 in the first half year of 2019 to NOK 1,596,875 in the same period in 2020. The decrease is mainly related to the review of estimated useful lives at 31 December 2019, which concluded that estimated remaining useful lives are 10 years from 1 January 2020. In connection with the acquisition of Observe Medical in 2015, the useful lives were estimated to 10 years from 2015. Change in estimated remaining useful lives was concluded after an assessment of the time of patent expiry, as well as assessment of competitors, the market and technological development.

Net financial items was NOK 1,695,284 compared to negative NOK 830,856 in the same period 2019. The change was mainly related to net currency gain in the first half year 2020 due to weakening of the Norwegian krone that more than offset the increased interest expenses related to interest bearing debt.

Profit before tax was negative NOK 10,567,034 compared to negative NOK 8,476,374 in the same period last year. The Group had NOK 0 in estimated income tax expenses and the **profit after tax** is equal to the profit before tax in both first half year 2020 and first half year 2019.

Earnings per share was negative NOK 0.69 compared to negative NOK 0.71 in the same period last year.

Cash flow second quarter 2020

Net cash flow from operating activities was in the second quarter of 2020 negative NOK 5,437,700, compare to negative NOK 597,686 at second quarter 2019. The change is mainly affected by the increased negative result, purchase of materials to inventories and finance with no cash effect.

Net cash flow used for investing activities was negative NOK 30,382, compared to NOK 1,680,980 in the second quarter of 2019. The decrease is due to lower development activities in the Sippi® system in the quarter.

Net cash flow from financing activities was NOK 5,918,470, compared to NOK 964,179 in the second quarter of 2019. Due to increased operating expenses, the Company increased the interest bearing debt more in second quarter 2020, compared to the same period last year.

Cash flow first half year 2020

Net cash flow from operating activities was in the first half year of 2020 negative NOK 9,846,177, compared to negative NOK 5,101,152 in the first half year of 2019. The change is mainly affected by the increased negative result, purchase of materials to inventories and finance with no cash effect that more than offset the increased current liabilities.

Net cash flow used for investing activities was NOK 374,060, compared to NOK 1,035,883 in the first half year of 2019. The decrease is due to lower development activities in the Sippi® system in the period.

Net cash flow from financing activities was NOK 10,670,349, compared to NOK 5,488,511 in the first half year of 2019. The increase is mainly due to increased interest bearing debt to Navamedic ASA and share issue in connection with execution of employee share options in the first quarter of 2020.

Financial position at 30 June 2020

As of 30 June 2020, the Group had total **non-current assets** of NOK 55,463,377, compared to NOK 51,208,761 at 30 June 2019. Non-current assets mainly consist of goodwill NOK 33,404,714 (NOK 29,482,117 at 30 June 2019) and intangible assets related to Sippi® of NOK 21,976,325 (NOK 21,317,436 at 30 June 2019).

At 30 June 2020 the Group had **bank deposits** of NOK 965,418, at 30 June 2019 the bank deposits was NOK 632,104. Net interest bearing debt was at 30 June 2020 of NOK 49,109,911, compared to NOK 43,636,931 at 30 June 2019. The change is affected by increased net interest bearing debt to Navamedic ASA and the debt conversion of NOK 16,000,000 in connection with the demerger from Navamedic ASA in October 2019.

At 30 June 2020 the Group had **total assets** amounting to NOK 61,359,841, compared to NOK 53,344,758 at 30 June 2019.

At 30 June 2020 the Group had **equity** of NOK 5,898,913, compared to NOK 6,202,858 at 30 June 2019. The equity ratio was 9.6% at 30 June 2020, compared to 11.6% at 30 June 2019. At the end of second quarter the Group had **interest bearing debt** to Navamedic ASA, non-current and current, at NOK 36,508,709, compared to current interest bearing debt at NOK 30,613,025 at 30 June 2019.

Contingent consideration liability was estimated to NOK 13,532,226 at 30 June 2020, compared to NOK 13,291,004 at 30 June 2019.

Events After the Reporting Date

Rights issue of NOK 45,000,000

After a proposal by the Board of Directors, an extraordinary General meeting at 16 June approved a fully underwritten rights issue to raise gross proceeds of NOK 45,000,000. The approved proposal was to issue 4,090,909 new shares, at a subscription price of NOK 11 per share. The proposal implied to increase the share capital with NOK 1,063,636.34 by issuance of 4,090,909 new shares, each with a nominal value of NOK 0.26. The rights issue was completed successfully in July and the share capital increase was registered in the Norwegian Register of Business Enterprises (Nw. Foretaksregisteret) at 15 July 2020. The new share capital is NOK 5,052,731.32 divided into 19,433,582 shares each with a nominal value of NOK 0.26. The transaction will be part of the third quarter financial statement.

Outlook

Observe Medical will continue the execution of the strategy, building the company as a medtech platform for global growth.

In near term the Company will focus on executing the go-to-market strategy, including completing the ongoing recruitment process to strengthen the commercial organization and further seek to strengthen the organization related to customer support and sales. In the Nordic market, the aim is to build a direct sales organization, whereas in the rest of Europe, the company will seek to build a strong distributor and partner network within prioritized markets in, addition to signed agreement with the Italian distributor SIM Italia S.r.l. Sales activities will be supported by further market research and marketing activities.

The company will also seek to continuously improve the Sippi® solution providing clinical benefits to patients, driven by insights from healthcare providers and key stakeholders. As an example, SippBridge® is a solution currently in development that will facilitate Sippi® connectivity for customers with so-called thin clients or Citrix solutions at the ICU beds.

Observe Medical will continue building additional clinical evidence and documentation for Sippi® in collaboration with and with advice from the Advisory Board.

Value creating M&A and corporate development remains an important part of Observe Medicals strategy.

Risks and uncertainties

Observe Medical operates in the market for medical technology and is exposed to the risk factors which are considered common in this market. At the current stage, Observe Medical is focused on one product, Sippi®. The Group's ability to commercialize the product will be important for the company's revenues, profitability, liquidity and financial position.

The ongoing Covid-19 situation with national travel restrictions, a healthcare system and healthcare providers occupied with handling of Covid-19, provides constraints to the launch efforts for Sippi®, with some of the sales projects being slowed down. The impacts of the Covid-19 outbreak are dependent upon the extent and duration of the outbreak. If the Group only can have limited contact with its customer, due to the Covid-19 situation, this may affect the launch of Sippi® and financial performance.

Even though Observe Medical emphasizes investments in continuous product development and an efficient strategy for commercialization of the current product portfolio, there is a risk of competing product launches which could reduce the market share and pricing potential.

The Group has several distributors as partners for foreign markets. The Group is dependent on those distributors' ability to perform and operate in these markets.

The Group has taken comprehensive measures to protect its brands and related intellectual property rights, which are important to its continued success. If, however, the Group fails to successfully protect its intellectual property rights for any reason, or if any third party misappropriates, dilutes or infringes its intellectual property, the value of its brands may be harmed, which could have an adverse effect on its business, results of operations or financial condition.

Financial risk mainly consists of interest, currency, credit and liquidity risk. Observe Medical continuously monitors these factors and works actively to manage related risks.

The Group has in July 2020 completed a Rights issue of NOK 45 million and the Group consider this to be sufficient funding for the operations and complete its commercialization strategy for the next 12 months.

Forward looking statements

This report contains statements regarding the future in connection with the Group's growth initiatives, profit figures, outlook, strategies and objectives. In particular, the section "Outlook" contains forward-looking statements regarding the Group's expectations. All statements regarding the future are subject to inherent risks and uncertainties, and many factors can lead to actual results and developments deviating substantially from what has been expressed or implied in such statements. These factors

include the risk factors relating to the Group's activities described in the section "Risks and Uncertainties" above and in Observe Medical's Annual Report for 2019, including the section Risk Factors in the Board of Directors' Report.

Declaration in Accordance with §5-5 of the Securities Trading Act

We confirm that the financial statements for the period 1 January to 30 June 2020 have, to the best of our knowledge, been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the Group as a whole. The Board of Directors' report includes a fair review of the development and performance of the business and the position of the company and the Group as a whole, together with a description of the principal risks and uncertainties that they face.

The Board of Directors and CEO of Observe Medical ASA

Oslo, August 17, 2020



Terje Bakken
Chairman



Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO

Kristin Nyberg
Director



Thomas Grunfeld
Director

Condensed Consolidated Financial Statements

Observe Medical Group

Consolidated Statement of Comprehensive Income

<i>Amounts in NOK</i>	Note	Q2 2020	Q2 2019	H1 2020	H1 2019	FY 2019
Operating revenues		0	33 140	32 220	60 433	176 650
Cost of materials		61 945	506 598	121 265	544 733	636 781
Gross result		-61 945	-473 458	-89 045	-484 300	-460 131
Employee benefit expenses	8	3 533 757	1 185 929	5 778 150	2 464 175	5 299 190
Other operating expenses		2 659 495	1 106 424	4 798 248	2 558 076	5 742 122
Operating expenses		6 193 253	2 292 353	10 576 399	5 022 251	11 041 311
Operating result before depreciation and amortization (EBITDA)		-6 255 198	-2 765 811	-10 665 444	-5 506 551	-11 501 443
Depreciation and amortization	6	818 297	1 095 612	1 596 875	2 138 967	4 285 200
Operating result (EBIT)		-7 073 494	-3 861 423	-12 262 318	-7 645 518	-15 786 642
Financial income and expenses						
Financial income			321 644	4 280 772	576 463	365 329
Financial expenses	7	3 069 597	845 967	2 585 488	1 407 319	1 495 987
Net financial items		-3 069 597	-524 323	1 695 284	-830 856	-1 130 658
Result before tax		-10 143 091	-4 385 746	-10 567 034	-8 476 374	-16 917 301
Income tax expense		0	0	0	0	0
Result for the period		-10 143 091	-4 385 746	-10 567 034	-8 476 374	-16 917 301
Other comprehensive income that may be reclassified subsequently to profit or loss						
Currency translation differences		-416 465	-1 234 864	957 274	-2 135 287	-1 363 229
Total comprehensive income/loss for the period		-10 559 556	-5 620 610	-9 609 760	-10 611 661	-18 280 530
Earnings per share (NOK per share)						
9		-0.66	-0.47	-0.69	-0.71	-1.36

Observe Medical Group

Consolidated Statement of Financial Position

<i>Amounts in NOK</i>	Note	At 30 June 2020	At 30 June 2019	At 31 December 2019
ASSETS				
Non-current assets				
Goodwill	10	33 404 714	29 482 117	30 333 459
Intangible assets		21 976 325	21 317 436	20 997 241
Tangible assets	6	82 339	409 208	339 069
Total non-current assets		55 463 377	51 208 761	51 669 769
Current assets				
Trade receivables		0	26 561	65 625
Inventories		4 228 183	1 142 147	2 503 530
Other receivables and prepaid expenses		702 863	335 185	608 776
Bank deposits		965 418	632 104	485 207
Total current assets		5 896 464	2 135 997	3 663 138
Total assets		61 359 841	53 344 758	55 332 907
EQUITY AND LIABILITIES				
Total equity		5 898 913	6 202 858	14 541 734
Non-current liabilities				
Non-current lease liabilities		34 394	365 006	77 945
Contingent consideration	7	13 532 226	13 291 004	12 398 226
Non-current interest bearing liabilities		33 508 709	0	25 413 198
Total non-current liabilities		47 075 329	13 656 010	37 889 365
Current liabilities				
Trade payables		1 483 694	1 769 479	1 338 188
VAT and other public taxes and duties payables		1 842 546	191 799	499 466
Current interest bearing debt		3 000 000	30 613 025	0
Current lease liabilities	6	0	0	200 622
Other current liabilities		2 059 359	911 587	863 528
Total current liabilities		8 385 599	33 485 890	2 901 804
Total liabilities		55 460 928	47 141 900	40 791 173
Total equity and liabilities		61 359 841	53 344 758	55 332 907

The Board of Directors and CEO of Observe Medical ASA

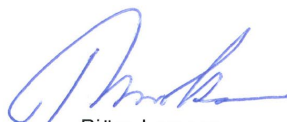
Oslo, August 17, 2020



Terje Bakken
Chairman



Kathrine Gamborg Andreassen
Director

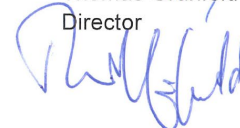


Björn Larsson
CEO

Kristin Nyberg
Director



Thomas Grunfeld
Director



Observe Medical Group

Consolidated Statement of Changes in Equity

<i>Amounts in NOK</i>	Share capital	Share premium	Other paid - in equity	Total paid - in capital	Retained earnings	Translation differences	Total
Balance at January 1, 2019					16 919 764	-96 912	16 822 852
Net loss of the period					-8 476 374		-8 476 374
Translation differences						-2 143 619	-2 143 619
Balance at June 30, 2019					8 443 390	-2 240 531	6 202 858
Balance at January 1, 2019					16 919 764	-96 912	16 822 852
Incorporation of Observe Medical ASA	1 000 000			1 000 000			1 000 000
Capital decrease, repayment	-1 000 000			-1 000 000			-1 000 000
Merger effect	3 085 595	31 684 422	11 800 293	46 570 310	-46 570 310		0
Debt conversion	832 000	15 168 000		16 000 000			16 000 000
Net result for the period					-16 917 301		-16 917 301
Translation differences						-1 363 817	-1 363 817
Balance at December 31, 2019	3 917 595	46 852 422	11 800 293	62 570 310	-46 567 847	-1 460 729	14 541 734

Observe Medical Group

Consolidated Statement of Changes in Equity (continued)

<i>Amounts in NOK</i>	Share capital	Share premium	Other paid-in equity	Total paid-in capital	Retained earnings	Translation differences	Total
Balance at January 1, 2020	3 917 595	46 852 422	11 800 293	62 570 310	-46 567 847	-1 460 729	14 541 734
Share issue	71 500	786 500		858 000			858 000
Share options					108 938		108 938
Net loss of the period					-10 567 034		-10 567 034
Translation differences						957 274	957 274
Balance at June 30, 2019	3 989 095	47 638 922	11 800 293	63 428 310	-57 025 943	-503 455	5 898 913

Observe Medical Group

Consolidated Cash Flow Statement

<i>Amounts in NOK</i>	Q2 2020	Q2 2019	H1 2020	H1 2019	FY 2019
Cash flow from operating activities					
Result before tax	-10 143 091	-4 385 745	-10 567 034	-8 476 374	-16 917 301
Depreciation and impairment	818 297	1 095 612	1 596 875	2 138 967	4 285 200
Change in net finance with no cash effect	3 043 153	1 074 841	-2 003 883	1 114 004	221 226
Change in inventories	-368 425	619 099	-1 471 171	1 257 076	-172 980
Change in trade receivables and other receivables	-108 446	-23 533	14 741	790 547	404 930
Change trade account payables and other current liabilities	1 320 812	1 033 157	2 584 295	-1 914 254	-2 300 546
Changes in other current items	0	-11 117		-11 117	507 400
Net cash flow used in operating activities	-5 437 700	-597 687	-9 846 177	-5 101 152	-13 972 072
Cash flow from investing activities					
Purchase/disposal of tangible and intangible assets	30 382	-1 680 980	-374 060	-1 035 883	-2 140 695
Net cash flow used in investing activities	30 382	-1 680 980	-374 060	-1 035 883	-2 140 695
Cash flow from financing activities					
Net change interest bearing debt	5 961 613	1 056 266	9 901 270	5 580 598	16 380 771
Equity contribution			858 000		0
Paid in new share capital					1 000 000
Repayment share capital					-1 000 000
Payment of lease liabilities	-43 143	-92 087	-88 921	-92 087	-194 066
Net cash flow from financing activities	5 918 470	964 179	10 670 349	5 488 511	16 186 705
Exchange rate fluctuations	-5 700	682 138	30 099	659 483	-209 876
Changes in cash	505 452	-632 350	480 211	10 960	-135 938
Bank deposits at beginning of the period	459 967	1 264 454	485 207	621 144	621 144
Bank deposits end of period	965 418	632 104	965 418	632 104	485 207

Explanatory Notes to the Consolidated Financial Statements

Note 1 - General information

Observe Medical ASA is a Norwegian public listed company incorporated on 13 June 2019 and listed on Oslo Børs at 4 November 2019. The Company and its subsidiaries (together the Group) is a growing medtech group which has developed the next generation digital urine meter, Sippi®.

The Group contains of following companies:

Observe Medical ASA, located in Oslo, Norway (headquarter)

Observe Medical AB, located in Gothenburg, Sweden

Observe Medical International AB, located in Gothenburg, Sweden

Observe Medical aps, located in Sørum, Denmark

Note 2 - Basis of preparation and statements

The financial statements are presented in NOK, unless otherwise is stated.

These interim condensed consolidated financial statement for the second quarter and first half 2020 have been prepared in accordance with the requirements of the International Accounting Standard 34 Interim Financial Reporting.

The interim report do not include all of the information required for full annual financial statements of the group and should be read in conjunction with the consolidated financial statements for 2019. The accounting policies applied are consistent with those applied and described in the consolidated annual financial statements for 2019, which are available upon request from the company's registered office at Henrik Ibsensgate 90, 0255 Oslo, Norway and at www.observemedical.com.

These interim condensed consolidated financial statements for the second quarter and first half 2020 were approved by the Board of Directors and the CEO on 17 August 2020.

Note 3 – Accounting policies

The group prepares its consolidated annual financial statements in accordance with IFRS as adopted by the EU (International Financial Reporting Standards - IFRS). The accounting policies adopted in the financial statement for second quarter and first half 2020 are consistent with accounting policies in the annual report 2019. Refer to note 2 in the annual financial statement 2019 for description of the most important accounting policies.

References to IFRS in these financial statements refer to IFRS as approved by the EU.

Note 4 – Significant judgements and accounting estimates

The preparation of financial statements in accordance with IFRS requires that management make assessments, estimates and assumptions that impact reported amounts for revenues, expenses, assets and liabilities and presentation of contingent liabilities at the end of the reporting period. Actual results may differ from these estimates. In preparing these interim condensed consolidated financial statements, significant judgements made by management and the key sources of estimation uncertainty were the same as those applied to the annual consolidated financial statements for 2019 (see especially note 4).

Note 5 – Covid-19

The Covid-19 situation, which emerged during Q1 2020 has a serious impact on all aspects of the global society, specifically the healthcare system and patients, and thus on Observe Medical as well. As Observe Medical is in launch phase with the next generation of Sippi®, the company is highly dependent on dialogue with current and potential customers and with other stakeholders. The current situation, however, with national travel restrictions, a healthcare system and healthcare providers occupied with handling of Covid-19, provides constraints to the launch efforts for Sippi®, with some of the sales projects and other projects being slowed down or stalled. Despite the circumstances, Observe Medical operates at full capacity and the company is working according to plan and focus particularly on the international launch and sales of Sippi®, with the ultimate goal of supporting customers in the healthcare system and the patients. Observe Medical is monitoring its value chain closely and is currently comfortable with the stock situation.

Note 6 – Lease

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.

(Amounts in NOK)

Right of use assets	Cars
Balance at 1 January 2019	483 270
Currency translation differences	-9 088
Balance at 31 December 2019	474 182
Disposal	-186 562
Currency translation differences	28 102
Balance at 30 June 2020	315 722
Opening depreciation at 1 January 2019	0
Depreciation in the period	195 096
Currency translation differences	1 549
Accumulated depreciation at 31 December 2019	196 645
Depreciation in the period	82 485
Currency translation differences	2 705
Accumulated depreciation at 30 June 2020	281 835
Right of use assets at 30 June 2020	33 886
Lease Liability	Cars
Balance at 1 January 2019	483 270
Lease payments in the period	-218 830
Interest cost	24 764
Currency translation differences	-10 637
Balance at 31 December 2019	278 567
Additions	
Disposal	-184 592
Lease payments in the period	-88 921
Interest cost	3 922
Currency translation differences	25 418
Balance at 30 June 2020	34 394
Due < 1 year	34 394
Due > 1 year	0

IFRS 16 effect on Statement of comprehensive income

(Amounts in NOK)	H1 2020	Q2 2020	FY 2019
Lease payments, increased EBITDA	88 921	43 143	218 830
Increased depreciation	82 485	38 517	195 096
Increased EBIT	6 436	4 626	23 734
Interest expenses	3 922	1 476	24 764
Effect on profit before tax	2 514	3 150	-1 030

Note 7 – Contingent Consideration

Observe Medical International AB was acquired at 4 August 2015 and the purchase price was NOK 60.6 million including a contingent consideration valued at NOK 25.6 million at the acquisition date. The contingent consideration depends on the revenues from sales of the Sippi® product over a number of years. The fair value of the contingent consideration involves discounting expected future payments. Discounting is based on the same discount rate (18.3%) that was used for the valuation of the identified intangible assets (fair value adjustments) in the purchase price allocation.

Change in contingent consideration

(Amounts in NOK)

Estimated fair value 1 January 2016	27 619 000
Change in estimated fair value in 2016	-4 051 000
Estimated fair value 31 December 2016	23 568 000
Change in estimated fair value in 2017	2 618 000
Estimated fair value 31 December 2017	26 186 000
Change in estimated fair value in 2018	-14 009 000
Estimated fair value 31 December 2018	12 177 000
Change in estimated fair value in 2019	221 226
Estimated fair value 31 December 2019	12 398 226
Change in estimated fair value in 2020	1 134 000
Estimated fair value 30 June 2020	13 532 226

Change in estimated fair value, which includes calculated interest, is recognized through profit or loss.

Note 8 – Share options

On 1 of October 2019, the extraordinary general meeting of the Company resolved that in connection with the completion of the Demerger from Navamedic ASA, the 467,500 share options issued under Navamedic's long-term incentive program (400,000 options) and other share option programs (67,500 options) were "mirrored" and split so that these options were 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 Observe Medical ASA will be 26% of the initial exercise price of the options in Navamedic ASA. Each option gives the holder the right to subscribe for one Share. Refer to note 19 in the Annual report 2019 for more description of these share options.

Exercised options in 2020

In connection with the expiry dates 24 January 2020 three employees in Navamedic ASA have exercised a total of 275,000 share options in Observe Medical ASA

Following the share option exercise the Board of Directors, pursuant to authorization granted by Observe Medical ASA's General Meeting on 24 October 2019, decided to increase the Company's share capital by a total of NOK 71,500 by issuing 275,000 new shares, of par value NOK 0.26.

New options in 2020

As part of a long-term incentive plan, the CEO was on 9 January 2020 granted 60,000 series A options and 60,000 series B options. Each option, when exercised, will give the right to acquire one share in Observe Medical ASA. The options are granted without consideration. The series A options vest over a 3-year period, with 1/3 after 12 months, 1/3 after 24 months and the last third after 36 months. The series A option shares have a 12-month lock-up period tied to them. Options that have not been exercised will lapse 3.5 years after grant date. The series B options are granted vest on the date of the option agreement. The series B option shares have no vesting period and a 24-month lock-up period tied to them. Series B options that have not been exercised will lapse as of 1 January 2021. The strike price for the options is NOK 11.09 and calculated as the average price the last 10 trading days before signing of the option agreement.

Options at 30 June 2020:

Number of options	Exercise price	Vested / Vesting date	Expiry date	Lock-up
46,875	NOK 2.444	Yes	6 June 2021 30 September 2020	
125,000 (Serie B)	NOK 3.12	Yes		24 months
60,000 (Serie B)	NOK 11.09	Yes	1 January 2021	24 months
20,000 (Serie A)	NOK 11.09	9 January 2021	9 July 2023	12 months
20,000 (Serie A)	NOK 11.09	9 January 2022	9 July 2023	12 months
20,000 (Serie A)	NOK 11.09	9 January 2023	9 July 2023	12 months

Note 9 – Earnings per share

For the periods presented there are no dilutive effects on profits or number of shares. Basic and diluted earnings per share are therefore the same.

	Q2 2020	Q2 2019	H1 2020	H1 2019	FY 2019
Profit for the period	-10 143 091	-4 385 746	-10 567 034	-8 476 374	-16 917 301
Average no of shares	15 342 673	11 867 673	15 251 513	11 867 673	12 402 468
Earnings per share (NOK)	-0.66	-0.37	-0.69	-0.71	-1.36

Note 10 – Goodwill

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015.

Goodwill is not amortized, but tested at least annually for impairment.

The Group currently has only one cash generating unit, and all goodwill is therefore allocated to the Medtech business. Consequently, through the impairment test of goodwill, the carrying value of the total group is effectively tested for impairment. The share price indicates that the fair value materially exceeded the carrying value of equity at end of the reported period.

As at 31 December 2019, the recoverable amount was also estimated based on value in use. The value in use of the cash generating unit was calculated on the basis of discounted future cash flows. At end of the reporting period, there are no indicators for impairment and the share price indicates that the fair value materially exceeds the carrying value of the equity. No further impairment test has been carried out as at 30 June 2020.

Refer to note 7 in Annual report 2019 for further information about goodwill.

Alternative Performance Measures (APMs)

Observe Medical uses alternative performance measures for periodic and annual financial reporting in order to provide a better understanding of the Group's underlying financial performance

Gross result	Operating revenues less direct cost of materials as cost price, transportation and warehouse cost of materials for sale. Gross result is a sub-total in the condensed consolidated statement of income.
EBIT	Earnings before net financial items, results from associates and joint ventures and income tax. EBIT is a sub-total in the condensed consolidated statement of income.
EBIT margin (%)	EBIT as a percentage of revenues.
EBITDA	Earnings before interest, tax, depreciation and amortization. EBITDA is a sub-total in the condensed consolidated statement of comprehensive income.
EBITDA margin (%)	EBITDA as a percentage of revenues.
Operating expenses	Employee benefit expenses plus other operating expenses.
Net interest bearing debt	Non-current and current interest bearing liabilities deducted bank deposits
Equity ratio	Total equity divided by total assets

Net interest bearing debt

<i>(Amounts in TNOK)</i>	At 30 June 2020	At 30 June 2019	At 31 December 2019
Non-current lease liability	34	365	78
Non-current interest bearing liabilities	33 509	0	25 413
Contingent consideration	13 532	13 291	12 398
Interest bearing current liabilities	3 000	30 613	0
Total interest bearing debt	50 075	44 269	37 889
Bank deposits (incl. restricted cash)	965	632	485
Net interest bearing debt	49 110	43 637	37 404

Equity ratio

<i>(Amounts in TNOK)</i>	At 30 June 2020	At 30 June 2019	At 31 December 2019
Equity	5 899	6 203	14 542
Total assets	61 360	53 345	55 333
Equity ratio	9.6 %	11.6 %	26.3 %

About Observe Medical

Observe Medical is a fast-growing medtech group developing and marketing innovative medical technology products to the benefit of patients, healthcare professionals and hospitals. With headquarters in Oslo, Norway and operations in Gothenburg, Sweden, Observe Medical is a platform for building a portfolio of medtech products through M&A as well as organic growth.

Currently, Observe Medical is commercializing Sippi®, a proprietary, CE marked automated system for urine measurement. Sippi® offers a unique, effective and innovative solution for urine monitoring at the hospital intensive care units (ICUs), wards and home care. In 2019, Observe Medical initiated launch of the second generation of Sippi®, Sippi®BLE, with wireless connectivity to the hospital data management system, targeting ICUs globally.

The system incorporates SippCoat®, a patented technology that significantly reduces biofilm formation, from a series of bacteria, including several multi-resistant strains, and from fungi, and thereby reduces the risk of bacterial migration and patient infection. Urinary tract infections are the number one hospital acquired complication for patients, and the required treatment is a considerable burden to hospital staff and budgets. With almost 3 million Europeans infected every year from hospital acquired infections (HAI) of all types.

The Sippi® growth journey supports Observe Medical's vision to enable innovations to be commercialized on a global market for the benefit of society, healthcare professionals and patients. Our intent is to continue to grow our platform and portfolio to address healthcare challenges, through ongoing R&D and acquisition strategies in line with our goals and vision.

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