



Observe Medical ASA

Interim report Q2 and first half year 2021



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Highlights first half 2021

Revenues of MNOK 12.8 through strong sales for Nordic portfolio

Sales growth H1 2021 of 60% compared to the same period last year if Nordic sales operations had been owned by Observe Medical from January 1, 2020.

Signed distributor agreement for Sippi® launch in Poland and Romania and initial order placed, for delivery in H2 2021.

Signed distribution agreement with Skamex in June for the launch of Sippi® in the Polish and Romanian market and with launch activities planned for later in 2021.

Skamex submitted the first order for delivery of base units and disposable units in second half of 2021

Further expansion and strengthening of the global patent protection for Sippi® proprietary technology

Sippi® automated and digital urine meter received new patent approvals in India, China and Brazil.

Doctoral dissertation further demonstrates clinical benefits of Sippi®

A PhD thesis by Dr. Martin Slettengren was dissertated at Dept. of Molecular Medicine and Surgery, Karolinska Institute in Stockholm on January 14, 2021. The dissertation demonstrates multiple clinical benefits of the Sippi® automated digital urine meter, and the potential paradigm shift in clinical practice of urine measurement.

Nya Karolinska Sjukhuset started new studies to broaden the clinical scope of use for Sippi®

Nya Karolinska Sjukhuset, Sweden, started new studies to broaden the clinical scope of use for Sippi®, including diagnosis of AKI (Acute Kidney Injury).

Key figures ¹⁾

H1 2021

- Operating revenues of TNOK 12,846 (TNOK 32) and gross result of TNOK 4,782 (negative TNOK 89). The positive change due to acquisition of the Nordic sales operations in Q4 2020 and further growth in the portfolio sales.
- EBIT of negative TNOK 14,403 (negative TNOK 12,262). Increased operating expenses driven by higher headcount, increased sales activities and further business development more than offset increased gross result for the period.
- Net finance of TNOK 10,920 (TNOK 1,695), see also note 7 in the financial statement.
- Result of negative TNOK 3,484 (negative TNOK 10,567).
- Earnings per share of negative NOK 0.18 (negative NOK 0.69).
- At 30 June 2020, Observe Medical had an equity at TNOK 11,800 (TNOK 5,899) and an equity ratio of 14.4% (9.6%).

Q2 2021

- Operating revenues of TNOK 9,737 (TNOK 0) and gross result of TNOK 3,938 (negative TNOK 62).
- EBIT of negative TNOK 5,591 (negative TNOK 7,073). The improved gross result more than offset higher employee benefit expenses and increased other operating expenses due to increased headcount
- Net finance of TNOK 6,926 (negative TNOK 3,070).
- Result of TNOK 1,335 (negative TNOK 10,143) and earnings per share of NOK 0.07 (negative NOK 0.66)

¹⁾ Figures in brackets = same period prior year.

Amounts in TNOK (excl. earnings per share (NOK))	Q2 2021	Q2 2020	H1 2021	H1 2020	FY 2020
Operating revenues	9 737	0	12 846	32	2 961
Gross result	3 938	-62	4 782	-89	986
Operating expenses	8 710	6 193	17 569	10 576	25 910
EBITDA	-4 772	-6 255	-12 787	-10 665	-24 923
EBIT	-5 591	-7 073	-14 403	-12 262	-28 087
Net finance	6 926	-3 070	10 920	1 695	-8 782
Result before tax	1 335	-10 143	-3 484	-10 567	-36 868
Result	1 335	-10 143	-3 484	-10 567	-36 868
Earnings per share	0.07	-0.66	-0.18	-0.69	-2.22
Total balance	81 925	61 360	81 925	61 360	87 733
Equity	11 800	5 899	11 800	5 899	20 349
Equity ratio	14.4%	9.6%	14.4%	9.6%	23.2%
Net interest bearing deb ¹⁾	46 292	49 110	45 726	49 110	38 640
Number of employees	10	7	10	7	11

Letter from the CEO

During 2021 Observe Medical has persistently and successfully operated through the pandemics, motivated and energized by providing our customers with products that adds value in terms of improved clinical outcome for patients and more efficient care, a value which will drive our commercial success onwards.

We have further strengthened the execution of our strategy, building the company as a medtech platform for global growth. Key focus areas have been the continued clinical rollout of Sippi® in the Nordics and selected European markets, and to further strengthen and grow the Nordic portfolio sales operations.

During periods of improved covid-19 situation, we have grasped the opportunity for onsite visits to our Sippi® partners and end customers. We met with Skamex, our new partner for Poland and Romania, signed a distribution agreement and visited their customers in hospitals. We also visited our distribution partner In Italy, SIM Italia, successfully performed a Sippi® training event at a key hospital, and further strengthening our business relation. Likewise in our Nordic home market, we initiated or resumed initiatives with our customers, piloting and implementing Sippi®. Our Nordic sales team has delivered strong sales performance with 60% growth for the Nordic portfolio compared to last year, demonstrating the solid relations with our customers and suppliers being essential.

Our increased customer interactions during the year has further validated the clinical and commercial opportunity for Sippi®. Early this year Dr. Slettengren published his thesis, demonstrating multiple clinical benefits with Sippi®.

Nya Karolinska Hospital has now started a new clinical study with the aim of broadening Sippi® scope of use -including the early detection of Acute Kidney Injury, a common and severe clinical complication in critical care - leading to significantly increased costs for each patient as well as patient suffering and death. This support our clinical and health-economic evidence program, further strengthening the value proposition of Sippi®.

Right now, in the end of the summer, I look forward to an exciting period with further increased dialogue with customers. Together with the dedicated and professional Observe Medical team, we will use the momentum from the positive development and experience gained during the year - relentlessly executing our strategy and accelerate Observe Medical business onwards, together with our customers and partners.

We are strongly motivated by our mission to deliver *medtech that matters* - with Sippi® and our Nordic portfolio - improving clinical outcome for patients and enabling a more efficient care system, - something I believe has never been more important than right now.

Finally, I would like to take the opportunity to thank all our shareholders for your trust and commitment, you are integral to our success. Let's continue the Observe Medical journey together!

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

Björn Larsson
CEO



Operational Development

During the first half of 2021, throughout the ongoing pandemic, Observe Medical progressed and further strengthened the execution of the strategy, building the company as a medtech platform for global growth.

Key focus areas have been to continue the clinical rollout of Sippi® in the Nordics and selected European markets, and to further strengthen and grow the Nordic portfolio sales operations.

The first half of the year has been characterized by the Covid-19 pandemic. The situation improved during the first months of the year, before it yet again worsened towards the end of Q1. Thanks to the vaccination program the situation has eased in the end of Q2 but strict restrictions led to challenging direct customer access, and temporarily paused project. Despite the challenges, the company has made important progress in the operations. Early in the year the company, grasped the opportunity, gaining significant traction with several sites initiating the use of Sippi®. The Nordic sales operations proved its strategic business significance, both in terms of solid portfolio sales growth and as an enabler for Sippi® sales.

Sippi® market volume and value growth

Observe Medical driven research and growing experience gained during the current clinical rollout phase, confirms a significant global market potential for Sippi®. This indicates strong market volume and value growth, driven by both demographics with increased need and demand on care, and accentuated by Covid-19 pandemic.

The current global market potential is estimated to approximately 500,000 Sippi® base units and more than 30 million Sippi® disposable units per year. This is based on the current situation with approximately 400,000 ICU beds and 25 million patients admitted to ICUs annually.

The volume growth is driven by an expected increase in the number of ICU beds and increased annual patient admissions of 10-15%, as well as an expected increase of contingency capacity and expansion into so called intermediary wards. In addition, we see an emerging opportunity to enable automatic urine measurement in ordinary wards, not feasible with current manual systems, thus triggering the need for automated devices.

The market value growth is mainly driven by needs for infection control for patients, automation due to shortage of staff in ICUs and other hospital departments, digital patient data management to avoid human errors, and remote, non-contact patient monitoring to reduce staff exposure to infection risks.

Continuing the clinical rollout of Sippi® - with strengthened Nordic sales operations and enhanced European distributor network

During 2021, throughout the current challenges, the Nordic sales operations has proved its professionalism and strong customer relation and business significance, both in terms of solid portfolio sales growth and as enabler for Sippi® sales.

The Nordic sales operation had sales growth of 60% in H1 2021 compared to the same period last year, if the Group had owned the Nordic sales operations from January 1, 2020. The strong sales performance is driven by close customer and supplier relations. The company has introduced several new portfolio products into the market, including both devices and disposables which will result in recurring revenues onwards.

The sales performance and the close customer relations has been instrumental in enabling Sippi® dialogues with our customers, displayed not the least during the temporally improved Covid-19 situation in early Q1, in which the sales team was agile and grasped the opportunity with several customer sites initiating clinical evaluation of Sippi®.

The company is continuing to enhance the distributor network in Europe. Screening, evaluating, and selecting distribution partners, is an ongoing process. As a result, a distribution agreement was signed in June with the company Skamex for the launch and distribution of Sippi® in the Polish and Romanian market. Skamex is a leading distributor of medical equipment in Poland and Romania, and will launch Sippi® in these two significant markets within total approximately 6,800 ICU beds. The agreement was signed during a visit to Poland - including visits to Skamex key customers. Launch preparation activities and events are underway, with launch planned for later in 2021.

In July, Observe Medical team visited our distributor in Italy, SIM Italia, including performing a successful training event at a major regional Hospital in Northern Italy, where Sippi® clinical implementation will resume after being paused during H1 due to local Covid-19 lockdown of hospital departments.

The outcome of these recent visits to partners and customers, enabled by the improved Covid-19 situation, underpins the value of customer access and personal relations, in general for our portfolio of hospital products- and especially for a product in launch phase - as Sippi®.

During the first half of the year, to support the rollout, the company has strengthened the global and the Nordic commercial operations with staff as well as the operational infrastructure, including logistics, supply chain and supplier relations.

Strengthened scientific evidence of Sippi® clinical benefits and value proposition

Observe Medical is building the clinical and health-economic evidence program, with inputs from our Global Advisory Board, further strengthening the value proposition of Sippi®, thus enabling an emerging value-based pricing.

The PhD thesis 'Evaluation of an automatic urinometer including use of silicone oil to decrease biofilm formation due to proteinuria, hemoglobinuria and bacterial growth' written by Dr. Martin Slettengren was dissertated at Dept. of Molecular Medicine and Surgery, Karolinska Institute in Stockholm on January 14, 2021. The dissertation demonstrates multiple clinical benefits of the Sippi®, and the emerging paradigm shift in clinical practice of urine measurement.

In addition, the team at thorax Intensive Care Unit at Nya Karolinska Sjukhuset, led by Professor Jan van der Linden, has started studies, with the aim of broadening the clinical scope of use for Sippi®, including diagnosis of AKI (Acute Kidney Injury), a severe and common complication at ICUs, not the least during the Covid pandemics - and leading to both patient suffering and significant costs for the healthcare system.

Improved diagnostics (such as AKI) is one of several components, building the evidence of clinical and health economic benefits of Sippi®, fueling the emerging value proposition. Additional value drivers are cost savings by reduced time required by staff for diuresis, and potential reductions of risk factor for infections, such as catheter associated urine infections (CAUTI).

These are important parts of the health economic evidence program, enabling and subsequent stepwise pricing strategy, schematically described as below.

- **Roll-out (current):** Build evidence and test in market and initial unit price- to promote usage
- **Market adoption:** Build further value evidence required for value-based pricing. Calculate "burden" of current care and the savings & value of using Sippi®
- **Value based pricing:** Value-based pricing, share of Sippi customer value/Sippi value built-up. Pricing models adapted to specific markets.

Customer-focused product improvements

Supported by increased customer interactions, Observe Medical is continuously improving its solutions and product experience. 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 new connectivity solution, linking Sippi® with the Hospital journal system, which will simplify Sippi® connectivity, for customers with so-called "thin clients", e.g., Citrix solutions. SippBridge® was CE-marked during Q2 and will be launched to customers later in Q3.

Financial Development

Observe Medical's second quarter and first half of 2021 reflects that the company is in a clinical rollout phase of Sippi® and where the sales operations for Sippi® is strongly affected by the Covid-19 situation. Customer access and relationship-building has been difficult due to travel restrictions and hospital constraints, thus temporarily slowing down sales processes and delaying revenue growth for Sippi®.

The Company has had strong sales growth for the Nordic portfolio, especially in the second quarter, compared with the same period in 2020. Focus on sales activities and further strengthen the customer and supplier relations has resulted in some significant orders that is delivered in second quarter, and with further deliveries in second half of 2021.

The Company has focused on interactions with customers to collect customer feedback, further product modifications, 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.

Together with currency gain, change in contingent consideration liability, due to delayed revenue growth from Sippi® sales, result in net finance income both for second quarter and first half year of 2021.

Group results second quarter 2021

The Group had **operating revenues** at TNOK 9,737, compared to TNOK 0 in the same quarter last year. **Gross result** in the quarter was TNOK 3,938, compared to negative TNOK 62 in the second quarter of 2020. The increase of both revenues and in gross result is mainly due to the acquisition of the Nordic sales operations (Sylak AB) in fourth quarter 2020 and further sales growth in the Nordic portfolio.

Total **operating expenses** in the quarter was TNOK 8,710, compared to TNOK 6,193 in the same quarter last year. Higher employee benefit expenses are related to increased headcount and increased other operating expenses was driven by higher headcount, increased sales activities and further business development.

EBITDA in the second quarter was negative TNOK 4,772 compared to negative NOK 6,255 in the corresponding period in 2020.

Depreciation and amortization were at TNOK 819 in the second quarter of 2021, at the same level as in corresponding period last year.

Net financial income was TNOK 6,926 compared to net financial expenses of TNOK 3,070 in the second quarter of 2020. The change is mainly related to change in contingent consideration due to delayed revenue growth for Sippi® caused by Covid-19.

Profit before tax was TNOK 1,335 compared to negative TNOK 10,143 in same quarter in 2020. The Group had NOK 0 in calculated income tax expenses and the **profit after tax** is equal to the profit before tax in both second quarter 2021 and second quarter 2020.

Earnings per share was in the second quarter 2021 NOK 0.07 compared to negative NOK 0.66 in the same quarter 2020.

Group results first half year 2021

The Group had **operating revenues** of TNOK 12,846, compared to TNOK 32 in the same period last year.

Gross result in the first half year of 2021 was TNOK 4,782, compared to negative TNOK 89 in the same period last year.

Total **operating expenses** in the period were TNOK 17,569, compared to TNOK 10,576 in the first half year of 2020. Higher employee benefit expenses mainly related to increased headcount and increased other operating expenses was driven by higher headcount, increased sales activities and further business development.

EBITDA in the first half year of 2021 was negative TNOK 12,787 compared to negative TNOK 10,665 in the same period last year.

Depreciation and amortization were TNOK 1,616 in the first half year of 2021, at the same level as in corresponding period last year.

Net financial income was TNOK 10,920 compared to TNOK 1,695 in the same period in 2020. The change was mainly related to change in contingent consideration in 2021.

Profit before tax was negative TNOK 3,484 compared to negative TNOK 10,567 in the same period last year. The Group had NOK 0 in calculated income tax expenses and the **profit after tax** is equal to the profit before tax in both first half year 2021 and first half year 2020.

Earnings per share was negative NOK 0.18 compared to negative NOK 0.69 in the same period last year.

Cash flow second quarter 2021

Net cash flow from operating activities was in the second quarter of 2021 negative TNOK 2,335 compare to negative TNOK 5,438 at second quarter 2020. The change is mainly affected by the improved result, adjusted for finance items without cash effect, and decreased trade receivables. In second quarter 2021 also cash flow from operating activities in Observe Medical Nordic AB (former Sylak AB) is included.

Net cash flow used in investing activities was TNOK 864, compared to negative TNOK 30 in the second quarter of 2020. The investment in the quarter was mainly in IT-system for logistics, new patents for Sippi and ordinary investments in Sippi.

Net cash flow from financing activities was TNOK 9,865, compared to TNOK 5,918 in the second quarter of 2020. In June the company entered into a loan agreement with Ingerø Reiten Investment Company (owns 20.09% of all outstanding shares in Observe Medical ASA) and borrowed TNOK 10,000.

Cash deposits at the end of second quarter were TNOK 14,032.

Cash flow first half year 2021

Net cash flow from operating activities was in the first half year of 2021 negative TNOK 13,116, compared to negative TNOK 9,846 in the first half year of 2020. The change is mainly affected by the result, adjusted for finance items without cash effect, and change in net working capital driven by that Observe Medical Nordic AB (former Sylak AB) is included in first half year 2021.

Net cash flow used in investing activities was TNOK 1,429, compared to TNOK 374 in the first half year of 2020. Higher investments is mainly related to investments in IT-system for logistics, new patents for Sippi and ordinary investments in Sippi.

Net cash flow from financing activities was TNOK 9,796, compared to TNOK 10,670 in the first half year of 2020. In both first half of 2021 and first half of 2020 the Company increased the interest-bearing loan from shareholders and the main change is related to paid-in equity in first half 2020 in connection with execution of share options.

Cash deposits at June 30, 2021 were at TNOK 14,032.

Financial position at 30 June 2021

As of 30 June 2021, the Group had total **non-current assets** of TNOK 57,080, compared to TNOK 57,936 at 31 December 2020. Non-current assets mainly consist of goodwill TNOK 34,965 (TNOK 36,268 at 31 December 2020) and intangible assets related to Sippi® of TNOK 20,265 (TNOK 20,965 at 31 December 2020).

At 30 June 2021 the Group had **bank deposits** of TNOK 14,032, at 31 December 2020 the bank deposits was TNOK 18,945. The Company entered into a loan agreement with Ingerø Reiten Investment Company for a total of TNOK 10,000 in June 2021, see note 12 in the financial statement for more information about the loan agreement. Net interest-bearing debt was at 30 June 2021 of TNOK 46,292, compared to TNOK 38,640 at 31 December 2020.

At 30 June 2021 the Group had **total assets** amounting to TNOK 81,925, compared to TNOK 87,733 at 31 December 2020.

At 30 June 2021 the Group had **equity** of TNOK 11,800 compared to TNOK 20,349 at 31 December 2020. The equity ratio was 14.4% at 30 June 2021, compared to 23.2% at 31 December 2020. The change is related to the negative result and currency effects in the period. At the end of second quarter the Group had **interest bearing debt** to shareholders, current and non-current, at TNOK 46,215, compared to TNOK 34,821 at

31 December 2020. The change is related to the new loan agreement with Ingerø Reiten Investment Company and accrued not paid interest in the period.

Contingent consideration liability was calculated to TNOK 12,509 at 30 June 2021, compared to TNOK 22,368 at 31 December 2020. See note 7 in the financial statement for further information about the contingent consideration.

Events After the Reporting Date

There were no events after the reporting date that could affected the financial statement significant.

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 key focus is executing the Sippi® go-to-market strategy and the ongoing rollout of systems in clinical use in the Nordic and selected markets in Europe.

In the Nordic market, the Company will continue to build a direct sales organization, whereas in the rest of Europe, the company will further develop a strong distributor and partner network within prioritized markets in, addition to our distribution partner in Italia SIM Italia S.r.l. and the newly signed distributor agreement for Poland and Romania with Skamex. Sales activities will be supported by further market research and marketing activities.

The company will also 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 that will facilitate Sippi® connectivity for customers with so-called thin clients or Citrix solutions at the ICU beds. SippBridge will be launched to customer, later in Q3 2021

Observe Medical will continue building additional clinical evidence and documentation for Sippi® in collaboration with and with advice from the Advisory Board. Clinical evidence and documentation are fundamental in the work with health economic studies to support the goal of value-based pricing of Sippi®.

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 commercializing Sippi® and grow the Nordic portfolio which includes devices and disposables. The Group's ability to commercialize Sippi® 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 technical product risk and 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.

Management performs on a regular basis cash-flow projections to evaluate whether it will be in a position to cover the liquidity needs for the next 12-month period. In developing estimates of future cash flows, the management makes assumptions about the financial performance. The assumptions applied are based on historical experience and future expectations. Based on updated cash flow forecasts for next 12 months, the Group expect that the Group will require additional funding in order to execute and complete its commercialization and growth strategy. In addition, the management and the board of directors have identified initiatives to improve the efficiency of the Group's operations. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed. The board of directors believes that these initiatives and plans are realistic and are sufficient to support the assumption that the Group has the ability to meet its financial obligations and continue

to support the working capital requirements of ongoing operations for the next 12 months.

The Group has in June 2021 entered into a loan agreement with Ingerø Reiten Investment Company (shareholder) that will secure short term funding.

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 2021 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 19, 2021

A handwritten signature in blue ink, appearing to read "Terje Bakken".

Terje Bakken
Chairman

A handwritten signature in blue ink, appearing to read "Sanna Rydberg".

Sanna Rydberg
Director

A handwritten signature in blue ink, appearing to read "Kathrine G. Andreassen".

Kathrine Gamborg Andreassen
Director

A handwritten signature in blue ink, appearing to read "Thomas Grunfeld".

Thomas Grunfeld
Director

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

Björn Larsson
CEO

Consolidated Financial Statements

Observe Medical Group

Consolidated Statement of Comprehensive Income

<i>Amounts in TNOK</i>	Note	Q2 2021	Q2 2020	H1 2021	H1 2020	FY 2020
Operating revenues	5	9 737	0	12 846	32	2 961
Cost of materials		5 799	62	8 064	121	1 975
Gross result		3 938	-62	4 782	-89	986
Employee benefit expenses	8	4 297	3 534	8 421	5 778	10 891
Other operating expenses		4 413	2 659	9 148	4 798	15 018
Operating expenses		8 710	6 193	17 569	10 576	25 910
Operating result before depreciation and amortization (EBITDA)		-4 772	-6 255	-12 787	-10 665	-24 923
Depreciation and amortization	6	819	818	1 616	1 597	3 163
Operating result (EBIT)		-5 591	-7 073	-14 403	-12 262	-28 087
Financial income and expenses						
Financial income		8 381		13 151	4 281	3 853
Financial expenses	7	1 455	3 070	2 231	2 585	12 635
Net financial items		6 926	-3 070	10 920	1 695	-8 782
Result before tax		1 335	-10 143	-3 484	-10 567	-36 868
Income tax expense		0	0	0	0	0
Result for the period		1 335	-10 143	-3 484	-10 567	-36 868
Other comprehensive income that may be reclassified subsequently to profit or loss						
Currency translation differences		3 822	-416	-5 089	957	1 131
Total comprehensive income/loss for the period		5 157	-10 560	-8 573	-9 610	-35 737
Earnings per share (NOK per share)						
8		0.07	-0.66	-0.18	-0.69	-2.22

Observe Medical Group

Consolidated Statement of Financial Position

<i>Amounts in TNOK</i>	Note	At 30 June 2021	At 30 June 2020	At 31 December 2020
ASSETS				
Non-current assets				
Goodwill	10	34 965	33 405	36 268
Intangible assets		20 265	21 976	20 965
Tangible assets	6	1 849	82	703
Total non-current assets		57 080	55 463	57 936
Current assets				
Trade receivables		1 307	0	1 460
Inventories		6 511	4 228	7 661
Other receivables and prepaid expenses		2 996	703	1 730
Bank deposits		14 032	965	18 945
Total current assets		24 846	5 896	29 797
Total assets		81 925	61 360	87 733
EQUITY AND LIABILITIES				
Total equity				
		11 800	5 899	20 349
Non-current liabilities				
Non-current lease liabilities	6	1 033	34	260
Contingent consideration	7	12 509	13 532	22 368
Non-current interest-bearing liabilities	11	36 213	33 509	34 821
Total non-current liabilities		49 756	47 075	57 449
Current liabilities				
Trade payables		3 004	1 484	3 843
VAT and other public taxes and duties payables		4 464	1 843	2 348
Current interest-bearing debt	11	10 002	3 000	0
Current lease liabilities	6	567	0	136
Other current liabilities		2 334	2 059	3 608
Total current liabilities		20 370	8 386	9 935
Total liabilities		70 125	55 461	67 384
Total equity and liabilities		81 925	61 360	87 733

The Board of Directors and CEO of Observe Medical ASA

Oslo, August 19, 2021

A handwritten signature in blue ink, appearing to be "Terje Bakken".

Terje Bakken
Chairman

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Sanna Rydberg
Director

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Kathrine Gamborg Andreassen
Director

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Thomas Grunfeld
Director

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

Björn Larsson
CEO

Observe Medical Group

Consolidated Statement of Changes in Equity

<i>Amounts in TNOK</i>	Share capital	Share premium	Other paid-in equity	Total paid-in capital	Retained earnings	Translation differences	Total
Balance at January 1, 2020	3 918	46 852	11 800	62 570	-46 568	-1 461	14 542
Share issue	72	787		858			858
Share options					109		109
Net loss of the period					-10 567		-10 567
Translation differences						957	957
Balance at June 30, 2020	3 989	47 639	11 800	63 428	-57 026	-503	5 899
Balance at January 1, 2020	3 918	46 852	11 800	62 570	-46 568	-1 461	14 542
Share issue	1 180	40 212		41 392			41 392
Share options					152		152
Net loss of the period					-36 868		-36 868
Translatio n difference s						1 131	1 131
Balance at December 31, 2020	5 097	87 065	11 800	103 963	-83 284	-330	20 349
Share options					23		23
Net loss of the period					-3 484		-3 484
Translation differences						-5 089	-5 089
Balance at June 30, 2021	5 097	87 065	11 800	103 963	-86 744	-5 419	11 800

Observe Medical Group

Consolidated Cash Flow Statement

<i>(Amounts in TNOK)</i>	Q2 2021	Q2 2020	H1 2021	H1 2020	FY 2020
Cash flow from operating activities					
Result before tax	1 335	-10 143	-3 484	-10 567	-36 868
Depreciation and impairment	819	818	1 616	1 597	3 163
Change in net finance, no cash effect	-7 087	3 043	-11 152	-2 004	8 684
Change in inventories	-20	-368	875	-1 471	-1 844
Change in trade receivables and other receivables	918	-108	-1 270	15	-829
Change trade account payables and other current liabilities	1 699	1 321	298	2 584	6 053
Net cash flow from operating activities	-2 335	-5 438	-13 116	-9 846	-21 641
Cash flow used in investing activities					
Net cash effect of business combination					-6 838
Purchase / disposal of tangible and intangible assets	-864	30	-1 429	-374	-1 239
Net cash flow used in investing activities	-864	30	-1 429	-374	-8 077
Cash flow from financing activities					
Change in net interest bearing debt	10 000	5 962	10 000	9 901	6 901
Net proceeds from share issue				858	41 392
Repayment share capital					
Payments of lease liabilities	-135	-43	-204	-89	-124
Net cash flow from financing activities	9 865	5 918	9 796	10 670	48 169
Exchange rate fluctuations	131	-6	-165	30	9
Change in cash	6 796	505	-4 914	480	18 460
Bank deposits start of period	7 235	460	18 945	485	485
Bank deposits end of period	14 032	965	14 032	965	18 945

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 is also through its subsidiary Observe Medical Nordic AB a Nordic distributor of medtech devices and disposables.

The Group contains of following companies:

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

Observe Medical AB, located in Gothenburg, Sweden

Observe Medical Nordic 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 2021 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 2020. The accounting policies applied are consistent with those applied and described in the consolidated annual financial statements for 2020, 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 2021 were approved by the Board of Directors and the CEO on 19 August 2021.

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 2021 are consistent with accounting policies in the annual report 2020. Refer to note 2 in the annual financial statement 2020 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 2020 (see especially note 4).

Note 5 – Revenues

<i>(Amounts in TNOK)</i>					
Revenue per product group	Q2 2021	Q2 2020	H1 2021	H1 2020	FY 2020
Urine measurement	163	0	398	32	219
Anaesthesia/ICU	8 858	0	11 226	0	2 295
Wound care	715	0	1 222	0	447
Total	9 737	0	12 846	32	2 961

Note 6 – Lease

As at June 30, 2021, the Group has lease contracts for six cars. In addition, the group has short term leases that are not recognized as right-of-use assets related to smaller office equipment's and office buildings in Sweden and Norway.

Lease	
<i>(Amounts in TNOK)</i>	
Right of use assets	
Opening cost at 1 January 2020	474
Additions	398
Disposal	-456
Currency translation differences	46
Closing cost at 31 December 2020	462

Right of use assets

Opening cost at 1 January 2021	462
Additions	1 395
Disposals	
Currency translation differences	-17
Closing cost at 30 June 2021	1 840

Opening depreciation at 1 January 2020	197
Depreciation in the period	120
Disposals	-268
Currency translation differences	2
Accumulated depreciation at 31 December 2020	50

Opening depreciation at 1 January 2021	50
Depreciation in the period	183
Disposals	0
Currency translation differences	10
Accumulated depreciation at 31 December 2020	243

Right of use assets at 31 December 2020 **413****Right of use assets at 30 June 2021** **1 597**

	At 30 June 2021	At 30 June 2020	FY 2020
Lease Liability			
As at 1 January	396	279	279
Additions	1 399		398
Disposal		-185	-189
Lease payments in the period	-204	-89	-125
Interest cost	23	4	6
Currency translation differences	-15	25	28
Closing liability at end of the period	1 600	34	396

Due < 1 year	567	34	136
Due > 1 year	1 033		260

Effect of IFRS 16 on Statement of Comprehensive Income

(Amounts in TNOK)	At 30 June 2021	At 30 June 2020	FY 2020
Depreciation expense of right-of-use assets	182	82	120
Interest expense on lease liabilities	23	4	6
Expense relating to short-term leases (included in other operating expenses)	408	212	549
Total amount recognised in result for the period	613	299	675

Undiscounted Lease Liabilities and Maturity of Cash Outflow

(Amounts in NOK thousand)	At 30 June 2021	At 30 June 2020	FY 2020
Due within 1 year	625	33	150
Due between 1 year and 3 years	1 072		271
Total	1 697	33	421

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 has been based on the discount rate (18.3%) that was used for the valuation of the identified intangible assets (fair value adjustments) in the purchase price allocation. In 2020 the discounting rate was changed from 18.3% to 9.6%, refer to note 14 in the annual financial statement 2020 for further description.

Change in contingent consideration

(Amounts in TNOK)

Estimated fair value 1 January 2016	27 619
Change in estimated fair value in 2016	-4 051
Estimated fair value 31 December 2016	23 568
Change in estimated fair value in 2017	2 618
Estimated fair value 31 December 2017	26 186
Change in estimated fair value in 2018	-14 009
Estimated fair value 31 December 2018	12 177
Change in estimated fair value in 2019	221
Estimated fair value 31 December 2019	12 398
Change in estimated fair value in 2020	9 970
Estimated fair value 31 December 2020	22 368
Change in estimated fair value in 2021	- 9 859
Estimated fair value 30 June 2021	12 509

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

The Covid-19 situation with still high infection rates and large burden on the health care system, causes delays on the estimated revenues from sales of Sippi® compared to the Group's estimate at year-end 2020. However, the potential revenue and expected realizations remain unchanged and have only been postponed.

Note 8 – Share options

As part of a long-term incentive plan, the CEO was on 9 January 2020 granted options. Each option, when exercised, will give the right to acquire one share in Observe Medical ASA. The options are granted without consideration. The 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 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 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 2021:

Number of options	Exercise price	Vested / Vesting date	Expiry date	Lock-up
20,000	NOK 11.09	9 January 2021	9 July 2023	12 months
20,000	NOK 11.09	9 January 2022	9 July 2023	12 months
20,000	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 2021	Q2 2020	H1 2021	H1 2020	FY 2020
Profit for the period	1 335 230	-10 143 091	-3 483 569	-10 567 034	-36 868 470
Average no of shares	19 605 457	15 342 673	19 605 457	15 251 513	16 574 701
Earnings per share (NOK)	0.07	-0.66	-0.18	-0.69	-2.22

Note 10 – Goodwill

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015 and acquisition of Sylak AB in 2020.

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 2020, 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 2021.

Refer to note 7 in Annual report 2020 for further information about goodwill.

Note 11 – Interest bearing liabilities

Current and non-current interest bearing liabilities as at 31 December 2020

<i>(Amounts in NOK million)</i>	0-3 months	3-12 months	1-2 years	2-3 years	3-4 years	> 4 years	Total	Carrying value
Leasing liabilities	0,0	0,1	0,1	0,1	0,0	0,0	0,4	0,4
Contingent consideration upon acquisitions	0,0	0,0	2,3	27,9	0,0	0,0	30,2	22,4
Payables loan to Navamedic group	0,0	0,0	39,9	0,0	0,0	0,0	39,9	34,8
Total	0,0	0,0	42,2	27,9	0,0	0,0	70,1	57,6

Current and non-current interest bearing liabilities as at 30 June 2020

<i>(Amounts in NOK million)</i>	0-3 months	3-12 months	1-2 years	2-3 years	3-4 years	> 4 years	Total	Carrying value
Leasing liabilities	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Contingent consideration upon acquisitions	0,0	0,0	0,9	8,6	18,5	0,0	28,0	13,5
Payables loan to Navamedic group ¹⁾	0,0	0,0	0,0	39,9	0,0	0,0	39,9	33,5
Total	0,0	0,0	0,9	48,5	18,5	0,0	67,9	47,0

Current and non-current interest bearing liabilities as at 30 June 2021

<i>(Amounts in NOK million)</i>	0-3 months	3-12 months	1-2 years	2-3 years	3-4 years	> 4 years	Total	Carrying value
Leasing liabilities	0,0	0,5	0,5	0,5	0,0	0,0	1,6	1,6
Contingent consideration upon acquisitions	0,0	0,0	0,2	16,0	0,0	0,0	16,2	12,5
Payables loan to Ingerø Reiten Investment Company ¹⁾	0,0	10,0	0,0	0,0	0,0	0,0	10,0	10,0
Payables loan to Navamedic group ¹⁾	0,0	0,0	39,9	0,0	0,0	0,0	39,9	36,2
Total	0,0	10,0	40,1	16,0	0,0	0,0	66,1	60,3

¹⁾ New loan agreement with Ingerø Reiten Investment Company (owns 20.09% of all outstanding shares in Observe Medical ASA). The 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 capitalized and added to the aggregate principal amount of the loans outstanding. Maturity date of the loan is at 28 December 2021. If the Company resolves to carry out a private placement of new shares or a rights issue, the lender has the rights to convert the whole or part of the loan as contribution in kind to settle any subscriptions made by the lender in such share capital increase. The subscription price shall be equal to the subscription price for the other investors in the same share capital increase.

²⁾ Refer to note 13 in Annual report 2020 for further information about the loan agreement with Navamedic ASA (owns 21.54% of all outstanding shares in Observe Medical ASA).

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 2021	At 30 June 2020	At 31 December 2020
Non-current lease liability	1 600	34	396
Non-current interest bearing liabilities	36 213	33 509	34 821
Contingent consideration	12 509	13 532	22 368
Interest bearing current liabilities	10 002	3 000	0
Total interest bearing debt	60 324	50 075	57 585
Bank deposits	14 032	965	18 945
Net interest bearing debt	46 292	49 110	38 640

Equity ratio

<i>(Amounts in TNOK)</i>	At 30 June 2021	At 30 June 2020	At 31 December 2020
Equity	11 800	5 899	20 349
Total assets	81 925	61 360	87 733
Equity ratio	14,4 %	9,6 %	23,2 %

About Observe Medical

Observe Medical develops and markets and sells innovative hospital products that contribute to increased patient safety and a more efficient care system. The company's ambition is to drive growth by leveraging its expertise in sales and commercialization of its broad portfolio of medical technology products, mainly in the areas of Urine measurement, Anesthesiology/ICUs and wound care, in combination with targeted M&A.

The company's headquarters is in Oslo, Norway and its operations is based out of Gothenburg, Sweden. Observe Medical has a direct sales organization in the Nordics and a distributor network internationally. Observe Medical's product Sippi® is the only automated digital urine meter with possibility for wireless data transfer to the hospital patient data management systems and hinders biofilm formation that can lead to urinary infections (Sippcoat®). Sippi® is currently being launched with focus on selected markets and hospitals in Nordics and in Europe.

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Medtech that matters

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