

Observe Medical ASA

Q2 AND FIRST HALF YEAR REPORT 2023





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Highlights

Unometer™ acquisition

In October 2022, Observe Medical entered into an exclusive agreement with the intention to acquire the rights to own, produce and sell Unometer™ portfolio from Convatec, a global medical products and technologies company. The license and acquisition agreements are expected to be signed in Q3 2023 and the agreed purchase price is USD 4.2 million. The purchase price will be paid in instalments with the major part at closing, latest on 1th September 2025.

Unometer™ orders

Observe Medical has received initial orders from distributors for delivery of Unometer™ products with a total value of ~NOK 10 million. The distributors that have signed the orders have historically had annual repetitive purchases of around NOK 50 million. In addition a large number of distributors have signed letters of intent with intention to place orders after received product samples. Approximately 25 distributors covering 30 countries has received product samples.

CE-Certification for Unometer™ 500

In June 2023, Observe Medical attained CE certification for Unometer™ 500, a high-quality urine measurement product, under the EU's Medical Device Regulation. The certification signifies that the product has been assessed to meet high safety, health and environmental protection requirements.

Jørgen Mann appointed Chief Commercial Officer of Observe Medical

In January 2023, Observe Medical appointed Jørgen Mann as the Company's Chief Commercial Officer. With nearly 20 years of experience in sales and senior management roles from global medtech companies in Europe, he brings highly relevant experience to Observe Medical, as the company strengthens its commercial efforts in the market.

Key figures

Q2 2023

- Operating revenues of TNOK 5,436 (TNOK 4,296) and gross result of TNOK 1,825 (TNOK 1,405).
- EBITDA before non-recurring items of negative TNOK 9,719 (negative TNOK 11,399).
- Net finance expenses of TNOK 1,074 (income of TNOK 8,238). The net finance income in Q2 2022 reflects currency and change in the contingent consideration gain in second quarter 2022. See note 7 in the financial statement for information about the contingent consideration.
- Result before tax of negative TNOK 17,399 (negative TNOK 8,140)
- Earnings per share of negative NOK 0.33 (NOK 0.15)

H1 2023

- Operating revenues of TNOK 11,819 (TNOK 12,009) and gross result of TNOK 4,280 (TNOK 4,772).
- EBITDA before non-recurring items of negative TNOK 19,429 (negative TNOK 18,807). Increased operating expenses due to the inclusion of Biim Ultrasound from March 2022 and higher operational expenses.
- Net finance of negative TNOK 5,737 (TNOK 8,947)
- Result before tax of negative TNOK 35,176 (negative TNOK 17,149).
- Earnings per share of negative NOK 0.66 (negative NOK 0.42).
- At 30 June 2023, Observe Medical had an equity at TNOK 109,228 (TNOK 174,064) and an equity ratio of 53.2% (72%).
- *Figures in brackets = same period prior year.*

<i>Amounts in NOK thousand (excl. earnings per share)</i>	Q2 2023	Q2 2022	H1 2023	H1 2022	FY 2022
Operating revenues	5 436	4 296	11 819	12 009	19 521
Gross result	1 825	1 405	4 280	4 772	5 177
Operating expenses	11 544	12 804	23 709	23 579	50 310
EBITDA before non-recurring items	-9 719	-11 399	-19 429	-18 807	-45 133
Non-recurring items	2 811	1 576	3 355	2 173	3 079
EBITDA	-12 531	-12 974	-22 784	-20 980	-48 212
Depreciation and amortisation	3 795	3 404	6 655	5 116	10 931
EBIT	-16 325	-16 378	-29 439	-26 096	-59 142
Net finance	-1 074	8 238	-5 737	8 947	8 418
Result before tax	-17 399	-8 140	-35 176	-17 149	-50 725
Income tax expenses	8	24	18	24	76
Result	-17 407	-8 164	-35 194	-17 173	-50 801
Earnings per share (NOK per share)	-0,33	-0,15	-0,66	-0,42	-1,08

Letter from the CEO

Looking back at the first half of 2023, we have focused and proactively worked on several fronts in a fast-changing environment resulting in us having to adjust our short-term action plan. Adding new business for growth and conducting expansion activities require additional funding. During the first 6 months of the year, we experience the capital market to be difficult and challenging. The Company is continuously working to find solutions to these liquidity challenges, including alternative financing and short-term cost-saving measures. We appreciate the strong support from the Board and existing shareholders for providing solutions for a forward process. With this support we remain confident that we will grow the company substantially over the next few years and reach our long-term ambition.

We have placed much time, resources and effort into the product transition process with Convatec since the Fall of last year. This for OM to become ready to continue the Unometer portfolio and these activities have been some of the highest prioritized activities. During these first 6 months of the year we have diligently worked together with Convatec to complete the technology transfer, we have selected a cost-effective manufacturing partner, arranged production of the product portfolio, obtained the CE-mark, secured orders for more than 10 mill NOK and worked closely with Convatec to complete the contractual part of the arrangement to mention some of the main milestones. This continues to be a unique opportunity for OM and is an important step for increased revenues going forward.

On the back-end of the introduction of the Unometer portfolio, Sippi is very strategic positioned and is planned to be introduced into the same but also several additional sales channels for an even broader distribution. There is a broad international demand for Sippi, which is a device replacing one of the last manual monitoring procedures in intensive care.

The main focus for the Biim product has been educational and training support for approximately 265 educational dialysis clinics of Fresenius. This type of work has taken longer time than we expected but this is at the same time also typical for such large organizations. According to Fresenius this support is necessary and needed on the back-end of several Covid related challenges. The added education and training is for Fresenius to optimize the use of the Biim technology amongst key personnel on a daily basis and to become ready in all their approximately 2 700 clinics in the USA as a broader implementation for the use of the Biim ultrasound device. We experience that the commitment of Fresenius remains firm and strong and therefore this business relation remains to be a continued and important business for further growth.

The Nordic sales and distribution platform team has also been busy with their sales effort during these first 6 months of 2023. The business is experiencing an increase of 6%

compared to first half of 2022 with healthy and unchanged margins from a revenue point of view. In parallel the team continues also the effort in securing new contracts. This part of the OM business is overall improving and such focus will continue.

I hope you appreciate our efforts and welcome any questions or feedback you may have.

A handwritten signature in blue ink, appearing to read "Rune Nystad".

Rune Nystad
CEO



Business overview

Observe Medical is a Nordic medtech company that develops, markets and sells innovative medtech products for the global market. Observe Medical is committed to improving patient welfare and patient outcomes, improving clinical data accuracy and promoting positive health economics.

Observe Medical seeks to drive growth by leveraging its expertise in sales and commercialization of its broad portfolio of medical technology products, mainly in urine measurement, ultrasound, anesthesiology/ICUs, surgery and wound care, in combination with targeted M&A.

The Group is headquartered in Oslo, Norway, with wholly-owned subsidiaries in Narvik, Norway, Gothenburg in Sweden, Copenhagen in Denmark, Oulu in Finland and Seattle in the US. In addition, Observe Medical has a distributor and partner network internationally.

The current portfolio of products consist of:

Sippi® - The Digital, Automated Urine Measurement System

Observe Medical's Sippi® system brings urine measurement at hospitals up to today's standards by measuring and capturing data digitally and fully automated.

Sippi® provides patient data accuracy and saves significant time and effort for healthcare professionals.



Manual Urine Measurement system

Observe Medical has in 2023 introduced a manual urine measurement system to a broad global distribution network. The manual system is an important step for Observe Medical to be established as an preferred supplier in this segment. This will create a unique market access channel for our existing portfolio and will catapult Sippi® to the market.

Biim wireless pocketable ultrasound device

Biim Ultrasound probe is a wireless pocketable ultrasound device. This is a unique, cost efficient and small handheld wireless device that makes the technology available where its needed. The Biim Ultrasound system consists of an ultrasound probe and an App for display of the ultrasound image and/or video.

Biim offers nurses and medical staff an easy to use ultrasound device which ensure accuracy and quality in the treatment of their patients.

Biim has an agreement with Fresenius Medical Care with an aim to roll-out Biim Ultrasound probe in their approximately 3,000 dialysis clinics in the US has been a major important milestone. As of end first half 2023, a total of 265 Fresenius clinics has received Biim Ultrasound probes.



The Nordic Portfolio

Observe Medical Nordic portfolio consists of medtech devices and disposables, from well-known international suppliers of products within Urine measurement, Anesthesiology/ICUs and wound care. The portfolio of products are aimed at ICUs and other wards at hospitals as well as towards primary care and homecare settings, thus synergistic with Sippi® target customers.



Financial Development

In second quarter and first half of 2023 Observe Medical's main focus has been the process to acquire the Unometer™ portfolio, regulatory CE approval, prepare for production, and commercial activities for distribution of the Unometer™ portfolio in a global market. These investments are expected to provide significantly increased revenues and earnings going forward,

The potential Unometer™ transaction is also important for our existing portfolio and will give the portfolio a broad market access through a global distribution network established in the Unometer™ process. Sippi® will automate the urine measurement processes. This will improve data accuracy, reduce infection risks and reduce costs. Sippi® goes hand in hand with our Unometer™ products. Our ambition is that Sippi® will ride on the tailwinds of the Unometer™ portfolio and be placed in hospitals and intensive care units around the world. Sippi® has a broader market and price potential than manual urine measurement systems.

The initial batches of Biim ultrasound probes were delivered in the first half of 2022, adding up to 265 systems across the same number of treatment clinics. We are now working with management to ramp up for the next phase, a process spearheaded by a dedicated business unit of Fresenius with our support. The educational centers of Fresenius Kidney Care are supporting more than 2,500 Fresenius dialysis clinics throughout the US.

The company has through the first half year 2023 worked constantly to develop the Nordic portfolio and to reduce cost to increase the profit from the Nordic distribution portfolio.

Group results second quarter 2023

The Group had **operating revenues** at TNOK 5,436 , compared to TNOK 4,296 in the same quarter last year. **Gross result** in the quarter was TNOK 1,825, compared to TNOK 1,405 in the second quarter of 2022.

Total **operating expenses before non-recurring items** in the quarter was TNOK 11,544, compared to TNOK 12,804 in the same quarter last year. Operating expenses from Biim Ultrasound are included from March 2022.

EBITDA before non-recurring items in the second quarter was negative TNOK 9,719 compared to negative NOK 11,399 in the same period in 2022.

Non-recurring items consist in 2022 of expenses in connection with the Biim Ultrasound acquisition and provision for severance pay to former CEO and in 2023 expenses related to the UnoMeter™ and Ferrari acquisition and funding process.

Depreciation and amortization were at TNOK 3,795 in the second quarter of 2023, compared to TNOK 3,404 in second quarter 2022.

Net financial income was TNOK 1,074 compared to net financial income of TNOK 8,238 in the second quarter of 2022. The change is mainly related to interest expenses, currency gain and change in the contingent consideration liability. For more information about the contingent consideration, see note 6 in the financial statement.

Profit before tax was negative TNOK 17,399 compared to TNOK 8,140 in same quarter in 2022. The Group had TNOK 8 in calculated income tax expenses and the **profit after tax** was negative TNOK 17,407.

Earnings per share was in the second quarter 2023 negative NOK 0,33 compared to NOK 0.15 in the same quarter 2022.

Group results first half year 2023

The Group had **operating revenues** of TNOK 11,819, compared to TNOK 12,009 in the same period last year.

Gross result in the first half year of 2023 was TNOK 4,280, compared to TNOK 4,772 in the same period last year.

Total **operating expenses before non-recurring items** in the period were TNOK 23,709, compared to TNOK 23,579 in the first half year of 2022.

EBITDA before non-recurring items in the first half year of 2023 was negative TNOK 19,429 compared to negative TNOK 18,807 in the same period last year.

Non-recurring items consist in 2022 of expenses in connection with the Biim Ultrasound acquisition and provision for severance pay to former CEO and in 2023 expenses related to the UnoMeter™ and Ferrari acquisition and funding process.

Depreciation and amortization were TNOK 6,655 in the first half year of 2023, compared to TNOK 5,116 in first half year of 2022. The increase is mainly related to inclusion of Biim Ultrasound from March 2022 and amortization of added values in connection with the Biim acquisition.

Net financial income was negative TNOK 5,737 compared to TNOK 8,947 in the same period in 2022. The change is mainly related to currency and change in the contingent consideration liability. For more information about the contingent consideration, see note 6 in the financial statement.

Profit before tax was negative TNOK 35,176 compared to negative TNOK 17,149 in the same period last year. The Group had TNOK 18 in calculated income tax expenses and the **profit after tax** was 35,194

Earnings per share was negative NOK 0.66 compared to negative NOK 0.42 in the same period last year.

Cash flow second quarter 2023

Net cash flow from operating activities was in the second quarter of 2023 negative TNOK 6,410 compared to negative TNOK 17,764 at second quarter 2022. The change is mainly affected by the increased result, adjusted for finance items without cash effect, and positive change in working-capital.

Net cash flow used in investing activities was TNOK 808 compared to TNOK 5,790 in the second quarter of 2022.

Net cash flow used in financing activities was TNOK 3,583, compared to cash flow from financing activities of negative TNOK 9,672 in the second quarter of 2022. In second quarter 2022 the Company repaid a loan from Ingerø Reiten Investment Company (owns 20.09% of all outstanding shares in Observe Medical ASA) of TNOK 10,000 plus accrued interests. In first quarter 2023 the Company entered into loan agreements with some major shareholders of the Company and borrowed TNOK 9,500. The Company received TNOK 4,500 of the loan in second quarter 2023.

Cash deposits at the end of second quarter were TNOK 1,735.

Cash flow first half year 2023

Net cash flow from operating activities was in the first half year of 2023 negative TNOK 19,446, compared to negative TNOK 27,542 in the first half year of 2022. The change is mainly affected by positive change in working-capital that more than offset the negative change in result before tax, adjusted for finance items without cash effect.

Net cash flow used in investing activities was TNOK 4,606, compared to TNOK 56,450 in the first half year of 2022. Cash flow used in investment activities in first half 2022 was related to the cash settlement in connection with the acquisition of Biim Ultrasound AS, of TNOK 54,002.

Net cash flow from financing activities was TNOK 8,564, compared to TNOK 121,356 in the first half year of 2022. In first half of 2023 the company entered into a loan agreement with major shareholders for a total of TNOK 9,500. In first half year of 2022 the company carried out a Rights Issue with a net proceeds of TNOK 155,597 and repaid interest-bearing debt of TNOK 33,664.

Cash deposits at June 30, 2023 were at TNOK 1,735.

Financial position at 30 June 2023

As of 30 June 2023, the Group had total **non-current assets** of TNOK 187,785, compared to TNOK 190,106 at 30 June 2022. Non-current assets mainly consist of goodwill TNOK 101,563 (TNOK 86,697 at 30 June 2022) and intangible assets related to Sippi® and Biim ultrasound probe of TNOK 82,753 (TNOK 99,753 at 30 June 2022).

At 30 June 2023 the Group had **bank deposits** of TNOK 1,735, at 30 June 2022 the bank deposits was TNOK 40,478.

At 30 June 2023 the Group had **total assets** amounting to TNOK 203,730, compared to TNOK 241,662 at 30 June 2022.

At 30 June 2023 the Group had **equity** of TNOK 109,228 compared to TNOK 174,064 at 30 June 2022. The equity ratio was 53.6% at 30 June 2023, compared to 72% at 30 June 2022. The change is mainly related to the negative result and currency effects in the period. At the end of second quarter the Group had **interest bearing debt**, current and non-current, at TNOK 61,159, compared to TNOK 7,535 at 30 June 2022.

Events After the Reporting Date

At 4 July 2023, the Company published a stock exchange announcement and updated the market about the Company's financial situation.

Given the current challenging state of the finance markets, the Company has encountered difficulties in securing the contemplated capital alternatives. Despite active efforts to pursue the contemplated bond issuance, new external equity and alternative financing, the Company has so far not been successful in securing its funding objectives. Consequently, the Company is facing liquidity challenges in the short and medium term.

The Company is continuously working to find solutions to these liquidity challenges, including additional funding from external sources. However, the process of raising capital through equity and/or external debt is continued in third quarter based on positive feedback from relevant sources. Meanwhile, the Company has initiated short term cost-saving measures, including operational measurements and a temporary layoff of staff. Moreover, the Company is engaged in constructive dialogues with its operational creditors to manage short-term liquidity, and remains in close and constructive dialogue in order to optimize cash management in the short term.

Outlook

Observe Medical is a global medtech group, an attractive platform for building a portfolio of products through M&A as well as by organic growth. The Group's core strategy is to be a platform for growth both to offer innovative products for the purpose of patient welfare, health economics and data accuracy, and to create a global distributor and partner network for the sale of the Group's proprietary products.

Biim ultrasound probe

After completing the first phase of delivery of total 265 ultrasound probes to all of Fresenius Kidney Care's educational centers in the USA, the Company now focuses on preparing for the next phase together with the customer. The educational centers are responsible for supporting more than 2 500 dialysis clinics throughout the USA, which are targeted to introduce the Biim ultrasound product.

Sippi®

In the near term the company's key focus is to finalize the acquisition of the Unometer™ portfolio and to establish Observe Medical as a leading manufacturer of urine measurement systems to a global market. This will form the basis and market access for the next generation and digital system Sippi®.

Nordic sales and distribution platform

The company is constantly working to expand its business by adding new high-quality products to the portfolio.

Through an expanded product portfolio and ambitions to enter new geographical markets in the Nordics, the company aims to further develop the Nordic distribution business onwards.

The potential acquisition of the Unometer™ portfolio

The Unometer™ portfolio comprises industry-recognized products and brands such as UnoMeter™ Safeti™ Plus, UnoMeter™ 500, and UnoMeter™ Abdo-Pressure™. These products are used for routine or post-operative drainage, collection, and measurement of urine output from critically ill patients in hospitals and intensive care units (ICUs). The product range is complementary to Observe Medical's digital and automated urine meter, Sippi®.

The Unometer™ products are market leading in Europe and in several other countries and have generated annual revenues of around EUR 18 million and will contribute significantly to the Group's gross profit. Yearly, more than five million of these urine bags and accessories are sold and shipped to several hundred customers and distributors in more than 50 countries worldwide.

Risks and uncertainties

Observe Medical faces risks both of operational and financial nature, which are described in Note 3 in the consolidated financial statements 2022 and in the Risk Factors section in the Board of Directors report in the annual report 2022.

Observe Medical operates in the market for medical technology and is exposed to the risk factors which are considered common in this market. For the Nordic distribution portfolio, Observe Medical has distributions rights in Sweden and with the possibility to expand to rest of the Nordic region.

Observe Medical has developed and owns Sippi®, with supporting products Sippi® Base unit, SippBag disposable units and related technologies SippLink™ SippSense®, SippCoat® and SippBridge. From 2022, the company also owns the Biim ultrasound probe and the App for display of the ultrasound image and/or video. Hence, the market for these products and the Group's ability to commercialize the products will be important for the Group's revenues, profitability, liquidity and financial position.

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 with better product features or with better ability to penetrate the market and build market share. Increased competition may also lead to reduced pricing potential for Observe Medical's products.

Observe Medical's Sippi® product is still in an early stage in terms of roll-out into hospitals, and the technology is daily use in only a limited number of intensive care units (ICUs). There is a risk of malfunction of the technology when used over long time and in complex technological environments in ICUs, which could lead to delays in roll-outs and expenses related to redesign.

The main operational risk short term for Biim relates to the continued roll-out and degree of adoption of the product in dialysis clinics in the US.

The Group has distributors and partners as sales channels for foreign markets. The Group is dependent on those distributors' ability to perform and operate in these markets. Furthermore, there is a risk that these companies go out of business, which could lead to delays in the commercialization. The Group also faces a risk in upscaling or changes in the production, where product performance can differ.

The Russian invasion of Ukraine has resulted in a rapidly evolving geo-political situation and introduced a new set of challenges with respect to maintaining business continuity. The war in Ukraine and implications after the Covid-19 pandemic are disrupting global supply chains which can impact our suppliers' ability to access material in time. This could in turn lead to lack of electronic components and delay the production of devices and revenues from sales.

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.

As a distributor, the Group depends on having distributor agreements with the suppliers. There is a risk associated with re-negotiating of agreements with suppliers to keep the distribution rights and not get significantly weakened terms

Observe Medical entered into an exclusive agreement with the intention to acquire the rights to own, produce and sell the Unometer™ portfolio of urine measurement products from Convatec Group Plc. The products Observe Medical intends to acquire are market leading in Europe and in several other countries and have generated annual revenues of around EUR 18 million and will contribute significantly to the Group's gross profit. Yearly, more than five million of these urine bags and accessories are sold and shipped to several hundred customers and distributors in more than 50 countries worldwide. A transaction will also significantly strengthen the Company's distributor network for Sippi® and potential Biim ultrasound probe.

There is a risk that the Company does not succeed to entering a final agreement to acquire the Unometer™ product portfolio and/or to produce these products. This may again impact the potential revenue and profits forecast from the Unometer™ product portfolio.

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 revenue and revenue growth, cost of materials, payroll and operating expenses, capital expenditure, loan repayments and interest charges. The assumptions applied are based on historical experience and future expectations.

Based on updated cash flow forecasts, the Group will require additional funds in order to execute and complete its commercialization and growth strategy, and for other purposes. The additional funding is planned to be carried out through an equity funding and/or debt in second half of 2023. In addition, the management has identified initiatives to reduce risk and spending and 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. Due to the pandemic and the Ukraine crisis, the world is experiencing challenges and uncertainty with impact in the financial markets and causes globally high inflation rates. The company is following the situation closely.

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 2022, 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 2023 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 25, 2023

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

Terje Bakken
Chairman

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

Sanna Rydberg
Director

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

Kathrine Gamborg Andreassen
Director

A handwritten signature in blue ink, appearing to be "Line Tønnessen".

Line Tønnessen
Director

A handwritten signature in blue ink, appearing to be "Eskild Endrerud".

Eskild Endrerud
Director

A handwritten signature in blue ink, appearing to be "Rune Nystad".

Rune Nystad
CEO

Consolidated Financial Statements

Observe Medical Group

Consolidated Statement of Comprehensive Income

<i>(Amounts in NOK thousand)</i>	Note	Q2 2023	Q2 2022	H1 2023	H1 2022	FY 2022
Operating revenues	5	5 436	4 296	11 819	12 009	19 521
Cost of materials		3 612	2 891	7 538	7 237	14 344
Gross result		1 825	1 405	4 280	4 772	5 177
Employee benefit expenses	7	6 917	8 089	13 322	13 915	28 521
Other operating expenses		7 439	6 290	13 742	11 837	24 868
Operating expenses		14 356	14 379	27 064	25 752	53 389
Operating result before depreciation and amortisation (EBITDA)		-12 531	-12 974	-22 784	-20 980	-48 212
Depreciation and amortisation		3 795	3 404	6 655	5 116	10 931
Operating result (EBIT)		-16 325	-16 378	-29 439	-26 096	-59 143
Financial income and expenses						
Financial income		2 622	11 611	2 766	14 046	19 122
Financial expenses	6	3 696	3 373	8 503	5 099	10 704
Net financial items		-1 074	8 238	-5 737	8 947	8 418
Result before tax		-17 399	-8 140	-35 176	-17 149	-50 725
Income tax expense		8	24	18	24	76
Result for the period		-17 407	-8 164	-35 194	-17 173	-50 801
Earnings per share (NOK per share)	8	-0.33	-0.15	-0.66	-0.42	-1.08

Observe Medical Group

Consolidated Statement of Financial Position

<i>Amounts in NOK thousand</i>	Note	At 30 June 2023	At 30 June 2022	At 31 December 2022
ASSETS				
Non-current assets				
Goodwill	9	101 563	86 697	99 961
Intangible assets		82 753	99 753	82 767
Tangible assets		3 469	3 656	4 152
Total non-current assets		187 785	190 106	186 880
Current assets				
Trade receivables		1 160	1 439	4 731
Inventories		9 556	8 585	8 117
Other receivables and prepaid expenses		3 493	1 054	2 443
Bank deposits		1 735	40 478	13 641
Total current assets		15 944	51 556	28 932
Total assets		203 730	241 662	215 812
EQUITY AND LIABILITIES				
Total equity	7	109 228	174 064	138 306
Non-current liabilities				
Non-current lease liabilities		367	1 307	965
Contingent consideration	6	3 405	1 616	3 365
Non-current interest bearing liabilities		909	43 557	946
Total non-current liabilities		4 680	46 480	5 276
Current liabilities				
Trade payables		10 503	1 712	8 610
VAT and other public taxes and duties payables		9 470	7 387	6 074
Interest bearing current liabilities		56 787	0	44 802
Current lease liabilities		1 427	1 534	1 528
Other current liabilities		11 635	10 486	11 165
Total current liabilities		89 822	21 119	72 230
Total liabilities		94 502	67 598	77 506
Total equity and liabilities		203 730	241 662	215 812

The Board of Directors and CEO of Observe Medical ASA

Oslo, August 25, 2023

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

Terje Bakken
Chairman

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Sanna Rydberg
Director

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Kathrine Gamborg Andreassen
Director

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Line Tønnessen
Director

A handwritten signature in blue ink, appearing to read "Eskild Endrerud".

Eskild Endrerud
Director

A handwritten signature in blue ink, appearing to read "Rune Nystad".

Rune Nystad
CEO

Observe Medical Group

Consolidated Statement of Changes in Equity

(Amounts in NOK thousand)

	Share capital	Share premium	Other paid-in equity	Total paid-in capital	Retained earnings	Translation differences	Total
Balance at December 31, 2021	5 097	87 065	11 800	103 963	-108 692	-9 394	-14 122
Share issue	6 686	148 911		155 597			155 597
Consideration shares	2 125	47 724		49 849			49 849
Share options					185		185
Net loss of the period					-17 173		-17 173
Translation differences						-271	-271
Balance at June 30, 2022	13 907	283 700	11 800	309 408	-125 680	-9 665	174 065
Balance at December 31, 2021	5 097	87 065	11 800	103 963	-108 691	-9 394	-14 122
Share issue	8 811	196 635		205 446			205 446
Share options					287		287
Net loss of the period					-50 801		-50 801
Translation differences						-2 504	-2 504
Balance at December 31, 2022	13 908	283 700	11 800	309 409	-159 205	-11 898	138 306
Share options					264		264
Net loss of the period					-35 194		-35 194
Translation differences						5 852	5 852
Balance at June 30, 2023	13 908	283 700	11 800	309 409	-194 135	-6 046	109 228

Observe Medical Group

Consolidated Cash Flow Statement

<i>Amounts in NOK thousand</i>	Q2 2023	Q2 2022	H1 2023	H1 2022	FY 2022
Cash flow from operating activities					
Result before tax	-17 399	-8 142	-35 176	-17 149	-50 725
Tax paid	249	-234	-409	-148	-142
Depreciation and impairment	3 795	3 403	6 655	5 116	10 931
Gain(-)/ loss from sale of fixed asset	0	0	0	0	-320
Interest expenses and change FV contingent consideration with no cash effect	1 273	-10 474	2 102	-10 160	-6 628
Change in inventories	-913	-261	-1 438	-834	-294
Change in trade receivables and other receivables	2 841	3 704	1 105	2 880	-1 908
Change trade account payables and other current liabilities	3 743	-5 760	7 714	-7 246	-2 249
Net cash flow from operating activities	-6 410	-17 764	-19 446	-27 542	-51 334
Cash flow from investing activities					
Sale of tangible and intangible assets	125	-866	125	-2 264	559
Purchase of tangible and intangible assets	-934	0	-4 731	-183	-4 927
Net cash effect of business combination	0	-4 924	0	-54 002	-54 002
Net cash flow from investing activities	-808	-5 790	-4 606	-56 450	-58 370
Cash flow from financing activities					
Net proceeds from share issue	0	0	0	155 597	155 597
Net change interest bearing debt	4 444	-10 405	9 425	-33 664	-33 267
Payments of lease liabilities	-861	733	-861	-576	-1 390
Net cash flow from financing activities	3 583	-9 672	8 564	121 357	120 940
0					
Currency translation differences	-285	2 712	3 582	249	-460
0					
Changes in cash	-3 920	-30 514	-11 906	37 614	10 777
Bank deposits start of the period	5 655	70 992	13 641	2 864	2 864
0					
Bank deposits end of period	1 735	40 478	1 735	40 478	13 641

Explanatory Notes to the Consolidated Financial Statements

Note 1 – General information

Observe Medical ASA is a Norwegian public listed company listed on Euronext Expand, Oslo. The Company and its subsidiaries (together the Group) is a growing medtech group which has developed the next generation digital urine meter, Sippi® and the unique, wireless and pocketable ultrasound probe, Biim. 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 aps, located in Sørum, Denmark

Biim Ultrasound AS, located in Narvik, Norway

Biim Ultrasound Oy, located in Oulu, Finland

Biim Ultrasound Inc., located in Seattle, the US

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 2023 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 2022. The accounting policies applied are consistent with those applied and described in the consolidated annual financial statements for 2022, which are available upon request from the company's registered office at Dronning Eufemias gate 16, 0191 Oslo, Norway and at www.observemedical.com.

These interim condensed consolidated financial statements for the second quarter and first half 2023 were approved by the Board of Directors and the CEO on 24 August 2023.

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 2023 are consistent with accounting policies in the annual report 2022. Refer to note 2 in the annual financial statement 2022 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 2022 (see especially note 4).

Note 5 – Revenues

Amounts in NOK thousand

Revenue per product group	Q2 2023	Q2 2022	H1 2023	H1 2022	FY 2021
Urine Measurement - Sippi®	12	0	22	118	122
Urine Measurement - Other products	142	127	1 845	301	700
Biim Ultrasound probe	45	1 283	45	5 004	0
Anaesthesia / ICU	1 802	2 244	3 922	4 972	19 835
Wound Care	1 337	521	3 229	1 073	2 280
Other	2 098	120	2 756	542	1 105
Total	5 436	4 296	11 819	12 009	24 042

Note 6 – 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. The fair value of the contingent consideration involves discounting expected future payments. Discounting is based on a discount rate of 12%.

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	- 9 337
Estimated fair value 31 December 2021	13 031
Change in estimated fair value in 2022	-9 666
Estimated fair value 31 December 2022	3 365
Change in estimated fair value in 2023	40
Estimated fair value 30 June 2023	3 405

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

Note 7 – Share options

CEO Granted Employee Share Options

As part of a long-term incentive plan, the CEO was on November 11, 2022 Rune Nystad was granted 1 000 000 options.

The options have been granted with an exercise price of NOK 4.5 per option share. The options will be vested in three tranches, whereby each tranche comprising 1/3 of the options will vest on the first, second and third anniversary of the grant date, respectively.

The options have been granted without consideration and each option will upon exercise give the right to acquire one share in the Company. Any shares acquired upon exercise will be subject to a 12 months' lock-up period from the date received by the option holder, and all options will expire and lapse if not exercised within 11 November 2026.

CFO share options

In 2021, Per Arne Nygård was granted 120,000 options and each option, when exercised, will give the right to acquire one share in Observe Medical ASA. The options are granted without consideration..

The options are granted vest over a 2 year period, with 2/3 on the date of signing of the option agreement, 1/6 after 12 months and 1/6 after 24 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 option agreement regulates the adjustments in strike price in the event that a rights issue or repair issue is conducted by the Company. If such events the exercise price shall be reduced to reflect the dilutive effect of the share issue. On the basis of the above, the options have been granted with an exercise price of NOK 8.29, which reflects the volume weighted average share trading price of the Company's shares the 10 trading days prior to 1 March 2020 and recalculated to NOK 6.63 on basis of the rights issue in first quarter 2022. Furthermore, 4/6 of the options vested upon grant, while the remaining 2/6 was vested with 50% on 1 March 2022 and 1 March 2023, respectively.

Former CEO, share options

Björn Larsson was in January 2020 granted 60 000 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 are granted 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.

When entering the option scheme the strike price for the options was NOK 11.09 and calculated as the average price the last 10 trading days before signing of the option agreement. After the rights issue conducted in 2022 the strike price is recalculated to NOK 8.88.

The option agreement regulates the adjustments in the event that a rights issue or repair issue is conducted by the Company. If such events the option scheme shall be adjusted to reflect the dilutive effect of the share issue.

Total option expenses for the company in first half year of 2023 are NOK 264 thousand.

Options at 30 June 2023:

Share options											
Name and position	Specification of plan	Performance period	Award date	Vesting date	End of holding period	Exercise period	Exercise price of the share and date	Share options held at the beginning of the year	Share options awarded	Share options vested	Share options awarded and unvested
Rune Nystad (CEO)	ESOP 2022	11.11.22 – 11.11.23	11.11.2022	11.11.2023	11.11.2023	11.11.23 – 11.11.26	4.5	0	333 333	0	333 333
		11.11.22 – 11.11.24	11.11.2022	11.11.2024	11.11.2024	11.11.24 – 11.11.26	4.5	0	333 333	0	333 333
		11.11.22 – 11.11.25	11.11.2022	11.11.2025	11.11.2025	11.11.25 – 11.11.26	4.5	0	333 334	0	333 334
Total							0	1 000 000	0	1 000 000	
Per Arne Nygård (CFO)	ESOP 2021	16.11.21 – 16.11.21	16.11.2021	16.11.2021	16.11.2021	16.11.21-01.03.24	6.63	95 971	0	95 971	0
		16.11.21 – 01.03.22	16.11.2021	01.03.2022	01.03.2022	01.03.22-01.03.24	6.63	23 992	0	23 992	0
		16.11.21 – 01.03.23	16.11.2021	01.03.2023	01.03.2023	01.03.23-01.03.24	6.63	23 992	0	23 992	0
Total							143 955	0	143 955	0	
Björn Larsson (CEO)	ESOP 2020	09.01.20 – 09.01.21	09.01.2020	09.01.2021	09.01.2021	09.01.21-01.07.23	8.88	23 992	0	23 992	0
		09.01.20 – 09.01.22	09.01.2020	09.01.2022	09.01.2022	09.01.22-01.07.23	8.88	23 992	0	23 992	0
		09.01.20 – 09.01.23	09.01.2020	09.01.2023	09.01.2023	09.01.23-01.07.23	8.88	20 000	-20 000	0	0
Total							47 984	-20 000	47 984	0	
Total for the Company							191 939	980 000	191 939	1 000 000	

Note 8 – 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 2023	Q2 2022	H1 2023	H1 2022	FY 2022
Profit for the period	-17,407,377	-8,164,105	-35,194,205	-17,172,758	-50,800,934
Average no of shares	53,491,656	53,491,656	53,491,656	40,774,173	47,185,178
Earnings per share (NOK)	-0.33	-0.15	-0.66	-0.42	-1.08

Note 9 – Goodwill

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015, the acquisition of Observe Medical Nordic AB in 2020, and the acquisition of Biim Ultrasound AS in 2022.

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

The Group currently has three cash generating unit, Urine Measurement (OMI AB), Ultrasound (Biim Ultrasound) and Other Business (Observe Medical Nordic AB)

As at 31 December 2022, 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 exceeds the carrying value of the equity. No further impairment test has been carried out as at 30 June 2023.

Refer to note 7 in Annual report 2022 for further information about goodwill.

Note 10 - Events After the Reporting Date

At 4 July 2023, the Company published a stock exchange announcement and updated the market about the Company's financial situation.

Given the current challenging state of the finance markets, the Company has encountered difficulties in securing the contemplated capital alternatives. Despite active efforts to pursue the contemplated bond issuance, new external equity and alternative financing, the Company has so far not been successful in securing its funding objectives. Consequently, the Company is facing liquidity challenges in the short and medium term.

The Company is continuously working to find solutions to these liquidity challenges, including additional funding from external sources. However, the process of raising capital through equity and/or external debt is continued in third quarter based on positive feedback from relevant sources. Meanwhile, the Company has initiated short term cost-saving measures, including operational measurements and a temporary layoff of staff. Moreover, the Company is engaged in constructive dialogues with its operational creditors to manage short-term liquidity, and remains in close and constructive dialogue in order to optimize cash management in the short term.

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 before non-recurring items	EBITDA of the Company before any extraordinary or unusual one-time non-recurring expenses or other charges as reflected in the Company's audited consolidated financial statements for the year
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.
Earnings per Share (EPS):	Profit divided by number of outstanding shares
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

(Amounts in TNOK)

	At 30 June 2023	At 30 June 2022	At 31 December 2022
Current and Non-current lease liability	1 794	2 841	2 493
Non-current interest bearing liabilities	909	43 557	946
Contingent consideration	3 405	1 616	3 365
Interest bearing current liabilities	56 787	0	44 802
Total interest bearing debt	62 894	48 014	51 606
Bank deposits	1 735	40 478	2 443
Net interest bearing debt	61 159	7 535	49 163

Equity ratio

(Amounts in TNOK)

	At 30 June 2023	At 30 June 2022	At 31 December 2022
Equity	109 228	174 064	138 306
Total assets	203 730	241 662	215 812
Equity ratio	53.6 %	72.0 %	61.1%

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