

Q3 / 16

Third Quarter 2016 Report



Highlights for the third quarter

- Revenue growth of 6.0 percent in the third quarter of 2016, with revenues of NOK 65.2 million, compared to NOK 61.5 million in the third quarter of 2015
- EBITDA of NOK 1.8 million in the period, compared to NOK 1.5 million in the third quarter of 2015, reflecting high activity level within business development
- Started the long term strategic distribution collaboration with TopRidge Pharma Ltd, initiated distribution of Imdur® (isosorbide mononitrate) in the Nordic Markets
- Sippi® BLE (bluetooth low energy) on track for production of wireless communication capability, first new units to be delivered during Q4
- Navamedic's U.K. distributor of Sippi®, Pennine Healthcare, started first major Sippi-evaluation in five departments at Heartland Hospital, Birmingham

Key Figures

(NOK mill)	Q3 2016	Q3 2015 ¹⁾	YTD 2016	YTD 2015 ¹⁾
Revenue	65.2	61.5	192.7	183.0
Gross profit	16.2	15.6	47.5	45.4
EBITDA	1.8	1.5	2.3	8.9
Operating Result (EBIT)	-1.3	-2.0	-17.1	0.1
Result before tax	-0.9	-4.1	-19.6	-1.8
Gross margin	24.8 %	25.3 %	24.6 %	24.8 %
EBITDA margin	2.8 %	2.4 %	1.2 %	4.9 %
Assets	288.9	305.9		
Equity	95.9	125.0		
Liabilities	192.9	180.9		
Equity ratio	33.2%	40.9%		

¹⁾ Adjusted due to correction of error, see note 24 to the annual report for 2015.

Comment from Tom Rönnlund, CEO of Navamedic:

“The third quarter marked the start of Navamedic’s long term partnership with Top Ridge Pharma Limited, as shipping of Imdur to customers in the Nordic region was initiated. This is the first major product under the new agreement with Top Ridge Pharma and Navamedic is working diligently to expand distribution of Imdur to additional markets. Sales revenue continued to perform well, up six percent compared to previous year. Group EBITDA performance was as expected weighed by the costs associated with the launch of Sippi, while the base business in Pharma and Healthcare products provided a 5.9% EBITDA margin. In Q3 Navamedic has moved the wireless communication version of Sippi® into production, and additional sales uptake is expected in the years to come from this important development.”

Operational Review

About Navamedic

Navamedic ASA is a Norwegian medtech and pharmaceutical distribution and marketing company. The Group's Medtech business is currently developing and launching the next generation digital urine meter, Sippi®, in Europe, to a positive response from customers. Navamedic's Pharma and Healthcare Product business distributes pharmaceutical and medical device products supplied by a number of manufacturers to hospitals and pharmacies in the Northern European region.

	Pharma and Healthcare		Medtech*		Group	
(NOK mill)	Q3 2016	Q3 2015	Q3 2016	Q3 2015	Q3 2016	Q3 2015
Revenue	65,1	61,4	0,08	0	65,2	61,5
Gross profit	16,1	15,6	0,03	0	16,2	15,6
Gross margin	24,8 %	25,4 %	34,6 %	0,0 %	24,8 %	25,3 %
Operating cost	12,3	10,4	2,1	3,7	14,3	14,1
EBITDA	3,9	5,1	-2,0	-3,6	1,8	1,5
EBITDA Margin	5,9 %	8,2 %			2,8 %	2,4 %

*The Medtech business segment was established after the Q3 2015 acquisition of Sippi® (OM)

Pharma and Healthcare Product Business

The strategy for the Pharma and Healthcare Product area is to build a strong distribution business through representation and distribution agreements with partners looking for an efficient go-to-market model in mainly the Nordic markets, leveraging our regulatory, sales and marketing capabilities in the hospital- and pharmacy sectors. In the Pharma and Healthcare Product business, the company currently sells, markets, and distributes more than 80 pharma- and medical device brands from 20 manufacturers and brand owners.

Navamedic signed the partnership agreement with TopRidge Pharma Limited in Q2 2016. In September, the distribution of angina prevention medicine Imdur® (isosorbide mononitrate) commenced in Norway, Denmark, Sweden, Finland and Iceland. The strategic partnership and long-term distribution agreement represents significant opportunities for Navamedic's continued development, as potential future products planned for launch in Europe by TopRidge Pharma and its parent company, will be offered Navamedic on a first rights basis.

Revenues in Navamedic's Pharma and Healthcare Product division were NOK 65.1 million in the third quarter of 2016 compared to NOK 61.4 million in Q3 2015. This is a 6.0% growth compared to the same quarter last year.

The division continued its growth in the Nordic markets, following the addition of new products earlier in the year and growth in prioritized product areas. In the Nordic region alone, revenues grew by 38%, compared to Q3 the previous year.

The gross margin in the division decreased from 25.4% in the third quarter of 2015 to 24.8% in the third quarter of 2016, mainly due to changes in the product mix with different margins. Operational expenses were higher in the quarter compared to the previous year due to personell related cost of NOK 1.0 million recorded in the quarter, incurred in earlier periods. EBITDA ended at NOK 3.9 million in the quarter, down from NOK 5.1 million last year, representing an EBITDA margin of 5.9%.

In Q3, Navamedic highlights the following developments within the Pharma and Healthcare Product Business portfolio:

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- *Uracyst*, for treatment of painful bladder syndrome, experienced continued strong growth. Revenues were up by 55% compared to Q3 2015, driven by higher demand, as well as price increases implemented earlier in the year
 - The Medical Nutrition portfolio continued with good sales revenue growth in Q3, delivering a 23% higher sales revenue compared to Q3 2015
 - *NYDA*, a lice treatment sold in pharmacies, had a strong Q3 following increased pharmacy distribution in Norway and good performance in Sweden after successful marketing campaigns, and grew by 50% compared to Q3 2015
 - *Ovestin* had a strong quarter in the Nordics, growing by 13% in revenues, compared to Q3 2015, representing a solid performance by a mature brand in a market leading position. *Ovestin* is one of the products Navamedic will hand back to Aspen in May 2017
 - Geographically, performance in the quarter was strong in the Nordic countries, driven by revenue growth in Denmark, Norway, Finland and Sweden. This is mainly a result of new products in 2016, like *Imdur*[®] from TopRidge Pharma Limited, as well as various product additions from Aspen and Pohl-Boskamp. The strong sales growth in Denmark is explained by the addition of products with existing sales under the Aspen partnership and the launch of *Mygfri*[®] in Danish pharmacies.

During Q3, Navamedic continued launch activities for its portfolio of new brands, including *Nitrolingual*[®], *Woulgan*[®] and *Mygfri*[®]. All three launches are progressing well and according to plan. *Nitrolingual*[®] is well on track to hit its full-year sales estimate of NOK 8.0 million, with third quarter sales of NOK 2.0 million. The commercial activities related to *Woulgan*[®] continued according to plan, focusing on the professional wound care market. Clinical evaluations of the product are now ongoing at 20 sites across the Region in order to further build experience and confidence with the product among specialised doctors and nurses. *Woulgan* is tendered in two Areas in Finland, Helsinki and Oulu, and preparations for tender's submission in near future have been done in both Sweden and Norway.

Mygfri[®], Navamedic's own brand of pharmacy-sold mosquito repellent for the Danish market, had end-of-season sales in line with expectations, with NOK 0.3 million in Q3. Being the first summer season of the newly launched *Mygfri*[®], total seasonal revenues of NOK 1.7 million represent a good start for the product.

In September 2016, Navamedic announced that distribution of *Imdur*[®] had commenced in the Nordic markets. The first shipments of products under the Navamedic name occurred in mid-September. In addition, Navamedic is currently engaged in the initiation of distribution of *Imdur*[®] in the Baltic countries as well as the Netherlands, and expects to commence distribution in those markets by Q4 2016. *Imdur*[®] is expected to become Navamedic's number one product in terms of sales, representing an important addition in light of the expiring Aspen partnership, due in May 2017. *Imdur*[®] will replace some of the sales revenues from the product portfolio that will be handed back to Aspen in May 2017. In Q3, Navamedic has started the practical implementation of handing back the Aspen portfolio. The expiration date of the contract with Aspen is in mid-May 2017. As previously communicated, Navamedic sees the opportunity to continue to leverage its business model for long-term growth. This includes a focus on developing new and additional strategic partnerships and long-term distribution agreements, such as the agreement and partnership with TopRidge Pharma, as well as exploring new products and markets.

Medtech Business

Navamedic's proprietary product, Sippi[®], offers a new standard for urine monitoring in hospitals by enabling automated digital measurement. Safe and accurate monitoring of patients' urine production is a vital parameter for all intensive care patients and for select patients treated in other wards. In addition to this, *Sippi*[®] prevents biofilm build-up via its proprietary technology and alerts healthcare professionals if biofilm

reaches critical levels. Preventing build-up of biofilm has the potential of minimising the growth of bacteria in the urinary tract, and hence significantly reduce the risk of urinary tract infections.

Navamedic's further development and commercialisation of its proprietary urine measurement system, Sippi®, continued during the quarter, with new milestones reached with regards to the product's wireless capabilities, continued positive feedback from key institutions and prospect customers, and initiation of important clinical studies.

In Q3, Navamedic presented Sippi® at the Swedish association for Intensive Care Physicians (SFAI), with great success. In their feedback, customers highlighted automisation, bacterial control and data storage as critical features. Navamedic received a large number of requests from institutions interested in testing the product, including requests from significant players like the University Hospital of Gothenburg.

During the quarter, Navamedic carried out further clinical tests with SippLink™, a communication tool enabling wireless transfer of data from Sippi® to a Patient Data Monitoring System (PDMS), in cooperation with GE Healthcare and NÄL (Norra Älvsborgs Länssjukhus) in Sweden. Navamedic plans to implement SippLink™ at NÄL during Q4 2016.

In addition, Navamedic has completed development of software enabling connectivity to a second Patient Data Management System, iMDsoft's Metavision, during the quarter, and will start clinical evaluation during Q4 2016.

The University Clinic of Lübeck in Germany has initiated a study evaluating if Sippi® with its biofilm warning technology could serve as an early indicator for AKI (Acute Kidney Injury). So far, 28 patients have been included, without any adverse events.

Another study is carried out at the Karolinska University Hospital, on Sippi® and its ability to prevent biofilm and bacteria build-up. The first part of the study, on biofilm build-up, has concluded, with the second part of the study, on Sippcoat's anti-bacterial capacities underway.

If Navamedic can clinically prove that Sippi® prevents bacteria from transporting from the urinary bag to the bladder (up to 40% of all infections), and reduce the risk of intraluminal migration of bacteria, and therefore reduce the risk of urinary tract infections, the company believes the commercial potential for Sippi® could be further enhanced. Hospital acquired infections is a major concern for healthcare providers all over the world. Solutions that can help reduce the risk in this area has the potential of widespread uptake, hence Navamedic's focus on building further evidence of Sippi's potential benefits in protecting the patients from these types of infections.

Financial Review

Revenues in the third quarter were NOK 65.2 million, up from NOK 61.5 million in the corresponding quarter last year. The growth and new products in the pharma and healthcare products division in the Nordic region has compensated for the discontinued Aspen contract in the Benelux region, which ended 31.12.2015.

EBITDA for the quarter was NOK 1.8 million, an increase from NOK 1.5 million in the third quarter 2015. The EBITDA improvement reflects increased revenues and gross profit. An adjustment of personnel/pension cost of NOK 1 million was recorded in third quarter 2016, while other operating cost are lower compared to third quarter 2015.

Revenues in the nine first months were NOK 192.7 million, up from NOK 183.0 million in the corresponding period last year, mainly driven by increased revenues from the Pharma and Healthcare products division's Nordic business.

EBITDA for the first nine months of 2016 was NOK 2.3 million, a decrease from NOK 8.9 million last year, mainly due to development cost in the Medtech business area (previously Observe Medical), restructuring cost and obsolescence recorded during the year.

The Group's cash flow from operating activities was NOK 3.3 million in Q3 2016 compared to NOK 4.5 million in Q3 2015. The Group's cash flow from financing activities was negative NOK 3.9 million, primarily affected by payment of costs related to the share issue in Q2 2016, and reduction of borrowings to financial institutions. The cash position at the end of the quarter was NOK 31.6 million, compared to NOK 10.9 million in Q3 2015.

The bank financing includes a covenant requirement of an EBITDA of NOK 15 million for 2016. There are currently no covenant requirements relating to subsequent years. Based on the results as per 30 September, the company does not expect, to reach the required EBITDA for the year 2016. In the event of a breach of the covenant requirements, the bank could potentially require accelerated payments under the loan agreement. The company is in dialogue with the bank, related to this financing situation, and related to further expansion of Sippi®. The company believes that the dialogue is positive and that a reasonable solution will be found. See note 12 for more information.

Outlook

Navamedic's transformational journey continues, driving growth both through the inflow of new products and partnerships, and through the continued commercialisation of Sippi®. After acquiring Sippi® in 2015, Navamedic has transformed into a company with both a pan-Nordic pharmaceutical and medical device distribution business, combined with the ownership of a patented medtech product with global potential.

Navamedic aims to build a stronger and more profitable business for the future, which includes necessary transformative actions and activities in current operations. To position itself for potentially higher margins, the company leverages on its strategy to increase the portion of proprietary products and brands, like Sippi® and MygFri®, as well as focusing on being an attractive partner for pharmaceutical and medical device companies seeking a strong regulatory, sales, marketing, and distribution network across the Nordics and other selected markets. Navamedic has demonstrated its attractiveness as a strategic partner for companies seeking these capabilities by signing the long term collaboration agreement with TopRidge Pharma Limited in June this year, who was seeking a pan-regional partner for Imdur®.

The recently initiated partnership agreement with TopRidge Pharma Limited represents an exciting growth opportunity for Navamedic. The initial phase of the partnership is focused on distribution of the pharmaceutical product, Imdur®, in nine European markets. Imdur® is expected to contribute with annual revenues of NOK 70-100 million, with the first sales recorded in September 2016. The agreement is expected to partly offset revenue loss from the non-renewal of the Aspen partnership in 2017. The agreement with TopRidge Pharma sets the stage for long term cooperation and growth, including further product and market expansion within the agreement, and the potential to draw on a credit facility to support Navamedic's further growth.

As earlier communicated, by mid-May 2017, Navamedic will end its partnership with Aspen for the distribution of their portfolio of products in the Nordic markets. This will represent a significant reduction of Navamedic's sales revenues at that point, as the Nordic Aspen portfolio has grown significantly over the past few years through addition of new products and a well-managed market approach. To offset the

impact of this event in next year, Navamedic is focused on expanding its partnership base and is actively seeking additional partnerships as well as expanding existing ones.

Navamedic believes the innovative technology behind Sippi® holds significant long term revenue potential as a digital urine measurement system, with future annual sales above NOK 250 million. The company is also actively executing its strategy of ongoing commercialisation and continued development of the Sippi® product family, creating opportunities for multiple future revenue streams. Sippi® recently obtained necessary approvals with regards to its wireless and PDMS-compatible features. The updated product has moved into production and is on track to be introduced to customers. With the Bluetooth low-energy (BLE) version, Sippi® is the first commercially available wireless, fully digitalized fluid management system on the market. In addition, the company has recently added further business development capabilities to drive the expansion of our distribution network in Europe, as well as initiating necessary activities for future introductions of the Sippi® product family in the U.S. and China. With the wireless BLE-version of Sippi® on the market, Navamedic expects to see a stronger sales uptake of the product moving forward.

In Q4, Navamedic will continue its focus on bringing Sippi® to additional European and other selected international markets, and will work jointly with TopRidge Pharma on the plans for a future introduction of Sippi® in China. Simultaneously, Navamedic is preparing for an introduction of Sippi® in the U.S., which is currently scheduled for late 2017.

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 Navamedic ASA's Annual Report 2015.

Fornebu, 11 November 2016

Johan Reinsli (sign)
Chairman

Kari Stenersen (sign)
Board Member

Synne H. Røine (sign)
Board Member

Svein Erik Nicolaysen (sign)
Deputy Board Member

Patrik Hellström (sign)
Board Member

Huaizheng Peng (sign)
Board member

Tom Rönnlund (sign)
CEO

Condensed consolidated statement of comprehensive income

(In NOK '000)	Q3 2016	Q3 2015	YTD 2016	YTD 2015	2015
Operating revenues	65 190	61 496	192 689	182 971	248 348
Cost of goods sold	-49 036	-45 920	-145 220	-137 558	-187 448
Gross profit	16 153	15 576	47 469	45 414	60 900
Payroll expense	-7 212	-6 241	-22 299	-17 321	-26 078
Other operating cost	-7 120	-7 885	-22 852	-19 148	-25 990
Operating costs	-14 332	-14 126	-45 151	-36 469	-52 068
EBITDA	1 821	1 450	2 318	8 945	8 832
Depreciation	-79	-74	-269	-82	-193
Amortization	-3 046	-3 399	-10 648	-8 797	-12 461
Impairment	0		-8 528	0	0
OPERATING RESULT (EBIT)	-1 304	-2 022	-17 128	65	-3 822
Financial income and expenses					
Financial income	3 352	412	6 470	1 482	2 726
Financial expenses	-2 961	-2 496	-8 944	-3 396	-9 203
Net financial result	391	-2 084	-2 474	-1 914	-6 478
RESULT BEFORE TAX	-912	-4 106	-19 602	-1 848	-10 299
Tax on ordinary result	-335	686	1 132	294	-632
NET PROFIT 2)	-1 248	-3 420	-18 469	-1 554	-10 931
Basic and diluted earnings per share (NOK)	-0,11	-0,40	-1,84	-0,18	-1,25
Other comprehensive income that may be reclassified subsequently to profit or loss					
Currency translations differences	-7 951	10 921	-16 469	10 258	12 682
Total comprehensive income for the period 2)	-9 198	7 501	-34 938	8 704	1 751
Attributable to owners of Navamedic ASA	-9 198	7 501	-34 938	8 704	1 751

1) Q3 and YTD 2015 figures are restated due to correction of error, see note 24 to the annual report for 2015.

2) All is attributable to owners of Navamedic ASA

Condensed consolidated statement of financial position

<i>(In NOK '000)</i>	30 September 2016	30 September 2015	31 December 2015
Assets			
Intangible assets	45 971	71 852	65 556
Goodwill	76 598	86 003	85 716
Deferred tax assets	10 562	10 071	9 151
Tangible assets	810	634	531
Non-current assets	133 941	168 560	160 954
Inventories	59 325	60 997	44 647
Short term receivables	63 914	65 445	57 654
Cash at hand, in banks	31 616	10 881	12 298
Current assets	154 854	137 323	114 598
Total assets	288 795	305 882	275 552
Equity and liabilities			
Equity			
Equity	95 851	125 027	118 280
Total equity	95 851	125 027	118 280
Liabilities			
Contingent consideration	31 560	29 500	27 619
Long term financial liabilities	12 387	18 995	15 243
Borrowings from Financial Institutions	5 838	13 333	13 333
Deferred tax	2 270	5 864	4 464
Non-current liabilities	52 055	67 692	60 659
Trade account payables	69 593	75 373	55 500
Short term liabilities to Financial Institutions	49 740	20 959	22 557
Short term financial liabilities	4 086	0	4 040
Short term liabilities	17 471	16 831	14 517
Current liabilities	140 890	113 163	96 614
Total liabilities	192 945	180 855	157 273
Total shareholders equity and liabilities	288 795	305 882	275 552

1) 2015 figures are restated due to correction of error, see note 24 to the annual report for 2015.

Condensed consolidated Cash Flow Statement

<i>(In NOK '000)</i>	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Profit (loss) before tax	-912	-4 106	-19 602	-1 848
Taxes paid	-776	-1 897	-2 589	-3 173
Depreciation, amortization and write off	3 125	3 472	19 445	8 879
Interest and currency without cash effect	832	1 554	3 063	1 255
Changes in inventory	-4 355	-6 204	-14 678	6 404
Changes in receivables	870	-9 095	-6 323	-9 729
Changes in payables	1 584	14 683	14 094	15 183
Changes in other current items	2 909	6 091	-336	6 490
Net cash flow from operating activities	3 278	4 498	-6 926	23 461
Cash flow from investments				
Purchase/disposal of tangible and intangible assets	-96	-260	-1 299	-1 044
Investments in shares and acquisition	0	-23 541	0	-23 541
Net cash flow from investing activities	-96	-23 801	-1 299	-24 585
Cash flow from financing				
Short term liabilities to Financial Institutions	3 784	7 974	27 183	-8 088
Cash received for issue of shares 1)	-2 313	-365	9 027	-365
Long term liabilities to Financial Institutions	-5 412	15 000	-7 495	15 000
Net cash flow from financing activities	-3 941	22 609	28 715	6 547
Changes in currency	-546	-664	-1 171	-719
Net change in cash	-1 306	2 642	19 319	4 704
Cash and cash equivalents start period	32 922	8 239	12 298	6 177
Cash and cash equivalents end period	31 616	10 881	31 616	10 881

1) Interest without cash effect relates to the liabilities for contingent consideration and a license agreement, and currency without cash effect relates to the liability for a license agreement

2) Costs related to the share issue in Q2 2016 is mainly paid in Q3 2016.

Condensed consolidated statement of Changes in Equity

<i>NOK 1000</i>	Share capital	Share premium	Translation differences	Retained earnings	Total
Balance at 1 January 2015	8 562	90 284	14 349	-6 506	106 689
Issue of shares, net of share issue cost	888	8 747	-	-	9 635
Translation difference	-	-	10 258	-	10 258
Net profit of the period	-	-	-	-1 554	-1 554
Balance at 30 June 2015	9 450	99 031	24 607	-8 060	125 027
Balance at 1 January 2016	9 450	99 236	27 031	-17 438	118 280
Issue of shares 1)	1 418	11 091	-	-	12 509
Translation difference	-	-	-16 469	-	-16 469
Net profit of the period	-	-	-	-18 469	-18 469
Balance at 30 June 2016	10 868	110 327	10 562	-35 907	95 850

1) On 13 June 2016, the Company entered into an 8-year agreement with TopRidge Pharma Limited for distribution of angina prevention medicine, Imdur[®], in European markets. In connection with entering into this agreement, 1,417,522 new shares were issued for cash of NOK 8 per share, in total cash of NOK 11.34 million. The cash issue price is estimated to be NOK 3.1 million lower than the estimated market value of the shares at the time of entering into the agreement, which is regarded as representing payment for an intangible asset by issue of shares. Costs related to the share issue at the end of Q3 2016 is approx. NOK 2.600 before tax, and it is reduced by tax benefits of NOK 650.

2) Balance at 1 January 2015 and YTD Q2 2015 figures are restated due to correction of error, see note 24 to the annual report for 2015.

Explanatory Notes to the Financial Statements

General information

Navamedic ASA is a public limited liability company domiciled in Norway. The business of the Group is associated with development, distribution, marketing and sales of pharmaceutical products and related technical medical equipment. The Company's shares are listed on the Oslo Stock Exchange under the ticker NAVA. The Company's registered office is Fornebuveien 42, 1366 Lysaker, Norway. Navamedic Group comprises Navamedic ASA and the 100% owned subsidiaries Navamedic AB (Sweden), Navamedic AS (Denmark), Navamedic ehf (Iceland) and Observe Medical International AB (Sweden).

1. Nature of operation

Navamedic is a distributor of pharmaceuticals, medical device and Medtech products focusing on sales to hospitals, physicians and pharmacies, mainly in the Nordic region. Today the company does not develop new pharmaceuticals, but collaborates with a number of manufacturers in bringing their products within selected therapeutic areas to the market. Navamedic aims at being the partner of choice for pharma manufacturers looking to enter the Northern European markets. In the third quarter 2015 all the shares of Observe Medical International AB were acquired. Observe Medical has developed Sippi®, its own proprietary medical technology product for use in hospitals. Navamedic currently offers more than 80 main products from 20 main suppliers.

2. Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU. The condensed consolidated interim financial statements should be read in conjunction with the consolidated financial statements for the year ended 31 December 2015 (the Annual Financial Statements), as they provide an update of previously reported information. The accounting policies used are consistent with those used in the Annual Financial Statements. The interim report has not been subject to an audit. Navamedic's Board of Directors approved the condensed consolidated interim financial statements on 11 November 2016.

NOK is Navamedic ASA's functional currency and the presentation currency for the consolidated financial statements. In the absence of any statement to the contrary, all financial information is reported in NOK thousands. As a result of rounding adjustments, the figures in the financial statements and notes may not add up to the totals.

3. Summary of significant accounting policies

The accounting policies applied for the condensed consolidated interim financial statements are consistent with the financial statement for the year ended 31 December 2015. See the Annual Financial Statements note 2.1.1. for discussion of new standards, amendments to standards and interpretations that are not effective for the Group for the periods ending 31 December 2015 and 30 September 2016.

4. Business combination

There were no business combinations in the first nine months of 2016. In August 2015, Navamedic ASA signed an agreement to acquire all the shares and voting rights in Observe Medical International AB (OM). See note 25 to the Annual Financial Statements for further description.

5. Earnings per share 1)

Earnings per share (EPS) are calculated on the basis of net profit (loss) (result allocated to shareholders of the company). This result is divided by a weighted average number of outstanding shares over the periods, reduced by treasury shares (none for the periods presented).

<i>NOK 1000</i>	Q3 2016	Q3 2015	YTD 2016	YTD 2015	FY 2015
Result allocated to shareholders	-1 248	-3 420	-18 469	-1 554	-10 931
Weighted average of outstanding shares	10 868	8 562	10 016	8 562	8 778
Earnings per share	-0,11	-0,40	-1,84	-0,18	-1,25

1) Results for Q3 and YTD 2015 are adjusted for correction of error, see note 24 to the annual report for 2015.

Diluted EPS are the same as ordinary EPS for the periods presented in these condensed consolidated interim financial statements.

6. Segment information

Navamedic's financial reporting display two segments: *Pharma and Healthcare Products* business and *Medtech* business (Observe Medical). The reporting structure reflects the Company's business and product composition. The Pharma and Healthcare Products business is a continuation of the operation prior to the acquisition of Observe Medical.

Pharma and Healthcare Products business

The Pharma and Healthcare Product business consist of product areas Consumer care, Medical Nutrition and Pharma products.

The **Consumer care** area consists of a large variety of non-prescription drugs, pharmaceuticals, and health care products mainly sold via pharmacies and drugstores. It consist of several strong own and in-licensed brand names in Navamedic's respective knowledge areas.

Some important Consumer product brands are:

- NYDA (Dermatology)
- Ovestin and Vitakalk (Female Care)
- Bifolac and Importal (Gastroenterology)
- Aftamed, Gelerovoice and Dentofix (Oral Medicine)

Regarding **Medical Nutrition** Navamedic is a Nordic distributor for the UK based Company Vitaflo International Ltd, a subsidiary of Nestlé, with more than 30 years of experience in producing specialist nutritional products for inborn errors of metabolism (IEM). Navamedic can offer a complete range of products for over 8 different metabolic disorders (for example Phenylketonuria, Tyrosinemia, Maple Sirup Urine Disease, Homocystinuria, Methylmalonic Acidemia (MMA), Propionic Acidemia (PA), Glutaric Aciduria Type 1 (GA1). The product range also includes products within carbohydrate metabolism, fat metabolism (MCT products) and renal disease.

Navamedic's **Pharma products** include prescribed pharmaceuticals sold and distributed via retail and hospital pharmacies. It consists of several strong brand names, mostly generic and no longer patented products.

Some important Pharma product brands are:

- Puri-Nethol brand, used for the treatment of acute leukemia
- Alkeran, cancer treatment
- Nitrolingual Spray, treatment for angina pectoris
- Eltroxin, treatment for heart failure
- Uracyst, a product for the treatment of Painful Bladder Syndrome
- Imdur, is used to prevent angina attacks (chest pain).

Despite of the loss of the contract with Aspen for distribution in the Benelux area from 1 January 2016, revenues increased compared with third quarter and the first nine months compared to the same period in 2015. EBITDA decreased, mainly due to increased personell and pharmaceutical regulatory cost.

Pharma and Healthcare Products business, Revenues and EBITDA

(NOK 1000)	Q3 2016	Q3 2015	YTD 2016	YTD 2015	2 015
Revenue	65 107	61 496	192 296	182 871	248 248
EBITDA	3 850	5 050	9 116	12 545	15 132
EBITDA Margin	5,9 %	8,2 %	4,7 %	6,9 %	6,1 %

Medtech business – Sippi®

Navamedic has by acquiring Observe Medical expanded into a new business area. After the acquisition Navamedic is the product- and IPR-owner of a product with global potential. Observe Medical has developed an automated, digital urine meter, Sippi®, which saves time for healthcare personnel, may improve accuracy and patient safety, compared to today's method. Sippi® has been under development since 2009, and has received approval for hospital use in Europe and the United States.

Navamedic aims at establishing the Sippi® product line as the global niche leader, through building a network of distributors in key markets by utilizing existing commercialization capabilities and strong relationships with hospitals throughout the Nordic and European markets.

The Medtech business is still working on product development, in addition to offering Sippi® to the European markets. The current phase of the product line will generate cost. The purpose of this investment is to generate future revenues.

Medtech business – Sippi®, Revenues and EBITDA

(NOK 1000)	Q3 2016	Q3 2015	YTD 2016	YTD 2015	2 015
Revenue	82	0	393	100	100
EBITDA	-2 029	-3 600	-6 799	-3 600	-63 000

Navamedic Group, Revenues and EBTDA

NOK 1000	Q3 2016		Q3 2015		YTD 2016		YTD 2015	
	Revenues	EBITDA	Revenues	EBITDA	Revenues	EBITDA	Revenues	EBITDA
Pharma and Healthcare Products	65 107	3 850	61 496	5 050	192 296	9 116	182 871	12 545
Medtech	82	-2 029	0	-3 600	393	-6 799	100	-3 600
Sum Group	65 190	1 821	61 496	1 450	192 689	2 318	182 971	8 945

Sum of The Pharma and Healthcare and The Medtech business

7. Credit risk, foreign currency risk and operational risk

Credit risk

Navamedic trades only with recognized, creditworthy third parties, of whom most companies are large, profitable pharmaceutical companies and wholesalers. Receivable balances are monitored on an ongoing basis with the result that the company's exposure to bad debts has been on a minimum.

As per 30 September 2016, there is little provision for bad debt.

Maturity profile on short-term receivables as per 30 September 2016:

Short term receivables

NOK 1000	Not due	Less than 3 months	3 to 12 months	Total
Trade receivables	36 645	16 190	2 228	55 063
Other receivables	14 301			14 301
Total receivables	50 946	16 190	2 228	69 364

Foreign currency risk

Navamedic has transactional currency exposure arising from sales and purchases in currencies other than the functional currencies of the entities (NOK, SEK and DKK). Purchases of products from manufacturers are made in several currencies; mainly EUR, but also USD, CAD and GBP. Sales are made in Scandinavian currencies and EUR. The net impact of currency fluctuations on Navamedic's financial results is currently at a level which in the Company's opinion does not call for currency hedging mechanisms.

Operational risk

Navamedic is dependent on agreements for distribution rights from vendors. The company's largest distribution contract is with Aspen Pharma, which will be terminated May 2017, in line with Navamedic's 13 June 2016 announcement on the strategic partnership with TopRidge Pharma Limited.

8. Tangible assets

NOK 1000	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Carrying value at the beginning of the period	830	43	531	52
Acquisition	-	626	-	626
Additions/disposal (-)	72	-	585	-
Depreciation in the period	-79	-73	-269	-82
Exchange differences	-13	38	-37	38
Carrying value at the end of the period	810	634	810	634

9. Intangible assets and goodwill 1)

NOK 1000	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Carrying value at the beginning of the period	131 581	86 401	151 272	91 835
Acquisition	-	64 786	-	64 786
Additions/disposal (-)	25	312	3 833	1 044
Amortization in the period	-3 046	-3 399	-10 648	-8 797
Impairment	-	-	-8 528	-
Exchange differences	-5 991	9 754	-13 360	8 987
Carrying value at the end of the period	122 569	157 854	122 569	157 855

1) Adjusted for correction of error in 2015, see note 24 to the annual report for 2015.

2) The impairments in Q2 2016 were primarily due to the termination of distribution agreements with Aspen. NOK 5.3 million is related to marketing permissions and NOK 3.2 million for a license agreement. The license agreement will continue over its original term to 2024, but the expected sales volume has been reduced.

10. Deferred tax and deferred tax assets ¹⁾

Deferred Tax Assets				
NOK 1000	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Carrying value at the beginning of the period	10 271	9 940	9 151	10 900
Acquisition	-	224	-	224
Recognised in equity	-	-	650	-
Recognised in profit or loss	289	-93	773	-1 053
Exchange differences	2	-	-12	-
Carrying value at the end of the period	10 562	10 071	10 562	10 071

Deferred Tax				
NOK 1000	Q3 2016	Q3 2015	YTD 2016	YTD 2015
Carrying value at the beginning of the period	2 769	5 244	4 464	6 263
Recognised in profit or loss	-371	-492	-1 833	-1 339
Exchange differences	-128	1 112	-361	940
Carrying value at the end of the period	2 270	5 864	2 270	5 864

1) Adjusted for correction of error in 2015, see note 24 to the annual report for 2015.

Deferred income tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority.

11. Share options

As per 30 September 2016, the company has 50 000 Share options outstanding.

12. Bank arrangement, credit facilities and other financial liabilities

To finance part of the acquisition of Observe Medical, the Company entered into a term loan of SEK 15 million in October 2015, to be repaid over 3 years. Interest is 4% p.a. In addition, the company has other bank agreements and drawing facilities of SEK 60 million to cover credits and guarantees. SEK 41.1 million of these facilities was utilized at the end of the third quarter 2016. The borrowing agreements from the bank has the following covenants as of 30.9 2016; EBITDA above NOK 15 million in 2016. It is currently no covenant requirements relating to subsequent years. Based on the results as per 30 September, the company does not expect to reach the required EBITDA for the year 2016. In the event of a breach of the covenant requirements, the bank could potentially require accelerate payment under the loan agreement. The current amount of cash and cash equivalents at 30 September and expected net cash flow the remaining three months of the year is not expected to be sufficient to repay the debt, should the bank require so. The company is in dialogue with the bank, related to this financing and relating to further expansion of Sippi.

Navamedic has presented a forecast of the financial situation going forward and the bank is familiar with the situation. The Group is currently discussing options with the bank in order to find a solution in case the EBITDA requirement is not met. The company is of the opinion that the dialogue is positive, and that it will reach a reasonable solution to the financing issue.

If the dialogue with the bank for any unknown reason should not result in a reasonable solution, the company would need to seek financing from other sources. The company is confident that a solution will be found, and that the company has no going concern issue.

In general, in order for the Company to undertake desired strategic investments directed against the market, and its existing brand- and product concepts, in accordance with the Company's strategic plans for future development, it is imperative that the Company has proper financial room to maneuver.

In addition to bankloans Navamedic has an unsecured loan facility of NOK 16 million that will be provided from one of our partners and suppliers (Top Ridge Pharma), to be used for dedicated product promotional purposes.

Towards a selected group of suppliers, the company has issued letter of credit of a total of NOK 0.3 million. This standby letter of credit is issued as security for the applicant's payment obligations under distribution agreements.

See the annual financial statements for 2015 for description of the financial liabilities relating to contingent consideration and a license agreement. The increase in the carrying value of the contingent consideration during the third quarter in 2016 of NOK 1.3 million (NOK 3.9 million for the first nine months in 2016) represents calculated interest, and has been recognized as part of financial expenses in the profit and loss statement.

13. Material events subsequent to the end of the reporting period

To Navamedic's knowledge, there are no significant events subsequent to the end of the reporting period that would have influence on the financial statements included in this report.

14. Shareholder Information

The largest shareholders per 30 September 2016 were:

	Shares	Ownership
NOBELSYSTEM SCANDINA	2 570 000	23,6 %
TOPRIDGE PHARMA	1 417 522	13,0 %
SEED CAPITAL	462 887	4,3 %
LAVIN AB	292 598	2,7 %
DANSKE INVEST NORGE	262 660	2,4 %
RO LARS	250 000	2,3 %
HARDING INVEST AS	244 400	2,2 %
SANDVOLD SHIPPING IN	216 000	2,0 %
KRAEBER VERWALTUNG G	214 850	2,0 %
DIRECTMARKETING INVE	206 844	1,9 %
LID OLAV TARJEI HIOR	180 000	1,7 %
NORDNET BANK AB	170 865	1,6 %
MP PENSJON PK	149 708	1,4 %
AVANZA BANK AB	145 349	1,3 %
ADVANCE INVEST & CON	145 100	1,3 %
SILAN INVEST AS	130 000	1,2 %
ROSENFONN INVESTERIN	129 162	1,2 %
DANSKE BANK A/S	114 444	1,1 %
EILERAAS KARL ANSKAR	110 000	1,0 %
RØTTINGSNES BERNT OL	109 141	1,0 %
20 largest shareholders	7 521 530	69,2 %

On 13 June 2016, the Company entered into an 8-year agreement with TopRidge Pharma Limited, a subsidiary of Shanghai-listed Tibet Rhodiola Pharmaceutical Holding Co, for distribution of angina prevention medicine, Imdur®, in European markets. See "operational review" and "outlook" above for further description and discussion. As a part of the strategic partnership, TopRidge Pharma (Ireland) Limited, a wholly owned subsidiary

of TopRidge Pharma Limited, acquired 1,417,522 new shares in Navamedic, and became a major shareholder in the company. The Company's share capital is now NOK 10,867,673 divided into 10,867,673 shares, each with nominal value NOK 1.

Fornebu, 11 November 2016

Johan Reinsli (sign)
Chairman

Kari Stenersen (sign)
Board Member

Synne H. Røine (sign)
Board Member

Svein Erik Nicolaysen (sign)
Deputy Board Member

Patrik Hellström (sign)
Board Member

Huaizheng Peng (sign)
Board member

Tom Rönnlund (sign)
CEO

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