

ellipticlabs
(Unaudited)
First Half

2020



Financial summary for the Group's first half 2020 (unaudited)

Comparable amounts for first half 2019 are presented in brackets.

Operating revenue

Consolidated operating revenue for the first half totalled NOK 10 348 thousand (NOK 21 421 thousand).

Operating costs

Operating costs totalled NOK 30 053 thousand (NOK 32 509 thousand). Personnel expenses accounted for NOK 21 227 thousand (NOK 21 657 thousand).

Operating profit/loss

The Group generated an operating loss of NOK 19 705 thousand (NOK 11 088 thousand).

Financial items

Net financial expenses amounted to NOK 1 710 thousand (financial expense NOK 1 425 thousand).

Profit/loss

The loss before tax was NOK 21 415 thousand (NOK 12 513 thousand). Income tax revenue was NOK 4 701 thousand (NOK 2 807 thousand), resulting in a loss of NOK 16 714 thousand (NOK 9 706 thousand).

Cash flow

The cash flow from operating activities was NOK -17 100 thousand (NOK -4 677 thousand). Cash flow from financing was NOK -1 762 thousand (NOK 7 037 thousand). Cash and cash equivalents at the end of the period were NOK 11 918 thousand (NOK 13 332 thousand).

Financing and debt

The Group's equity was NOK 65 843 thousand (NOK 39 539 thousand). The group had total long term liabilities of NOK 16 000 thousand (NOK 39 000 thousand).

Going concern

In accordance with the Accounting Act § 3-3a, the financial statements have been prepared under the assumption of going concern. This assumption is based on profit forecasts for the year 2020 and the Group's long-term strategic forecasts including funding. Regarding Covid 19 situation we refer to Note 14 in the annual report 2019 and we remain positive about the future outlook for Elliptic Labs.

First half consolidated financial statements

First half consolidated statement of comprehensive income

For the financial period ended 30 June 2020 and 2019, and 31 December 2019.

<i>(Amounts in NOK)</i>	Notes	Q2 2020 (Unaudited)	Q2 2019 (Unaudited)	1H 2020 (Unaudited)	1H 2019 (Unaudited)	2019 (Audited)
Revenues		2 603 546	7 726 150	2 605 802	12 039 792	37 957 021
Other operating income		3 730 777	0	7 742 271	9 380 914	14 726 017
Total revenue	2	6 334 323	7 726 150	10 348 073	21 420 706	52 683 038
Personnel expenses		-8 924 303	-6 665 644	-21 227 058	-21 657 401	-45 650 734
Other operating expenses	3	-3 329 615	-3 303 609	-6 110 157	-8 050 588	-15 631 493
Depreciation, amortisation and impairment	4,8	-1 353 509	-1 930 560	-2 715 739	-2 800 758	-4 392 985
Total operating costs		-13 607 426	-11 899 813	-30 052 955	-32 508 748	-65 675 213
Operating profit		-7 273 104	-4 173 663	-19 704 882	-11 088 042	-12 992 175
Financial income		93 211	326 824	99 961	185 777	307 049
Total financial income		93 211	326 824	99 961	185 391	307 049
Financial expenses		-348 831	-834 527	-1 809 703	-1 611 222	-4 275 169
Total financial expenses		-348 831	-834 527	-1 809 703	-1 611 222	-4 275 169
Profit/(loss) before tax		-7 528 724	-4 681 366	-21 414 624	-12 513 487	-16 960 295
Income tax revenue/-expense		1 708 132	1 119 441	4 700 543	2 807 263	3 703 338
Profit/(loss) for the period		-5 820 592	-3 561 925	-16 714 081	-9 706 224	-13 256 956
Other comprehensive income:						
Foreign currency changes, may be Reclassified to profit or loss		-145 214	-165 030	183 983	-157 905	5 059
Other comprehensive income, net of tax		-145 214	-165 030	183 983	-157 905	5 059
Total comprehensive income for the period		-5 965 806	-3 726 955	-16 530 098	-9 864 128	-13 251 897
Loss for the period is attributable to:						
Equity holders of the parent company		-5 965 806	-3 726 955	-16 530 098	-9 864 128	-13 251 897
Non-controlling interests						
Profit/(loss) per share		-0,69	-0,43	-1,92	-1,15	-1,54

First half consolidated statement of financial position

At 30 June 2020, 2019 and 31 December 2019 respectively

<i>(Amounts in NOK)</i>	Notes	30.06.2020 (Unaudited)	30.06.2019 (Unaudited)	31.12.2019 (Audited)
Non-current assets				
Deferred tax assets		60 958 718	55 873 502	56 168 887
Intangible assets	4	19 114 516	12 541 287	16 551 924
Right of use assets	8	6 138 906	7 952 690	7 255 068
Other non-current receivables		2 092 437	2 135 685	2 092 437
Total non-current assets		88 304 576	78 503 164	82 068 316
Current assets				
Accounts receivable		6 424 760	6 903 520	14 309 741
Other current receivables		16 945 074	8 660 715	7 116 584
Cash and cash equivalents	6	11 917 689	13 331 827	35 873 432
Total current assets		35 287 523	28 896 062	57 299 757
Total assets		123 592 099	107 399 225	139 368 073
Equity and liabilities				
Share capital		875 126	856 406	875 106
Other equity		64 967 531	38 682 381	79 157 649
Total equity		65 842 657	39 538 787	80 032 755
Finance debt	8	4 103 647	7 137 102	5 205 363
Bank borrowings, long-term	7	16 000 000	38 999 827	14 000 000
Total long-term liabilities		20 103 647	46 136 929	19 205 363
Bank borrowings, short-term	7	27 421 619	12 000 000	29 431 148
Trade and other payables		1 047 078	1 133 448	834 715
Tax payable		117 546	1 072 142	162 501
Accrued public taxes		1 640 168	1 553 297	2 669 095
Other short-term liabilities		7 419 384	5 964 621	7 032 496
Total current liabilities		37 645 795	21 723 509	40 129 955
Total equity and liabilities		123 592 099	107 399 225	139 368 073

First half consolidated statement of changes in equity

Attributable to owners of Elliptic Laboratories AS.

2020 (Amounts in NOK) (Unaudited)	Share capital and pre- mium	Paid-in equity	Other equity	Foreign currency rate differences	Total equity
Shareholders' equity at 01.01.2020	875 106	70 323 490	9 085 897	-251 738	80 032 755
Profit (loss) for the period	-	-16 714 081	-	-	-16 714 081
Other comprehensive income for the period	-	-	-	183 983	183 983
Total comprehensive income for the period	-	-16 714 081	-	183 983	-16 530 098
Transactions with owners:					
Capital increase through issuance of ordinary shares	20	39 980	-	-	40 000
Employee share schemes	-	-	2 300 000	-	2 300 000
Shareholders' equity at 30.06.2020	875 126	53 649 389	11 385 897	-67 755	65 842 657
2019 (Amounts in NOK) (Unaudited)					
	Share capital and premium	Paid-in equity	Other equity	Foreign currency rate differences	Total equity
Shareholders' equity at 01.01.2019	856 401	6 214 160	40 584 151	-256 797	47 397 916
Profit (loss) for the period	0	0	-9 706 224	0	-9 706 224
Other comprehensive income for the period	0	0	0	-157 905	-157 905
Total comprehensive income for the period	0	0	-9 706 224	-157 905	-9 864 128
Transactions with owners:					
Share issue	0	0	5 000	0	5 000
Employee share schemes	0	2 000 000	0	0	2 000 000
Shareholders' equity at 30.06.2019	856 401	8 214 160	30 882 927	-414 701	39 538 787

First half consolidated cash flow statement

At 30 June 2020, 2019 and 31 December 2019, respectively

<i>(Amounts in NOK)</i>	Notes	30.06.2020 (Unaudited)	30.06.2019 (Unaudited)	2019 (Audited)
Cash flow from operating activities:				
Profit/(loss) before tax		-21 414 624	-12 513 497	-16 960 295
Adjustment for:				
Taxes paid in the period		-134 242	-122 371	-431 321
Depreciation and impairment	4	2 715 739	2 800 758	4 392 985
Option based payments		2 300 000	2 000 000	2 871 737
Items classified as financing activities		1 801 796	967 976	2 750 505
Change in accounts receivable		-1 943 509	5 120 450	-741 640
Change in trade payables		212 363	-1 393 991	-1 692 725
Change in other accruals		-637 121	-1 536 496	1 763 576
Net cash flow from operations		-17 099 599	-4 677 161	-8 047 177
Cash flow from investments:				
Purchase of fixed assets		-5 278 331	-5 493 670	-11 096 535
Net cash flow from investments		-5 278 331	-5 493 670	-11 096 535
Cash flow from financing:				
Repayments bank borrowings		0	0	0
Repayment of lease liabilities		0	8 000 000	-1 875 949
Paid in capital from owners		40 000	5 000	43 015 000
Interests bank borrowings	7	-1 801 796	-967 976	-2 750 505
Net cash flow from financing		-1 761 796	7 037 024	38 388 546
Net Change in Cash and Cash Equivalents				
Cash and cash equivalents at the beginning of the period		35 873 432	16 623 538	16 623 538
Effect of foreign currency rate changes on cash and cash equivalents		183 983	-157 905	5 059
Cash and cash equivalents at the end of period		11 917 689	13 331 827	35 873 432

Notes to the first half consolidated financial statements

Note 1 – Accounting principles

1.1 General information

Elliptic Laboratories AS and its subsidiaries (together “Elliptic Labs” or the “Group”) develop software that generates and interprets ultrasound using only existing device hardware. The Group targets smartphones and “Internet of Things” (IoT) devices, enabling bezel-less design, intuitive 3D gesture recognition and touchless or presence sensing. Investments in and cooperation with other companies are also part of the Group’s purpose.

The domicile of Elliptic Labs is Oslo, Norway. The Group’s head office is at Akersgata 32, 0180 Oslo.

1.2 Summary of significant accounting principles

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

1.2.1 Basis of preparation

The half year consolidated financial statements of the Group have been prepared in accordance with IAS 34 for the financial reporting of first half 2020 and 2019.

The consolidated financial statements have been prepared under the historical cost convention, as modified by derivatives at fair value through profit or loss. This second quarter report has not been subject to audit.

The accounting policies applied in this report are consistent with those applied and described in the 2019 annual report.

These consolidated financial statements have been prepared under the assumption of a going concern.

1.2.2 Operating revenues

The group has chosen to early apply IFRS 15 Revenue from Contracts with Customers as issued in May 2014. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue from licenses which give a right to use is recognised at point in time and licenses which give a right to access is recognised over time. Royalty based revenue is recognised as sales occur when exceeding the minimum fixed fee.

For fixed-price contracts, revenue is recognised based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. This is determined based on the actual cost spent relative to the total cost.

Some contracts include multiple deliverables, such as the license for the IP and subsequent royalties for units sold. It is accounted for as a separate performance obligation. In this case, the transaction price will be allocated to each performance obligation based on the stand-alone selling prices. Where these are not directly observable, they are estimated based on the expected cost-plus margin.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimated revenues or costs are reflected in profit or loss in the

period in which the circumstances that give rise to the revision become known by management.

In case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by Elliptic Laboratories exceed the payment, a contract asset is recognised. If the payments exceed the services rendered, a contract liability is recognised.

If the contract includes a royalty for sold smart phones, revenue is recognised in the amount to which Elliptic Laboratories has a right to invoice.

1.2.3 Basis for loss provisions

When determining possible loss provision, the Group undertakes an individual assessment of each customer based on the size of the contract and various risk factors related to the customer's creditworthiness.

Note 2 – Revenue from contracts with customers

Revenue from contracts with customers consists of the following entries as set forth in the table below.

<i>(Amounts in NOK)</i>	Q2 2020 (Unaudited)	Q2 2019 (Unaudited)	30.06 2020 (Unaudited)	30.06.2019 (Unaudited)	2019 (Audited)
Revenues from contracts with customers	2 603 546	7 726 150	2 605 802	12 039 792	37 597 021
Revenue from other sources	3 730 777	0	7 742 271	9 380 914	14 726 017
Total revenue	6 334 323	7 726 150	10 348 073	21 420 706	52 683 038

Revenue from other sources consists in total of government grants.

Note 3 – Other operating expenses

<i>(Amounts in NOK)</i>	Q2 2020 (Unaudited)	Q2 2019 (Unaudited)	Q2 YTD 2020 (Unaudited)	Q2 YTD 2019 (Unaudited)	2019 (Audited)
Sales and marketing expenses	633 429	1 489 127	1 534 487	3 109 641	6 340 672
Rent	162 576	-379 192	444 444	604 303	1 171 602
Electricity, heating and other property expenses	234 950	224 811	442 053	343 682	862 651
Consultants	323 521	811 758	1 197 861	2 097 308	4 511 122
Auditor	120 307	47 171	228 177	137 150	251 612
Legal	858 611	328 511	858 611	349 624	396 224
Provision for losses/Losses	0	0	0	0	0
Patents	74 476	172 687	176 373	298 211	642 135
IT/Software	542 742	498 409	975 683	912 514	540 113
Other expenses	379 002	110 327	252 467	198 155	915 363
Total other operating expenses	3 329 615	3 303 609	6 110 157	8 050 588	15 631 493

Note 4 - Intangible assets

2020 (Amounts in NOK) (Unaudited)	Patents	Trademark	Capitalized R&D	Total intangible assets
Cost at 01.01.2020	13 791 727	23 505	14 828 851	28 644 083
Additions	912 167	0	3 250 005	4 162 172
Disposals	0	0	0	0
Cost at 30.06.2020	14 703 894	23 505	18 078 856	32 806 255
Accumulated amortisation and impairment charges 01.01.2020	10 705 699	5 669	1 380 793	12 092 160
Amortisation charges in the period	116 693	0	1 482 886	1 599 579
Accumulated amortisation and impairment charges 30.06.2020	10 822 392	5 669	2 863 679	12 896 311
Net booked value as at 30.06.2020	3 881 502	17 836	15 215 177	19 114 516
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

IFRS 16 Leases was implemented by the Group on 1 January 2019. Depreciation for the period 1 January to 30 June 2020 was NOK 1 116 162.

2019 (Amounts in NOK) (Unaudited)	Patents	Trademark	Capitalized R&D	Total intangible assets
Cost at 01.01.2019	12 496 028	23 505	6 903 966	19 423 499
Additions	683 308	0	3 750 000	4 433 308
Disposals	0	0	0	0
Cost at 30.06.2019	13 179 336	23 505	10 653 966	23 856 807
Accumulated amortisation and impairment charges 01.01.2019	9 574 157	968	0	9 575 124
Amortisation charges in the period	1 050 000	0	690 396	1 740 396
Accumulated amortisation and impairment charges 30.06.2019	10 624 157	968	690 396	11 315 521
Net booked value as at 30.06.2019	2 555 179	22 537	9 963 570	12 541 287
Useful life:	5	5	5	
Amortization method:	Straight-line	Straight-line	Straight-line	

Note 5 – Share option programs

As of 30.06.2020, the Group has option programs that includes a total of 43 employees in parent and subsidiary companies. The employees must work in the Group to be entitled to exercise the options at the time of vesting. The options are settled in shares at the time of vesting.

The purpose of the establishment of the option programs is to attract and retain key personnel. The fair value of the options is calculated at the grant date, based on the Black-Scholes model, and expensed over the vesting period of 4 years.

Note 6 – Cash and cash equivalents

<i>Amounts in NOK</i>	30.06.2020	30.06.2019	31.12.2019
Cash and cash equivalents	11 917 689	13 331 827	35 873 432
Of which are restricted cash:			
Restricted bank deposits for employee tax withholdings	596 581	816 731	1 617 519
Guarantee account	1 500 000	1 500 000	1 511 133
Not restricted cash	9 821 108	11 015 096	32 744 780

Note 7 – Interest-bearing liabilities

<i>(Amounts in NOK)</i>	1 January – 30 June 2020	1 January – 30 June 2019	1 January – 31 December 2019
Long-term liabilities due > 1 year			
Bank borrowings, long-term	16 000 000	38 999 827	14 000 000
Future interests and other loan costs	1 230 000	2 020 000	1 430 625
Bank borrowings, long-term net of future interests and loan costs	17 230 000	41 019 827	15 430 625
Total	17 230 000	41 019 827	15 430 625
Long-term liabilities due < 1 year			
Bank borrowings	2 000 000	4 000 000	4 000 000
Future interests and loan costs	355 500	272 000	899 250
Bank borrowings, short-term net of future interests and loan costs	2 355 500	4 272 000	4 899 250
Total		4 272 000	4 899 250
Short-term liabilities due < 1 year			
Overdraft credit, Pareto Bank	25 421 619	0	25 431 148
Bank borrowings, DnB Bank ASA	0	8 000 000	0
Loan costs	880 500	525 140	1 788 483
Total	26 302 119	8 525 140	27 219 631

The fair value of the liability is considered to be equal to its book value according to the amortised cost as shown above.

Loan facility 30.06.2020 <i>(Amount in NOK)</i>	Loan origina- tion date	Principle in local cur- rency	Fixed interest loan	Termination date	Carrying value
Innovasjon Norge	27.03.2015	NOK	4.1% effective interest	10.06.2024	18 000 000
Pareto Bank	31.05.2018	NOK	5.7% interest rate 0.25% commission rate 1% establishment rate	31.10.2020	25 421 619

Loan facility 30.06.2019 <i>(Amount in NOK)</i>	Loan origina- tion date	Principle in local cur- rency	Fixed interest loan	Termination date	Carrying value
Innovasjon Norge	27.03.2015	NOK	6,16% effective interest	27.03.2022	18 000 000
DnB Bank ASA	07.05.2019	NOK	6,8% effective interest	08.05.2020	8 000 000
Pareto Bank	31.05.2018	NOK	5% interest rate 0.25% commission rate 1% establishment rate	30.06.2019	25 385 827

Undiscounted payment profile to credit institutions

The following tables present the undiscounted payment profile to credit institutions of the Group's debt per 30 June 2020 and 30 June 2019, based on the remaining loan period at the balance sheet date.

Payment profile per 30.06.2020 <i>Amounts in NOK</i>	2020	2021	2022	2023	After 2023	Total
Innovation Norway	0	4 000 000	4 000 000	4 000 000	6 000 000	18 000 000
Interest	1 236 000	574 000	410 000	246 000	0	2 466 000
Trade payables and other short term liabilities	35 528 249	0	0	0	0	35 528 249
Total instalment and interests	36 764 249	4 574 000	4 410 000	4 246 000	6 000 000	55 994 249

Payment profile per 30.06.2019 <i>(Amounts in NOK)</i>	2019	2020	2021	2022	After 2022	Total
Innovation Norway	2 000 000	4 000 000	4 000 000	4 000 000	4 000 000	18 000 000
Interests	1 434 140	808 000	606 000	404 000	202 000	3 454 140
Trade payables and other short-term liabilities	16 651 367	24 999 827	0	0	0	41 651 194
Total instalment interests	20 085 507	29 808 000	4 606 000	4 404 000	4 202 000	63 105 334

Det er særtilkøp i avtalen med Innovasjon Norge knytte til egenkapitalkrav og arbeidskapital. Egenkapitalen skal fra og med første delutbetaling av lånet og ved hvert rapporteringstidspunkt være på minimum 30%.

Arbeidskapitalen skal fra og med den første delutbetalingen av lånet og ved hvert rapporteringstidspunkt være positiv med NOK 5 000 000. Selskapet har 60 dagers frist fra avtalt rapporteringstidspunkt til å bringe forholdet i orden. Selskapet oppfyller ikke særtilkøp for arbeidskapital og har mottatt waiver fra Innovasjon Norge for forholdet. Waiver innebærer en bekreftelse på at selskapet har fått fritak fra særtilkøp i avtalen med Innovasjon Norge. Waiver har varighet til 31.10.2020.

Note 8 – Property, Plant & Equipments,

Implementation of IFRS 16

IFRS 16 Leases was implemented by the Group on 1 January 2019. The new accounting standard covers the recognition, measurement and presentation of leases and related disclosures in the financial statements and has replaced IAS 17 Leases. IFRS 16 requires that all leases, except for short term leases and leases of low value assets are reflected in the balance sheet of a lessee as a lease liability and a Right of use (RoU) asset. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2020 was 7.5 %.

The implementation of IFRS 16 on 1 January 2019 has increased the Consolidated balance sheet by adding lease liabilities and right of use assets of MNOK 9. The Group's equity has not been impacted from the implementation of IFRS 16.

The Group has applied the following practical expedients to leases previously classified as operating leases at the date on initial application:

- Exemption for short-term leases (defined as 12 months or less)
- Exemption for low value assets
- Applied hindsight when determining the lease term for contracts containing options.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made when applying IAS 17 and IFRIC 4 Determining whether an Arrangement contains a Lease.

The following line items in the balance sheet have been impacted as result of the new accounting standard:

2020(Amounts in NOK)	Property, plan and equipment	Total
Right-of-use assets:		
Balance at 01.01.20	7 255 068	7 255 068
Depreciations	1 116 162	1 116 162
Additions	-	-
Balance at June 30	6 138 906	6 138 906
Lease liabilities:		
Non-current finance debt	4 103 647	4 103 647
Current finance debt	2 126 570	2 126 570
Total liabilities	6 230 217	6 230 217

Interest expense relating to lease recognized in the income statement for second quarter of 2020 was NOK.

The following table shows the undiscounted payment profile of the Group's lease liabilities, based on the remaining lease period at the balance sheet date per 30.06.2020:

Amounts in NOK	2020	2021	2022	2023	Total
Installments	1 024 852	2 203 433	2 368 691	633 239	6 230 215
Interests	271 547	389 366	224 109	14 961	899 983
Total installment	1 296 399	2 592 799	2 592 800	648 200	7 130 198

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