



Annual Report 2019

Observe Medical ASA



Contents

We are Observe Medical..... 3

2019 Highlights..... 4

Key Figures..... 5

Letter from the CEO..... 6

About Sippi® - The Digital, Automated Urine Measurement System..... 8

Board of Directors’ Report 2019..... 12

Management and Board 23

Corporate Governance..... 25

Environment, Social and Governance..... 38

Consolidated Financial Statements 2019 43

Explanatory Notes to the Consolidated Financial Statements 2019 48

Parent Company Observe Medical ASA Annual Financial Statements 2019 87

Explanatory Notes to the Annual Financial Statements 2019 92

Declaration in Accordance with §5-5 of the Securities Trading Act..... 102

Auditor’s Report..... 103

Alternative Performance Measures (APMs) 109

We are Observe Medical

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

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

The system incorporates SippCoat®, a technology that hinders bacteria migration which can lead to urinary infections. Urinary tract infections are the number one hospital acquired complication for patients, and their treatment is a considerable burden to hospital staff and budgets. With almost 3 million Europeans infected every year from hospital acquired infections (HAI) of all types.

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

2019 Highlights

Successful listing on Oslo Axess

- ▶ Demerger and separate listing of Observe Medical ASA providing a solid platform for accelerated growth and value creation through maximizing the potential in ownership and marketing of innovative medical technology products.

Established competent team for thorough execution

- ▶ Recruited Björn Larsson as CEO and Per Arne Nygård as CFO, heading a commercially focused team with strong competence in launching medtech products to the market.

Launched second generation of Sippi®

- ▶ Initiated launch of Sippi®BLE, an automated system for urine measurement in ICUs, wirelessly connected to the hospital patient data management system. Strong interest and positive feedback from customers with first tenders secured.

Building strong clinical evidence for Sippi®

- ▶ Studies at Karolinska University Hospital, Sweden showing Sippi® as superior to analogue systems in accuracy, nurses' workload and satisfaction, and SippCoat® effectiveness in inhibiting early bacterial biofilm formation in vitro.

Financing

- ▶ Secured loan agreement with Navamedic ASA to support Observe Medical's operations and the work to establish platform for future growth. Financial results in 2019 reflects that the business is in launch phase and further impacted by expenses related to the demerger and separate listing.

Key Figures

- Observe Medical had operating revenues of NOK 176,650 in 2019 and a gross result of negative NOK 460,131, mainly due to higher cost of materials due to write-downs of inventories.
- EBITDA decreased in 2019 mainly due to higher operating expenses related to demerger and listing expenses of approximately NOK 1.7 million and expenses related to establish Observe Medical as a standalone listed company.
- Net finance is mainly related to interest expenses of borrowings and change in contingent consideration. In 2018, there was a finance income of NOK 14 million related to change in contingent consideration.
- Observe Medical had an equity ratio of 26.3% and the equity as at December 31, 2019 was positively impacted by the debt conversion of NOK 16 million in connection with the demerger.

<i>(Amounts in NOK)</i>	2019	2018
Revenue	176,650	106,185
Gross result	-460,131	581,164
EBITDA	-11 501,443	-7,822,909
EBIT	-15,786,642	-11,723,929
Net finance	-1,130,658	13,997,582
Result	-16,917,301	2,273,652
EPS	-1.36	0.19
Equity	14,541,734	16,822,852
Total balance	55,332,907	58,830,515
Equity ratio	26.3 %	28.6 %
Number of employees	8	5

Letter from the CEO

Building a medtech platform for global growth – with Sippi® sales as current focus

Following on the successful listing in November 2019, we continue to invest in Observe Medical as a medtech platform for global growth. Current focus launching Sippi® in Europe and preparing for global expansion, while COVID-19 is highlighting the fundamental healthcare challenges which Sippi® addresses.

Dear shareholders, customers, partners, and employees. I would like to take this opportunity to thank you all for your continued commitment and trust in Observe Medical and it is my pleasure to summarize the past year, key events during 2020 and an outlook for our business.

Our ambition is to drive growth by leveraging our expertise in commercialization of medical technology products in combination with targeted M&A. Our first product, Sippi® is a unique and proprietary solution for urine monitoring, addressing key challenges for the healthcare and society - patient data accuracy, stressed-out staff, and the burden of hospital-acquired infections.

Summarizing 2019 - Initiated the Launch of Sippi® and Successful Listing of Observe Medical

Throughout 2019 we continued to implement the strategy of commercializing Sippi®. In second half of the year, we initiated launch of Sippi® BLE, wirelessly connected to the hospital patient data management system and we received strong interest and positive feedback from customers. Studies performed at Karolinska University Hospital in Sweden support Sippi® as superior to analogue systems in accuracy, nurses' workload and satisfaction, and effectiveness in inhibiting early bacterial biofilm formation in vitro.

After the listing of Observe Medical in November, we successfully established Observe Medical as a separate entity, and since end of 2019 we have a new leadership onboard, a commercially focused organization and the internal infrastructure and processes established - an excellent position in order to implement the strategy onwards.

Key events during 2020 - Continuing Sippi® Launch Rollout and Preparing for Long-Term Growth

During first part of 2020 we have continued to execute the set strategy with Sippi® sales and customer relations in focus. The COVID-19 situation provides a challenge short-

term, while also highlighting the fundamental challenges for the healthcare - time/resources, data accuracy and hospital acquired infections - that we address with Sippi®. In Nordics we drive Sippi® implementations, in rest of Europe with high activity levels and engaging with our distributors. We are building evidence for value-based market access in key segments, shaping a scientific advisory board for clinical and commercial insights, preparing for US market entry, as well as exploring targeted M&A opportunities.

Business Outlook

Observe Medical is a successfully listed medtech company, with commercially focused leadership and team, and with ample competence and experience in commercializing medtech solutions on a global market, an attractive platform for building a portfolio of products through M&A as well as by organic growth. Sippi®, our first product to launch, is innovative and well differentiated, addressing key challenges for the healthcare system and with a strong opportunity to gain global leadership as standard of clinical care. Delivering value to patients, customers, partners, and to you, our shareholders. Now and in the long-term.

Thank you again for your trust and commitment.
Let's continue the Observe Medical journey
together - as one strong team!

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

Björn Larsson
CEO



About Sippi® - The Digital, Automated Urine Measurement System

One can hardly imagine a space in the modern society more packed with technology than an intensive care unit (ICU) at a hospital. Pulse and blood pressure are measured automatically with data delivered in real time to the patient monitoring systems, and intravenous delivery of drugs and fluids are also digitized.

One important parameter, urine production, is however still recorded and calculated in an old-fashioned manner. Every hour, healthcare professionals at the ICU must break off their tasks to handle the urine production routine. The manual procedure consumes time, creates stress and is a source of error.

Addressing Three Major Challenges for the Healthcare System

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

Sippi® addresses Catheter Associated Urinary Tract Infections (CAUTI), which is the most common hospital acquired infection and a frequently experienced complication for catheterized patients. Sippi® thereby contributes to minimizing risk to patients and reducing costs for healthcare personnel and facilities, resulting from extended stays and treatment initiatives.

Equally important, Sippi® provides patient data accuracy unattainable with other technologies - and saves significant time and effort for healthcare professionals

Connected to the Patient Monitoring System

In the second quarter of 2019, Observe Medical launched the second generation and wireless version of the Sippi® base unit. Sippi® BLE 2.0 features a wireless Bluetooth connectivity enabling direct communication with patient monitoring systems (PMDS). With the unique wireless version, the last manual step is eliminated, and urine production can automatically be integrated into the patient journal system in the same way as pulse, blood pressure, temperature, infusion and other parameters are integrated today.

The base unit is linked to the disposable unit, which consists of a measuring chamber connected to the base unit where the sensors are located, and a urine bag for collecting the urine. To avoid infection, it is essential to prevent that biofilm does not reach critical levels and hence migrate upwards in the urinary catheter. The SippSense® system caters to this. SippSense® is a sensor that can record whether there is biofilm on the inside of the measuring chamber and warn if critical amounts are reached. Moreover, the system

features SippCoat[®], which is a solution which inhibits the growth of biofilm. In the base unit there is a capsule with silicone oil that inhibits biofilm. In use, the capsule is dissolved and forms a layer within the collection chamber which hinders the formation of biofilm. The sensors and measurement technology, SippSense[®], as well as SippCoat[®], are covered by patents.



Building Clinical Evidence

Observe Medical is working closely with clinics in order to gather experience and evidence of the performance and benefits of Sippi[®]. Jan van der Linden, professor at Karolinska University Hospital in Stockholm has, together with other researchers, published two studies showing that Sippi[®] is superior to analogue systems in accuracy, nurses' workload and satisfaction. A new study, currently in review for publication, addresses SippCoat[®] effectiveness in hindering the most common bacteria growth, including multi-resistant stems.

The Karolinska Thoracic ICU is in the process of implementing Sippi[®] BLE on all beds, and Professor Jan van der Linden is engaged in forming Observe Medical's clinical advisory board.

Additional Applications of the Technology

Observe Medical believes that SippCoat® has a vast potential in fighting bacteria growth within fluid handling systems in general, with laboratory and patient data supporting the efficacy of the technology. The SippCoat® encapsulated technology is already included as part of the Sippi® system. The same capsule can also be sold as original equipment to other suppliers of urine and body fluid bags.

Observe Medical is developing a separate market strategy for SippCoat® and the disposable SippBag and will pursue alternative options for urine collection even outside the ICUs. The SippBag can be used for all catheterized patients and can follow the patient in all clinical settings with no need for disconnection.

Market Potential

The ambition of Observe Medical is to continue the roll out of Sippi® to clinics in the Nordics and rest of Europe during 2020. The pace of the roll out will be dependent on the progress of the COVID-19 situation in hospitals. Subsequently, the roll out will proceed to USA and Canada.

The company considers the market potential to be in the range of 0.5 million base units and around 20 million disposable units per year. A preliminary estimate of the value of this market is around NOK 4 billion per year globally.

The potential roll-out of SippBag as a standalone product will be planned based on learnings from the ongoing launch of the Sippi® BLE system. This could, according to preliminary company estimates represent a market of 500 million bags per year, or more than NOK 20 billion.

Board of Directors' Report 2019

Board of Directors' Report 2019

Introduction

Observe Medical (the Group) is a medtech group developing and marketing innovative medical technology products to the benefit of patients, healthcare professionals and hospitals. With headquarters in Oslo, Norway and operations in Gothenburg, Sweden, Observe Medical is a platform for building a portfolio of medtech products through M&A as well as organic growth. The initial product of Observe Medical, Sippi®, is a proprietary, CE marked system for urine measurement, which offers a unique, effective and innovative solution for automated & connected urine monitoring an infection management at the hospital intensive care units (ICUs), wards and home care. The system incorporates SippSense® and SippCoat®, technologies that alerts for and hinders bacteria migration which can lead to urinary infections. In 2019, Observe Medical initiated the launch of Sippi® BLE, the second generation of Sippi® with wireless connectivity technology (SippLink®) to the hospital patient data management system (PDMS), targeting ICUs globally.

Observe Medical ASA (the company) was incorporated on June 13, 2019 as part of the reorganization in Navamedic ASA to spin-off its medtech division as a separate entity. The demerger was completed on October 31, 2019 and Observe Medical ASA was listed on Oslo Axess on November 4, 2019. The demerger and separate listing provide Observe Medical ASA with a solid platform for accelerated growth and value creation through maximizing the potential in ownership and marketing of innovative medical technology products.

Observe Medical ASA is the parent company of the operating company Observe Medical International AB and its subsidiaries Navamedic MedTech AB and Observe Medical ApS.

Summary of the Financial Results

As a newly incorporated company, Observe Medical ASA has not prepared any historical financial statements for previous financial years or periods.

In connection with the listing on Oslo Axess, Observe Medical ASA prepared financial statements for the carved-out group (previously the medtech division in Navamedic ASA, comprising Observe Medical International AB, Observe Medical ApS and Navamedic Medtech AB) as of, and for the years ended, December 31, 2016, 2017 and 2018 in accordance with International Financial Reporting Standards as approved by the EU (IFRS).

The Group had operating revenues of NOK 176,650 in 2019 compared to NOK 106,185 in 2018. The gross result was negative 460,131 in 2019, mainly due to write-downs of

inventories related to materials used in testing and some materials which were expired. In 2018, the gross result was NOK 581,164 due to reversed write-downs from 2017.

In 2019, EBITDA was negative NOK 11,501,443 compared to negative NOK 7,822,910 in 2018. The weaker EBITDA compared to last year was mainly due to expenses in connection with the incorporation of Observe Medical ASA, demerger from Navamedic ASA and listing of Observe Medical ASA as a standalone company on Oslo Axess.

Depreciation and amortization increased from NOK 3,901,020 in 2018 to NOK 4,285,200 in 2019. The increase is related to higher amortization of technology development (Sippi® and related proprietary technologies) and depreciation of lease right of use after implementation of IFRS 16 from January 1, 2019.

Net finance expenses were NOK 1,130,658 and was related to interest of borrowings and change of contingent consideration that more than offset net currency gain. In 2018, net finance income came in at NOK 13,997,582, mainly related to change in estimated fair value of contingent consideration as a result of the likelihood of milestone payments in the purchase agreement of Observe Medical International AB in 2015.

As a result, the Group had a loss of NOK 16,917,301 in 2019, compared to a profit of NOK 2,273,653 in 2018.

Earnings per share was negative NOK 1.36, compared to positive NOK 0.19 in 2018.

Financial Position

The Group had assets of NOK 55,332,907 at December 31, 2019 compared to NOK 58,830,515 at December 31, 2018. Book value of fixed assets was NOK 51,669,967 and consists mainly of goodwill related to the acquisition of Observe Medical International AB in 2015 as well as the Sippi® related technologies and patents.

At year-end 2019, the Group had current assets of NOK 3,663,138, mainly related to inventories. In 2018, the Group had current assets of NOK 4,099,698 and the decrease is mainly related to decreased other receivables.

The Group had equity of NOK 14,541,734 at December 31, 2019 compared to NOK 16,822,852 at December 31, 2018. In the period between the incorporation in June 2019 and the date of the listing, Observe Medical ASA has completed two share capital increases related to the completion of the demerger and a private placement towards Navamedic ASA where the latter converted a portion (NOK 16,000,000) of the existing loan that it had against Observe Medical ASA to equity as contribution in kind.

In connection with the completion of the demerger, the share capital of Observe Medical ASA was increased to NOK 3,085,594.98, by the issuance of 11,867,673 new shares, each with a nominal value of NOK 0.26. In addition, the share premium and other paid-in equity for accounting purposes increased by NOK 43,484,715.

In connection with the completion of the debt conversion, the share capital of Observe Medical ASA was increased with NOK 832,000 to NOK 3,917,594.98, by the issuance of

3,200,000 new shares, each with a nominal value of NOK 0.26. In addition, the share premium for accounting purposes was increased by NOK 15,168,000.

Observe Medical ASA did not complete any public offering nor secondary sale of shares in connection with the listing.

The Group had total non-current liabilities of NOK 37,889,369 at December 31, 2019 compared to NOK 12,177,000 at December 31, 2018. The increase is mainly related to interest bearing liabilities to Navamedic ASA of NOK 25,413,198, as a result of the loan agreement entered into in connection with the demerger. In addition, the Group had contingent consideration liabilities of NOK 12,398,226 related to the earn-out agreement in the purchase agreement of Observe Medical International AB in 2015.

Total current liabilities at December 31, 2019 amounts to NOK 2,901,804, compared to NOK 29,830,664 at December 31, 2018. The decrease is related to the new loan agreement as at 2019 classified as non-current liabilities, while the loan agreement in 2018 was a short-term agreement.

Cash Flow

At the end of 2019, the Group had NOK 485,207 in cash, down from NOK 621,144 at the end of 2018.

Cash flow from operating activities was negative NOK 13,972,072 in 2019, compared to negative NOK 8,363,792 in 2018 due decreased EBITDA and negative change in working capital, mainly due to decreased trade payables. The Group used NOK 2,140,695 for investing activities in 2019, an increase from NOK 1,949,429 in 2018. As in 2018, the cash flow used in investing activities in 2019 was related to investments in Sippi® products.

In 2019, net cash flow from financing activities was NOK 16,186,705 due to cash flow from increased interest-bearing debt. In 2018, net cash flow from financing activities was NOK 9,558,026 and related to group contribution and increased debt. Increased debt and group contribution have been the main source of funding for operations and investments.

Financing

In the second quarter of 2019, the Group initiated the launch of its new main product Sippi® BLE, and in order to be able to roll-out the launch of the product in the global market the Group will continue to focus and invest in sales channels and resources and business development going forward.

Prior to the listing, Observe Medical ASA (as the borrower) entered into a loan agreement with Navamedic ASA (as the lender) to refinance existing loan agreement of NOK 19,000,000 and an additional liquidity loan of NOK 13,000,000. The liquidity loan provides Observe Medical with financing for the first period after the listing to support the

commercialization of Sippi and establishment of the company as a standalone publicly listed company.

The Group's principal source of liquidity will still be cash generated from financing, equity and debt, in addition to net cash flows generated from sales. Consequently, any shortfall of cash generated from operations management will have to be covered through additional financing.

Shareholders

As of December 31, 2019, Observe Medical ASA had 668 shareholders and a total of 15,067,673 shares with a par value of 0.26. The 20 largest shareholders owned 12,613,986 shares (83.7%).

Table showing the 20 largest shareholders:

No	Name	Number of shares	Ownership %
1	Navamedic ASA	3,200,000	21.24%
2	Ingerø Reiten Inv. Company AS	2,916,667	19.36%
3	UBS Switzerland AG	1,420,522	9.43%
4	Lars Ro	1,320,000	8.76%
5	Alpine Capital AS	500,000	3.32%
6	Soleglad Invest AS	416,668	2.77%
7	Leikerane AS	416,666	2.77%
8	Tranbergkollen Invest AS	416,666	2.77%
9	Artal AS	332,000	2.20%
10	Olav Tarjei Hiorth LID	250,000	1.66%
11	Lapas AS	242,000	1.61%
12	Kraeber Verwaltung GmbH	214,850	1.43%
13	Bukkevik Investering AS	204,100	1.35%
14	Harding Invest AS	196,116	1.30%
15	Noelsystem Scnadinavia AS	124,333	0.83%
16	JGB Eiendom AS	101,011	0.67%
17	MP Pensjon PK	100,025	0.66%
18	Batjak AS	95,831	0.64%
19	Karl Anskar Eileraas	86,491	0.57%
20	Eivind Bjørn Tvedt	60,040	0.40%
	Other	2,453,687	16.28%
	Total number of shares	15,067,673	100.00%

Corporate Governance

On October 1, 2019, the board of directors adopted and implemented a corporate governance regime based on, and in all material aspects in compliance with the Norwegian Corporate Governance Code, October 17, 2018. For further information about corporate governance see the dedicated section on corporate governance in this annual report.

Risk Factors

Observe Medical faces risks both of operational and financial nature, which are outlined below.

Operational Risk

Observe Medical operates in the market for medical technology and is exposed to the risk factors which are considered common in this market. At the current stage, Observe Medical is focused on one product, Sippi®, with supporting products Sippi® Base unit, SippBag disposable units and related technologies SippLink™ SippSense® and SippCoat®. Hence, the market for this product, Sippi® performance and the Group's ability to commercialize the product will be important for the company'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 outs into hospitals, and the technology is tested 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 Group has several distributors as partners 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 production, where product performance can differ.

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

Financial Risk

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

The Group currently is in an early phase of its commercialization and development process of its products. The ongoing COVID-19 situation with national travel restrictions and a healthcare system, and healthcare providers, fully occupied with acute handling of COVID-19, provides constraints to the launch efforts for Sippi®, with some of the sales projects and other projects being slowed down or stalled.

Based on updated cash flow forecasts for next 12 months, the Group will at some stage require additional funds in order to execute and complete its commercialization and growth strategy, or for other purposes. The current debt arrangement with Observe Medical ASA's largest shareholder is described in the notes. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

The economic impact of the current global response to the COVID-19 outbreak are expected to adversely impact the Group's liquidity risk in terms of risk of delays in forecasted revenues compared by original budgets. The impacts of the COVID-19 outbreak are dependent upon the extent and duration of the outbreak. If markets served by the Group are impacted further and/or do not recover quickly, the Group's liquidity risk will increase further.

The Group is maintaining an active profile towards the equity market with a transparent and consistent investor relations strategy. In addition, if the impact of COVID-19 lasts for an extended period of time and/or capital markets are substantially degraded, the Group's ability to raise additional capital and sell assets may be adversely affected.

Organization

The Group had 8 employees at the end of 2019. The number of employees has increased by 3 from 2018, mainly due to establishment of management team after demerger from Navamedic. 7 employees are employed in Sweden and 1 in Norway.

In accordance with the Public Limited Companies Act, the board has prepared one statement of salary and other remuneration to senior executive employees, as included in Note 18.

Corporate Social Responsibility

Corporate social responsibility (CSR) means to run the business in a responsible and sustainable manner over time, and in a way that contributes to a positive, trust-based relationship between the Group, the Group's stakeholders and society as a whole. For further information about corporate social responsibility see own Environment, Social and Governance report as part of this Annual Report for the Group.

Research and Development

The Group has a strong global patent situation with focus on its three technologies: (i) Measuring volume via contactless sensors, (ii) SippSense[®], measuring sensor degradation and hence biofilm onset, (iii) SippCoat[®], the use of silicone oil as bacterial growth prevention properties in both urology and other bodily fluid systems and SippLink[®] enabling the wireless connection to hospital PDMS (Patient Data management system). The Group has currently approved patents in five patent families for a number of regions, with broad global coverage. Observe Medical ASA's subsidiary Observe Medical Aps is the registered owner of all the Group's patents.

In the financial statements, the accounting principles set out in IAS 38 have been used to recognize research and development expenditures. Expenditures for the development of SippBag disposable units, wireless connection to PDMS and related functionality have been capitalized in the statement of financial position. Development activities are normally performed in projects that are outsourced to external parties. Such development expenditures together with expenditures related to patent registration are the only development expenditures that have been capitalized in the statement of financial position. Internal expenditures have not been capitalized as all the requirements set out in IAS 38.57 were not satisfied.

Work Environment, Gender Equality and Discrimination

The working environment is generally satisfactory. Sick leave was 5.5 per cent in 2019. The Group works continuously to protect, and improve, health and safety in the business. Observe Medical is committed to be a responsible employer who does not discriminate and who considers all employees equal in terms of career opportunities and rights, regardless of gender, ethnicity, ability to function or sexual orientation. The Group's leadership consisted of three members in end 2019, all were men. Totally, there are 8 employees in the Group at December 31, 2019, two women and six men.

The Group had no serious incidents with personal injury or absence in 2019. Neither was it reported damage to property nor equipment.

Going Concern

As discussed in the section Financial Risk, the Group currently is in phase of its commercialization and development process of Sippi®. The ongoing COVID-19 situation with national travel restrictions and a healthcare system, and healthcare providers, fully occupied with acute handling of COVID-19, provides constraints to the launch efforts for Sippi®, with some of the sales projects being slowed down or stalled. In this phase the Group has limited revenues and its main source of liquidity is still cash generated from financing, equity and debt.

The risk factors described above indicate that material-uncertainty exists. The Board expect that the Group will require additional funding in order to execute and complete its commercialization and growth strategy. In addition, the management and the Board of Directors have identified initiatives to reduce spending and to improve the efficiency of the Group's operations.

The board of directors believes that these initiatives and plans are realistic and are sufficient to support the assumption that the Group has the ability to meet its financial obligations and continue to support the working capital requirements of ongoing operations for the next 12 months.

Accordingly, the board of directors confirms that the Financial Statements have been prepared under the assumption that the Group is a going concern and that this assumption is appropriate at the date of the accounts.

Parent Company

Observe Medical ASA (the company) is the parent company of the Group, owning 100% of the shares in its subsidiary Observe Medical International AB, which is the owner of 100% of the shares in Observe Medical ApS which, in turn, is the owner of 100% of the shares in Navamedic Medtech AB.

The company will support its subsidiaries with financing, as well as some common functions and services.

The assets of the company are mainly related to shares in Observe Medical International AB and loans to group companies.

The company was incorporated on June 13, 2019 and has not prepared any historical financial statements for previous financial years.

In 2019, Observe Medical had revenues of NOK 52,500 related to invoiced administrative consultancy service to Navamedic ASA. The company had operating expenses of NOK 1,608,303 which mainly consists of expenses in connection with the demerger and separate listing of the company, consultant services from Navamedic and personnel expenses. In 2019, EBIT was negative NOK 1,555,970.

The company had finance income of NOK 707,104 which consists of interest income from loan to group companies and currency gain. Finance expenses of NOK 1,571,493 was mainly related to interest expenses on loan from Navamedic ASA and currency loss related to loans to group companies.

The result for 2019 was negative NOK 2,420,193.

Allocation of Result for the Year 2019

Result after tax in the parent company for 2019 was negative NOK 2,420,193. The board of directors proposes that the loss for the year should be covered by transfer from other equity.

Outlook

Observe Medical aspires to become a global medtech company, an attractive platform for building a portfolio of products through M&A as well as by organic growth, with Sippi® system as the first product. Sippi®, with an innovative and proprietary technology, CE approved and currently in launch phase, is a unique and differentiated product with strong opportunity to gain global leadership and become standard of clinical care, in the segment of urine measurement. The current COVID-19 situation further highlights they key challenges for the healthcare system - patient data accuracy, stressed-out staff and hospital acquired infections - which are addressed by Sippi®. The company has strong competence and experience in bringing medtech products to the global market and The Board of Directors views the company's future opportunities as good to develop the company according to the aspiration, with Sippi® and beyond.

Subsequent Events in 2020

Exercise of Share Options

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

Following the share option exercise the Board of Directors, pursuant to authorization granted by the General Meeting of Observe Medical ASA on October 24, 2019, decided to increase the share capital of Observe Medical ASA by a total of NOK 71,500 by issuing 275,000 new shares, of par value NOK 0.26. Following the increase, the share capital of Observe Medical ASA is NOK 3,989,095.98 divided into 15,342,673 shares.

One employee in Navamedic ASA has 125,000 share options with expiry date at March 31, 2020. To adapt to the COVID-19 situation the Board of Directors has decide to postpone the expiry date for these share options with six months.

CEO Granted Employee Share Options

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

COVID-19

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

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 29, 2020



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO



Kristin Nyberg
Director



Thomas Grunfeld
Director

Management and Board

Management Team



Björn Larsson | Chief Executive Officer

Broad experience from marketing and business development within MedTech, pharmaceuticals and BioTech, i.a. from ABIGO Medical, Dentsply, Medtronic, Mentice, AstraZenca and Novo Nordisk.



Per Arne Nygård | Chief Financial Officer

Broad experience from finance functions in various industries. The last 12 years in listed companies as Veidekke and Multiconsult. Participated in the listing of Observe Medical.

Board of Directors



Terje Bakken | Chairman of the Board

Partner Ingerø Reiten Investment Company. Extensive experience from private equity, management and consulting.



Kathrine Gamborg Andreassen | Board Member

Chief Executive Officer of Navamedic since 2018. Comprehensive experience from marketing and executive positions with consumer health, i.a. from Novicus Pharma, Weifa and Orkla.



Kristin Nyberg | Board Member

Country Manager Nordic in Photocure since January 2020. Vast experience from the medical industry, i.a. from Biogen (Country Director Norway), Abbott, Photocure and Roche.



Thomas Grünfeld | Board Member

Chief Executive Officer of Labrida since 2012. Faculty board member (external) at OsloMet University since 2016. Medical degree, with vast experience from the medical industry, management and consulting.

Corporate Governance

Corporate Governance

Observe Medical ASA considers good corporate governance to be a prerequisite for value creation and trustworthiness, and for access to capital. In order to secure strong and sustainable corporate governance, it is important that Observe Medical ASA ensures good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations across the Group.

Observe Medical ASA has governance documents setting out principles for how business should be conducted. These apply to all group entities. References to certain more specific policies are included in this corporate governance policy.

Observe Medical is subject to annual corporate governance reporting requirements under section 3-3b of the Norwegian Accounting Act and the Norwegian Code of Practice for Corporate Governance, cf. section 7 on the continuing obligations of stock exchange listed companies. The Accounting Act may be found (in Norwegian) at www.lovdatab.no. The Norwegian Code of Practice for Corporate Governance, which was last revised on October 17, 2018, may be found at www.nues.no. The annual statement on corporate governance for 2019 was approved by the board of directors on April 16, 2020 and follows below.

Implementation and Reporting on Corporate Governance

The board of directors is committed to build a sound and trust-based relationship between Observe Medical ASA and the company's shareholders, the capital market participants, and other stakeholders. The Group's overall principles for corporate governance is approved by the board of directors and can be found at www.observemedical.com/investor-relations/. The Group complies with the Norwegian Code of Practice for Corporate Governance (the code) issued by the Norwegian Corporate Governance Board, latest edition of October 17, 2018. The board of directors' annual statement on how Observe Medical has implemented the code is set out below. The presentation covers each section of the code, and deviations from the code, if any, are specified under the relevant section.

Deviations: None

Business

The operations of the company and its subsidiaries shall be in compliance with the business objective set forth in Observe Medical ASA's articles of association, which shall be stated in the company's annual report together with the Group's primary objectives and strategies.

The company's business objective reads as follows: "The company's objective is to develop, produce, market and sell medical technical equipment and related products, provide connected consulting services and invest in related business."

Deviations: None

Equity and Dividends

Equity

The board of directors is responsible for ensuring that the group is adequately capitalized relative to the risk and scope of operations and that the capital requirements set forth in laws and regulations are met.

The company shall have an equity capital at a level appropriate to its objectives, strategy and risk profile. The board of directors shall continuously monitor the Group's capital situation and shall immediately take adequate steps if the company's equity or liquidity is less than adequate.

As of December 31, 2019, the Group had a consolidated equity of NOK 14.5 million, corresponding to an equity ratio of 26.3 per cent.

The risk factors described in the Board of Directors' Report indicate that material-uncertainty exists. The board of directors expect that the Group will require additional funding in order to execute and complete its commercialization and growth strategy. The board of directors believes that initiatives and plans described in the Board of Directors' Report are sufficient to support the assumption that the Group has the ability to meet its financial obligations. Accordingly, the board of directors consider that the Group has a capital structure that is appropriate for its objectives, strategy and risk profile at the date of the accounts.

Deviations: None

Dividend Policy

The company shall, at all times, have a clear and predictable dividend policy established by the board of directors. The dividend policy forms the basis for the board of directors' proposals on dividend payments to the company's general meeting. The dividend policy shall be disclosed to the shareholders. The background for any proposal to grant the board of directors an authorization to approve the distribution of dividends should be explained.

Deviations: None

Authorizations to the Board of Directors

Any authorization granted to the board of directors to increase the company's share capital or to purchase treasury shares shall be restricted to defined purposes. When the general meeting is to pass resolutions on such authorizations to the board of directors for different purposes, each authorization shall be considered and resolved separately by the general meeting. Authorizations granted to the board of directors to increase the share capital or purchase treasury shares shall be limited in time and shall in no event last longer than two years. However, it is recommended that an authorization to increase the share capital or purchase of treasury shares does not last longer than until the company's next annual general meeting.

The Annual General Meeting held on October 24, 2019 authorized the board of directors pursuant to §10-14 (1) of the Public Limited Liability Companies Act to increase the company's share capital by up to NOK 200,000 in one or more share issues. The authority may only be used to issue shares as consideration in connection with acquisitions, to finance acquisitions or to issue shares in connection with incentive schemes. The shareholders' pre-emptive rights under §10-4 of the Public Limited Liability Companies Act may be set aside. The authorization does not comprise share capital increase in connection with mergers pursuant to section 13-5 of the Norwegian Public Limited Companies act. The authorization described above shall remain in force until the Annual General Meeting in 2021, but in no event later than June 30, 2021.

On January 24, 2020, the board decided to increase the company's share capital by NOK 71,500 by issuing 275,000 new shares, of par value NOK 0.26. The shares were transferred to three employees in Navamedic ASA, who exercised a total of 275,000 options in Observe Medical ASA. Employees in Navamedic ASA were granted options in Observe Medical ASA in connection with the demerger of Navamedic ASA's Medtech division with transfer to Observe Medical ASA October 31, 2019. The weighted average option exercise price is NOK 3.12. Shares issued upon exercise are subject to a lock-up period of 12 months after exercise.

Deviations: None

Equal Treatment of Shareholders and Transactions with Related Parties

The company has only one class of shares. Each share in the company carries one vote, and all shares carry equal rights, including the right to participate in general meetings. All shareholders shall be treated on an equal basis, unless there is just cause for treating them differently. In the event of an increase in share capital through issuance of new shares, a decision to deviate from existing shareholders' pre-emptive rights to subscribe for shares shall be justified. Where the board of directors resolves to issue shares and deviate from the pre-emptive rights of existing shareholders pursuant to an authorization granted to the board of directors by the general meeting, the justification will be publicly

disclosed in a stock exchange announcement issued in connection with the share issuance.

Any transactions in treasury shares carried out by the company shall be carried out on Oslo Axess, and in any case at the prevailing stock exchange price. In the event that there is limited liquidity in the company's shares, the company will consider other ways to ensure equal treatment of shareholders. Any transaction in treasury shares by the company is subject to notification requirements and shall be publicly disclosed in a stock exchange announcement.

In the event of transactions that are considered to be material between the company and its shareholders, a shareholder's parent company, members of the board of directors, executive management or close associates to any such party, the board of directors shall arrange for an independent third-party valuation. This will, however, not apply for transactions that are subject to the approval of the general meeting pursuant to the provisions in the Norwegian Public Limited Liability Companies Act. Independent valuations shall also be procured for transactions between companies within the Group if any of the companies involved have minority shareholders.

As at December 31, 2019 the share capital of Observe Medical ASA is NOK 3,917,595 divided into 15,067,673 shares, each with a nominal value of NOK 0.26.

On October 31, 2019 the demerger of Observe Medical from Navamedic ASA was completed. In connection Observe Medical's share capital was (i) decreased to zero from NOK 1,000,000 by redeeming all existing shares in Observe Medical and distributing the reduction amount to Navamedic ASA and (ii) increased to NOK 3,085,594.98 from zero by issuing 11,867,673 consideration shares in Observe Medical to the shareholders of Navamedic ASA as of 31 October 2019 (the cut-off date) as registered in the Norwegian Central Securities Depository (VPS) as of 4 November 2019 (the record date). The consideration shares each have a par value of NOK 0.26 and are issued at a ratio of one consideration share in Observe Medical for each share the eligible shareholders hold in Navamedic ASA.

On October 1, 2019, the general meeting of Observe Medical ASA resolved to increase the share capital of the company with NOK 832,000 by issuance of 3,200,000 new shares to Navamedic ASA, each with a nominal value of NOK 0.26, by way of set-off against a receivable in the total amount of NOK 16,000,000 which Navamedic ASA had against the company. The completion of the share capital increase was conditional upon completion of the demerger of Navamedic ASA. The demerger was completed on October 31, 2019 and the share capital increase was registered with the Norwegian Register of Business Enterprises. The company's new registered share capital is NOK 3,917,594.98, divided into 15,067,673 shares, each with a nominal value of NOK 0.26.

Deviations: None

Shares and Negotiability

The company's shares are freely negotiable. The articles of association do not impose any restriction on the negotiability of the shares. There are no restrictions on the purchase or sale of shares by members of the company's management as long as they comply with the rules on insider trading. Each share carries one vote.

Deviations: None

General Meetings

Notice, Registration and Participation

The board ensures that its shareholders can attend and participate in the general meeting. The annual general meeting will take place on June 30, 2020. The Group's financial calendar is published via Oslo Børs and in the investor relations section of the Group's website. Notice of the general meeting, with sufficiently detailed, comprehensive and specific supporting information is made available on the Group's website no later than 21 days prior to the meeting to ensure that all shareholders may form a view on all matters to be considered at the meeting. The ordinary general meeting shall amongst other things consider the following matters:

1. Approval of the annual accounts and annual report.
2. The proposal of the board regarding dividends or other distributions.
3. Other matters which pursuant to law or the articles of association shall be considered by the general meeting.

The board of directors may decide that shareholders who want to participate in the general meeting must notify the company thereof within a specific deadline that cannot expire earlier than three days prior to the general meeting.

Proxy Form, Advance Voting and Voting

The shareholders may cast their votes in writing, including through electronic communication, in a period prior to the general meeting. The board of directors may establish specific guidelines for such advance voting. It must be stated in the notice of the general meeting which guidelines have been set. Documents concerning matters to be considered at the general meeting may be made available on the company's website. This is also applicable for documents that by law shall be included in or attached to the notice. In case documents are made available in such manner, the statutory requirements for distribution to shareholders shall not be applicable. A shareholder still has the right to receive documents concerning matters to be considered at the general meeting upon request.

Chairing Meeting, Elections etc.

General meetings will normally be chaired by the chairperson of the board. The board will however evaluate whether it is appropriate to engage an external chairperson to chair the meeting. The Group's chairperson of the board and chief executive officer are required to attend, and the board of directors encourages that all members of the board are present at the general meetings. The nomination committee is encouraged to attend those general meetings where the election and remuneration of directors and members of the nomination committee are to be considered. The board of directors requires that the chairperson of the nomination committee is present. The Group's auditor is present at the Annual General Meeting. The general meeting is normally invited to vote for a complete shareholder-elected board. As a result, no opportunity has been provided to vote in advance for individual candidates. Minutes from general meetings are published as soon as practicable via the stock exchange's reporting system ([www. newsweb.no](http://www.newsweb.no), ticker code: OBSERV) and in the investor relations section of the Group's website.

Deviations: None

Nomination Committee

The company shall have a nomination committee. The nomination committee shall consist of two to three members, as resolved by the general meeting, where the majority of the members shall be independent of the board of directors and the management. At least two of the members shall be shareholders or represent the shareholders. The nomination committee shall propose candidates to the annual general meeting in election of board members and the chairperson of the board, and to members of the nomination committee, including its chair. The nomination committee shall also submit proposals on board remuneration and remuneration to the members of the nomination committee. The term of the members of the nomination committee shall be two years at a time unless the general meeting decides otherwise in connection with the election. The general meeting can determine an instruction for the nomination committee. The current members of the nomination committee are Bernt Olav Røttingsnes (chair) and Grete Hogstad. No directors or members of executive management are represented in the nomination committee.

Deviations: None

Board of Directors: Composition and Independence

Pursuant to the articles of association, the board of directors may comprise three to seven members. The board currently has four shareholder-elected directors. Directors and the chairperson of the board are currently elected by the general meeting based on proposal from the nomination committee. The composition of the board is intended to secure the interests of the shareholders in general, while the directors also collectively possess a broad business and management background as well as in-depth sector

understanding and expertise in investment, financing and capital markets. Weight is also given to the board's ability to make independent judgements of the business in general and of the individual matters presented by the executive management.

Consideration has also been given to gender representation and independence of directors from the company and its management. The board of directors does not include executive personnel. All shareholder elected directors are independent of the Group's executive management. Details on background, experience and independence of directors are presented on the Group's website. Four board meetings were held in 2019. Each board member's attendance at board meetings is recorded by the company. The shareholding of each board member can be found in Note 18 to the consolidated financial statements.

Deviations: None

The Work of The Board of Directors

The board has the ultimate responsibility for the management of the company and for supervising its day-to-day management and activities in general. This includes developing the company's strategy and monitoring its implementation. In addition, the board exercises supervision responsibilities to ensure that the company manages its business and assets and carries out risk management in a prudent and satisfactory manner. The board is responsible for the appointment of the CEO. The board has an annual plan for its work.

In accordance with the provisions of Norwegian company law, the terms of reference for the board are set out in a formal mandate that includes specific rules and guidelines on the work of the Board and decision making. The chairman of the board is responsible for ensuring that the work of the board is carried out in an effective and proper manner in accordance with legislation. The board issues a mandate for the work of the CEO. There is a clear division of responsibilities between the board and the CEO. The CEO is responsible for the operational management of the company.

The board holds regular meetings and a strategy meeting each year. Extraordinary board meetings are held as and when required, to consider matters that cannot wait until the next regular meeting. In addition, the board has appointed three sub-committees composed of board members to work on matters in these areas. The board has established and stipulated instructions for these committees.

Audit Committee

The audit committee is appointed by the board. Its main responsibilities are to supervise the company's systems for internal control, to ensure that the auditor is independent and that the interim and annual accounts give a fair and true representation of the company's financial results and financial condition in accordance with generally accepted accounting principles. The audit committee receives reports on the work of the external

auditor and the results of the audit. Also, the audit committee meets regularly and can have meetings with the auditor where no member of the executive management is present.

As per December 31, 2019, the audit committee consisted of the following:

- Thomas Grünfeld, Chair
- Terje Bakken
- Kathrine Gamborg Andreassen

Compensation Committee

The compensation committee makes proposals to the board on the employment terms, as well as conditions and total remuneration of the CEO and other executive personnel.

As per December 31, 2019, the compensation committee consisted of the following:

- Kristin Nyberg, Chair
- Kathrine Gamborg Andreassen

Merger & Acquisitions (M&A) Committee

The M&A committee is appointed by the board. Its main responsibilities is to address M&A opportunities as well as supervise and support the management in such processes. The M&A committee will secure M&A activities to support the group strategy for further development and growth of the Group.

As per December 31, 2019, the M&A committee consisted of the following:

- Kathrine Gamborg Andreassen, Chair
- Terje Bakken

Deviations: None

Risk Management and Internal Control

The board ensures that the company has sound risk management and an internal control system that is appropriate to its activities. The risk management and internal control systems in Observe Medical are based on its corporate values and principles for sustainability. The board reviews the company's internal control system and the main areas of risk annually. Observe Medical management conducts day-to-day follow-up of financial management and reporting. Management reports to the audit committee that conducts a review of the quarterly and annual presentation and reports before publication. The audit committee assess the integrity of Observe Medical's accounts. It also inquiries into, on behalf of the board, assess issues related to financial review and internal control, and the external audit of Observe Medical's accounts. The board ensures that Observe Medical is capable of producing reliable annual reports and that the external auditor's recommendations are given thorough consideration. A description

of the company's financial risk management objectives and policies are included in Note 3 to the financial accounts.

Financial Reporting

The Group has processes and routines for internal control over financial reporting. The main principles are transparency, segregation of duties, analytical controls and systematic and thorough management reviews. Management prepares periodic reports on business and operational developments to the board, which are discussed at board meetings. These reports are based on the results of the review process and include status of key performance indicators, update of market developments, operational issues, financial results and highlights of organizational issues. Financial position and results are followed up in monthly accounting reports, compared to prior year, budgets and forecasts. Reporting also includes non-financial key performance indicators. In addition, management prepares a forecast of financial trends, showing profits and cash flow development. The interim reports and annual financial statements are reviewed by the audit committee in advance of consideration and discussion in the board. Financial risk management and internal control are also addressed by the board's audit committee. The latter reviews the external auditor's findings and assessments after the interim and annual financial audits. Significant issues in the auditor's report, if any, are also reviewed by the board.

Deviations: None

Remuneration of the Board of Directors

Director's fees are determined by the general meeting. The remuneration shall reflect the board's responsibility, expertise and the complexity of the business. The directors have not been awarded share options or any other form of incentive-based remuneration, in their role as directors, for the fiscal year 2019. Kathrine Gamborg Andreassen have been granted 250,000 options in Navamedic ASA in 2019 and as part of completion of the demerger these options were split and as a result, she received 250,000 options in Observe Medical ASA. An overview of shares owned by the directors and their close associates is included in Note 18 to the consolidated financial statement.

Deviations: None

Remuneration of Executive Personnel

The board has a remuneration committee. Its main responsibilities are evaluation and advice to the board of directors relating to remuneration strategy, main principles and systems for the total remuneration (including bonus) to the CEO and other members of the Group executive management. The CEO normally participates in the meetings, unless the committee discusses issues relating to the CEO. Note 18 to the consolidated

financial statements describes the Group's guidelines for the remuneration of senior executives. This note also provides further details about remuneration in 2019 for Group executive management. Presentation of the guidelines takes place at the general meeting in connection with the presentation of the annual report. The guidelines specify the main principles for the Group's executive compensation policy. They aim to ensure alignment of the interests of shareholders and Group executive management as far as possible.

Total remuneration to the executive management team consists of a fixed element and a variable performance-based bonus, employee share options, plus pension and insurance arrangements. Fixed remuneration to members of the executive management team consists of base salary (main element) and fringe benefits. The bonus program is linked to financial targets, agreed action plans and relevant key performance indicators. No options have been issued in 2019.

Deviations: None

Information and Communication

The board has established guidelines for investor communication. Observe Medical's communication with the capital markets is based on the principles of transparency, full disclosure and equality. CEO and CFO are responsible for the main dialogue with the investor community, hereunder the company's shareholders. Information to the stock market is published in the form of annual and interim reports, press releases, stock exchange announcements and investor presentations. All information considered relevant and significant for valuing the company's shares will be distributed and published in English via Oslo Børs disclosure system, www.newsweb.no, and via the Group's website www.observemedical.com simultaneously. Observe Medical holds public presentations in connection with the announcement of quarterly and annual financial results. The presentations are also available as live presentations via the internet. Presentation material is made available via Oslo Børs' news site www.newsweb.no and www.observemedical.com. Observe Medical gives weight to maintaining an open and ongoing dialogue with the investor community. Reporting of financial and other information shall be timely and accurate. The main purpose of this information presents a complete picture of the Group's financial results and position as well as articulating the Group's long-term goals and potential, including its strategy, value drivers and important risk factors. The Group publishes a financial calendar every year with an overview of the dates of important events, including the general meeting, publication of interim reports and presentations. This calendar is made available as a stock exchange announcement and on the Group's website as soon as it has been approved by the board.

Deviations: None

Takeovers

In the event of a takeover bid being made for the company, the board will follow the overriding principle of equality of treatment for all shareholders and will seek to ensure that the Group's business activities are not disrupted unnecessarily. The board will strive to ensure that shareholders are given sufficient information and time to form a view of the offer. The board will not seek to prevent any takeover bid unless it believes that the interests of the Group and the shareholders justify such actions. The board will not exercise mandates or pass any resolutions with the intention of obstructing any takeover bid unless this is approved by the general meeting following the announcement of the bid. If a takeover bid is made, the board will issue a statement in accordance with statutory requirements and the recommendations in the code. Any transaction that is in effect a significant disposal of the Group's activities will be submitted to the general meeting for its approval.

Deviations: None

Auditor

The external auditor, KPMG, annually presents its overall plan for the audit of the Group for the audit committee's consideration. The external auditor's involvement with the board of directors during 2019 related to the demerger and listing process of Observe Medical ASA at Oslo Axess. The board reports annually to the annual general meeting on the external auditor's total fees, split between audit and non-audit services. The annual general meeting approves the auditor's fees for the holding company.

Deviations: None



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO



Kristin Nyberg
Director



Thomas Grunfeld
Director

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 29, 2020

Environment, Social and Governance

Environment, Social and Governance

Our Impact/Responsibility

Our medtech solutions help ensure healthcare professionals and patients benefit from the highest standards of care safely and cost-effectively. Our vision is to enable innovations to be commercialized on a global market for the benefit of society, healthcare professionals and patients. This is at the core of our responsibility and the most important positive impact from our business operations.

Observe Medical is currently most recognized for development and distribution of the Sippi® automated digital urine system. With Sippi®, the company's prevalent current focus is on addressing the challenge of hospital acquired infections in healthcare facilities worldwide. Urinary tract infections are the number one hospital acquired complication for patients, and their treatment is a considerable burden to hospital staff and budgets. Overall, almost 3 million Europeans are infected every year from hospital acquired infections of all types.

In addition to the responsibility at the heart of our core business, Observe Medical considers good corporate governance to be a prerequisite for value creation and trustworthiness, and access to capital. In order to secure strong and sustainable corporate governance, Observe Medical actively strives to ensure good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations across the Group.

Governance

The board ensures that the company has sound risk management and an internal control system that is appropriate to its activities. The risk management and internal control systems in Observe Medical are based on its corporate values and principles for sustainability. The board reviews the company's internal control system and the main areas of risk annually. Observe Medical has governance documents setting out principles for how business should be conducted. These apply to all group entities. The company considers human rights important but does not currently have a human rights policy or guidelines for human rights. The company takes corruption risk seriously and strives to uphold the highest standard of business ethics. The company does not currently have a separate anti-corruption policy. The company has not received any reports of suspected corruption been involved in any legal proceedings regarding business ethics in 2019. Any potential misconduct can be reported directly to any member of the Corporate Management Team or directly to any member of the board.

The company's Quality Management System was recently re-certified by Intertek according to SS-EN ISO 13485:2016.

Observe Medical is a member of industry associations Norway Health Tech and Swedish Medtech.

Our Social Impact

Observe Medical is headquartered in Oslo, Norway, with development, quality, regulatory and commercial operations in Gothenburg, Sweden. The company had seven full-time employees and one non-permanent employee in 2019. Observe Medical follows the applicable legislation on employee rights such as the Norwegian Working Environment Act.

Equal opportunity and gender equality are important to Observe Medical as a growing company. Two out of four members of the board of directors are women, while there are currently no women in the corporate management. All employees have access to training and external competence development. The company follows the Norwegian Working Environment Act as well as applicable legislation in the countries where we operate. There were no serious work-related injuries among Observe Medical employees in 2019, and the absence rate for illness was 5.5%.

Observe Medical Workforce 2019	Men	Women	Total
Total workforce	6	2	8
Total workforce full-time employees	5	2	7
Total workforce part-time employees	0	0	0
Number of non-permanent employees	1	0	1

Observe Medical Employee Turnover 2019	Percentage
Labor turnover rate	0%

Observe Medical Health and Safety Data 2019	Percentage
Absenteeism rate for illness	5,5%
Accident frequency rate	0
Accident severity rate	0

Our Environmental Impact

The main environmental impacts from Observe Medical's business operations are related to transportation of personnel and materials. The company does not have any in-house production of products and thus the main impacts come from indirect environmental impacts related to purchased goods and services, employee business travel, and transportation of goods and products. The company does not have any policies or guidelines for environmental management.

In 2019, the company had three passenger cars, driving a total of 93,210 kilometers. Assuming a 2018 European average of 123.4 g CO₂/km for petrol cars¹, direct CO₂ emissions from Observe Medical company vehicles was 11.5 metric tons of CO₂.

As Observe Medical in 2019 has shared office locations with Navamedic AB in Gothenburg, with all related costs included including electricity, Observe Medical does not report indirect CO₂ emissions related to purchased electricity.

¹ <https://www.eea.europa.eu/highlights/average-co2-emissions-from-new>

**Consolidated Financial Statements
2019**

Contents

Consolidated Financial Statements 2019	43
Explanatory Notes to the Consolidated Financial Statements 2019	48
Note 1 - General Information	48
Note 2 - Basis for Preparation and Summary of the Most Important Accounting Policies	49
Note 3 - Financial Risk Management.....	59
Note 4 - Significant Judgements in the Application of Group Accounting Policies and Accounting Estimates.....	61
Note 5 - Segment Information and Revenue from Contracts with Customers	62
Note 6 - Tangible Assets	64
Note 7 - Intangible Assets	65
Note 8 - Lease	66
Note 9 - Financial Items.....	68
Note 10 - Cost of Materials.....	68
Note 11 - Trade Receivables and Other Receivables	68
Note 12 - Inventories	68
Note 13 - Financial Instruments	69
Note 14 - Contingent Consideration.....	73
Note 15 - Taxes	74
Note 16 - Other Operating Expenses	76
Note 17 - Payroll Expenses.....	76
Note 18 - Remuneration to Corporate Management and Board of Directors.....	76
Note 19 - Share Options.....	78
Note 20 - Earnings per Share.....	80
Note 21 - Related Parties.....	80
Note 22 - Research and Development.....	81
Note 23 - Shareholder Information	82
Note 24 - Events After the Balance Sheet Date	83

Consolidated Financial Statements 2019

Observe Medical Group

Consolidated Statement of Comprehensive Income

<i>Amounts in NOK</i>	Note	FY 2019	FY 2018
Operating revenues		176,650	106,185
Cost of materials	10	636,781	-474,979
Gross result		-460,131	581,164
Employee benefit expenses	17, 18, 19	5,299,190	4,217,022
Other operating expenses	16, 22	5,742,122	4,187,051
Operating expenses		11,041,311	8,404,073
Operating result before depreciation and amortisation (EBITDA)		-11,501,443	-7,822,909
Depreciation and amortisation	6, 7, 8	4,285,200	3,901,020
Operating result (EBIT)		-15,786,642	-11,723,929
Financial income and expenses			
Financial income	9	365,329	14,413,652
Financial expenses	9, 14	1,495,987	416,071
Net financial items		-1,130,658	13,997,581
Result before tax		-16,917,301	2,273,652
Income tax expense	15	0	0
Result for the period		-16,917,301	2,273,652
Other comprehensive income that may be reclassified subsequently to profit or loss			
Currency translations differences		-1,363,229	-2,459,220
Total comprehensive income/loss for the period		-18,280,530	-185,568
Earnings per share (NOK per share)	20	-1.36	0.19

Observe Medical Group

Consolidated Statement of Financial Position

<i>Amounts in NOK</i>	Note	At December 31, 2019	At December 31, 2018	At January 1, 2018
ASSETS				
Non-current assets				
Goodwill	7	30,333,459	31,165,525	32,113,245
Intangible assets	7	20,997,241	23,507,880	25,821,008
Tangible assets	6, 8	339,069	57,413	524,775
Total non-current assets		51,669,769	54,730,818	58,459,028
Current assets				
Trade receivables	11	65,625	32,222	27,001
Inventories	12	2,503,530	2,399,223	1,431,010
Other receivables and prepaid expenses	11	608,776	1,047,109	2,061,286
Bank deposits	13	485,207	621,144	2,058,940
Total current assets		3,663,138	4,099,698	5,578,237
Total assets		55,332,907	58,830,515	64,037,264
EQUITY AND LIABILITIES				
Total equity		14,541,734	16,822,852	11,394,019
Non-current liabilities				
Non-current lease liabilities	8	77,945	0	0
Contingent consideration	14	12,398,226	12,177,000	26,186,000
Non-current interest bearing liabilities	13	25,413,198	0	0
Total non-current liabilities		37,889,369	12,177,000	26,186,000
Current liabilities				
Trade payables	13	1,338,188	3,683,734	1,551,923
VAT and other public taxes and duties payables	13	499,466	494,089	515,183
Current lease liabilities	8	200,622	0	0
Current interest bearing debt	13	0	25,032,427	22,804,536
Other current liabilities	13	863,528	620,414	1,585,603
Total current liabilities		2,901,804	29,830,664	26,457,245
Total liabilities		40,791,173	42,007,664	52,643,245
Total equity and liabilities		55,332,907	58,830,515	64,037,264

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 29, 2020


Terje Bakken
Chair of the Board


Kathrine Gamborg Andreassen
Director


Björn Larsson
CEO


Kristin Nyberg
Director


Thomas Grunfeld
Director

Observe Medical Group

Consolidated Statement of Changes in Equity

<i>Amounts in NOK</i>	Contributed equity and retained earnings	Translation differences	Total
Equity as at January 1, 2018	9,031,711	2,362,308	11,394,019
Contributed equity (group contribution)	5,614,400		5,614,400
Net result for the year	2,273,653		2,273,653
Translation differences		-2,459,220	-2,459,220
Equity as at December 31, 2018	16,919,764	-96,912	16,822,852

The table above is from the Carve-out financial statement for 2018 and is included for illustrative purposes.

<i>(Amounts in NOK)</i>	Share capital	Share premium	Other paid in equity	Total paid-in capital	Retained earnings	Translation differences	Total
Equity as at January 1, 2019					16,919,764	-96,912	16,822,852
Incorporation of Observe Medical ASA	1,000,000			1,000,000			1,000,000
Capital decrease, repayment	-1,000,000			-1,000,000			-1,000,000
Merger effect	3,085,595	31,684,422	11,800,293	46,570,310	-46,570,310		0
Debt conversion	832,000	15,168,000		16,000,000			16,000,000
Net result for the period					-16,917,301		-16,917,301
Translation differences						-1,363,817	-1,363,817
Equity as at December 31, 2019	3,917,595	46,852,422	11,800,293	62,570,310	-46,567,847	-1,460,729	14,541,734

After the demerger from Navamedic ASA as at October 31, 2019, Observe Medical ASA is the parent company of the Observe Medical group. Observe Medical ASA was incorporated on June 13, 2019. See further information about the share capital in Note 23.

In connection with the demerger and prior to listing of Observe Medical ASA on Oslo Axess on November 4, 2019, Navamedic ASA conducted a debt conversion of MNOK 16 to equity in Observe Medical ASA.

Observe Medical Group

Consolidated Cash Flow Statement

<i>Amounts in NOK</i>	Note	2019	2018
Cash flow from operating activities			
Result before tax		-16,917,301	2,273,653
Depreciation and impairment	6,7,8	4,285,200	3,901,020
Change FV contingent consideration with no cash effect	14	221,226	-14,009,000
Change in inventories	12	-172,980	-968,213
Change in trade receivables and other receivables	11	404,930	-706,779
Change trade account payables and other current liabilities	13	-2,300,546	2,131,810
Changes in other current items		507,400	-986,282
Net cash flow from operating activities		-13,972,072	-8,363,792
Cash flow from investing activities			
Purchase intangible assets	22	-2,140,695	-1,949,429
Net cash flow used for investing activities		-2,140,695	-1,949,429
Cash flow from financing activities			
Net change interest bearing debt	13	16,380,771	3,943,626
Equity contribution			5,614,400
Paid in new share capital		1,000,000	
Repayment share capital		-1,000,000	
Payments of lease liabilities	8	-194,066	
Net cash flow used for financing activities		16,186,705	9,558,026
Exchange rate fluctuations		-209,876	-682,601
Changes in cash		-135,938	-1,437,796
Bank deposits as at January 1	13	621,144	2,058,940
Bank deposits end of period	13	485,207	621,144

**Explanatory Notes to the Consolidated
Financial Statements 2019**

Explanatory Notes to the Consolidated Financial Statements 2019

Note 1 – General Information

Observe Medical ASA is a Norwegian public listed company incorporated on June 13, 2019 to own and manage the Observe Medical business previously owned by Navamedic ASA.

In August 2015, Navamedic ASA acquired Observe Medical International AB, and has subsequently reported the Observe Medical business as a separate business segment named Medtech. Navamedic's Medtech segment was demerged from Navamedic ASA and merged into Observe Medical ASA ("OM ASA" or "the company" and together with its direct and indirect subsidiaries following the demerger, the "OM group" or "the Group") as at October 31, 2019. Observe Medical ASA was listed on Oslo Axess on November 4, 2019.

On the completion of the demerger, all of Navamedic ASA's shares in Observe Medical International AB was transferred to OM ASA together with an earn-out obligation to the sellers of Observe Medical International AB related to Navamedic ASA's acquisition of Observe Medical International AB in 2015 (the "contingent consideration"), while all other assets, rights and liabilities remained with Navamedic ASA.

Observe Medical International AB is a wholly owned subsidiary of OM ASA. Observe Medical Aps and Navamedic MedTech AB are wholly owned subsidiaries of Observe Medical International AB.

In 2015, Navamedic ASA acquired the Medtech company Observe Medical International AB with subsidiaries, which has developed the next generation digital urine meter, Sippi®.

Observe Medical ASA is registered and based in Norway. Its head office is located in Henrik Ibsensgate 90, 0255 Oslo, Norway.

Going Concern and Liquidity

These financial statements have been prepared on the assumption that the Group is a going concern, and the board confirms that the basis for this assumption is present. The board based its opinion on the future prospects and potential of the Sippi® product family and its available liquidity financing. Sippi® puts the Group well on the way towards achieving fully automated, digital urine measuring systems, which represent significant, long-term earnings potential for the Group.

The Group currently is in phase of its commercialization and development process of Sippi®. The ongoing COVID-19 situation with national travel restrictions and a healthcare

system, and healthcare providers, fully occupied with acute handling of COVID-19, provides constraints to the launch efforts for Sippi®, with some of the sales projects and other projects being slowed down or stalled.

In this phase the Group has limited with revenues and its main source of liquidity is still cash generated from financing, equity and debt.

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 for next 12 months, the Group will at some stage require additional funds in order to execute and complete its commercialization and growth strategy, or for other purposes. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

In October 2019 the company entered into a loan arrangement with Navamedic ASA to refinance existing loans to support operations and development and the first commercialization phase after listing.

As part of the new loan financing agreement, Navamedic ASA also converted NOK 16 million of existing interest bearing debt to equity in OM ASA. See note 13 and 23 for further description of the loan agreement and the debt conversion.

Note 2 – Basis for Preparation and Summary of the Most Important Accounting Policies

The basis for preparation and most important accounting policies used in the preparation of the consolidated financial statements are described below. The basis and policies are applied consistently in all of the periods presented, unless the description states otherwise.

First-time Consolidated Financial Statements and Statement of Compliance

Special purpose carve-out financial statements were prepared for the Observe Medical business in line with International Financial Reporting Standards as adopted by the European Union (IFRS (EU)) for the years ended December 31, 2018, 2017 and 2016. Condensed carve-out interim financial statements were prepared for the six months ended June 30, 2019 in accordance with the requirements of the International Accounting Standard 34 Interim Financial Reporting.

The legal demerger of Navamedic ASA was completed on October 31, 2019. Until the demerger, the accounting policies, principles of carve-out, combination and allocation as described in the carve-out financial statements were applied.

Upon the completion of the demerger, OM ASA has controlled all net assets transferred within the meaning of IFRS 10, Consolidated Financial Statements. Therefore, first-time consolidated financial statements have been prepared in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards, for the reporting period ended December 31, 2019. As consolidated financial statements previously were not prepared for the carved-out Observe Medical business, no reconciliation for consolidated equity and for consolidated total comprehensive income is required pursuant to IFRS 1.

OM ASA applied the predecessor accounting approach by using the carrying amounts (including goodwill) recognized in the IFRS consolidated financial statements of Navamedic ASA. This also applies to the implementation of IFRS 16 Leases, which is implemented as of January 1, 2019 in accordance with the implementation related to the OM group in Navamedic group's financial statements. No other exemptions permitted under IFRS 1 were used in the consolidated financial statements presented here.

Legal transfers of the business activities from Navamedic ASA to OM ASA were presented as transactions under common control using the book value method. In addition, prior-periods comparative information has been presented as if the legal structure of OM ASA, after taking into account the legal transfers of the business activities, had already existed in the past. Accordingly, disclosures in the published carve-out financial statements can be consulted for comparative information. The comparative information in these financial statements prior to the demerger on October 31, 2019 is labelled as "consolidated" and derived from the carve-out financial statements up to and including 30 June 2019, and from Navamedic ASA's internal consolidation system for the remaining period up to and including October 31, 2019.

The Group's financial statements have been prepared on the basis of historical cost, with the exception of contingent consideration which is recognized at fair value through profit or loss.

Preparing financial statements in accordance with IFRS requires the use of estimates. Furthermore, applying the Group's accounting policies requires the management team to use its judgment. Areas that involve a high degree of estimation and a high degree of complexity, or areas where assumptions and estimates are significant for the Group's financial statements, are described in Note 4.

The consolidated financial statements have been prepared on the assumption that the Group is a going concern (see further discussion above). These consolidated financial statements were approved by the board and CEO of OM ASA on April 29, 2020.

Principles Used in the Consolidated Financial Statements of Carve-Out, Combination and Allocation

The re-organization of ownership interests, assets and liabilities under common control is outside the scope of IFRS 3 Business Combinations. Since IFRS (EU) does not provide specific guidance, accounting policies have been established by the Group to account for such transactions at their historical carrying amounts recognized in Navamedic

group, as if the re-organization occurred at the beginning of the earliest period presented.

The Observe Medical group consists of ownership interests, assets and liabilities that have historically been under common control of Navamedic ASA for all periods presented.

Estimates made for the preparation of the carve-out financial statements were consistent with estimates made for the same dates in accordance with the preparation of the annual financial statements for Navamedic group, of which the Group was a part for the periods presented. The only exception is related to non-recognition of net deferred tax assets when presenting the Group separate from the Navamedic group. Accounting policies relevant for the preparation of these financial statements are also consistent with those of Navamedic group.

The Group's financial statements cover the following companies:

- Observe Medical ASA
- Observe Medical International AB
- Observe Medical ApS
- Navamedic Medtech AB

Observe Medical ASA (OM ASA), which acquired the Medtech business via the demerger from Navamedic ASA and merged into OM ASA, was established on June 13, 2019, and was not part of the Group for the periods presented in the carve-out financial statements. OM ASA was established with a share capital and total equity of NOK 1 million, and a corresponding bank account. On completion of the demerger, this share capital was repaid to Navamedic ASA.

Before the demerger, the companies included in the Medtech business did form a group of companies, with Observe Medical International AB as the parent company. However, consolidated financial statements had historically not been prepared. Furthermore, the consolidated financial statements also include the fair value adjustments, goodwill and contingent consideration recognized by the Navamedic group on acquisition of Observe Medical International AB in 2015.

The total assets and liabilities included in the consolidated financial statements, with carrying values as reflected in Navamedic group's consolidated financial statements up to October 31, 2019, had not formed a group controlled by a separate legal entity before the demerger on October 31, 2019, and therefore it is not meaningful to present share capital or an analysis of changes in share capital before the demerger.

Total equity as at January 1, 2018 is equal to carrying values of the carve-out net assets contributed by Navamedic to the Group at this date. Total equity comprised "Contributed equity and retained earnings" and "translation differences". Change in contributed equity includes the net equity impact of equity transactions with the Navamedic group, which are group contributions received from Navamedic AB. The share capital and other paid in equity of OM ASA is presented as the Group's share capital and other paid in equity from the time of the demerger and merger.

Earnings per share information has been presented reflecting the number of shares of OM ASA after the demerger from Navamedic ASA, with a weighted average effect of the increase in number of shares following the debt conversion on October 31, 2019, see Note 20.

Transactions and shared costs were historically charged from Navamedic to Observe Medical International AB and its subsidiaries, and consequently recognized in the Group's financial statements. This was primarily management fee (to cover costs and activities as finance and management support), rent of office space and net interest expense on intercompany debt. Navamedic AB also provided group contributions to the OM group in previous periods, to utilize parts of the tax losses carried forward in the OM group. No further carve-out allocations were made in the preparation of the Group's financial statements.

Navamedic ASA had employee share options outstanding at December 31, 2018 and further employee share options were granted during the second quarter of 2019. The holders of employee share options at the date of the demerger and merged into OM ASA (October 31, 2019) received the same number of share options in OM ASA as they had in Navamedic ASA. No employee share option expenses were recognized in the Group's financial statements before the demerger. See Note 19 for further information related to the share options.

In addition to the legal entities, contingent consideration recognized by Navamedic ASA on acquisition of Observe Medical International AB has been included, with the carrying values and profit or loss effects recognized in Navamedic's consolidated financial statements. The contingent consideration is recognized at fair value through profit or loss. See Note 11 for further description of the contingent consideration.

At acquisition of Observe Medical International AB, Navamedic recognized fair value adjustments on intangible assets and goodwill. The fair value adjustments of intangible assets have subsequently been partially amortized through profit or loss. These fair value adjustments, goodwill and subsequent amortization have been included in the Group with the values recognized in the Navamedic group.

Changes to Accounting Policies and Disclosures

The Group has carried forward the carrying values of assets and liabilities as reported by the Navamedic group and applied the same accounting policies. The accounting policies applied are the same for all periods presented, except as described below for IFRS 16 Leases. Due to the principles of the carve-out, OM group has evaluated that the implementation principles in IFRS 1 is not relevant for OM group's implementation of IFRS 16 and has consequently followed the implementation methods and effects of Navamedic related to OM's operations.

The Group has applied IFRS 16 Leases from January 1, 2019 in accordance with the modified retrospective method. As a result, the prior-year figures were not adjusted and there are not any impact on equity upon implementation on January 1, 2019. The new standard requires lessees to recognize right of use assets and lease liabilities for most

leases. Depreciation, impairment, and interest expenses must be recognized in the consolidated statement of comprehensive income. The Group has elected to use the practical expedients of not recognizing lease agreements with a lease term of less than one year or where the value of the underlying asset is low.

At January 1, 2019, the Group had lease contracts for three cars, with total annual lease payments of approximately NOK 220 thousand and remaining lease periods of 2 to 2.5 year. Employees of the Group were co-located with Navamedic AB. Navamedic AB charged the Group for the office space used, but there was no legal contract between Navamedic AB and the Group, and the Group has evaluated that this did not represent a lease contract to be recognized at January 1, 2019. The annualized rent amount for 2019 is less than NOK 100 thousand.

On implementation, the Group recognized lease liabilities and right of use assets of NOK 483 thousand at January 1, 2019.

Revisions to standards and interpretations that did not come into force for the Group for the period that ended December 31, 2019 are evaluated not to have any significant effect for the Group.

Basis of Combination and Consolidation

The re-organization of ownership interests, assets and liabilities under common control is outside the scope of IFRS 3 Business Combinations. Since IFRS (EU) does not provide specific guidance, accounting policies have been established by the Group to account for such transactions at their historical carrying amounts recognized in Navamedic group, as if the re-organization occurred at the beginning of the earliest period presented.

Companies that have been controlled by Navamedic ASA, and that are part of the Observe Medical International AB group, have been fully combined and consolidated for all periods presented for the purpose of these financial statements ("subsidiaries"). In the reorganization completed with the demerger and merger of the Medtech business, the carrying values and comparative figures as reported in the Navamedic group have been used for the purpose of these consolidated financial statements. The discussion of control, acquisition method, consolidation etc. consequently refers to the Navamedic group for the period prior to the demerger and merger and carried forward by the OM group for the purpose of these consolidated financial statements.

Control exists when an entity is exposed, or has rights, to variable returns from its involvement with the investee and is able to affect those returns by exercising power over the investee. Power means existing rights that provide the investor with the ability to direct relevant activities, i.e. the activities that significantly affect the investee's returns. There are no non-controlling interests for the periods presented.

The acquisition method is used for acquisitions of business within the scope of IFRS 3. For the Group, this relates to the acquisition of Observe Medical International AB in 2015. The consideration is measured at the fair value of the assets transferred, liabilities

assumed, and equity instruments issued. Contingent consideration is included in the consideration at estimated fair value at the acquisition date, with subsequent changes that are not adjustments during the measurement period recognized through profit or loss. Identifiable assets, liabilities, and contingent liabilities are recognized at their fair values at the acquisition date, with goodwill as residual.

Transaction related costs incurred in a business combination is recognized as an expense when incurred.

Intra-group income, expenses, and balances are eliminated in preparing the Group's financial statements.

Segment Information

The Group currently has only one segment, the Medtech business.

Translation of Foreign Currency

a) Functional currency and presentation currency

The financial statements of an individual entity are measured using the currency of the primary economic environment in which the entity operates (functional currency). The functional currency of Observe Medical International AB and Navamedic Medtech AB is SEK, and DKK for Observe Medical ApS. As it was the shares in Observe Medical International AB that were acquired in 2015, the fair value adjustments and goodwill has been recognized in SEK. The consolidated financial statements are presented in NOK.

b) Transactions and balance sheet items

Transactions in foreign currency are translated to the functional currency using the exchange rate at the date of the transaction. Currency gains and losses that arise at settlement and translation of monetary items in foreign currency at the exchange rate on the balance sheet date are recognized through profit or loss. Currency gains and losses are presented net as financial income or financial expenses.

c) Group companies

The financial statements of group companies with functional currencies different from the presentation currency are translated in the following way:

- a) Assets and liabilities, including goodwill and fair value adjustments, are translated using the exchange rate on the reporting date.
- b) Income statements are translated using the average exchange rate for the year
- c) Translation differences are recognized in other comprehensive income and specified in equity as a separate item

Intangible Assets and Goodwill

Recognition and measurement

Expenditure on research activities is recognized in profit or loss as incurred.

Development expenditure is capitalized only if the expenditure can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Otherwise, it is recognized in profit or loss as incurred. Subsequent to initial recognition, development expenditure is measured at cost less accumulated amortization and any accumulated impairment losses.

Goodwill arising on the acquisition of subsidiaries is measured at cost less accumulated impairment losses.

Other intangible assets, including customer relationships, patents and trademarks, that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognized in profit or loss as incurred.

Amortization

Amortization is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognized in profit or loss. Goodwill is not amortized.

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Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Technology assets

The fair value of patented and unpatented technology associated with Sippi® was estimated at the acquisition of Observe Medical International AB (OMI AB) in 2015. This was estimated based on the estimated annual revenue from Sippi® over a period of 20 years, discounted by 18.3%. The revenue was based on estimates of market size, estimated market share and expected sales prices, and was consistent with the calculation of contingent consideration for the acquisition of OMI AB. The technology asset is amortized on a straight-line basis over 10 years. The shorter period than the one used to estimate fair value upon acquisition was justified by the risk of technological

obsolescence. IAS 38 states that uncertainty justifies estimating the useful life of an intangible asset on a prudent basis, but it does not justify choosing a life that is unrealistically short. The amortization method used shall reflect the pattern in which the asset's future economic benefits are expected to be consumed by the entity, and normally this cannot be based on expected revenue. If that pattern cannot be determined reliably, the straight-line method shall be used. Subsequent to the acquisition in 2015, the Group has capitalized some further costs related to the development of Sippi®, as well as patent registration costs. Expenditures for the development of Sippbag™ bags, wireless connection to PDMS and related functionality have been capitalized as assets. Development activities are normally performed in projects that are outsourced to external parties. Such development expenditures together with expenditures related to patent registration are the only development expenditures that historically have been capitalized. Internal expenditures have not been capitalized as all the requirements set out in IAS 38.57 historically were not satisfied.

The Group is now in an important launch phase for the next generation Sippi® (Sippi®BLE) and the Group's related investments to the development of this product have in all material respect already been incurred. During the launch phase, the investments will mainly be related to connectivity to PDMS systems.

Impairment of Non-Financial Assets

Tangible assets and intangible assets with finite useful lives are assessed for impairment when there are indications of impairment.

An impairment amounting to the difference between the carrying value and recoverable amount is recognized through profit or loss. The recoverable amount is the highest of value in use and fair value less cost of disposal.

When assessing possible impairment, assets are grouped at the lowest level that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. The Group currently has only one cash generating unit.

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

Inventories

Inventories are measured at the lowest of acquisition cost and net realizable value. Acquisition cost is calculated using the first-in, first-out method (FIFO). Net realizable value is the estimated selling price and the estimated costs necessary to make the sale.

Financial Assets

The company has financial assets in the category of amortized cost, which primarily consist of short-term receivables and bank deposits. Accounts receivables are initially measured at the transaction price. Other financial assets are initially recognized at fair

value in addition to transaction costs and then at amortized cost using the effective interest method adjusted for impairment.

For the periods presented, no credit losses have been realized and no provisions for expected credit losses have been recognized.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and bank deposits, with a maximum of three months' original duration.

Financial Liabilities

Financial liabilities include:

- a) Financial liabilities at fair value through profit or loss: Contingent consideration from acquisition; and
- b) financial liabilities at amortized cost: primarily interest-bearing debt to Navamedic group and payables.

Income Tax

The tax expense consists of tax payable and deferred tax.

The Group has historically operated with significant losses for tax and accounting purposes. The Group has operations, and tax losses carried forward, in Denmark and Sweden. So far, the Group has had no basis for recognition of net deferred tax assets according to IAS 12 Income taxes. For all periods presented, the Group has reported zero net deferred tax assets or income tax expense.

Deferred tax assets and deferred tax is offset if there is a legally enforceable right to offset assets in the event of tax payable against liabilities in the event of tax payable, and the deferred tax assets and deferred tax relate to income tax that is imposed by the same tax authority for either the same taxable enterprise or different taxable enterprises that intend to settle liabilities and assets in the event of tax payable net. At the acquisition of Observe Medical International AB in 2015, deferred tax asset was recognized on tax losses carried forward in the same amount as deferred tax liability recognized on the fair value adjustments of the technology intangible assets, with net zero deferred tax recognized. In subsequent periods, the deferred tax asset has been reduced in line with the reduced deferred tax liability on the intangible assets.

Pensions

The Group has entered into a mandatory defined-contribution pension scheme for all employees. The contributions are recognized as payroll expenses as the obligation to pay contributions accrue.

Revenue Recognition

Revenue from contracts with customers

The Group is in the process of commercialization of its digital urine meters for use in intensive care wards in hospitals, in the Nordic region and other selected European countries

The Group has established its sales and distribution model for its digital urine meters. The model will be further developed in line with the expansion of the business. The Group has for the periods presented insignificant sales and revenues. Further information on revenue recognition or disclosures according to IFRS 15 is consequently not relevant for these financial statements.

Leases

Up to December 31, 2018, lease payments were recognized as expense on a straight-line basis over the lease period. As from January 1, 2019 the Group has recognized right of use assets and lease liabilities for leases, except for agreements with a lease period of less than one year or where the value of the underlying asset is low. Depreciation, impairment, and interest expenses must be recognized in the consolidated statement of comprehensive income.

Share Options

Before the demerger, Navamedic ASA had employee share option programs. The holders of employee share options at the date of the demerger and merger into Observe Medical ASA (October 31, 2019) received the same number of share options in Observe Medical ASA as they had in Navamedic ASA. The strike price per Navamedic share, was reduced by 26%, and the strike price for shares in Observe Medical ASA became the same 26%. 26% is the fraction that was used in the demerger plan signed June 19, 2019, which was based on the estimated relative fair values of Navamedic ASA and Observe Medical ASA at that point in time.

Up to the demerger and merger, no share option expense has been recognized in the financial statements of the Group, except as indirectly included in the charges from Navamedic for employee services.

Since the options holders are employees in Navamedic and not in Observe Medical, these share options were not granted as an employee benefit for employment in Observe Medical. On that basis, Observe Medical has not recognized any share options expenses related to these share options. The company will still be liable for the social security tax and it is expensed over the estimated vesting period.

Note 3 – Financial Risk Management

Financial Risk Factors

The Group's operations expose it to various types of financial risk: market risk (including currency risk, interest risk, and price risk), credit risk, and liquidity risk.

Market and Operational Risk

The Group is exposed to market risk. The Group believes that such risk primarily arises in relation to the future sales of the Group's products, measured in terms of both price and volume. Factors that can influence market risk include increased competition, instructions to reduce prices from the authorities, and competition from existing and future medtech companies.

For the periods presented, currency risk has primarily been related to payables and receivables within the OM group and related parties.

Going forward, it is expected that revenues will be generated in both the functional currency of the selling entity and in foreign currencies. This may also apply to cost of materials. The Group has so far not adopted specific currency hedging strategies in relation to its operations.

Credit Risk

The Group has for the periods presented had insignificant credit risk.

Liquidity Risk and Going Concern

The Group currently is in phase of its commercialization and development process of Sippi®. The ongoing COVID-19 situation with national travel restrictions and a healthcare system, and healthcare providers, fully occupied with acute handling of COVID-19, provides constraints to the launch efforts for Sippi®, with some of the sales projects and other projects being slowed down or stalled. In this phase the Group has limited with revenues and its main source of liquidity is still cash generated from financing, equity and debt.

Based on updated cash flow forecasts for next 12 months, the Group will at some stage require additional funds in order to execute and complete its commercialization and growth strategy, or for other purposes. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

The economic impact of the current global response to the COVID-19 outbreak are expected to adversely impact the Group's liquidity risk in terms of risk of delays in forecasted revenues compared by original budgets. The impacts of the COVID-19 outbreak are dependent upon the extent and duration of the outbreak. If markets served

by the Group are impacted further and/or do not recover quickly, the Group's liquidity risk will increase further.

The Group expect that the Group will require additional funding in order to execute and complete its commercialization and growth strategy. In addition, the management and the board of directors have identified initiatives to reduce spending and to improve the efficiency of the Group's operations.

The management and the board of directors have identified initiatives to reduce spending and to improve the efficiency of the Group's operations.

The board of directors believes that these initiatives and plans are realistic and are sufficient to support the assumption that the Group has the ability to meet its financial obligations and continue to support the working capital requirements of ongoing operations for the next 12 months.

Variable Interest Rate Risk

The Group's variable interest rate risk is limited as interest bearing liabilities to Navamedic ASA has a fixed interest rate. The Group has limited bank deposits and change in variable interest rate will have limited effect. The Group has not hedged its interest rate exposure.

Management of Capital

The Group has so far not had any expressed goals or requirements in relation to management of capital. Focus in the short term will be to ensure continued operations to further develop and commercialize Sippi®. In the longer term, goals will include securing returns for its owners, and to maintain an optimal capital structure in order to reduce capital expenses. So far, the Group has not had any debt with financial covenant restrictions.

Note 4 – Significant Judgements in the Application of Group Accounting Policies 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.

Judgements that management have made as part of the application of the entity's accounting policies and that have the most significant impact on the amounts recognized in the financial statements are related to the acquisition of OMI AB in 2015, and further capitalization of costs for development of the technology assets.

As part of the business combination, management performed judgments and made estimates of the fair values of assets and liabilities acquired, as well as the fair value of the contingent consideration. These estimates and judgements at the acquisition date affects the classification and carrying amounts in the balance sheet and subsequent amortization, depreciation, change in fair value through profit or loss for contingent consideration and potential for impairment charges.

Capitalization of further development costs requires documentation that all criteria for capitalization of own development still are present, including that sufficient resources are available to complete the development and management's expectations and estimates of future economic benefits to be generated by the assets.

Sources of estimation uncertainty with a significant risk of a material adjustment to the carrying amount in the following period relates primarily to the measurement of goodwill, technology assets, and contingent consideration, and recognition of deferred tax assets.

Management has used estimates and assumptions in the determination of the amortization period for intangible assets, the assessment of impairment indicators and impairment tests. These are affected by management's expectations and estimates of future economic benefits to be realized by the Group. See notes 2.5, 2.6, and 7 for further information.

The Group has so far not been able to demonstrate convincing evidence of future taxable profits to be able to recognize net deferred tax assets on its tax losses carried forward according to IAS 12, see also Note 2.12.

Note 5 – Segment Information and Revenue from Contracts with Customers

The Group currently has only one segment, the Medtech business. The Group currently only has immaterial amounts of revenue from contract with customers, and no further disclosures related to revenue and IFRS 15 are provided.

Medtech Business

The Group is the owner of product rights (the Sippi® product family) to a product with global potential. Observe Medical has developed an automated, digital urine meter that saves healthcare personnel time. Compared with current methods, Sippi® represents a clear improvement and may enhance accuracy for hospitals and patient safety. Sippi® has been under development since 2009 and has been approved for use in hospitals in Europe and the USA.

Sippi® has the potential to become a global category leader within urine measuring systems with our wireless, digital and fully integrated product family.

Sippi® is the only digital urine measuring system that can automatically deliver data to electronic patient journal systems, an important innovation within what is now a completely manual task in the health service. Automating the urine measuring process will allow hospitals and other parts of the health service to streamline patient care where urine measuring is required and can thereby free up resources for other needs the patient may have. Trials carried out in clinics confirm that the Sippi® system is more accurate than manual measuring methods, is safer for patients, and frees up hospital staff's time.

In 2019, Observe Medical introduced wireless transmission to patient journal systems to accelerate the interest being shown in Sippi®. A number of leading hospitals in Europe and the Nordic region have expressed their interest in testing and implementing Sippi® with wireless data transfer.

Observe Medical is also developing SippCoat®, an innovative technology that hampers the formation of biofilms in urine collection and drainage systems.

Biofilm formation is the main cause of bacterial growth in medical devices and the consequent urinary tract infections. The silicone oil in SippCoat® helps prevent bacteria migrating to the bladder from a urine bag via the tube system.



Sippi® puts Observe Medical well on the way towards achieving fully automated, digital urine measuring systems, which would represent significant, long-term earnings potential for the Group.

The Group's goal is to establish Sippi® as a global niche leader. This will be done by building a network of distributors in key markets and utilizing the Group's relationships with hospitals throughout the Nordic market.

The insignificant amount of revenue and negative results for the periods presented are due to the development and roll out of the advanced Sippi® urine measuring system and Sippi® product family, which have the potential to become global category leaders in the digital monitoring of seriously ill patients' fluid balance.

Amounts in NOK

Tangible assets, goodwill and intangible assets by country*	2019	2018
Sweden	49 533 135	52 480 072
Denmark	2 136 634	2 250 745
Total	51 669 769	54 730 817

* Tangible assets, goodwill and intangible assets are distributed based on the country in which the legal entity that owns the assets is located. Goodwill and fair value adjustments to technology assets are allocated to Sweden, as Observe Medical International AB was the parent company that was acquired in 2015.

Note 6 – Tangible Assets

<i>Amounts in NOK</i>	Tangible assets
Acquisition cost January 1, 2018	2,151,701
Reclassification	-407,853
Currency translation differences	92,241
Acquisition cost December 31, 2018	1,836,089
Acquisition cost January 1, 2019	1,836,089
Additions	49,074
Recognition of right-of-use asset on initial application of IFRS 16	472,633
Currency translation differences	-1,532
Acquisition cost December 31, 2019	2,356,264
Accumulated depreciation January 1, 2018	1,709,979
Depreciation for the year	66,303
Currency translation differences	2,394
Accumulated depreciation December 31, 2018	1,778,676
Accumulated depreciation January 1, 2019	1,778,676
Depreciation for the year	237,901
Currency translation differences	618
Accumulated depreciation December 31, 2019	2,017,195
Carrying value January 1, 2018	524,775
Depreciation	66,303
Reclassification	-407,853
Translation differences	6,794
Carrying value December 31, 2018	57,413
Carrying value January 1, 2019	57,413
Additions	49,074
Recognition of right-of-use asset on initial application of IFRS 16	472,633
Depreciation	237,901
Translation differences	-2,150
Carrying value December 31, 2019	339,069

See note 2.2.4 and note 8 for description of IFRS 16 and lease contracts.

Note 7 – Intangible Assets

<i>Amounts in NOK</i>	Goodwill	Technology assets / Patent	Technology development	Sum
Acquisition cost January 1, 2018	32,113,245	30,030,526	3,849,053	65,992,824
Additions			1,924,754	1,924,754
Reclassification			407,853	407,853
Currency translation differences	-947,720	-675,062	892	-1,621,890
Acquisition cost December 31, 2018	31,165,525	29,355,464	6,182,552	66,703,541
Acquisition cost January 1, 2019	31,165,525	29,355,464	6,182,552	66,703,541
Additions			2,140,695	2,140,695
Currency translation differences	-832,066	-514,526	-39,654	-1,386,245
Acquisition cost December 31, 2019	30,333,459	28,840,938	8,283,594	67,457,991
Accumulated amortization January 1, 2018		7,156,213	902,358	8,058,571
Amortization for the year		2,825,379	1,009,337	3,834,716
Currency translation differences		101,995	34,854	136,849
Accumulated amortization December 31, 2018		10,083,587	1,946,549	12,030,136
Accumulated amortization January 1, 2019		10,083,587	1,946,549	12,030,136
Amortization for the year		2,808,782	1,238,516	4,047,298
Currency translation differences		40,436	9,421	49,857
Accumulated amortization December 31, 2019		12,932,805	3,194,486	16,127,291
Carrying value January 1, 2018	32,113,245	22,874,313	2,946,695	57,934,252
Additions			1,924,754	1,924,754
Amortization		2,825,379	1,009,337	3,834,716
Reclassification			407,853	407,853
Translation differences	-947,720	-777,057	-33,962	-1,758,739
Carrying value December 31, 2018	31,165,525	19,271,877	4,236,003	54,673,405
Carrying value January 1, 2019	31,165,525	19,271,877	4,236,003	54,673,405
Additions			2,140,695	2,140,695
Amortization		2,808,782	1,238,516	4,047,298
Translation differences	-832,066	-554,962	-49,075	-1,436,102
Carrying value December 31, 2019	30,333,459	15,908,133	5,089,108	51,330,700
Useful life		10 year	5 year	

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015. Technology assets/patent relates to the Sippi® patent, and technology development relates to capitalized external expenses for further development of the Sippi® technology. Some previously capitalized development expenses were reclassified from tangible fixed assets to intangible assets in 2018. Carrying value of assets under construction at December 31, 2019 was NOK 1.93 million

Impairment Test for Cash Generating Unit that Contain Goodwill

The Group currently has only one cash generating unit, and all goodwill is therefore allocated to the Medtech business. Consequently, through the impairment test of goodwill, the carrying value of the total group is effectively tested for impairment. The share price indicates that the fair value materially exceeded the carrying value of equity at December 31, 2019. The recoverable amount has also been estimated based on value in use as described below.

The value in use of the cash generating unit was calculated on the basis of discounted future cash flows. The calculation at December 31, 2019 was based on the budget for 2020 and estimates for subsequent periods. The detailed cash flow period used in the calculation was 11 years. A period of longer than five years was chosen because the product has just recently been developed and there is a need to calculate cash flow over a period that closer matches the product's estimated lifetime and adoption by the market. Sales volume and revenue are expected to increase up to 2031. Growth of 0.5% is assumed after 2031. The amount of revenue and when it will be generated is especially uncertain. A discount rate after tax of 18.3% was used to discount future cash flows. The discount rate is unchanged from December 31, 2018, and the same as was used in the fair value calculation at the acquisition in 2015. The impairment test at year-end 2019 concluded that there was no need to impair goodwill or other intangible or tangible assets related to the Medtech business.

Uncertainty exists associated with the estimates used to determine future cash flows and the discount rate used to calculate the value in use. Using a discount rate of 19% after tax, the calculated value in use at December 31, 2019 would decrease by NOK 13.5 million, but still exceed the carrying value. With a discount rate of 20% the estimated value in use would still exceed the carrying value. Substantial deviations in future revenue would be of direct significance in measuring the value of intangible assets, as well as the estimated fair value of the contingent consideration.

In 2019, the Group adjusted the estimate for when revenues from the Medtech business will be realized. At year-end 2019, the Group estimated that revenue from sales of OMI's products will be realized at a later stage than what was assumed when OMI AB was acquired in 2015. However, the potential revenue and expected realization remain almost unchanged but have been postponed. This has reduced the estimate for the contingent consideration (liability) at December 31, 2019. It has also reduced the present value of expected future cash flows without this giving rise to impairment as at December 31, 2019.

Since the acquisition in 2015, the technology assets related to the purchase of OMI AB have been subject to accumulated amortization of NOK 12.9 million.

Note 8 – Lease

The Group has implemented IFRS 16 on January 1, 2019 without adjusting the comparative figures. The Group has used the simplification to recognize the right-of-use assets equivalent to lease liabilities and therefore there are not any impact on equity upon implementation on January 1, 2019.

At January 1, 2019, the Group had lease contracts for three cars, with total annual lease payments of approximately NOK 220 thousand and remaining lease periods of 2 to 2.5 years.

Employees of the Group was in 2019 co-located with Navamedic AB. Navamedic AB charges the Group for the office space used included service charge for operations of

the office, but there is no legal contract between Navamedic AB and the Group. The Group has evaluated that this does not represent a lease contract that needs to be recognized at January 1, 2019. The annualized rent including service charge is NOK 111 thousand.

The Group has no other lease agreements as at December 31, 2019 but has signed a new lease agreement for offices in Gothenburg for the period from April to September 2020. The Group is planning to move to a new location in Gothenburg from October 2020, but no final decision has been made.

The implementation of IFRS 16 resulted in the recognition of lease assets and lease liabilities of SEK 498 thousand as of the implementation date. Observe Medical group has elected to use the practical expedient of not recognizing right-of-use assets for short-term leases and leases of low value assets. Lease payment for such agreements will be expensed on a straight-line basis in the income statement. However, for 2019 the Group has only insignificant amounts related to such agreements.

(Amounts in NOK)

Right of use assets	Cars
Opening cost at January 1, 2019	483,270
Currency translation differences	-9,088
Closing cost at December 31, 2019	474,182
Opening depreciation at January 1, 2019	
Depreciation in the period	195,096
Currency translation differences	1,549
Accumulated depreciation at December 31, 2019	196,645
Right of use assets at December 31, 2019	277,537

Lease Liability	Cars
Opening liability at January 1, 2019	483,270
Lease payments in the period	-218,830
Interest cost	24,764
Currency translation differences	-10,637
Closing liability at December 31, 2019	278,567
Due < 1 year	200,622
Due > 1 year	77,945

Effect of IFRS 16 on Statement of Comprehensive Income

<i>(Amounts in NOK)</i>	2019
Lease payments, increased EBITDA	218,830
Increased depreciation	195,096
Increased EBIT	23,734
Interest expenses	24,764
Effect on profit before tax	-1,030

Undiscounted Lease Liabilities and Maturity of Cash Outflow

<i>(Amounts in NOK)</i>	2019	2018
Due within 1 year	208,282	213,996
Due between 1 year and 3 years	78,814	294,972
Total	287,097	508,967

Note 9 – Financial Items

<i>(Amounts in NOK)</i>	2019	2018
Financial income		
Change contingent consideration		14,009,000
Currency gain	365,320	298,279
Other financial income	8	106,373
Total	365,328	14,413,652
Financial expenses	2,019	2,018
Interest expenses	1,274,595	416,071
Change contingent consideration	221,226	
Other financial expenses	166	
Total	1,495,987	416,071
Net financial items	-1,130,658	13,997,581

Note 10 – Cost of Materials

<i>(Amounts in NOK)</i>	2019	2018
Cost of materials for resale	40,609	131,268
Write-down	596,172	-606,247
Total cost of materials	636,781	-474,979

In 2018, Navamedic Medtech AB reversed a write down the company made in 2017 with NOK 606,247.

Note 11 – Trade Receivables and Other Receivables

<i>(Amounts in NOK)</i>	2019	2018
Trade receivables	65,625	32,222
Other receivables	608,776	1,047,109
Total	674,401	1,079,331

Note 12 – Inventories

<i>(Amounts in NOK)</i>	2019	2018
Goods for resale	3,099,702	2,399,223
Write-down	-596,172	
Total	2,503,530	2,399,223

Note 13 – Financial Instruments

No part of the bank deposits was restricted at the end of the periods presented. There are no significant restrictions on transferring cash within the group.

Financial liabilities as at December 31, 2019

<i>(Amounts in NOK millions)</i>	0-3 months	3-12 months	1-2 years	2-3 years	3-4 years	> 4 years	Total	Carrying value
Leasing liabilities	0.1	0.1	0.1	0.0	0.0	0.0	0.3	0.3
Contingent consideration upon acquisitions	0.0	0.0	0.6	8.0	15.5	0.0	24.0	12.4
Trade account payables	1.3	0.0	0.0	0.0	0.0	0.0	1.3	1.3
Public duties, tax deductions, etc.	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Other current liabilities	0.2	0.7	0.0	0.0	0.0	0.0	0.9	0.9
Payables loan to Navamedic group	0.0	0.0	0.0	31.4	0.0	0.0	31.4	25.4
Total	2.00	0.7	0.6	39.4	15.5	0.0	58.1	40.8

Financial liabilities as at December 31, 2018

<i>(Amounts in NOK millions)</i>	0-3 months	3-12 months	1-2 years	2-3 years	3-4 years	> 4 years	Total	Carrying value
Contingent consideration upon acquisitions	0.0	0.0	0.5	1.6	14.6	9.7	26.3	12.2
Trade account payables	1.2	0.8	0.0	0.0	0.0	0.0	1.9	1.9
Public duties, tax deductions, etc.	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Other current liabilities	0.6	0.0	0.0	0.0	0.0	0.0	0.6	0.6
Payables loan to Navamedic group	25.0	0.0	0.0	0.0	0.0	0.0	25.0	25.0
Payables Navamedic group	1.8	0.0	0.0	0.0	0.0	0.0	1.8	1.8
Total	29.1	0.8	0.5	1.6	14.6	9.7	54.4	42.0

The Group had no bank financing for the periods presented. As at December 31, 2019 debt financing has been provided by Navamedic ASA.

On October 1, 2019, Observe Medical ASA, as the borrower, entered into a loan agreement with Navamedic, as the lender, for a loan of an aggregate amount of NOK 32,000,000 (the "Bond Loan").

The Bond Loan consists of the two following facilities:

- A subordinated convertible term loan facility in the amount of NOK 19,000,000 (the "Facility A"); and
- A subordinated convertible term loan facility in the amount of NOK 13,000,000 (the "Liquidity Facility").

The facilities given under the Bond Loan constitute direct, unsecured and fully subordinated obligations of the company, and rank at least pari passu with all other existing and future unsecured and subordinated obligations of the company, other than in respect of any obligations preferred by mandatory provisions of applicable law, and rank ahead of all amounts payable in respect of the share capital of the company.

The Facility A was made available to the company on October 1, 2019, while the Liquidity Facility will be paid in portion within the first 12 months after listing.

Each loan facility given under the Bond Loan accrue interest at a fixed interest rate of 8.00% per annum. Accrued interest shall on the last day of the three months' interest period be capitalized and added to the aggregate principal amount of the loans outstanding under the Bond Loan.

The company shall 36 months after October 1, 2019 repay to Navamedic ASA the aggregate amount of each loan then outstanding together with all accrued but unpaid interest. The company may at any time prepay any loan outstanding in part or in full. Any amount repaid or prepaid may not be re-borrowed. The option to settle a fixed rate loan is an embedded derivative that has not been separated and measured at fair value as it is Deemed to be immaterial as at December 31, 2019.

Navamedic ASA has the right to, following the date falling 12 months after the date of the Bond Loan, request that all, but not parts of, the loans outstanding are converted into shares in OM ASA (the "Conversion Right"). Following the disbursement of a written notice to the Company informing about the exercise of the Conversion Right, the Company has the optionality to either (i) accept the Conversion Right or (ii) reject such Conversion Right by settling the loans in full in cash or settling parts of any loans in cash and the remainder through conversion. The Company has in the two months' period the right to take all actions necessary to obtain sufficient funding, either by debt capital transactions or equity capital transactions or otherwise at its sole discretion, for the purpose of enabling the Company to repay the loans.

The subscription price in such a conversion shall be equal to the volume weighted average share price of the company shares on the Oslo Axess or any other exchange having replaced Oslo Axess as the market place for the shares at the time of the conversion for the last ten days prior to the conversion date, but in no event be less than the nominal value of each share.

The Conversion Right cannot be separated from the loan facilities under the Bond Loan.

The tables above show that the new loan agreement with Navamedic is a long-term financing agreement and include accrued interest as at December 31, 2019. For the period ended December 31, 2018 the financing agreement with Navamedic was short term and could be terminated by Navamedic at short notice, and no interest has been calculated in the tables.

Contingent consideration from acquisitions has been discounted by an interest rate of 18.3% per annum as at December 31 for both years presented.

None of the liabilities are secured by security or assets pledged as at December 31 for the years presented.

Classification of financial assets and liabilities as at December 31, 2019

<i>(Amounts in NOK millions)</i>	Measured at amortised cost	Fair value through profit or loss	Total
Assets			
Bank deposits	0.5	0.0	0.5
Trade receivables and other receivables	0.7	0.0	0.7
Total financial assets ^{2) and 3)}	1.2	0.0	1.2
Liabilities			
Lease liabilities	0.3	0.0	0.3
Contingent consideration upon acquisitions ¹⁾	0.0	12.4	12.4
Non-current interest bearing liabilities	25.4	0.0	25.4
Trade account payables and other liabilities	2.7	0.0	2.7
Total financial liabilities ³⁾	28.4	12.4	40.8

Classification of financial assets and liabilities as at December 31, 2018

<i>(Amounts in NOK millions)</i>	Measured at amortised cost	Fair value through profit or loss	Total
Assets			
Bank deposits	0.6	0.0	0.6
Trade receivables and other receivables	1.1	0.0	1.1
Total financial assets ^{2) and 3)}	1.7	0.0	1.7
Liabilities			
Contingent consideration upon acquisitions ¹⁾	0.0	12.2	12.2
Current interest bearing liabilities	25.0	0.0	25.0
Trade account payables and other liabilities	4.8	0.0	4.8
Total financial liabilities ³⁾	29.9	12.2	42.0

- 1) Contingent consideration arose in connection with the acquisition of Observe Medical International AB in 2015, see section below. The item is level 3 on the fair value measurement hierarchy.
- 2) The carrying value equals maximum credit risk.
- 3) The carrying value is regarded as a reasonable approximation of fair value.

Additional information about the change in financial liabilities arising from financing activities.

<i>(Amounts in NOK millions)</i>	Net loans from Navamedic Group	Contingent consideration upon acquisitions	Lease liabilities	Total
Carrying value January 1, 2019	25.0	12.2	0.5	37.7
Cash flow	16.4	0.0	-0.2	16.2
Change in liability with no cash effect	-16.0	0.2	0.0	-15.8
Carrying value December 31, 2019	25.4	12.4	0.3	38.1

<i>(Amounts in NOK millions)</i>	Net loan from Navamedic Group	Contingent consideration upon acquisitions	Total
Carrying value January 1, 2018	21.1	26.2	47.3
Cash flow	3.9	0.0	3.9
Change in liability with no cash effect	0.0	-14.0	-14.0
Carrying value December 31, 2018	25.0	12.2	37.3

Net loan from Navamedic group is loans from Navamedic group deducted receivables on Navamedic group.

Changes in liabilities without cash effect relate to debt conversion in connection with the demerger from Navamedic and estimated change in fair value of contingent consideration (which include calculated interest). IFRS 16 is implemented as at January 1, 2019.

Note 14 – Contingent Consideration

Acquisition of Observe Medical

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

The maximum contingent consideration is calculated as follows:

- For the period 2016-2023, a royalty may be paid to the former shareholders of OMI AB, based on the following: A royalty of 7% based on annual revenue from sales of the Sippi® product in excess of NOK 7.5 million, increasing to a 15% royalty for annual revenue in excess of NOK 100 million.
- In addition to this, six milestone payments may be made to the former shareholders of OMI AB based on set sales targets for the product. These sales targets must be achieved by the end of 2023, with the last by the end of 2026. Total potential milestone payments cannot exceed NOK 125 million, in addition to royalties mentioned above. The six potential milestone payments will be triggered as follows:
 - a) NOK 6 million of accumulated revenue in excess of NOK 50 million
 - b) Plus, NOK 6 million of accumulated revenue in excess of NOK 75 million
 - c) Plus, NOK 6 million of accumulated revenue in excess of NOK 100 million
 - d) Plus, NOK 13 million of accumulated revenue in excess of NOK 300 million
 - e) Plus, NOK 34 million of accumulated revenue in excess of NOK 600 million
 - f) Plus, NOK 60 million of accumulated revenue in excess of NOK 900 million

Change in contingent consideration

(Amounts in NOK thousand)

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

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

Accumulated unrealized change in estimated fair value from the acquisition is a gain of NOK 13.2 million

The reduction in 2016 was due to changes in the probabilities related to the milestone payments and royalties. The increase in 2017 was related to accrued interest on the liability, partially offset by changes in the probabilities related to the milestone payments and royalties. In 2018, the expected payments to the former owners of OMI AB were adjusted downwards, which reduced the estimated liability by NOK 14.0 million. The change was primarily a result of changes to the probabilities of milestone payments and royalties in the purchase agreement. At year-end 2019, the Group estimated that revenue from sales of OM's products will be realized at later points in time than assumed when OMI AB was acquired in 2015. However, the potential revenue and expected realizations remain unchanged and have only been postponed.

Sensitivity at December 31, 2019: A 1% reduction in the discount rate would increase the estimated present value by NOK 0.4 million and a 10% reduction in revenue would decrease the estimated present value by NOK 3.8 million.

Note 15 - Taxes

Income tax:

	2019	2018
Current tax	0	0
Deferred tax	0	0
Tax expense/income recognised	0	0

Total tax reconciling items

	2019	2018
Norway, non-deductable expenses	-48,670	-3,222,070
Norway, current-year losses for which no deferred tax assets is recognised	532,442	
Denmark, current-year losses for which no deferred tax assets is recognised	633,671	853,196
Sweden, non-deductable expenses	-776	4,568
Sweden, current-year losses for which no deferred tax assets is recognised	2,447,104	1,724,012
Total taxes	3,563,771	-640,294
Tax expense/income recognised	0	0
Effective tax rate	0.0 %	0.0 %

Basis for Deferred Tax Liabilities and Tax Assets (-)

2019	Temporary differences Norway	Temporary differences Sweden	Temporary differences Demark	Total 2019
Intangible assets			9,126,435	9,126,435
Total temporary differences	0	0	9,126,435	9,126,435
Tax losses carried forward	-2,198,967	-28,960,703	-75,718,822	-106,878,492
Basis for temporary differences	-2,198,967	-28,960,703	-66,592,387	-97,752,057
Unrecognised temporary differences	2,198,967	28,960,703	66,592,387	97,752,057
Total recognised temporary differences	0	0	0	0
Tax rate	22 %	20.60 %	22 %	
Recognised deferred tax liabilities and tax asset	0	0	0	0
Deferred tax assets	0	0	0	0
Deferred tax liabilities	0	0	0	0

The corporate tax rate in Sweden is 21.4%. The Corporate tax rate is expected to be 20.6% from 2021.

2018	Temporary differences Norway	Temporary differences Sweden	Temporary differences Demark	Total 2018
Intangible assets			13,352,173	13,352,173
Total temporary differences	0	0	13,352,173	13,352,173
Tax losses carried forward		-20,566,504	-77,299,149	-97,865,653
Basis for temporary differences	0	-20,566,504	-63,946,976	-84,513,480
Unrecognised temporary differences	0	20,566,504	63,946,976	84,513,480
Total recognised temporary differences	0	0	0	0
Tax rate	22 %	20.60 %	22 %	
Recognised deferred tax liabilities and tax asset	0	0	0	0
Deferred tax assets	0	0	0	0
Deferred tax liabilities	0	0	0	0

The corporate tax rate in Sweden is 21.4%. The Corporate tax rate is expected to be 20.6% from 2021

Change in Deferred Tax Assets and Deferred Tax Liabilities

	January 1, 2019	Recognised in profit and loss during the year	Foreign currency exchange differences	December 31, 2019
Intangible assets	2,937,478	-903,205	-26,460	2,007,813
Tax losses carried forward	-21,530,445	-2,083,042	205,781	-23,407,706
Gross tax liabilities / assets (-)	-18,592,967	-2,986,247	179,321	-21,399,893
Deferred tax assets not recognised	18,592,967	2,986,247	-179,321	21,399,893
Tax liabilities/assets (-) recognised	0	0	0	0

Use of Tax Losses Carried Forward

Tax losses in Sweden in the amount of SEK 3 741 500 (NOK 3,532,724 at 31.12.2019) from the acquisition in 2015 are restricted for use for the first five years after the acquisition. There is not any expiring date of the use of tax losses carried forward.

Note 16 – Other Operating Expenses

The operating expenses consist of mainly consultancy cost, management fee from Navamedic (to cover costs and activities as finance and management support), travel expenses and R&D costs. In 2019 the company had expenses in connection with the demerger from Navamedic and listing at Oslo Axess of NOK 1.7 million

Note 17 – Payroll Expenses

(Amounts in NOK)

	2019	2018
Salaries	2,913,639	2,940,565
Employer's tax	1,231,516	852,758
Pension expenses – defined-contribution scheme	479,580	414,237
Other payroll expenses	674,455	9,462
Total	5,299,190	4,217,022
Number of full time employees	5	5
Number of employees	8	5

Employer's tax includes calculated social security tax liability of NOK 93.867 in connection with the share options, see Note 19 for further information about the share options.

Note 18 – Remuneration to Corporate Management and Board of Directors

The total remuneration to the corporate management consists of basic salary (main element), bonus, benefits in-kind and pension schemes, but varies from person to person. The Group's Chief Executive Officer determines the remunerations to other management in agreement with the Chair of the Board of Directors. The total remuneration is determined based on the need to offer competitive terms and reflect the responsibility for the CEO and other members of the management team. The total remuneration shall not be market leading but should ensure that Observe Medical attracts and retains senior executives with the desired skills and experience. The basic salary is subject to an annual evaluation and is determined based on general salary levels in the labor market.

Notice of Termination and Severance Payment for the CEO

Both parties may terminate CEO's employment agreement by giving a six months' notice period.

If the CEO's employment is terminated by the Company subject to prior notice, the CEO shall be entitled to severance pay equivalent to six times the monthly base salary which the CEO had at the expiry of the employment.

Share Options

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

Loans to employees as at 31.12.2019, there are no loans to employees.

Pension

The Group has defined contribution pension schemes.

The CEO has an occupational pension insurance scheme where the company pays premium calculated as 4.5% of paid base salary up to the amount to 7.5 income basic amounts (one basic amount is SEK 64.400) and 30% of paid salary components (basic and variable salary) which exceed an amount equivalent to 7.5 income basic amounts.

Income base amount is a set amount by the Swedish Pensions Authorities which is the basis for calculating the highest pensionable income. The amount is calculated annually on the basis of a relationship between the current income index and the index from 2005.

Remuneration to the Group Management

Ole Henrik Eriksen, COO in Navamedic ASA, was hired from Navamedic ASA as interim CEO from the date Observe Medical ASA was incorporated, June 13, 2019, to December 16, 2019, for these services and other shared group functions Navamedic ASA invoiced Observe Medical. Björn Larsson was hired as CEO from December 16, 2019 and Per Arne Nygård was hired as interim CFO from December 1, 2019.

		Base salary	Paid salary	Other benefit	Bonus earned	Pension	Shares	Loans
CEO	Björn Larsson ¹⁾	1 225 949	54 201	0	0		6 486	0
CFO	Per Arne Nygård ²⁾	N/A	83 000	0	0		0	0
	Total	1 225 949	137 201	0	0		6 486	0

1) Salary are paid in SEK and converted to NOK with exchange rate as at date for payment in December

1) Base salary are paid in SEK and converted to NOK with exchange rate as at 31 December 2019

2) Per Arne Nygård is hired as interim CFO from 1 December 2019

Remuneration to the Board of Directors

The annual general meeting at October 19, 2019 resolved the yearly remuneration for the board members. Total board fees and number of shares and share options for the separate board members are shown in the tables below:

Function	Name	Base fee	Paid fee	Share options	Shares	Shares owned by related parties	Loans	
Chair	Terje Bakken ¹⁾	250,000		0	0	6,116,667 ²⁾	0	
Board member	Kathrine G. Andreassen ³⁾	175,000		0	250,000 ⁴⁾	416,668 ⁵⁾	3,200,000 ⁶⁾	0
Board member	Thomas Grunfeld ⁷⁾	175,000		0	0	0	0	
Board member	Kristin Nyberg ⁸⁾	175,000		0	0	0	0	
	Total	775,000		0	250,000	416,668	9,316,667	0

¹⁾ Terje Bakken was elected by the general meeting at June 13, 2019

²⁾ Terje Bakken is partner in Ingerø Reiten Investment Company AS who owns 2,916,667 shares in Observe Medical ASA

³⁾ Terje Bakken is Chair in Navamedic ASA who owns 3,200,000 shares in Observe Medical ASA

⁴⁾ Kathrine Gamborg Andreassen was elected by the general meeting at June 13, 2019

⁵⁾ See Note 19 for further information about the share options

⁶⁾ All shares owned by Soleglad Invest AS who is 100% owned by Kathrine Gamborg Andreassen

⁷⁾ Kathrine Gamborg Andreassen is CEO in Navamedic ASA who own 3,200,000 shares in Observe Medical ASA

⁸⁾ Thomas Grunfeld was elected by the general meeting at October 1, 2019

⁹⁾ Kristin Nyberg was elected by the general meeting at June 13, 2019

Note 19 - Share Options

Before the demerger, Navamedic ASA had employee share option programs. The holders of employee share options at the date of the demerger and merger into Observe Medical ASA (October 31, 2019) received the same number of share options in Observe Medical ASA as they had in Navamedic ASA. The strike price per Navamedic share, was reduced by 26%, and the strike price for shares in Observe Medical ASA became the same 26%. 26% is the fraction that was used in the demerger plan signed June 19, 2019, which was based on the estimated relative fair values of Navamedic ASA and Observe Medical ASA at that point in time.

Of Navamedic ASA's 2018 option program, 67,500 options were outstanding at 31 December 2019. During the second quarter 2019, a total of 400,000 new options were granted, divided into 275,000 Series A options and 125,000 Series B options. Each option, when exercised, will give the right to acquire one OM ASA share. The options are granted without consideration. Shares received from exercised options are subject to a lock-up period of 12 months for the Series A and 24 months for the Series B options.

The lock-up obligations shall not prevent the option holders from selling an amount of the option shares necessary to finance the exercise price, as well as the tax payable as a consequence of the exercise of options.

For the Series A options, 1/3 of the options would vest every 12 months after the day of grant (as long as the option holder is still employed). However, all of the options vested in the third quarter of 2019 because the Navamedic ASA share price exceeded a certain threshold for a period. Options that have not been exercised will lapse 3,5 years after grant date.

For the Series B options, 100% of the options vested on the day of grant. Options that have not been exercised will lapse March 31, 2020.

For OM ASA shares, the strike price for the 2019 program is 26% of NOK 12 per share (NOK 3.12 per Observe Medical ASA share). The strike price for the 2018 program is NOK 2.44 per OM ASA share.

Up to the demerger and merger, no share option expense has been recognized in the financial statements of the Group, except as indirectly included in the charges from Navamedic for employee services.

Since the options holders are employees in Navamedic and not in Observe Medical, these share options were not granted as an employee benefit for employment in Observe Medical. On that basis Observe Medical has not recognized any share options expenses related to these share options. The company will still be liable for the social security tax and it is expensed over the estimated vesting period, in an amount of NOK 93.867 for 2019. Remaining unamortized social security tax at December 31, 2019 was NOK 375,916 and total recognized social security tax liabilities at December 31, 2019 was NOK 245,603.

At October 31 and December 31, 2019:

Number of options	Exercise price	Vested / Vesting date	Expiry date
67,500	NOK 2.444	6 June 2020	6 June 2021
275,000 (Series A) ¹	NOK 3.12	Yes	24 January 2020
125,000 (Series B) ²	NOK 3.12	Yes	31 March 2020

1: Shares issued upon exercise of the Series A options are subject to a 12 month's lock-up period.

2: Shares issued upon exercise of the Series B options are subject to a 24 month's lock-up period.

Note 20 – Earnings per Share

Observe Medical ASA is the parent of the OM group after the demerger from Navamedic ASA as at October 31, 2019.

OM ASA was established June 13, 2019 with a share capital of NOK 1 million and 1,000,000 shares.

On completion of the demerger and prior to conversion of debt as explained in note 1 and 18 the share capital of Observe Medical ASA was NOK 3 085 595 with 11,867,673 shares. After the debt conversion of NOK 16 million the share capital increased to NOK 3,917,595 with 15,067,673 shares, each with a nominal value of NOK 0.26.

Earnings per share has been presented as if number of shares after the demerger were outstanding for all periods presented and adjusted for 3,200,000 new shares after date of the debt conversion.

See Note 19 for a description of employee share options to be issued in connection with the demerger and merger of OM ASA. The share options had no dilutive effect for the OM group because of the net result for 2019 was negative. On January 21 a total of 275,000 share options were exercised.

	2019	2018
Net result for the year, company's shareholders	-16,917,301	2,273,653
Average number of shares	12,402,468	11,867,673
Earnings per share (NOK per share)	-1.36	0.19

Note 21 – Related Parties

Transactions and shared costs have historically been charged from Navamedic to Observe Medical International AB and its subsidiaries. Navamedic AB has also in previous years provided group contributions to the OM group, to utilize parts of the tax losses carried forward in the OM group.

In addition to Navamedic group, the group's related parties are:

Key management personnel, close members of the family of a person and entities that are controlled or jointly controlled by any of these. Key management personnel are defined as the Board of Directors and the group management.

There were no transactions with key management personnel in 2019 and 2018 besides remuneration and issue of options explained in Note 18.

The companies within the OM group are also related parties. Transactions and balances within the Group are eliminated in the financial statements and are not disclosed in this note.

Transaction and Balances with the Navamedic group:

<i>(Amounts in NOK)</i>	2019	2018
Revenues	52,500	0
Expenses	2,141,397	934,903
Finance income	0	96,132
Finance expenses	1,153,673	416,080
Group contributions received	0	5,614,400
Receivables	65,625	0
Liabilities	25,777,288	26,792,013

Expenses is primarily management fee (to cover costs and activities as finance and management support), rent of office space and expenses related to the demerger and listing at Oslo Axess. Finance expense is interest on interest bearing loan towards Navamedic.

Note 22 - Research and Development

Observe Medical performs research and development activities as part of the development of the Sippi products. Capitalized research and development expenses are carried out as projects. In total it is estimated that there has been research and development expenditures of NOK 1.9 million in 2019 (NOK 2.7 million), of which NOK 1.3 million (NOK 1.9 million) is capitalized and NOK 0.6 million (NOK 0.8 million) is expensed as operating expenses. Expenses consist of estimated internal employee expenses related to project management and monitoring of the company's research and development activities, as well as not capitalized external expenses.

Note 23 – Shareholder Information

The following table shows shareholders owning 1% or more of Observe Medical ASA as at December 31, 2019:

No	Name	Number of shares	Ownership %
1	NAVAMEDIC ASA	3,200,000	21.24 %
2	INGERØ REITEN INV. COMPANY AS	2,916,667	19.36 %
3	UBS SWITZERLAND AG	1,420,522	9.43 %
4	LARS RO	1,320,000	8.76 %
5	ALPINE CAPITAL AS	500,000	3.32 %
6	SOLEGLAD INVEST AS	416,668	2.77 %
7	LEIKERANE AS	416,666	2.77 %
7	TRANBERGKOLLEN INVEST AS	416,666	2.77 %
9	ARTAL AS	332,000	2.20 %
10	OLAV TARJEI HIORTH LID	250,000	1.66 %
11	LAPAS AS	242,000	1.61 %
12	KRAEBER VERWALTUNG GMBH	214,850	1.43 %
13	BUKKEVIK INVESTERING AS	204,100	1.35 %
14	HARDING INVEST AS	196,116	1.30 %
15	NOBELSYSTEM SCANDINAVIA AS	124,333	0.83 %
16	JGB EIENDOM AS	101,011	0.67 %
17	MP PENSJON PK	100,025	0.66 %
18	BATJAK AS	95,831	0.64 %
19	KARL ANSKAR EILERAAS	86,491	0.57 %
20	EIVIND BJØRNTVEDT	60,040	0.40 %
	OTHER	2,453,687	16.28 %
Total number of shares		15,067,673	100.00 %

Total number of shares are 15,067,673 with par value per share of NOK 0.26. All shares that are part of the parent company's share capital belong to the same share class with the same rights.

On October 1, 2019, the extraordinary general meeting of the Company resolved the issuance of 3,200,000 shares to Navamedic ASA. The share contribution was settled by contribution in kind by Navamedic ASA setting-off a loan it had provided to the Company in the amount of NOK 16,000,000. The subscription price per share in the transaction was NOK 5.00.

The number of treasury shares (own shares) at the end of 2019 was 0.

The Annual General Meeting held on October 24, 2019 authorized the Board of Directors pursuant to §10-14 (1) of the Public Limited Liability Companies Act to increase the company's share capital by up to NOK 200,000 in one or more share issues. The authority may only be used to issue shares as consideration in connection with acquisitions, to finance acquisitions or to issue shares in connection with incentive schemes. The shareholders' pre-emptive rights under §10-4 of the Public Limited Liability Companies Act may be set aside. The authorization does not comprise share

capital increase in connection with mergers pursuant to section 13-5 of the Norwegian Public Limited Companies act.

The authorization described above shall remain in force until the Annual General Meeting in 2021, but in no event later than June 30, 2021.

The holders of employee share options at the date of the demerger from Navamedic and merger into Observe Medical ASA received the same number of share options in Observe Medical ASA as they had in Navamedic ASA upon the completion of the demerger. See note 19 Share options.

Note 24 – Events After the Balance Sheet Date

Exercise of Share Options

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

Following the share option exercise the Board of Directors, pursuant to authorization granted by Observe Medical ASA's General Meeting on October 24, 2019, decided to increase the Company's share capital by a total of NOK 71,500 by issuing 275,000 new shares, of par value NOK 0.26. Following the increase, Observe Medical ASA's share capital is NOK 3,989,094.98 divided into 15,342,673 shares.

One employee in Navamedic ASA has 125,000 share options with expiry date at March 31, 2020. To adapt the Covid-19 situation the Board of Directors has decided to postpone the expiry date for these share options with six months.

CEO Granted Employee Share Options

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

COVID-19

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

**Parent Company Observe Medical ASA
Annual Financial Statements 2019**

Contents

Parent Company Observe Medical ASA Annual Financial Statements 201987

Explanatory Notes to the Annual Financial Statements 2019 92

 General.....92

 Note 1 - Accounting Policies..... 93

 Note 2 - Salary Expenses 94

 Note 3 - Bank Deposits95

 Note 4 - Non-Current Liabilities..... 95

 Note 5 - Trade Receivables 97

 Note 6 - Loans to Group Companies 98

 Note 7 - Financial Income and Expenses 98

 Note 8 - Other Operating Expenses.....98

 Note 9 - Subsidiaries..... 99

 Note 10 - Related Parties..... 99

 Note 11 - Taxes100

 Note 12 - Events After the Balance Sheet Date 101

Parent Company Observe Medical ASA

Annual Financial Statements 2019

Observe Medical ASA

Income statement

<i>Amounts in NOK</i>	Note	2019
Operating revenues	1	52,500
Total operating revenues		52,500
Employee benefit expenses	2	249,505
Other operating expenses	2,8	1,358,965
Operating expenses		1,608,470
Operating result before depreciation and amortization (EBITDA)		-1,555,970
Depreciation and amortization		0
Operating result (EBIT)		-1,555,970
Financial income and expenses		
Financial income	7	508,190
Financial expenses	7	1,372,414
Net financial items		-864,223
Result before tax		-2,420,193
Income tax expense	11	0
Result for the period		-2,420,193
Brought forward		
Transferred from other equity		2,420,193
Net brought forward		-2,420,193

Observe Medical ASA

Balance Sheet

<i>Amounts in NOK</i>	Note	At 31 December 2019
ASSETS		
Non-current assets		
Investments in subsidiaries	9	58,968,536
Loans to subsidiaries	6	39,434,621
Total non-current assets		98,403,157
Current assets		
Trade receivables	5	65,625
Trade receivables from subsidiaries	5, 10	54,945
Other receivables and prepaid expenses		120,155
Bank deposits	3	195,247
Total current assets		435,972
Total assets		98,839,129
EQUITY AND LIABILITIES		
Share capital		3,917,595
Share premium reserve		46,852,422
Other paid-in equity		11,800,293
Total paid-in equity		62,570,310
Other equity		-2,420,193
Total equity		60,150,117
Non-current liabilities		
Contingent consideration	4	12,398,226
Non-current interest bearing liabilities	4, 10	25,413,198
Total non-current liabilities		37,811,424
Current liabilities		
Trade payables	10	582,415
Other current liabilities		295,174
Total current liabilities		877,589
Total liabilities		38,689,013
Total equity and liabilities		98,839,129

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 29, 2020



Terje Bakken
Chair of the Board



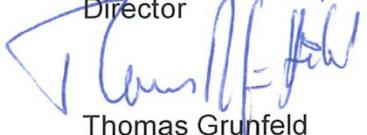
Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO



Kristin Nyberg
Director



Thomas Grunfeld
Director

Observe Medical ASA

Equity

	Share capital	Share premium	Other paid-in equity	Total paid-in capital	Retained earnings	Total
Equity as at June 13, 2019 ¹⁾	1,000,000			1,000,000		1,000,000
Contribution of Medtech business, demerger from Navamedic ²⁾	3,085,595	31,684,422	11,800,293	46,570,310		46,570,310
Capital decrease, repayment ³⁾	-1,000,000			-1,000,000		-1,000,000
Debt conversion ⁴⁾	832,000	15,168,000		16,000,000		16,000,000
Net result for the period					-2,420,193	-2,420,193
Equity as at December 31, 2019	3,917,595	46,852,422	11,800,293	62,570,310	-2,420,193	60,150,117

¹⁾ Share capital paid in as part of incorporation at June 13, 2019, 1,000,000 shares par price of NOK 1

²⁾ Contribution in connection with the demerger from Navamedic ASA at October 31, 2019, 11,867,673 shares par price of NOK 0.26

³⁾ Repayment of capital from incorporation in connection with the demerger from Navamedic ASA at October 31, 2019

⁴⁾ Debt conversion of MNOK 16 from Navamedic ASA at November 1, 2019, 3,200,000 shares par price of 0.26

Share capital:	NOK	Shares	Par price
Share capital incorporation	1,000,000	1,000,000	1.00
Repayment capital	- 1,000,000	- 1,000,000	1.00
Demerger	3,085,595	11,867,673	0.26
Debt conversion	832,000	3,200,000	0.26
Total	3,917,595	15,067,673	0.26

Refer to Note 23 in the Observe Medical group's financial statement 2019 for shareholders' information.

Observe Medical ASA

Cash Flow Statement

<i>Amounts in NOK</i>	Note	2019
Cash flow from operating activities		
Result before tax		-2,420,193
Interest expenses not paid	7, 10	316,031
Interest income from group companies not paid	7, 10	-508,182
Change in trade receivables and other receivables	5	-240,725
Change trade payables and other current liabilities		725,853
Changes in other current items		-1,099
Net cash flow from operating activities		-2,128,315
Cash flow from financing activities		
Paid in new share capital		1,000,000
Repayment share capital		-1,000,000
Change interest bearing debt		3,995,279
Net change interest bearing debt to group companies		-2,728,100
Net cash flow used for financing activities		1,267,179
Exchange rate fluctuations		1,056,382
Changes in cash		195,246
Bank deposits as at January 1		0
Bank deposits end of period	3	195,247

**Explanatory Notes to the
Annual Financial Statements 2019**

Explanatory Notes to the Annual Financial Statements 2019

General

Observe Medical ASA is a Norwegian public listed company incorporated on June 13, 2019 to own and manage the Observe Medical business previously owned by Navamedic ASA.

In August 2015, Navamedic ASA acquired Observe Medical International AB, and has subsequently reported the Observe Medical business as a separate business segment named Medtech. Navamedic's medtech segment was demerged from Navamedic ASA and merged into Observe Medical ASA as at October 31, 2019. Observe Medical ASA was listed on Oslo Axess on November 4, 2019. On the completion of the demerger, all of Navamedic ASA's shares in Observe Medical International AB was transferred to OM ASA together with an earn-out obligation to the sellers of Observe Medical International AB related to Navamedic ASA's acquisition of Observe Medical International AB in 2015, while all other assets, rights and liabilities remained with Navamedic ASA.

Subsequent to the demerger, the company is a holding company and contains parts of the group management.

The financial statements for Observe Medical ASA have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting principles in Norway (NGAAP). Preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as disclosures of contingencies. Actual results may differ from estimates.

Observe Medical ASA primarily holds shares in its subsidiary Observe Medical International AB and provides financing to entities in the Group.

Observe Medical ASA is registered and based in Norway. Its head office is located in Henrik Ibsensgate 90, 0255 Oslo, Norway.

Note 1 – Accounting Policies

Shares in Subsidiary

Shares in subsidiary are presented according to the cost method. Dividends and group contribution will be recognized in the financial statement when these are proposed by the subsidiary. Shares in subsidiaries are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may exceed the fair value of the investment. Indications may be operating losses or adverse market conditions. If it is considered probable that the fair value is below Observe Medical's carrying value, the investment is impaired. The impairment will be reversed if the impairment situation is no longer present.

Foreign Currency Transactions

The functional currency of Observe Medical ASA is Norwegian kroner (NOK). Transactions in currencies other than the functional currency are recorded at the exchange rate at the date of transaction. Monetary items denominated in foreign currencies are translated at the exchange rate at the balance sheet date. Realized and unrealized currency gains and losses on transactions, assets and liabilities, denominated in a currency other than the functional currency are included in net income.

Revenue

Revenue stem from sale of administrative services to Navamedic ASA. These are recognized when the services are delivered. Interest income is recognized in the income statement as it is accrued.

Receivables

Trade receivables and short-term intercompany receivables are recognized at nominal value, less the accrual for expected losses of receivables. The accrual for losses is based on an individual assessment of each receivable.

Cash Deposits

Cash deposits include bank deposits as at end of the reporting period. The cash held by Observe Medical ASA reflects that most external bank deposits are channeled through the group financing agreement.

Payables

Trade payables and short-term intercompany payables are recognized at nominal value.

Financial Assets and Liabilities

Financial assets are initially recognized in the balance sheet at fair value (cost) and subsequently at the lower of cost or fair value. Financial liabilities are initially recognized in the balance sheet at fair value (cost) and subsequently at amortized cost.

Expenses

Expenses are recognized in the financial statement in the period when the services or materials are consumed.

Income Taxes

Income tax expense represents the sum of the tax currently payable and deferred tax. The tax payable is based on taxable profit for the year.

Deferred tax is calculated on the basis of tax-reducing and tax-increasing temporary differences that exist between accounting and tax values, and the tax loss carried forward at the end of the accounting year. Tax-increasing and tax-reducing temporary differences that reverse or may reverse in the same period are set off and entered net. The net deferred tax receivable is entered on the balance sheet to the extent that it is likely that it can be utilized. Changes resulting from amendments and revisions in tax laws and tax rates are recognized when the new tax laws or rates are adopted.

Note 2 – Salary Expenses

Salary expenses	2019
Salaries	106,067
Employment taxes	93,867
Other benefits	49,571
Total salary expenses	249,505

As of December 1, 2019, the Company hired a interim CFO and he was the only employee in the company. The chief executive is employed by the fully owned subsidiary, Navamedic Medtech AB and is hired to Observe Medical ASA. The cost for the chief executive is presented as "Other benefits" in the table above.

Navamedic ASA had employee share options at the date of demerger. The holders of employee share options at the date of the demerger, October 31, 2019, received the same number of share options in Observe Medical ASA as they had in Navamedic ASA. Since the share option holders are employees in Navamedic, no share option expenses were recognized in Observe Medical ASA's income statement. The company will still be liable for the social security tax and it is expensed over the estimated vesting period. See

Note 18 and 19 in the Observe Medical group's financial statement 2019 for further information related to the share options.

Auditor

Audit fees expensed for 2019 amount to NOK 100,000.

Note 3 - Bank Deposits

Total funds on bank deposits at 31.12.2019 are 195,247 and restricted cash is 0.

Note 4 - Non-Current Liabilities

Non-current liabilities	2019
Contingent consideration	12,398,226
Interest bearing debt to Navamedic ASA ²⁾	25,413,198
Total non-current liabilities	37,811,424

²⁾Included accrued, not paid interest as at 31.12.2019

Loan Agreement with Navamedic ASA

On October 1, 2019, Observe Medical ASA, as the borrower, entered into a loan agreement with Navamedic, as the lender, for a loan of an aggregate amount of NOK 32,000,000 (the "Bond Loan").

The Bond Loan consists of the two following facilities:

- A subordinated convertible term loan facility to refinance existing loan agreement in the amount of NOK 19,000,000 (the "Facility A");
and
- A subordinated convertible term loan facility in the amount of NOK 13,000,000 (the "Liquidity Facility").

The facilities given under the Bond Loan constitute direct, unsecured and fully subordinated obligations of the company, and rank at least pari passu with all other existing and future unsecured and subordinated obligations of the company, other than in respect of any obligations preferred by mandatory provisions of applicable law, and rank ahead of all amounts payable in respect of the share capital of the company.

The Facility A was to refinance existing loan to Navamedic ASA on October 1, 2019 while the Liquidity Facility will be paid in portion within the first 12 months after listing.

Each loan facility given under the Bond Loan accrue interest at a fixed interest rate of 8.00% per annum. Accrued interest shall on the last day of the three months' interest period be capitalized and added to the aggregate principal amount of the loans outstanding under the Bond Loan.

The company shall 36 months after October 1, 2019 repay to Navamedic ASA the aggregate amount of each loan then outstanding together with all accrued but unpaid interest. The company may at any time prepay any loan outstanding in part or in full. Any amount repaid or prepaid may not be re-borrowed.

Navamedic ASA has the right to, following the date falling 12 months after the date of the Bond Loan, request that all, but not parts of, the loans outstanding are converted into shares in OM ASA (the "Conversion Right"). Following the disbursement of a written notice to the company informing about the exercise of the Conversion Right, the company has the optionality to either (i) accept the Conversion Right or (ii) reject such conversion Right by settling the loans in full in cash or settling parts of any loans in cash and the remainder through conversion. The company has in the two months' period the right to take all actions necessary to obtain sufficient funding, either by debt capital transactions or equity capital transactions or otherwise at its sole discretion, for the purpose of enabling the company to repay the loans.

The subscription price in such a conversion shall be equal to the volume weighted average share price of the Company shares on the Oslo Axess or any other exchange having replaced Oslo Axess as the market place for the shares at the time of the conversion for the last ten days prior to the conversion date, but in no event be less than the nominal value of each share.

The Conversion Right cannot be separated from the loan facilities under the Bond Loan.

The tables above show that the new loan agreement with Navamedic ASA is a long-term financing agreement and include accrued interest as at December 31, 2019.

Contingent Consideration

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

The maximum contingent consideration is calculated as follows:

- For the period 2016-2023, a royalty may be paid to the former shareholders of OMI AB, based on the following: A royalty of 7% based on annual revenue from

sales of the Sippi® product in excess of NOK 7.5 million, increasing to a 15% royalty for annual revenue in excess of NOK 100 million.

- In addition to this, six milestone payments may be made to the former shareholders of OMI AB based on set sales targets for the product. These sales targets must be achieved by the end of 2023, with the last by the end of 2026. Total potential milestone payments cannot exceed NOK 125 million, in addition to royalties mentioned above.

The six potential milestone payments will be triggered as follows:

- NOK 6 million of accumulated revenue in excess of NOK 50 million
- Plus, NOK 6 million of accumulated revenue in excess of NOK 75 million
- Plus, NOK 6 million of accumulated revenue in excess of NOK 100 million
- Plus, NOK 13 million of accumulated revenue in excess of NOK 300 million
- Plus, NOK 34 million of accumulated revenue in excess of NOK 600 million
- Plus, NOK 60 million of accumulated revenue in excess of NOK 900 million

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

Accumulated unrealized change in estimated fair value from the acquisition is a gain of NOK 13.2 million

The reduction in 2016 was due to changes in the probabilities related to the milestone payments and royalties. The increase in 2017 was related to accrued interest on the liability, partially offset by changes in the probabilities related to the milestone payments and royalties. In 2018, the expected payments to the former owners of OMI AB were adjusted downwards, which reduced the estimated liability by NOK 14.0 million. The change was primarily a result of changes to the probabilities of milestone payments and royalties in the purchase agreement. At year-end 2019, the Group estimated that revenue from sales of OM's products will be realized at later points in time than assumed when OMI AB was acquired in 2015. However, the potential revenue and expected realizations remain unchanged and have only been postponed.

Sensitivity at 31 December 2019: A 1% reduction in the discount rate would increase the estimated present value by NOK 0.4 million and a 10% reduction in revenue would decrease the estimated present value by NOK 3.8 million.

Note 5 – Trade Receivables

Receivables	2019
Trade receivables par value	65,625
Trade receivables to subsidiaries	54,945
Provision for losses	0
Trade receivables	120,570

Note 6 – Loans to Group Companies

Loans to group companies	2019
Navamedic Medtech AB	14,260,554
Observe Medical International AB	892,622
Observe Medical aps	24,281,444
Total loans to group companies	39,434,621

Each loan has a fixed interest rate of 8.00% per annum. Accrued interest shall monthly be capitalized and added to the aggregate principal amount of the loans outstanding under the loan agreement.

The Group companies shall 36 months after December 31, 2019 repay to Observe Medical ASA the aggregate amount of each loan then outstanding together will all accrued but unpaid interest. Any loan outstanding may at any time be repaid in part or in full. Any amount repaid may not be re-borrowed.

Note 7 – Financial Income and Expenses

Financial income	2019
Interest income from group companies	508,182
Other interest income	8
Total financial income	508,190

Financial expenses	2019
Interest expenses	316,031
Net currency loss	1,056,383
Total financial expenses	1,372,414

Net financial expenses	864,223
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Note 8 – Other Operating Expenses

Other operating expenses	2019
Audit	100,000
Administrative consultants	264,333
Administrative services from Navamedic ASA	130,260
Accounting and financial consultant services	187,176
Fees to Oslo Børs	598,840
Other fees and operating expenses	78,357
Total other operating expenses	1,358,965

Note 9 – Subsidiaries

Subsidiary	Business office	Ownership share	Carrying amount December 31, 2019
Observe Medical International AB	Gothenburg, Sweden	100 %	58,968,538

Subsidiaries owned by subsidiaries	Address	Ownership share	Owner
Observe Medical aps	Sørum, Denmark	100 %	Observe Medical International AB
Navamedic Medtech AB	Gothenburg, Sweden	100 %	Observe Medical aps

Note 10 – Related Parties

Related parties	Income	Operating expenses	Financial income	Financial expenses	Receivables	Liabilities
Navamedic ASA ¹⁾	52,500	130,260		314,934	65,625	25,413,198
Navamedic Medtech AB		155,638	174,692		14,315,499	155,638
Observe Medical International AB			11,858		892,622	
Observe Medical aps			321,632		24,281,444	
Total	52,500	179,831	508,182	314,934	39,455,190	25,413,198

¹⁾ Navamedic ASA owns 21.24% of all shares in Observe Medical ASA

Note 11 - Taxes

<i>Amount in NOK</i>	2019
Income tax payable	0
Changes in deferred tax	0
Income tax expenses	0

Reconciliation from Nominal to Actual Tax Rate

<i>Amount in NOK</i>	2019
Result before income tax	-2,420,193
Non-deductible expenses	0
Total taxable income	-2,420,193
Expected income tax expenses, 22%	532,442

Specification of Tax Effect to Temporary Differences

Non-current assets	0
Current assets	0
Liabilities and provisions	0
Tax losses carried forward	0
Deferred tax assets/liabilities in the balance sheet	0

Reconciliation of Deferred Tax Assets in the Balance Sheet

Deferred tax assets January 1	0
Change in deferred taxes recognized in income statement	0
Change in deferred taxes recognized to equity	0
Deferred tax assets/liabilities in the balance sheet	0

Observe Medical ASA is the holding company in Observe Medical group and has no income-generating activities other than group services and financing of group companies, as well as some consultancy services to related parties. In order to capitalize deferred tax assets, the company must prove taxable income through earnings in future years or through realistic tax adjustments that enable the benefit to be utilized. The Group has no other companies in Norway.

Since the company expects losses in the coming years, the company considers that the conditions for capitalizing deferred tax assets not have been fulfilled.

Note 12 - Events After the Balance Sheet Date

Exercise of Share Options

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

Following the share option exercise the Board of Directors, pursuant to authorization granted by Observe Medical ASA's General Meeting on October 24, 2019, decided to increase the Company's share capital by a total of NOK 71,500 by issuing 275,000 new shares, of par value NOK 0.26. Following the increase, Observe Medical ASA's share capital is NOK 3,989,094.98 divided into 15,342,673 shares.

One employee in Navamedic ASA has 125,000 share options with expiry date at March 13, 2020. To adapt the Covid-19 situation he Board of Directors has decide to postpone the expiry date for this share options with 6 months.

CEO Granted Employee Share Options

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

COVID-19

Over the past few weeks, governments and authorities around the world have implemented a range of measures and general restrictions on travel, transportation and almost all other aspects of privacy and business in response to the outbreak of the COVID-19 virus. This has primarily had a major impact on the health care system around the world, but also the business world. The outcome and consequences of the COVID-19 situation is difficult to predict at this time. However, under adverse circumstances, the COVID-19 situation may affect the company's financial situation negatively. COVID-19 has a negative impact on the global financial market and this can affect the company's ability to obtain additional financing at a time when this may be relevant.

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

We confirm that the financial statements for 2019 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, April 29, 2020



Terje Bakken
Chair of the Board



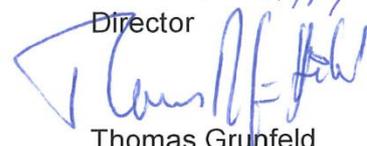
Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO



Kristin Nyberg
Director



Thomas Grunfeld
Director

Auditor's Report



KPMG AS
Sørkedalsveien 6
Postboks 7000 Majorstuen
0306 Oslo

Telephone +47 04063
Fax +47 22 60 96 01
Internet www.kpmg.no
Enterprise 935 174 627 MVA

To the General Meeting of Observe Medical ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Observe Medical ASA, which comprise:

- The financial statements of the parent company Observe Medical ASA (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Observe Medical ASA and its subsidiaries (the Group), which comprise the statement of financial position as at 31 December 2019, the statement of comprehensive income, statement of changes in equity and cash flows statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 3 in the financial statements and the Board of Directors' report, which indicates that there is substantial risk associated with the Company's liquidity in 2020. The Group currently is in an early phase of its commercialization and development process of its products. Based on updated cash flow forecasts for next 12 months, the Group will at some stage require additional funds in order to execute and complete its commercialization and growth strategy, or for other purposes. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

KPMG AS, a Norwegian limited liability company and member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in:

Oslo	Eivernum	Mo i Rana	Stord
Alta	Finnesås	Molde	Strømsø
Arendal	Hamar	Siden	Tromsø
Bergen	Haugesund	Sandefjord	Trondheim
Bodø	Knarvik	Sandnessjøen	Tynset
Drammen	Kristiansand	Stavanger	Ålesund



Observe Medical ASA

As stated in Note 3 and the sections “Financial risk” and “Going concern” in Board of Directors’ report, these events or conditions indicate that a material uncertainty exists that may cast significant doubt on the Company’s ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Impairment of goodwill and intangible assets

Refer to page 17 in the Board of Director’s report, the accounting policies on page 58, the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 63, and Note 7 on page 67 in the consolidated financial statements.

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
<p>The impairment assessment of the goodwill and intangible assets with a total carrying value of NOK 51.3 million is considered a risk area due to the size of the balances and the inherent uncertainties related to successful commercialization of the Sippi® products.</p> <p>To form the basis for the impairment assessment, management estimated the fair value of the goodwill and intangible assets with assistance from external valuation specialists. The recoverable amount is determined based on value in use calculations which rely on external factors, managements’ assumptions, and estimated future performance.</p> <p>Key assumptions applied in management’s assumptions are</p> <ul style="list-style-type: none"> • future long-term sales prices and sales volumes, • estimated timing of cash flows, • discount rates applied for cash flow forecast, and • cash flow growth assumptions <p>Significant auditor judgement is required when evaluating whether management’s assessment is reasonable and supportable.</p>	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> - We evaluated the historical accuracy of management’s budgets and forecasts and challenged management on the current year cash flow forecasts as well as the timing of future cash flows; - We evaluated the growth assumptions and management’s future business plan assumptions with reference to current market conditions; - We used KPMG valuation specialists to assess the mathematical and methodological integrity of management’s impairment models and the discount rates applied with reference to market data; - We evaluated the competence and independence of the external valuation specialists engaged by management; - We evaluated management’s sensitivity analysis to determine the impact of reasonably possible changes; and - We considered whether the disclosures regarding key assumptions and sensitivities adequately reflected the underlying assets impairment assessments.

Valuation of contingent consideration

Refer to page 14 in the Board of Director’s report, the accounting policies on page 59, the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 63, and Note 14 on page 75 in the consolidated financial statements.

<i>The Key Audit Matter</i>	<i>How the matter was addressed in our audit</i>
The valuation assessment of the contingent consideration with a total carrying value of NOK	<p>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> - We evaluated the assumptions, such as



Observe Medical ASA

<p>12.4 million is considered a risk area due to the size of the balances and the inherent uncertainties related to estimation of annual revenues for the period 2020-2026.</p> <p>The estimated amount of the contingent consideration is determined based on forecasted revenue for the period 2020-2026 which rely on external factors, managements' assumptions, and estimated future performance. Key assumptions applied in management's assumptions are future long-term sales prices and sales volumes, and discount rates applied for cash flow forecast,</p> <p>Significant auditor judgement is required when evaluating whether management's assessment is reasonable and supportable.</p>	<p>discount rates and projected future revenues from sales of Sippi® products and compared assumptions with those used for impairment analysis for consistency,</p> <ul style="list-style-type: none"> - We evaluated the mathematical and methodological integrity of management's calculation model, - We compared the terms included in the calculations to the terms in the sales purchase agreement, and - We considered whether the disclosures regarding key assumptions and sensitivities adequately reflects the underlying valuation assessment.
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Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with laws, regulations, and auditing standards and practices

*Observe Medical ASA*

generally accepted in Norway, including ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error. We design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's or the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Observe Medical ASA

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Oslo, 29 April 2020
KPMG AS



Kjetil Kristoffersen
State Authorized Public Accountant

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.
EBIT:	Earnings before net financial items, results from associates and joint ventures and income tax. EBIT margin (per cent): EBIT as a percentage of revenues.
EBITDA:	Earnings before interest, taxes, depreciation and amortization.
EBITDA margin (%):	EBITDA as a percentage of revenues.
Operating expenses:	Employee benefit expenses plus other operating expenses.



Medtech that matters

IR Contacts

Björn Larsson, CEO
+46 766 201 725
bjorn.larsson@observemedical.com

Per Arne Nygård, CFO
+47 41 10 43 45
perarne.nygard@observemedical.com

Addresses

Oslo Office
Observe Medical ASA
Henrik Ibsens gt 90
0255 Oslo, Norway

Gothenburg Office
Observe Medical
Krokslätts Parkgata 4, Box 24032
400 22 Göteborg, Sweden