FULL-YEAR CARVE-OUT FINANCIAL STATEMENTS

2016 - 2018

Contents

Carve-out statement of comprehensive income

Amounts in NOK	Note	2018	2017	2016
		1 January - 31 December		
Revenue		106 185	197 772	614 314
Revenue		**106 185**	**197 772**	**614 314**
Cost of materials	9	-474 979	1 374 535	387 637
Payroll expenses	14	4 217 022	5 353 577	4 647 425
Other operating expenses	13	4 187 051	4 459 003	6 197 933
Operating result before depreciation and impairment (EBITDA)		**-7 822 910**	**-10 989 344**	**-10 618 681**
Depreciation and amortization	6, 7	3 901 020	3 981 088	4 024 738
Operating result (EBIT)		**-11 723 929**	**-14 970 432**	**-14 643 419**
Financial income		106 373	273 150	0
Net currency gains/losses		298 279	296 206	578 441
Change in contingent consideration (+ income / - cost)		14 009 000	-2 618 000	4 051 000
Financial expenses		416 071	350 805	557 128
Net finance		**13 997 582**	**-2 399 448**	**4 072 313**
Result before tax		**2 273 653**	**-17 369 880**	**-10 571 105**
Tax expense	15	0	0	0
Net result for the year		**2 273 653**	**-17 369 880**	**-10 571 105**
Other comprehensive income that may be reclassified subsequently to profit or loss				
Translation differences		-2 459 220	1 075 417	-4 806 207
Total comprehensive income		**-185 567**	**-16 294 463**	**-15 377 313**
Net result for the year is allocated to:				
Shareholders in the parent company		2 273 653	-17 369 880	-10 571 105
		2 273 653	-17 369 880	-10 571 105
Total comprehensive income is allocated to:				
Shareholders in the parent company		-185 567	-16 294 463	-15 377 313
		-185 567	-16 294 463	-15 377 313
Earnings per share (NOK per share)	16	0.19	-1.46	-0.89

Carve-out balance sheet

Amounts in NOK	Note	31.12.2018	31.12.2017	31.12.2016
ASSETS				
Intangible assets	7	23 507 880	25 821 008	26 611 160
Total intangible assets		**23 507 880**	**25 821 008**	**26 611 160**
Operating equipment, fixtures, office machines, etc.	6	57 413	524 775	767 546
Total tangible assets		**57 413**	**524 775**	**767 546**
Goodwill	7	31 165 525	32 113 245	30 558 342
Total other non current assets		**31 165 525**	**32 113 245**	**30 558 342**
Total fixed assets		**54 730 817**	**58 459 028**	**57 937 048**
Current assets				
Inventories	9	2 399 223	1 431 010	1 460 547
Trade receivables and other receivables	8	1 079 331	372 552	534 892
Receivables on Navamedic group		0	1 715 735	5 501 375
Prepaid tax	12	0	0	100 882
Bank deposits	10	621 144	2 058 940	3 505 015
Total current assets		**4 099 698**	**5 578 237**	**11 102 711**
Total assets		**58 830 515**	**64 037 264**	**69 039 759**
Total equity		**16 822 851**	**11 394 019**	**14 696 794**
LIABILITIES				
Non-current liabilities				
Contingent consideration	10	12 177 000	26 186 000	23 568 000
Total non-current liabilities		**12 177 000**	**26 186 000**	**23 568 000**
Current liabilities				
Trade account payables	10	1 924 148	695 367	945 397
Public duties payable	10	494 089	515 183	438 770
Loans from Navamedic group	10	25 032 427	22 804 536	27 771 861
Payables to Navamedic group	10	1 759 586	856 556	654 675
Other current liabilities	10	620 414	1 585 603	964 263
Total current liabilities		**29 830 664**	**26 457 246**	**30 774 966**
Total liabilities		**42 007 664**	**52 643 246**	**54 342 966**
Total equity and liabilities		**58 830 515**	**64 037 264**	**69 039 759**

Oslo, 1 October 2019

The Board of Directors and CEO of Navamedic ASA

Terje Bakken (sign.) Chair of the Board	**Jostein Davidsen (sign.)** Board Member
Inger Johanne Solhaug (sign.) Board Member	**Narve Reiten (sign.)** Board Member
Cheng Lu (sign.) Board Member	**Kathrine Gamborg Andreassen (sign.)** CEO

Carve-out statement of changes in equity

Amounts in NOK	Equity		
	Contributed equity and retained earnings	**Translation differences**	**Total**
Equity as at 1 January 2016	23 981 009	6 093 098	30 074 107
Contributed equity (group contribution)	0	0	0
Net result for the year	-10 571 105	0	-10 571 105
Translation differences	0	-4 806 207	-4 806 207
Equity as at 31 December 2016	**13 409 903**	**1 286 891**	**14 696 794**
Equity as at 1 January 2017	13 409 903	1 286 891	14 696 794
Contributed equity (group contribution)	12 991 688	0	12 991 688
Net result for the year	-17 369 880	0	-17 369 880
Translation differences	0	1 075 417	1 075 417
Equity as at 31 December 2017	**9 031 711**	**2 362 308**	**11 394 019**
Equity as at 1 January 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 31 December 2018	**16 919 764**	**-96 912**	**16 822 852**

Observe Medical ASA will be the parent of the Observe Medical group on completion of the demerger from Navamedic ASA. Observe Medical ASA was incorporated on 13 June 2019.The demerger is conditional on listing of the shares in Observe Medical ASA. These special purpose financial statements have been prepared for inclusion in the listing prospectus for Observe Medical ASA shares. Accordingly, Observe Medical ASA and the group had no shares outstanding in the periods presented. See also note 2.2.2 Carve-out and combination principles.

Carve-out cash flow statement

Amounts in NOK	Note	2018	2017	2016
Cash flow from operating activities				
Result before tax		2 273 653	-17 369 880	-10 571 105
Depreciation and impairment	6,7	3 901 020	3 981 088	4 024 738
Change FV contingent consideration with no cash effect	10	-14 009 000	2 618 000	-4 051 000
Change in inventories		-968 213	29 536	-592 770
Change in trade receivables and other receivables		-706 779	162 340	362 206
Change trade account payables and other current liabilities		2 131 810	-48 148	873 413
Changes in other current items		-986 282	697 753	-422 534
Net cash flow from operating activities		**-8 363 792**	**-9 828 428**	**-10 450 759**
Cash flow from investing activities				
Purchase / disposal of tangible and intangible assets		-1 949 429	-1 568 464	-1 406 295
Net cash flow used for investing activities		**-1 949 429**	**-1 568 464**	**-1 406 295**
Cash flow from financing activities				
Change in net interest bearing debt to Navamedic	10	3 943 626	-1 181 685	14 325 131
Equity contribution	10	5 614 400	12 991 688	0
Payments of lease liabilities				
Net cash flow used for financing activities		**9 558 026**	**11 810 004**	**14 325 131**
Exchange rate fluctuations		-682 601	-1 859 187	332 622
Changes in cash		-1 437 795	-1 446 075	2 800 699
Bank deposits as at 1 January		2 058 940	3 505 015	704 316
Bank deposits end of period	10	**621 144**	**2 058 940**	**3 505 015**

Explanatory notes to the full year carve-out financial statements 2016 - 2018

Note 1 – General information

Observe Medical ASA is a Norwegian limited liability company incorporated on 13 June 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 will be 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 completion of the demerger, the "OM group" or "the group"), which will be listed on Oslo Axess upon completion of the demerger.

On the completion of the demerger, all of Navamedic ASA's shares in Observe Medical International AB will be 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 will remain with Navamedic ASA.

Upon completion of the demerger, Observe Medical International AB will be a wholly owned subsidiary of OM ASA and OM ASA will indirectly be the owner of Observe Medical International AB and its subsidiaries Observe Medical Aps and Navamedic MedTec 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. 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 and its available liquidity financing.

Up to the demerger to be completed in connection with the listing of the OM ASA shares on Oslo Axess in the fourth quarter 2019, the group is dependent on financing from Navamedic Group. In September 2019 the company has entered into a loan arrangement with Navamedic ASA to refinance existing loans and ensure financing to support operations and development the first year after Listing.

As part of the new loan financing agreement, Navamedic ASA also will convert NOK 16 million of existing interest bearing debt to equity in OM ASA. See note 18 for further description of the loan agreement and the debt conversion. With this funding, management believes the company will be able to carry out planned operations and development for the next 12 months without any further need for additional financing. With weaker or delayed revenue growth than planned during the next 12 months the company can continuously adjust the variable costs to avoid further financing needs.

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.

The company entered into loan a convertible loan agreement for additional liquidity of NOK 13 million on September 2019, and management believes that the current cash and cash equivalents considering the net cash outflows expected to be generated from operations, together with the measures described above, are sufficient to meet the working capital needs and other liquidity requirements for the next 12 months from the date of this report.

Note 2 – Summary of the most important accounting policies and basis for carve-out and combination

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

2.1 Statement of compliance

These special purpose carve-out financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board as adopted by the European Union (IFRS (EU)) for the periods presented and the carve-out and combination basis as described below.

IFRS 10 requires the parent company, OM ASA, to control its subsidiaries at the balance sheet date in order to prepare consolidated financial statements. OM ASA will not obtain such control until the demerger and merger is completed in connection with the listing, which is expected in the fourth quarter of 2019. IFRS 10 has therefore not been applied for the carve-out financial statements.

IFRS provides no guidance for the preparation of carve-out financial statements. Following IAS 8.12 and industry practice, the predecessor accounting approach has been applied in the carve-out financial statements of OM group. The carve-out financial statements of OM group reflect the Medtech business including the fair value adjustments and contingent consideration included in the IFRS consolidated financial statement of Navamedic ASA. OM group applies the same accounting policies and measurement principles in preparing the carve-out financial statements as used by the Navamedic ASA group.

Upon completion of the demerger and merger, it is expected that OM ASA will present first-time consolidated financial statements for the year ending 31 December 2019 in accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards, using these carve-out financial statements as comparative information.

2.2. Principles of carve-out, combination and allocation

Observe Medical believes that the preparation of carve-out financial statements is useful to financial statement users in assessing the historical results of the Medtech business, including contingent consideration, which was historically controlled by Navamedic ASA. While the preparation of carve-out financial statements may produce similar results as if the Medtech business including the contingent consideration had been consolidated for all periods presented, IFRS does not explicitly provide for the preparation of carve-out financial statements.

The historical results of operations, financial position, and cash flows of the group may not be indicative of what they would have been had the group been a separate independent stand-alone group. The historical results as described above may not be indicative of what the group's results of operations, financial position and cash flows may be in the future.

The re-organisation 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 recognised in Navamedic group, as if the re-organisation occurred at the beginning of the earliest period presented.

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

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 carve-out financial statements, are described in note 4.

Estimates made for the preparation of these financial statements are 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.

Any information after 1 January 2016 about estimates that Navamedic group had made in relation to the assets and liabilities of the group are treated in the same way as non-adjusting events after the reporting period in accordance with IAS 10 *Events after the Reporting Period*. Management is however not aware of any significant new information.

The carve-out financial statements have been prepared on the assumption that the group is a going concern (see further discussion above).

These carve-out financial statements were approved by the board and CEO of Navamedic ASA on 1 of October 2019.

2.2.2 Carve-out and combination principles

The group's carve-out financial statements cover the following companies:

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

Observe Medical ASA, which will acquire this Medtech business via the demerger from Navamedic ASA, was established on 13 June 2019, and is not part of the group for the periods presented. 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 is expected to be repaid to Navamedic ASA. Consequently, inclusion of the parent company OM ASA into the group would not have had a significant effect on the group for the periods presented.

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 have historically not been prepared. Furthermore, these carve-out 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 carve-out financial statements, with carrying values as reflected in Navamedic group's consolidated financial statements, has not, as per the reporting date, formed a group controlled by a separate legal entity and therefore it is not meaningful to present share capital or an analysis of changes in share capital between periods.

Total equity as at 1 January 2016 is equal to carrying values of the carve-out net assets contributed by Navamedic to the group at this date. Total equity comprises "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.

2.2.3 Carve-out allocations

Transactions and shared costs have historically been charged from Navamedic to Observe Medical International AB and its subsidiaries, and consequently recognised in the group's carve-out financial statements. This is 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 has also provided group contributions to the OM group, to utilize parts of the tax losses carried forward in the OM group. No further carve-out allocations have been made in the preparation of the carve-out financial statements.

Navamedic ASA had 90.000 employee share options outstanding at 31 December 2018, giving right to subscribe for one share in Navamedic ASA for each share option. The vesting period is two years from June 2018 and a maximum lifetime of three years. The fair value was estimated to NOK 5.17 per Navamedic ASA option at the grant date in June 2018. The holders of employee share options at the date of the demerger and merger into OM ASA will receive the same number of share options in OM ASA as they have in Navamedic ASA. The strike price for the Navamedic shares was NOK 9.40 per share, and will be reduced by 26%, and the strike price for shares in OM ASA will be the same 26% (NOK 2.44 per OM ASA share). 26% is the fraction that was used in the demerger plan signed 19 June 2019, which was based on the estimated relative fair values of Navamedic ASA and OM ASA at that point in time. In 2018, Navamedic ASA recognized NOK 134,216 as option expense. No carve-out adjustments have been made in these carve-out financial statements related to the employee share options. Some deferred income tax assets were recognized in Navamedic's consolidated financial statements, relating to the carved-out business. In the preparation of the carve-out financial statement, no basis for recognizing net deferred tax assets have been identified, and consequently no net deferred tax assets have been recognized.

In addition to the legal entities, contingent consideration recognized by the Navamedic group 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.

Earnings per share information has been presented reflecting the number of shares of OM ASA after the demerger from Navamedic ASA but before conversion of any debt, see note 15.

2.2.4 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 9 and IFRS 15.

Standards adopted in 2016, 2017 and 2018

In 2016 and 2017, Navamedic and the group did not adopt any new standards or interpretations. With effect from 1 January 2018, Navamedic and the group implemented **IFRS 9 *financial instruments*** and **IFRS 15 *revenues from contracts with customers*.** Navamedic implemented these standards without changing comparative figures for previous periods. Implementation of IFRS 9 and IFRS 15 did not have any effect for Navamedic group at 1 January 2018. Implementation of IFRS 9 and IFRS 15 did not have any effect on the OM group's financial statements.

For IFRS 9, this is because the only financial instruments are financial assets and liabilities at amortized costs and contingent consideration at fair value through profit or loss, there was no impact on the group on classification of financial instruments and nor from the implementation of the expected credit loss model. The group currently does not apply hedge accounting.

The group is still in the start-up phase in the sale of Sippi® product family, and has for the periods presented only insignificant sales and revenues. Consequently, implementation of IFRS 15 did not have any impact for the OM group.

Standards, amendments and interpretations of existing standards that have not come into effect and which the group has chosen not to adopt early.

A number of new standards, revisions to standards, and interpretations did not come into force for the group for the period that ended 31 December 2018 and have not been applied in the preparation of these carve-out financial statements.

The only one that currently could potentially have an effect for the group is **IFRS 16 *Leasing*.** The new standard requires lessees to recognise right of use assets and lease liabilities for all leases, with the exception of some 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 recognised in the comprehensive income statement.

The group will implement IFRS 16 on 1 January 2019 without adjusting the comparative figures. The group will use the simplification to recognize the right of use assets equivalent to lease liabilities and therefore does not expect there to be any impact on equity upon implementation on 1 January 2019.

At 31 December 2018, 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 is currently co-located with Navamedic AB. Navamedic AB charges the group for the office space used, but there is no legal contract between Navamedic AB and the group, and the group has evaluated that this does not represent a lease contract that needs to be recognized at 1 January 2019. The annualized rent amount for 2019 is less than NOK 100 thousand.

On implementation, the group expects to recognize lease liabilities and right of use assets of NOK 483 thousand at 1 January 2019.

2.3 Basis of combination

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

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

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

2.4 Segment information

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

2.5 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 carve-out 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 recognised 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 balance sheet date

b) income statements are translated using the average exchange rate for the year

c) translation differences are recognised in other comprehensive income and specified in equity as a separate item

2.6 Intangible assets

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 is 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 is 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.

2.7 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 recognised 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, and tested at least annually for impairment.

2.8 Inventories

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

2.9 Financial assets

The company has financial assets in the category of amortised cost, which primarily consist of short term receivables and bank deposits. Such financial assets are initially recognised at fair value in addition to transaction costs and then at amortised 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.

2.10 Cash and cash equivalents

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

2.11 Financial liabilities

Financial liabilities include:

(a) Financial liabilities at fair value through profit or loss: Contingent consideration from acquisition; and

(b) financial liabilities at amortised cost: primarily current intercompany loans and payables.

2.12 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, NOK 6.7 million deferred tax asset was recognized on tax losses carried forward, which was 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.

2.13 Pensions

The group has entered into a mandatory defined-contribution pension scheme for employees in Sweden. The contributions are recognised as payroll expenses as the obligation to pay contributions accrue.

2.15 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 furthered developed in line with the expansion of the company. 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.

2.16 Leases

Leases where a material element of the risk and return associated with ownership does not lie with the lessee, are classified as operational leases. Rent is recognised as expense on a straight-line basis over the lease 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 arise in relation to the development of 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 the Navamedic group. At 31 December 2018, the main currency exposure was related to liabilities the Danish company Observe Medical Aps had to Navamedic AB. The liabilities amounted to SEK 24.9 million, and if DKK had weakened by 5% in relation to SEK at 31 December 2018, this would result in a reduction in the pre-tax result of NOK 1.2 million.

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 has subsequent to the acquisition by Navamedic in 2015 been dependent on loans and group contributions from the Navamedic group to finance its further development and operations.

The group has had no long-term financing. The contingent consideration is payable only if the group realises substantial future revenues from the sale of Sippi® products. Such revenues is expected to give good headroom to pay out the contingent consideration. The group would not be able to redeem the debt to the Navamedic ASA, should Navamedic ASA require redemption. The group is dependent on longer term financing in form of debt and/or equity, to be able to finance its operations until it generates sufficient cash flow from operations. The group expects to reduce its liquidity risk in connection with the expected listing of its shares in the fourth quarter of 2019. For further information about going concern and loan agreement see note 1 and 18.

Variable interest rate risk

The group is exposed to variable interest rate risk on its interest bearing liabilities to the Navamedic group and on its bank deposits. The group has not hedged its interest rate exposure. Net interest-bearing liabilities less bank deposits amounted to NOK 26.2 million as at 31 December 2018. A 0.5% rise in interest rates for the net interest-bearing liabilities at 31 December 2018 would increase annual interest expenses by NOK 0.13 million.

Management of capital

The group's 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 recognised 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 will become 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.

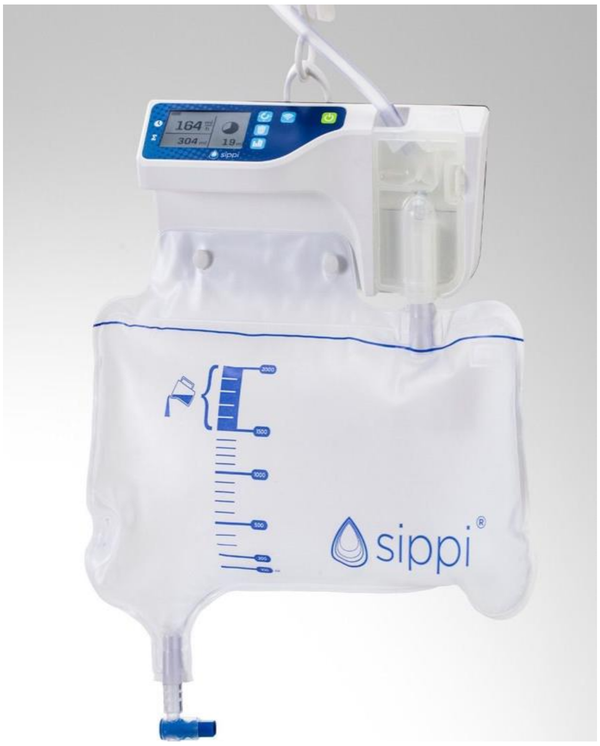
Sippi® has the potential to become a global category leader within urine measuring systems with our wireless, digital and fully integrated product family.

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 2018, 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 said they are very interested 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 utilising 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*	2018	2017	2016
Sweden	52 480 072	56 099 128	55 962 982
Denmark	2 250 745	2 359 900	1 974 066
Total	54 730 817	58 459 028	57 937 048

*** 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**

Amounts in NOK

Accounting year 2016	
Carrying value 1 Jan 2016	496 585
Additions/disposals	603 976
Translation differences	-36 078
Depreciation	-296 937
Carrying value 31 Dec 2016	767 546
Accumulated cost price as at 31 Dec 2016	2 270 687
Translation differences	49 146
Accumulated depreciation	-1 552 286
Carrying value 31 Dec 2016	767 546
Accounting year 2017	
Carrying value 1 Jan 2017	767 546
Additions/disposals	-118 985
Translation differences	33 908
Depreciation	-157 693
Carrying value 31 Dec 2017	524 775
Accumulated cost price as at 31 Dec 2017	2 151 701
Translation differences	83 053
Accumulated depreciation	-1 709 979
Carrying value 31 Dec 2017	524 775
2018 financial year	
Carrying value 1 January 2018	524 775
Additions/disposals	-
Reclassification	-407 853
Translation differences	6 794
Depreciation	-66 303
Carrying value 31 Dec 2018	57 413
Accumulated cost price as at 31 Dec 2018	2 151 701
Reclassification	-407 853
Translation differences	89 847
Accumulated depreciation	-1 776 282
Carrying value 31 Dec 2018	57 413

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

Note 7 – Intangible assets

Amounts in NOK

	Goodwill	Technology assets	Patent and technology development	Sum
Accounting year 2016				
Carrying value 1 Jan 2016	33 022 084	32 354 525		65 376 609
Additions		778 813		778 813
Disposals/reclassification				-
Translation differences	-2 463 743	-2 794 377		-5 258 120
Amortization		-3 727 801		-3 727 801
Carrying value 31 Dec 2016	30 558 342	26 611 160	-	57 169 502
As at 31 December 2016				
Acquisition cost	32 354 525	30 823 753		63 178 278
Accumulated amortization and impairment		-5 044 857		-5 044 857
Additions	-1 796 183	778 813		-1 017 370
Translation differences		53 451		53 451
Carrying value 31 Dec 2016	30 558 342	26 611 160	-	57 169 502
Accounting year 2017				
Carrying value 1 Jan 2017	30 558 342	26 611 160	-	57 169 502
Additions		-	1 819 308	1 819 308
Disposals/reclassification		-1 974 065	1 974 065	-
Translation differences	1 554 903	1 158 255	55 680	2 768 838
Amortization		-2 921 037	-902 358	-3 823 395
Carrying value 31 Dec 2017	32 113 245	22 874 313	2 946 695	57 934 252
As at 31 December 2017				
Acquisition cost	32 354 525	26 683 560	-	59 038 085
Accumulated amortization and impairment		-7 156 213	-902 358	-8 058 571
Additions		-	3 793 373	3 793 373
Translation differences	-241 280	3 346 966	55 680	3 161 366
Carrying value 31 Dec 2017	32 113 245	22 874 313	2 946 695	57 934 252
Accounting year 2018				
Carrying value 1 Jan 2018	32 113 245	22 874 313	2 946 695	57 934 252
Additions			1 924 754	1 924 754
Year's disposals		-	-	-
Disposals/reclassification			407 853	407 853
Translation differences	-947 720	-777 057	-33 962	-1 758 739
Amortization		-2 825 379	-1 009 337	-3 834 716
Carrying value 31 Dec 2018	31 165 525	19 271 877	4 236 003	54 673 405
As at 31 December 2018				
Acquisition cost	32 354 525	26 683 560	3 793 373	62 831 458
Accumulated amortization and impairment	-	-9 981 592	-1 911 695	-11 893 287
Additions	-	-	1 924 754	1 924 754
Reclassification			407 853	407 853
Translation differences	-1 189 000	2 569 909	21 718	1 402 627
Carrying value 31 Dec 2018	31 165 525	19 271 877	4 236 003	54 673 405
Amortization period		10 år	5 år	

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015. Technology assets relates to the acquisition of OMI AB and capitalised external expenses for further development in the Medtech business. Some previously capitalised development expenses were reclassified from tangible fixed assets to intangible assets in 2018. Carrying value of assets under construction at 31 December 2018 was NOK 1,54 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 recoverable amount is based on value in use.

The value in use of the cash generating unit was calculated on the basis of discounted future cash flows. The calculation at 31 Decemer 2018 was based on the budget for 2019 and estimates for subsequent periods. The detailed cash flow period used in the calculation was 13 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 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. For 2019 and 2020, the operating result, excluding amortization of intangible assets and depreciation of tangible assets (EBITDA), is expected to be negative with a subsequent EBITDA margin between 14.6% and 51.7% in the period 2021 to 2031. After 2031, this margin is estimated at approximately 48.6% of revenue. A discount rate after tax of 18.3% was used to discount future cash flows. The discount rate is unchanged from 31 December 2017, and the same as used in the fair value calculation at the acquisition in 2015. The impairment test at year-end 2018 concluded that there was no need to impair goodwill or other intangible or tangible assets related to the Medtech business. The impairment tests at 31 December 2017 and 2016 also concluded on no impairment.

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 31 December 2018 would decrease by NOK 14.2 million, and this would also not trigger any impairment. A discount rate of 20% would also not have resulted in impairment. 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 2018, the group adjusted the estimate for when revenues from the Medtech business will be realised. At year-end 2018, the group estimated that revenue from sales of OM's products will be realised at a later stage than what was assumed when OMI AB was acquired in 2015. However, the potential revenue and expected realisation remain unchanged and have only been postponed. This has reduced the estimate for the contingent consideration (liability) at 31 December 2018. It has also reduced the present value of expected future cash flows without this giving rise to impairment as at 31 December 2018. Since the acquisition in 2015, the technology assets related to the purchase of OMI AB have been subject to accumulated amortization of NOK 10 million.

Note 8 – Trade receivables and other receivables

	2018	2017	2016
Trade receivables	32 222	27 001	39 161
Other receivables	1 047 109	345 551	495 731
Total	1 079 331	372 552	534 892

Note 9 – Inventories

	2018	2017	2016
Goods for resale	2 399 223	1 431 010	1 460 547
Total	2 399 223	1 431 010	1 460 547

Navamedic Medtech AB have in 2018 reversed the write down the company did in 2017 with NOK 606,247.

Note 10 – Financial instruments

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

Financial liabilities as at 31 December 2018

(Figures in NOK millions)	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

Financial liabilities as at 31 December 2017

(Figures in NOK millions)	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	0.8	15.5	11.6	31.2	59.2	26.2
Trade account payables	0.7	0.0	0.0	0.0	0.0	0.0	0.7	0.7
Public duties, tax deductions, etc.	0.5	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Other current liabilities	1.6	0.0	0.0	0.0	0.0	0.0	1.6	1.6
Payables loan to Navamedic group	22.8	0.0	0.0	0.0	0.0	0.0	22.8	22.8
Payables Navamedic group	0.9	0.0	0.0	0.0	0.0	0.0	0.9	0.9
Total	26.5	0.0	0.8	15.5	11.6	31.2	85.6	52.6

Financial liabilities as at 31 December 2016

(Figures in NOK millions)	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	0.0	0.9	8.3	46.5	55.7	23.6
Trade account payables	0.9	0.0	0.0	0.0	0.0	0.0	0.9	0.9
Public duties, tax deductions, etc.	0.4	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Other current liabilities	1.0	0.0	0.0	0.0	0.0	0.0	1.0	1.0
Payables loan to Navamedic group	27.8	0.0	0.0	0.0	0.0	0.0	27.8	27.8
Payables Navamedig group	0.7	0.0	0.0	0.0	0.0	0.0	0.7	0.7
Total	30.1	0.0	0.0	0.9	8.3	46.5	85.8	54.3

The group had no bank financing for the periods presented. Debt financing has been provided by Navamedic group, primarily Navamedic AB. Interest bearing liabilities to Navamedic AB carried interest rate of 2% per annum for all periods presented. The tables above shows that the financing from Navamedic was short term and could be terminated by Navamedic at short notice, and no interest has been calculated in the tables. At year-end 2016 and 2017, the group also had receivables on Navamedic group.

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

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

Classification of financial assets and liabilities as at 31 December 2018

(Figures in NOK millions)	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
Trade account payables and other liabilities	29.9	0.0	29.9
Total financial liabilities 3)	29.9	12.2	42.0

Classification of financial assets and liabilities as at 31 December 2017

(Figures in NOK millions)	Measured at amortised cost	Fair value through profit or loss	Total
Assets			
Bank deposits	2.1	0.0	2.1
Trade receivables and other receivables	2.1	0.0	2.1
Total financial assets 2) and 3)	4.1	0.0	4.1
Liabilities			
Contingent consideration upon acquisitions 1)	0.0	26.2	26.2
Trade account payables and other liabilities	26.5	0.0	26.5
Total financial liabilities 3)	26.5	26.2	52.6

Classification of financial assets and liabilities as at 31 December 2016

(Figures in NOK millions)	Measured at amortised cost	Fair value through profit or loss	Total
Assets			
Bank deposits	3.5	0.0	3.5
Trade receivables and other receivables	6.0	0.0	6.0
Total financial assets 2) and 3)	9.5	0.0	9.5
Liabilities			
Contingent consideration upon acquisitions 1)	0.0	23.6	23.6
Trade account payables and other liabilities	30.8	0.0	30.8
Total financial liabilities 3)	30.8	23.6	54.3

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.

	Net loan from Navamedic Group	Contingent consideration upon acquisitions	Total
Carrying value 1 January 2018	21.1	26.2	47.3
Cash flow	3.9		3.9
Change in liability with no cash effect		-14.0	-14.0
Carrying value 31 December 2018	25.0	12.2	37.3

	Net loan from Navamedic Group	Contingent consideration upon acquisitions	Total
Carrying value 1 January 2017	22.3	23.6	45.9
Cash flow	-1.2		-1.2
Change in liability with no cash effect		2.6	2.6
Carrying value 31 December 2017 *	21.1	26.2	47.3
* Receivables on Navamedic group	1.7		
* Loans from Navamedic group	22.8		

	Net loan from Navamedic Group	Contingent consideration upon acquisitions	Total
Carrying value 1 January 2016	7.9	27.6	35.6
Cash flow	14.3		14.3
Change in liability with no cash effect		-4.0	-4.0
Carrying value 31 December 2016 *	22.3	23.6	45.9
* Receivables on Navamedic group	5.5		
* Loans from Navamedic group	27.8		

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

Changes in liabilities without cash effect relate to estimated change in fair value of contingent consideration (which include calculated interest).

Note 11 – Contingent consideration

Acquisition of Observe Medical

On 4 August 2015, Navamedic ASA acquired all of the shares and votes in Observe Medical International AB (OMI AB). The purchase price was NOK 35 million in the form of cash (NOK 25 million) and the issuance of shares (888,100 shares in Navamedic, with a fair value on the date of acquisition of NOK 10 million). An extra payment (contingent consideration) dependent on the results in the coming years was also agreed. The contingent consideration was valued at NOK 25.6 million on the acquisition date, which means that the value of the remuneration on the date of acquisition was NOK 60.6 million. 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

(in NOK)	
Estimated fair value 1 January 2016	27 619 000
Change in estimated fair value in 2016	-4 051 000
Estimated fair value 31 December 2016	23 568 000
Change in estimated fair value in 2017	2 618 000
Estimated fair value 31 December 2017	26 186 000
Change in estimated fair value in 2018	-14 009 000
Estimated fair value 31 December 2018	12 177 000

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

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 2018, the group estimated that revenue from sales of OM's products will be realised at later points in time than assumed when OMI AB was acquired in 2015. However, the potential revenue and expected realisations remain unchanged and have only been postponed.

Sensitivity at 31 December 2018: A 1% reduction in the discount rate would increase the estimated present value by NOK 0.5 million.

Note 12 – Deferred tax and tax payable

Change in deferred tax assets and deferred tax liabilities:

	01.01.2016	Recognised in profit and loss during the year	Group contibution	Foreign currency exchange differences	31.12.2016
Intangible assets	5 513 578	-1 221 101	0	286 051	4 578 528
Tax losses carried forward	-18 269 176	-2 525 017	2 858 171	1 036 665	-16 899 357
Gross tax liabilites/ assets(-)	-12 755 598	-3 746 118	2 858 171	1 322 716	-12 320 829
Deferred tax asset not recognised	12 320 828	3 746 118	-2 858 171	-1 322 716	12 320 829
Tax liabilites/ assets(-) recognised	0	0	0	0	0

	01.01.2017	Recognised in profit and loss during the year	Group contibution	Foreign currency exchange differences	31.12.2017
Intangible assets	4 578 528	-1 011 902	0	373 864	3 940 491
Tax losses carried forward	-16 899 357	-2 466 899	1 235 168	-1 360 051	-19 491 139
Gross tax liabilites/ assets(-)	-12 320 829	-3 478 801	1 235 168	-986 187	-15 550 648
Deferred tax asset not recognised	12 320 829	3 478 801	-1 235 168	986 187	15 550 648
Tax liabilites/ assets(-) recognised	0	0	0	0	0

	01.01.2018	Recognised in profit and loss during the year	Group contibution	Foreign currency exchange differences	31.12.2018
Intangible assets	3 940 491	-1 033 416	0	30 403	2 937 478
Tax losses carried forward	-19 491 139	-1 924 632	0	-114 674	-21 530 444
Gross tax liabilites/ assets(-)	-15 550 648	-2 958 047	0	-84 270	-18 592 966
Deferred tax asset not recognised	15 550 648	2 958 047	0	84 270	18 592 966
Tax liabilites/ assets(-) recognised	0	0	0	0	0

Basis for deferred tax liabilities and tax assets (-)

2016	**Temporary differences Norway**	**Temporary differences Sweden**	**Temporary differences Denmark**	**Total 2016**
Intangible assets	0	0	20 811 493	20 811 493
Total temporary differences	0	0	20 811 493	20 811 493
Tax losses carried forward	0	-7 126 235	-69 689 024	-76 815 259
Basis for temporary differenses	0	-7 126 235	-48 877 531	-56 003 767
Unrecognised temporary differences	0	7 126 235	48 877 531	56 003 767
Total recognised temporary differences	0	0	0	0
Tax rate	24 %	22 %	22 %	
Recognised deferred tax liabilities and tax assets (-)	0	0	0	0
Deferred tax assets	0	0	0	0
Deferred tax liabilities	0	0	0	0

2017	**Temporary differences Norway**	**Temporary differences Sweden**	**Temporary differences Denmark**	**Total 2017**
Intangible assets	0	0	17 911 321	17 911 321
Total temporary differences	0	0	17 911 321	17 911 321
Tax losses carried forward	0	-12 687 749	-75 908 336	-88 596 085
Basis for temporary differenses	0	-12 687 749	-57 997 015	-70 684 764
Unrecognised temporary differences	0	12 687 749	57 997 015	70 684 764
Total recognised temporary differences	0	0	0	0
Tax rate	23 %	22 %	22 %	
Recognised deferred tax liabilities and tax assets (-)	0	0	0	0
Deferred tax assets	0	0	0	0
Deferred tax liabilities	0	0	0	0

2018	Temporary differences Norway	Temporary differences Sweden	Temporary differences Denmark	Total 2018
Intangible assets	0	0	13 352 173	13 352 173
Total temporary differences	0	0	13 352 173	13 352 173
Tax losses carried forward	0	-20 566 504	-77 299 149	-97 865 654
Basis for temporary differenses	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 %	20,6 %*	22 %	
Recognised deferred tax liabilities and tax assets (-)	0	0	0	0
Deferred tax assets	0	0	0	0
Deferred tax liabilities	0	0	0	0

*The 2019 corporate tax rate in Sweden is 21,4 %. The corporate tax rate is expected to be 20,6 % from 2021

Use of tax losses carried forward:

Tax losses in Sweden in the amount of SEK 3 741 500 (NOK 3 629 629 at 31.12.2018) from the acquisition in 2015 are restricted for use for the first five years after the acquisition.There are not any expiring date of the use of tax losses carried forward.

Tax payable:

There are no tax payable within the group for the period 2016 - 2018. However, the Swedish enity had prepaid tax of NOK 100 882 as of 31.12.2016 and NOK 27 176 as of 01.01.2016 classified as current tax assets.

Note 13 – Other operating expenses

The operating expenses consist of mainly consultancy cost, management fee (to cover costs and activities as finance and management support), travel expenses and R&D costs.

Note 14 – Payroll expenses

Payroll expenses are in NOK

	2018	2017	2016
Salaries	2 940 565	3 606 771	2 707 838
Employer's tax	852 758	1 112 563	1 082 239
Pension expenses – defined-contribution scheme	414 237	509 587	318 241
Other payroll expenses	9 462	124 656	539 108
Total	4 217 022	5 353 577	4 647 425
Number of full time employees	5	5	5

	CEO Navamedic Medtech AB	
Payroll expenses are in NOK	**2018**	**2017**
Salary	955 026	822 800
Bonus		246 840
Pension expenses	174 590	182 348
Total	1 129 616	1 251 988

Note 15 – Tax expense

Income tax:

	2018	2017	2016
Current taxes (note 12)	0	0	0
Deferred taxes (note 12)	0	0	0
Tax expense/income recognised	0	0	0

Effective tax rate:

Tax using the companies domestic tax rate

Profit / loss (-) before tax	Tax rate	2018	2017	2016
Norway	23% (24%, 25%)	3 222 070	-628 320	101 275
Sweden	22%	-1 728 580	-2 053 971	-2 783 566
Denmark	22%	-853 196	-892 455	-892 455
Income tax expense/ income(-) at corporate income tax rate in the different geographical areas		640 294	-3 574 746	-3 574 746

<u>Total tax reconciling items</u>

	Tax rate	2018	2017	2016
Norway - non-deductable expenses	23% (24%, 25%)	-3 222 070	628 320	-101 275
Denmark current-year losses for which no deferred tax asset is recognised	22%	853 196	249 827	249 827
Sweden - non-deductable expenses	22%	4 568	42 575	707 657
Sweden - current-year losses for which no deferred tax asset is recognised	22%	1 724 012	2 654 025	2 718 538
Total taxes		-640 294	3 574 746	3 574 746
Tax expense/income recognised		0	0	0
Effective tax rate		0.0 %	0.0 %	0.0 %

Note 16 – Earnings per share

Observe Medical ASA was established 13 June 2019 Observe Medical ASA and the group had no shares outstanding in the periods presented. Observe Medical ASA was established with a share capital of NOK 1 million and 1 000 000 shares

Observe Medical ASA will be the parent of the OM group on completion of the demerger from Navamedic ASA. OM ASA was established 13 June 2019. The demerger is conditional on listing of the shares in Observe Medical ASA. These special purpose financial statements have been prepared for inclusion in the listing prospectus for Observe Medical ASA shares. Accordingly, Observe Medical ASA and the group had no shares outstanding in the periods presented. Observe Medical ASA was established 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 will be NOK 3 085 595 with 11 867 673 shares, each with a nominal value of NOK 0,26. Earnings per share has been presented as if these shares were outstanding for all periods presented.

See note 2.2.3 for a description of employee share options to be issued in connection with the demerger and merger of OM ASA. No adjustments have been made in these carve-out financial statements related to the employee share options. The share options had no dilutive effect on Navamedic group for 2018, and had no dilutive effect for the OM group.

Earnings per share:

	2018	2017	2016
Net result for the year, company's shareholders	2 273 653	-17 369 880	-10 571 105
Number of shares	11 867 673	11 867 673	11 867 673
Earnings per share (NOK per share)	0,19	-1,46	-0,89

Note 17 – Related parties

Transactions and shared costs have historically been charged from Navamedic to Observe Medical International AB and its subsidiaries, and consequently recognised in the group's carve-out financial statements. Navamedic AB has also 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 2018, 2017 and 2016. The companies within the OM group are also related parties. Transactions and balances within the group are eliminated in the carve-out financial statements and are not disclosed in this note. Transaction and balances with the Navamedic group:

Transactions and balances with related parties:

(amounts in NOK)	2018	2017	2016
Revenues			
Expenses	934 903	1 047 462	653 000
Finance income	96 132	240 981	13 298
Finance expenses	416 080	314 554	543 830
Group contributions received	5 614 400	12 991 688	
Receivables	0	1 715 735	5 501 375
Liabilities	26 792 013	23 661 092	28 426 536

Expenses is primarily management fee (to cover costs and activities as finance and management support) and rent of office space. Finance expense is interest on intercompany debt.

Note 18 – Events after the balance sheet date

Estimates made for the preparation of these financial statements are 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.

Any information after the balance sheet date about estimates that Navamedic had made in relation to the assets and liabilities of the group are treated in the same way as non-adjusting events after the reporting period in accordance with IAS 10 *Events after the Reporting Period*. Management is however not aware of any such new information.

The information in this note covers events after 31 December 2018.

Demerger from Navamedic
The Company was incorporated as part of Navamedic's reorganisation of its business in order for it to spin-off its medtech division in a separate business group.

On 19 June 2019, the board of directors of Navamedic ASA and the company signed a joint demerger plan (the "Demerger Plan"), pursuant to which all of Navamedic's shares in OMI are to be transferred to the company together with an earn-out obligation (a contingent consideration) to the sellers of OMI related to Navamedic's acquisition of OMI in 2015 (the "Contingent Consideration"), while all other assets, rights and liabilities are to remain with Navamedic. The Demerger plan was approved by the general meetings of Navamedic and the Company on 5 August 2019.

Listing on Oslo Axess
The Company is in process to apply for a listing of its share on Oslo Axess and the Company expects to submit its listing application on 2 October 2019 with expected first day of trading in the beginning of November 2019.

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

The Bond Loan consists of the two following facilities:

- A subordinated convertible term loan facility for the amount of outstanding loans and payables to Navamedic Group, reduced by the NOK 16 million that was on October 1, 2019 converted to equity shares in Observe Medical ASA, 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 is divided into four equal loans, each for an amount of no more than NOK 3,250,000. The Company is entitled to draw down on the Liquidity Facility as per 1 November 2019, 1 February 2020, 1 May 2020 and 1 August 2020. The first draw down on the Liquidity Facility for an amount of NOK 3,250,00 will be done on 1 November 2019.

  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 capitalised 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 will 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 (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.

Debt conversion

On 1 of October 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 to the Company in the amount of NOK 16,000,000. The subscription price per share in the transaction is to be settled at NOK 5.00 (the "Debt Conversion"). The debt conversion will be completed upon completion of the demerger and Navamedic will after the completion own approximately 21% of the total number of shares.

Share options

The holders of employee share options at the date of the demerger and merger into OM ASA is expected to receive the same number of share options in OM ASA as they have in Navamedic ASA contingent upon the completion of the demerger.

On the completion of the demerger, the 467,500 share options issued under Navamedic's long-term incentive program (400,000 options) and other share option programs (67,500 options) are expected to be "mirrored" and split so that these options are transferred to the Company, resulting in the Company having 467,500 share options issued at the time of Listing.

The exercise price for the options will reflect the exchange ratio in the demerger, so that the exercise price of the options in OM ASA will be 26% of the initial exercise price of the options in Navamedic ASA. Each option will give the holder the right to subscribe for one Share.

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 Board of Directors of Observe Medical ASA

Independent auditor's report

Report on the Audit of the Financial Statements

Opinion

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

- The consolidated financial statements of Observe Medical Group, which comprise the carve-out balance sheet as at 31 December 2018, 2017 and 2016 respectively, carve-out statement of comprehensive income, carve-out statement of changes in equity and carve-out cash flow statement for the respective years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The consolidated carve-out financial statements are prepared in accordance with the law and regulations.

- The consolidated carve-out financial statements give a true and fair view of the financial position of the Observe Medical Group as at 31 December 2018, 2017 and 2016 respectively, and its financial performance and its cash for the respective years 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 Observe Medical Group as required by laws and regulations in Norway, 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.

Emphasis of matter - Basis for preparation

Without modifying our opinion, we draw attention to Note 1 and 2 to the carve-out financial statements, which explains the basis of preparation, including the approach to and the purpose for preparing them. The carve-out financial statements were prepared in connection with Observe Medical ASA's listing of shares on Oslo Axess, including the prospectus prepared in connection therewith, and for no other purpose. Our opinion is not modified in respect of this matter.

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 consolidated carve-out financial statements 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 consolidated carve-out financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using 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 consolidated carve-out 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 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 skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated carve-out 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 consolidated carve-out 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 consolidated carve-out 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 carve-out 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.

Oslo, 1 October 2019
KPMG AS
Thomas Sørhaug
John Thomas Sørhaug
State Authorised Public Accountant