A close-up photograph of two hands clapping together. The hands are positioned in the center of the frame, with fingers pointing upwards. The background is a blurred hospital environment with people in blue scrubs. The lighting is soft and focused on the hands.

Observe Medical ASA

ANNUAL REPORT 2020



Contents

We are Observe Medical 3

2020 Highlights 4

Key Figures 6

Letter from the CEO 7

About Observe Medical Portfolio 10

Board of Directors’ Report 2020 15

Executive Management and Board of Directors 24

Corporate Governance 25

Sustainability Report 34

Consolidated Financial Statements 2020 44

Explanatory Notes to the Consolidated Financial Statements 2020 50

Parent Company Observe Medical ASA Annual Financial Statements 2020 79

Explanatory Notes to the Annual Financial Statements 2020 86

Declaration in Accordance with §5-5 of the Securities Trading Act 95

Auditor’s Report 96

Alternative Performance Measures (APMs) 102

We are Observe Medical

Observe Medical is a fast-growing medtech group developing, marketing and distributing 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, efficient and innovative solution for urine monitoring at the hospital intensive care units (ICUs), wards and home care. Current focus is the clinical rollout of Sippi in the Nordics and selected European markets

The system incorporates SippCoat[®], a technology that hinders biofilm formation, 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. There are almost 3.8 million Europeans infected every year from healthcare associated infections (HAI) of all types.

In addition to Sippi[®], Observe Medical has a broad portfolio of medtech devices and disposables, mainly within Urine measurement, Anesthesiology/ICUs and wound care, which is synergistic with Sippi[®] target customers. This product portfolio from well-established suppliers in medical technology and wound care is sold through an experienced sales team and contributes to accelerate the clinical rollout of the Sippi system by enabling access to Sippi[®] target customers. Our medtech portfolio is, except Sippi[®], mainly distributed in the Swedish market with potential to expand to rest of the Nordic region.

The Sippi[®] commercialization journey and the sales growth of the full product portfolio 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.

2020 Highlights

▶ **Strengthened the commercial organization and product portfolio through acquisition of Sylak AB**

At October 30, 2020 Observe Medical acquired Sylak AB, a Swedish distributor of urine measurement, ICU/anaesthesia and wound care products, a product portfolio complementary to the Sippi® system. Sylak have a team of experienced professionals (ICU- and anaesthesia nurses) and strong customer relations. Customers include several of the largest hospitals in Sweden. The acquisition contributed to an accelerated clinical roll-out of Sippi, as access to Sippi® target customers was improved. In March 2021 Sylak AB changed name to Observe Medical Nordic AB and is now fully integrated into the Observe Medical commercial operations.

▶ **Updated distributor agreement for Sippi® clinical roll-out launch in Italy**

Updated distribution agreement and strengthened partnership with SIM Italia S.r.l. signed in August for clinical roll-out and launch of Sippi® in the Italian market.

▶ **Strengthened scientific evidence of clinical benefits of Sippi®**

The article "Making medical devices safer – impact of plastic and silicon oil on microbial biofilm formation" was published in July 2020 in the Journal of Hospital Infection, demonstrating that silicone oil (patented Sippcoat® technology used in Sippi®) significantly reduces biofilm formation, a risk factor for infection, from a series of bacteria, including several multi-resistant strains and from fungi.

A doctoral (PhD) dissertation, by Dr Martin Slettengren, at Karolinska Institute, Stockholm, Sweden, in January 2021, demonstrated multiple clinical benefits of the Sippi® automated digital urine meter, and the potential paradigm shift in clinical practice of urine measurement.

▶ **Advisory board established**

In 2020, the Company established an Advisory Board consisting of Prof. Jan van Der Linden and Dr. Anders Ternhag, both from Karolinska Sjukhuset, Stockholm Sweden. Focus areas for the Advisory Board is Sippi® clinical and commercial roadmap and development of evidence plan for Sippi®.

▶ **Strengthened financial position through rights issue**

A rights issue of NOK 45 million was completed in July, strengthening the Group's financial position to accelerate go-to market strategy and execution, clinical and health-economic evidence program, commercially focused R&D and further business development.

▶ **Covid-19**

The COVID-19 situation has serious impact on all aspects of the global society, specifically the healthcare system and patients, and on Observe Medical as well. Despite the circumstances, Observe Medical have operated with close to full capacity. COVID-19 provides constraints to the launch efforts for Sippi®, with some of the sales projects and other projects being slowed down or stalled. The Group is focusing particularly on accelerating clinical use in the Nordics and selected European markets. The pandemic has made it difficult to have direct physical contact with our customers but has further highlighted the benefits of the Sippi® system.

Observe Medical has followed the national health authorities' provisions and recommendations closely to keep our employee safe during the pandemic.

Key Figures

- Observe Medical had operating revenues of NOK 2,961 thousand (177) in 2020 and a gross result of NOK 986 thousand (-460). The change is mainly due to the acquisition of Sylak AB which is consolidated as at November 1, 2020.
- EBITDA decreased in 2020 mainly due to higher operating expenses related to increased headcount, execution of the go-to market strategy, and transaction cost of approximately NOK 1,200 thousand related to the acquisition of Sylak AB.
- Net finance expenses of NOK 8,782 thousand are mainly related to estimated change in the contingent consideration liability and interest expenses of borrowings that more than offset the net currency gain for the year.
- Result for 2020 is negative NOK 36,868 thousand (-16,917).
- Observe Medical had an equity of NOK 20,349 thousand, ratio of 23.2%, and the equity as at December 31, 2020 was positively impacted by the rights issue completed in 3rd quarter 2020.

(Amounts in NOK thousand, except EPS, equity ratio and number of employees)

| | 2020 | 2019 |
|---------------------|-------------|-------------|
| Revenue | 2,961 | 177 |
| Gross result | 986 | -460 |
| EBITDA | -24,923 | -11,501 |
| EBIT | -28,087 | -15,787 |
| Net finance | -8,782 | -1,131 |
| Result | -36,868 | -16,917 |
| | | |
| EPS | -2.22 | -1.36 |
| | | |
| Equity | 20,349 | 14,542 |
| Total balance | 87,733 | 55,333 |
| Equity ratio | 23.2% | 26.3% |
| | | |
| Number of employees | 11 | 8 |

Letter from the CEO

Accelerating the Observe Medical growth and value journey - fueled by Sippi® clinical rollout and a strengthened portfolio and commercial operations

I am inspired and thrilled by the energy and determination in Observe Medical team, suppliers and customers, as we thrive and accelerating the growth journey, through the current COVID -19 pandemics, fueled by the clinical rollout of Sippi® in synergy with the recent acquisition of a Nordic portfolio of innovative medtech product, synergistic to Sippi target customers.

Dear customers, shareholders, partners, and employees. 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 2021 and an outlook for our business.

Our aspiration is to drive growth by leveraging our expertise in commercialization of medical technology products in combination with targeted M&A. Our main 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 2020 - Accelerated Sippi® clinical rollout and strengthened portfolio

Throughout 2020 we have continued the commercialization of Sippi® with the near-term focus of clinical rollout in the Nordics and selected European countries. The Group strengthen its financial position with the rights issue of MNOK 45 completed in 3th quarter 2020, supporting the Group's operational ability to accelerate growth and value creation through maximizing the potential in Sippi® and the acquired portfolio.

The growth was further fueled by the acquisition, in October 2020 of Sylak AB, a Swedish distribution company with a portfolio of products synergistic to Sippi® thus driving customer access and efficient sales operations in addition to the portfolio sales growth. The effect of this enabled customer access was felt already in late 2020.

The Sippi® clinical and commercial footprint was further strengthened by a new distribution agreement in Italy with our partner SIM Italia. The collaboration has proven successful with several hospitals initiating testing and use of Sippi®

Key events during 2021-

Accelerated Sippi® clinical rollout and strong portfolio sales performance and growth

During first part of 2021 we have continued the clinical rollout of Sippi® and the Nordic sales operations have performed well, including a significant order of safety needles to a Nordic hospital region, used specifically for the current Covid-19 vaccination program, showcasing our relevance for the healthcare system and for patients.

Evidence based value proposition is key for commercial success and was significantly strengthened by the publication in January 2021 by Dr Martin Slettengren, at Karolinska Institute, Stockholm, Sweden, in January 2021, demonstrated multiple clinical benefits of the Sippi® automated digital urine meter, and the potential paradigm shift in clinical practice of urine measurement.

The clinical rollout of Sippi has continued in 2021, for example, with the restart of clinical evaluation of Sippi® at Nya Karolinska Hospital in Stockholm, Sweden and in a major hospital in Italy. The sales performance and growth of our full portfolio has been string in 2021, added with some significant orders during Q1.

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

We continue accelerating the Observe Medical growth and value journey - fueled by Sippi® clinical rollout and a strengthened portfolio and commercial operations. 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®, 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.

In essence my personal belief is that real clinical benefits provide the fundamentals for 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 accelerate the Observe Medical journey.

Lets' do it. Together!

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

Björn Larsson
CEO



About Observe Medical Portfolio

Observe Medical has a broad portfolio of medtech devices and disposables, mainly within Urine measurement, Anesthesiology/ICUs and wound care and aimed at ICUs and other wards at hospitals as well as towards primary care and homecare settings

Observe Medical's main product, Sippi® is a proprietary, patented, CE marked Digital, Automated Urine Measurement System for urine monitoring, currently in commercialization phase globally. Our Nordic medtech portfolio is, except Sippi®, supplied from well-established manufacturers of innovative medical technology and wound care products and mainly distributed in the Swedish market with potential to expand to rest of the Nordic region.

In the Nordics our portfolio is sold through our experienced Nordic sales team, including tender management, and in rest of the world through an expanding distributor network.

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, hourly urine volume output, called hourly diuresis, from patients, is however still recorded and calculated in an old-fashioned manner. Every hour, healthcare professionals at hospital ICUs and wards and in home care must break off their tasks to manually handle the hourly diuresis 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 hospitals 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

Observe Medical is currently commercializing 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®.

For example, 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.

Most recently, in January 2021 a doctoral (PhD) thesis, from Karolinska Institute, Stockholm, Sweden, was published, demonstrating multiple clinical benefits of the Sippi® automated digital urine meter, and the potential paradigm shift in clinical practice of urine measurement.

The PhD thesis 'Evaluation of an automatic urinometer including use of silicone oil to decrease biofilm formation due to proteinuria, hemoglobinuria and bacterial growth' is written by Dr. Martin Slettengren and was dissertated at Dept. of Molecular Medicine and Surgery, Karolinska Institute in Stockholm.

The thesis shows that the Sippi automatic diuresis measurement system is clearly more appreciated by ward personnel than current manual systems, as it saves them time, is ergonomically superior, and measures diuresis as correct as or better than the manual systems. Accurate monitoring of diuresis is key to detect emerging kidney failure and fluid balance distortions. The ability to monitor trends in diuresis in more detail, combined with the superior usability of the Sippi system, is highlighted in the publication as an important step in improving patient safety in this respect.

Dr. Slettengren's study also shows that silicone oil (Sippcoat®) reduces growth of microbial biofilm formation as well as biofilm coating from albumin and free hemoglobin. The study demonstrates that Sippcoat® improves the performance of the Sippi device substantially and enables it to function for patients with on-going urinary tract infection, albuminuria and hemoglobinuria. Finally, the study mentions that Sippi detection system (SippSense®) may provide new information for early warning of kidney disease, which could be an indicator for need of clinical preventive actions.

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

The recent published preclinical data together with clinical findings, supports that SippCoat® represents a good opportunity in fighting biofilm formation and potentially bacteria growth within fluid handling systems in general, with emerging 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. The SippBag can be used for all catheterized patients, in hospitals or in homecare 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 with focus in the Nordics and selected European countries during 2021 . 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 full European launch as well as preparations for launches in North America and Asia Pacific.

The company considers the market potential for Sippi® 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.

The Nordic Portfolio

Observe Medical Nordic portfolio consist of medtech devices and disposables, from well-known international suppliers of products within Urine measurement, Anesthesiology/ICUs and wound care and aimed at ICUs and other wards at hospitals as well as towards primary care and homecare settings, thus synergistic with Sippi® target customers. Below is a summary of the products within each category

Urine measurement



In addition to Sippi®, the urine measurement range consist of several products like urine temperature catheters fixing devices to use in combination with urine catheters

Anaesthesia / ICU



Respiratory tubes, blood and fluid warming devices, Central Venous catheters (CVK), pupillometers and many more

Wound Care



Wound care range comprises wound dressings of various types and sized including a unique range of products with manuka honey, well known for the efficient antimicrobial and wound healing promoting characteristics as well as a range of high quality skin punches.

Board of Directors' Report 2020

Introduction

Observe Medical (the Group) is a medtech group developing, marketing and distributing 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®, a proprietary, CE marked system for urine measurement, which offers a unique, effective and innovative solution for automated & connected urine monitoring and 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 biofilm formation, which can lead to urinary infections.

During 2020, the commercialization of Sippi® has been a key focus area for the company and specifically the clinical roll-out in the Nordics and in selected European markets. A new and strengthened distribution agreement has been established in Italy. In the Nordic region, Observe Medical acquired Sylak AB (changed name to Observe Medical Nordic AB in March 2021), a Swedish medtech distributor representing well-established suppliers in medtech. With this acquisition the Group obtained an established Nordic sales operations with a sales team and a portfolio relevant to Sippi® target customers. The Group strengthened its access to target customers both for the acquired portfolio and for Sippi®.

The Group strengthen its financial position with the rights issue of NOK 45 million completed in July, 2020. This supports the Group's ability to accelerate growth and value creation through maximizing the potential in Sippi® and the acquired portfolio.

Observe Medical ASA is the parent company of its subsidiaries Observe Medical International AB, Observe Medical AB, Observe Medical ApS and Observe Medical Nordic AB.

Summary of the Financial Results

The Group had operating revenues of NOK 2,961 thousand in 2020 compared to NOK 177 thousand in 2019. The gross result was NOK 986 thousand in 2020, mainly due to revenues from Observe Medical Nordic AB in November and December. In 2019, the gross result was negative NOK 460 thousand mainly due to write-downs of inventories related to materials used in testing and some materials which were expired.

In 2020, EBITDA was negative NOK 24,923 thousand compared to negative NOK 11,501 thousand in 2019. The decrease in EBITDA compared to last year was mainly due to increased expenses related to launch activities for Sippi®, increased headcount and expenses in connection with the acquisition of Sylak AB.

Depreciation and amortization decreased from NOK 4,285 thousand in 2019 to NOK 3,163 thousand in 2020. The decrease is mainly related to evaluation of useful life of patented and unpatented technology associated with Sippi®. Based on an evaluation performed in January 2020 a residual depreciation period of 10 years from 1 January 2020 was assumed to reflect the useful lifetime. Previously, the useful life was estimated to 10 years from the acquisition of Observe Medical

International AB in 2015. This change resulted in decreased amortization expenses from January 2020.

Net finance expenses were NOK 8,782 thousand and was mainly related to change in estimated fair value of contingent consideration as a result of the likelihood of discounted milestone payments in the purchase agreement of Observe Medical International AB in 2015. In addition, the Group had increased interest expenses due to increased interest-bearing debt. In 2019, net finance expenses came in at NOK 1,131 thousand related to interest of borrowings and change of contingent consideration that more than offset net currency gain.

As a result, the Group had a loss of NOK 36,868 thousand in 2020, compared to a loss of NOK 16,917 thousand in 2019.

Earnings per share was negative NOK 2.22, compared to negative NOK 1.36 in 2019.

Financial Position

The Group had assets of NOK 87,733 thousand at December 31, 2020 compared to NOK 55,333 thousand at December 31, 2019. Book value of fixed assets was NOK 57,936 thousand and consists mainly of goodwill related to the acquisition of Observe Medical International AB in 2015 and goodwill from the acquisition of Sylak AB in 2020, as well as the Sippi® related technologies and patents.

At year-end 2020, the Group had current assets of NOK 29,797 thousand, mainly related to bank deposits and inventories. In 2019, the Group had current assets of NOK 3,663 thousand and the increase is mainly related to increased bank deposits due to the rights issue completed in July, 2020 and increased inventories related to the Sylak AB acquisition.

The Group had equity of NOK 20,349 thousand at December 31, 2020 compared to NOK 14,542 thousand at December 31, 2019. The increase is due to the rights issue completed in July, 2020 that more than offset the negative result in 2020.

In connection with exercise of employee share options and issue of 275,000 new shares, each with a nominal value of NOK 0.26, the share capital increased to NOK 3,989 thousand in February 2020. In addition, the share premium and other paid-in-equity for accounting purposes increased by NOK 787 thousand.

In July the Company completed a rights issue and the share capital of Observe Medical ASA was increased to NOK 5,053 thousand through the issuance of 4,090,909 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 38,967 thousand.

In connection with exercise of employee share options and issue of 171,875 new shares, each with a nominal value of NOK 0.26, the share capital increased to NOK 5,097 thousand in August 2020. In addition, the share premium and other paid-in-equity for accounting purposes increased by NOK 460 thousand.

The Group had total non-current liabilities of NOK 57,449 thousand at December 31, 2020 compared to NOK 37,889 thousand at December 31, 2019. The increase is mainly related to change in estimated fair value of contingent consideration as a result of a change in the likelihood of discounted milestone payments in the purchase agreement of Observe Medical International AB in 2015. In addition, the increase is a result of increased interest-bearing liabilities to Navamedic ASA as a result of the loan agreement entered into in connection with the demerger.

Total current liabilities at December 31, 2020 amounts to NOK 9,935 thousand, compared to NOK 2,902 thousand at December 31, 2019. The increase is mainly related to consolidation of Sylak AB from November 1, 2020 and increased VAT and other public taxes due to increased headcount and deferred payment of public taxes due to Covid-19 measures from the Swedish authorities.

Cash Flow

At the end of 2020, the Group had NOK 18,945 thousand in cash, up from NOK 485 thousand at the end of 2019.

Cash flow from operating activities was negative NOK 21,641 thousand in 2020, compared to negative NOK 13,972 thousand in 2019 due to decreased EBITDA that more than offset adjustment of finance expenses without cash effect and decrease in working capital, mainly due to increased current liabilities. The Group used NOK 8,077 thousand for investing activities in 2020, an increase from NOK 2,141 thousand in 2019. The increase is related to the net cash effect of the acquisition of Sylak AB in October 2020. Investments in Sippi and ordinary tangible assets was at a lower level than previous year, due to the development of Sippi® BLE was mainly completed in 2019.

In 2020, net cash flow from financing activities was NOK 48,169 thousand due to net proceeds from rights issue completed in July 2020 and increased interest-bearing debt. In 2019, net cash flow from financing activities was NOK 16,187 thousand and related to increased interest-bearing debt. Net proceeds from rights issue and increased interest-bearing debt have been the main source of funding for operations and investments.

Financing

The Group is in the launch of its main product Sippi®, 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.

In addition, the Group has in 2020 acquired Sylak AB with a product portfolio of medtech products, that is expected to generate positive cash flow going forward.

In connection with the demerger from Navamedic ASA in 2019, Observe Medical ASA (as the borrower) entered into a loan agreement with Navamedic ASA (as the lender) at NOK 32,000 thousand. The loan refinanced previous loan from Navamedic and in addition supported the operations the first period after the demerger.

In July, 2020 Observe Medical completed a rights issue of NOK 45,000 thousand to support the go-to market strategy and execution of the strategy, building clinical and health-economic evidence program, commercially focused R&D and further business development including M&A.

The Group's principal source of liquidity will be net cash flows generated from sales in addition to cash generated from financing, equity and debt. Consequently, any shortfall of cash generated from operations management will have to be covered through additional financing. See further details under sections "Financial Risk" and "Going concern".

Shareholders

As of December 31, 2020, Observe Medical ASA had 847 shareholders and a total of 19,605,457 shares with a par value of 0.26. The following table shows shareholders owning 1 per cent or more of Observe Medical ASA shares as of 31 December 2020.

| No | Name | Number of shares | Ownership % |
|----|-------------------------------|------------------|-------------|
| 1 | NAVAMEDIC ASA | 4 222 727 | 21.54% |
| 2 | INGERØ REITEN INV. COMPANY AS | 3 939 394 | 20.09% |
| 3 | LARS RO | 1 500 000 | 7.65% |
| 4 | UBS SWITZERLAND AG | 1 420 522 | 7.25% |
| 5 | ARTAL AS | 897 407 | 4.58% |
| 6 | ALPINE CAPITAL AS | 650 000 | 3.32% |
| 7 | SOLEGLAD INVEST AS | 586 668 | 2.99% |
| 8 | NORDA ASA | 516 570 | 2.63% |
| 9 | TRANBERGKOLLEN INVEST AS | 500 000 | 2.55% |
| 10 | LEIKERANE AS | 466 666 | 2.38% |
| 11 | LAPAS AS | 336 924 | 1.72% |
| 12 | MP PENSJON PK | 262 025 | 1.34% |
| 13 | KRAEBER VERWALTUNG GMBH | 214 850 | 1.10% |
| | OTHER | 4 091 704 | 20.87% |
| | Total number of shares | 19,605,457 | 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.

On February 26, 2021, the board of directors adopted an updated corporate governance regime based on, and in all material aspects in compliance with the Norwegian Corporate Governance Code, October 17, 2018 and the Market Abuse Regulation (MAR) which entered into force in Norway from March 1, 2021. The updated corporate governance regime was applicable from March 1, 2021.

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. As a result of the acquisition of Sylak AB in 2020, Observe Medical have a broad product portfolio within medtech products. For the acquired portfolio, Observe Medical has distributions rights in Sweden and with the possibility to expand to rest of the Nordic region.

Observe Medical has developed and owns Sippi®, with supporting products Sippi® Base unit, SippBag disposable units and related technologies SippLink™ SippSense® 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. Due to the pandemic the planned roll-out in 2020 has been delayed and therefore 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 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.

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

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 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.

The acquired portfolio, from the Sylak acquisition, has a positive development during the period and contributes positively financially.

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 have impact on the Group's liquidity risk in terms of risk of further 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 as expected, 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. However, 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 11 employees at the end of 2020. The number of employees has increased by 3 from 2019, mainly due to the acquisition of Sylak AB with the sales organization. 10 employees are employed in Sweden and 1 in Norway.

In 2020, Observe Medical entered into a bargaining agreement ("Kollektivavtal") with IKEM, an industry and employers' organisation representing chemical and innovation companies in Sweden. Through the bargaining agreement, Observe Medical's employees in Sweden have good pension and insurance schemes, as well as secured and well documented employments rights. In accordance with the Public Limited Companies Act, the board has prepared a 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 3.0 per cent in 2020, compared to 5.5% 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, religion, sexual orientation or other similar characteristics of a person. The Group follows the Norwegian Equality and Anti-discrimination Act, which aims to promote gender equality and prevent discrimination. The Group is working actively to encourage the act's purpose within our business. Included in the activities are recruiting, salary and working conditions, development opportunities and protection against harassment.

The Group has a zero tolerance for discrimination and employees are encouraged to report discriminating practices or other concerns regarding the working environment to the nearest line manager, the CEO, or to an external HR adviser.

The Group's leadership consisted of four members in end 2020, and as in 2019 were all men. The company focuses on gender equality and diversity in the organization and will work to ensure that this is also reflected in the management team in the future. Totally, there are 11 employees in the Group at December 31, 2020, 6 women and 5 men. In 2019 there was 8 employees in the Group, 2 women and 6 men.

The Group aims to strengthen the competence of its employees to maintain a position as an attractive employer and an innovative and trusted supplier of medical technology products to the benefit of patients, healthcare professionals and hospitals. Through recruitment, the company seeks to employ people with high competence within all areas of its business.

Of the 4 members of the Board of Directors are 2 women and 2 men.

The Group had no serious incidents with personal injury or absence in 2020. Neither was any damage to property nor equipment reported.

Going Concern

As discussed in the section Financial Risk, the Group currently is in the phase of commercialization of Sippi®. The ongoing COVID-19 situation with 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 from sale of Sippi®, and the sales revenues is mainly related to sales from the acquired product portfolio. In addition to the sales revenues from the acquired product portfolio, the main source of liquidity is 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 within the next 12 months in order to execute and complete its commercialization and growth strategy. In addition, the management and the Board of Directors have identified initiatives to increase revenues from acquired portfolio, 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 subsidiaries Observe Medical International AB, Observe Medical ApS, Observe Medical AB and Observe Medical Nordic 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 the subsidiaries.

In 2020, Observe Medical ASA had revenues of NOK 806 thousand related to invoiced services and expenses to subsidiaries, compared to NOK 53 thousand related to invoiced administrative consultancy service to Navamedic ASA in 2019. The company had operating expenses of NOK 11,160 thousand which mainly consists of personnel benefit expenses of NOK 5,495 thousand and other operating expenses related to be a standalone listed company. In addition to personnel benefit expenses for one employee, the total personnel benefit expenses includes invoiced expenses for CEO who is employed in Observe Medical AB, fees to Board of Directors and Audit Committee, and option expenses. In 2019, operating expenses was NOK 1,608 thousand which mainly consists of expenses in connection with the demerger and separate listing of the company, consultant services from Navamedic and personnel expenses. EBIT was negative at NOK 10,354 thousand, compared to negative NOK 1,556 thousand in 2019.

The company had finance income of TNOK 7,950 which consists of interest income from loan to group companies and currency gain. In 2019, finance income was NOK 508 thousand . Finance expenses of NOK 12,773 thousand was mainly related to change in contingent consideration and interest expenses on loan from Navamedic ASA. In 2019, the finance expenses were NOK 1,372 thousand and related to interest expenses of loan and currency loss.

The result for 2020 was negative NOK 15,178 thousand , compared to negative NOK 2,420 thousand in 2019.

Allocation of Result for the Year 2020

Result for the period in the parent company was negative NOK 15,178 thousand. 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 group, an attractive platform for building a portfolio of products through M&A as well as by organic growth, with Sippi® system as the main 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 the key challenges for the healthcare system – patient data accuracy, stressed-out staff and hospital acquired infections – which are addressed by Sippi®. The Group 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.

In addition, the acquired portfolio has potential for further growth by adding more products to the portfolio and expanding sales to the rest of the Nordic region.

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 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 launch and sales of Sippi® in the Nordic region and rest of the Europe. 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, 2021



Terje Bakken
Chair of the Board



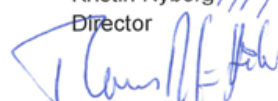
Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO



Kristin Nyberg
Director



Thomas Grunfeld
Director

Executive Management and Board of Directors

Executive Management



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 as consultant in the listing of Observe Medical in 2019 and as CFO from December 2019.

Board of Directors



Terje Bakken | Chairman of the Board

Terje is a partner at Reiten & Co. He has solid investor experience through leading and implementing various strategic and operational value-based processes, across different industries, combined with considerable financial transaction and finance experience. Terje holds a Master of Science in Financial Economics and Bachelor of Business and Administration degrees from BI Norwegian Business School. Terje currently sits on the Board of Directors of Navamedic ASA (Chairman of the Board), QuestBack AS (Chairman of the Board) and Tivian AS (Chairman of the Board).



Kathrine Gamborg Andreassen | Board Member

Kathrine is the CEO of Navamedic (since 2019) and was chair of the board of Navamedic from June 2018). She has extensive experience from sales, marketing and management of Fmcg and healthcare products. She held the position of CEO at Weifa ASA until the company was acquired by Karo Pharma AB in November 2017. Ms Gamborg Andreassen holds an MSc in Business Strategy & Marketing from the University of Wisconsin, Madison and a Bachelor of Business and Administration from Oslo School of Business.



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

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 its 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 4.4 on the continuing obligations for issuers of shares pursuant to Oslo Rule Book II - Issuer Rules. The Accounting Act may be found (in Norwegian) at www.lovdata.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 2020 was approved by the board of directors on April 29, 2021 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.

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 Group's objectives, strategies and risk profiles are evaluated annually by the board of directors. 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."

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, 2020, the Group had a consolidated equity of NOK 20.3 million, corresponding to an equity ratio of 23.2 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.

Dividend Policy

The Group is focusing on the development and commercialization of medical technology products and the Company does not anticipate paying any cash dividend until sustainable profitability is achieved.

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 June 30, 2020 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 500 thousand in one or more share issues. The authority may only be used to issue shares in connection with share incentive programs. The shareholders' pre-emptive rights under §10-4 of the Public Limited Liability Companies Act may be set aside. The authorization described above shall remain in force until the Annual General Meeting in 2021, but in no event later than June 30, 2021.

In connection with the demerger of Navamedic ASA's Medtech division with transfer to Observe Medical ASA on October 31, 2019, the options in Navamedic ASA were mirrored and split so that the option holder received a corresponding number of options in Observe Medical ASA, however so that the exercise price for the options in Navamedic ASA and the options issued in Observe Medical ASA

reflected the exchange ratio in the demerger. In total 467,500 options were issued in connection with the demerger. The weighted average option exercise price of the options issued in Observe Medical as part of the demerger was NOK 3.02.

On January 24, 2020, the board decided to increase the company's share capital by NOK 72 thousand by issuing 275,000 new shares, of par value NOK 0.26 following an option exercise of 275,000 options. On August 18, 2020, the board decided to increase the company's share capital by NOK 45 thousand by issuing 171,875 new shares, of par value NOK 0.26 following an option exercise of 171,875 options.

As of December 31, 2020 the Company had 120,000 options issued and outstanding, which includes the options issued in connection with the demerger and the options granted to the Company's CEO in January, 2020.

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 Euronext Expand, 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 applicable notification requirements.

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.

Shares and Negotiability

Each share in the company carries one vote. The company's shares are freely transferrable and the articles of association do not impose any restriction on the transfer of shares. There are no restrictions on owning, trading or voting for shares in the Company other than as described in mandatory law.

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 May 21, 2021. The Group's financial calendar is published via Oslo Børs and in the investor relations section of the Group's website. The notice and supporting information of the general meeting, will be sufficiently detailed, comprehensive and specific to allow shareholders to form a view on all matters to be considered at the meeting. The notice will be published and sent to the company's shareholders with a known address 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 annual general meeting shall consider the following matters:

1. Approval of the annual accounts and annual report, including any proposal from the board regarding dividends or other distributions.
2. 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 have to date been and is currently planned be chaired by the chairperson of the board, and this particularly applies for the general meetings held in 2020 and 2021 with the applicable restrictions on physical general meetings due to the restrictions caused by the outbreak of covid-19. The chairperson of the board and chief executive officer are required to attend. The chairman of 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 company's auditor is present at the Annual General Meeting. Shareholders are able to vote on each individual matter on the agenda for the general meeting, including on each individual candidate nominated for election. Shareholders who cannot attend the meeting in person are given the opportunity to vote through advanced electronical voting and through proxy. The company prepares the proxy form in such way that it enables shareholders to vote on each individual matter and nominates the chairman of the board of directors to act as a proxy for the shareholders. 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: OBSRV) and in the investor relations section of the Group's website.

Deviations: The entire board of directors has normally not participated at the general meetings because the matters that have been on the agenda have not previously required this, however the chairperson of the board is always present at general meetings to answer questions from the shareholders on behalf of the board of directors. Furthermore, the chairperson of the board of directors has to date chaired the general meetings. The board of directors finds this solution appropriate, but will consider this arrangement if requested by the shareholders in future general meetings or if deemed appropriate on a case-by-case basis.

Nomination Committee

The company has a nomination committee, and the nomination committee is stipulated in the company's articles of association. The general meeting has resolved guidelines for the duties of the nomination committee. The nomination committee currently comprise two members, as resolved by the general meeting, and all members of the nomination committee are independent of the board of directors and the management. The nomination committee's duties include nomination of candidates to the board of directors and the nomination committee, including the chairpersons. The nomination committee 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 current members of the nomination committee are Bård Brath Ingerø (chair) and Grete Hogstad. No directors or members of executive management are represented in the nomination committee.

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 and at least two of the members of the board are independent of the company's main shareholders. Details on background, experience and independence of directors are presented on the Group's website. Eighteen board meetings were held in 2020. 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.

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, 2020 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, 2020, 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, 2020, the M&A committee consisted of the following:

- Kathrine Gamborg Andreassen, Chair
- Terje Bakken

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 inquires 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.

Remuneration of the Board of Directors

The remuneration to the board of directors are determined by the general meeting following proposals from the nomination committee. The remuneration payable to the board of directors is meant to reflect the board's responsibility, expertise, time commitment and the complexity of the business.

The remuneration to the board of directors is not linked to the company's performance and no directors have been awarded share options or any other form of incentive-based remuneration, in their role as directors. It is however noted that Kathrine Gamborg Andreassen was granted options in the company as a result of the demerger of Navamedic's Medtech division with a transfer to the company in 2019. She executed all her share options in 2020 and have none share options in Observe Medical ASA at December 31, 2020.

An overview of shares owned by the directors and their close associates is included in Note 18 to the consolidated financial statement.

Members of the board of directors and/or companies with which they are associated with should not take on specific assignments for the company in addition to their appointment as a member of the board. If they do nonetheless take on such assignments this must be disclosed to the board of directors and any remuneration for such additional duties shall be approved by the board.

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.

At the annual general meeting in 2021, the board of directors will propose that the general meeting approves guidelines for determination of salary and other remuneration to the executive personnel of the company in accordance with the Public Limited Liability Act section 6-16 a, cf. section 5-6 (3). These guidelines will be available at the company's website following the annual general meeting. The guidelines will aim to ensure alignment of the interests of shareholders and leading personnel.

Performance-related remuneration of the executive personnel in the form of share options, bonus programs or similar arrangements are linked to value creation for shareholders or the Group's earnings performance over time. Such arrangements, including share option arrangements, are implemented to incentivise performance and are based on quantifiable factors over which the employee in question can have influence. All performance-based remuneration to the Group's leading personnel is be subject to an absolute limit.

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. The 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.

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.

Auditor

The company's external auditor, KPMG, annually presents its overall plan for the audit of the Group for the audit committee's consideration. The board reports annually to the annual general meeting on the external auditor's total fees, and informs on the split between audit and non-audit services. The annual general meeting approves the auditor's fees for the company.

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 29, 2021



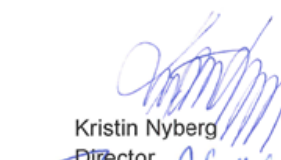
Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Director



Björn Larsson
CEO



Kristin Nyberg
Director



Thomas Grunfeld
Director

Sustainability Report

About this report

This is Observe Medical's second sustainability report and applies to the reporting period 1 January 2020 to 31 December 2020. The report will onwards be conducted on an annual basis.

The report is inspired by Oslo Børs' guidelines for sustainability reporting (Euronext guidelines).

The Observe Medical sustainability report has been reviewed and approved by Observe Medical's Board of Directors. The claims and data in this report have not been audited by a third party.

For information about this report and its content, please contact CEO [Björn Larsson](#) or CFO [Per Arne Nygård](#).

About Observe Medical

Observe Medical ASA ('Observe Medical') is a medical device company developing, marketing and distributing medical technology. The company's vision is to enable innovations to be commercialised on a global market for the benefit of society, healthcare professionals and patients.

Observe Medical is the legal manufacturer of 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 homecare. In Q4 2020, the company acquired Sylak AB, since March 2021 named Observe Medical Nordic AB, a Swedish medical device distribution company with a product portfolio synergistic with Sippi, now fully integrated into the Observe Medical sales operations.

With Sippi, the company's focus is on increasing quality assured patient data for clinical decisions and addressing the challenge of hospital acquired infection in healthcare facilities worldwide. In addition, the system replaces a manual time-consuming system and increase the clinical capacity. 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, approximately 3.8 million Europeans are infected every year from healthcare acquired infections of all types.

Observe Medical's intent is to continually grow the company's platform and portfolio to address these and other healthcare challenges, through ongoing R&D and acquisition strategies in line with the company's goals and vision.

Observe Medical is listed on Euronext Oslo under the ticker **OBSRV**.

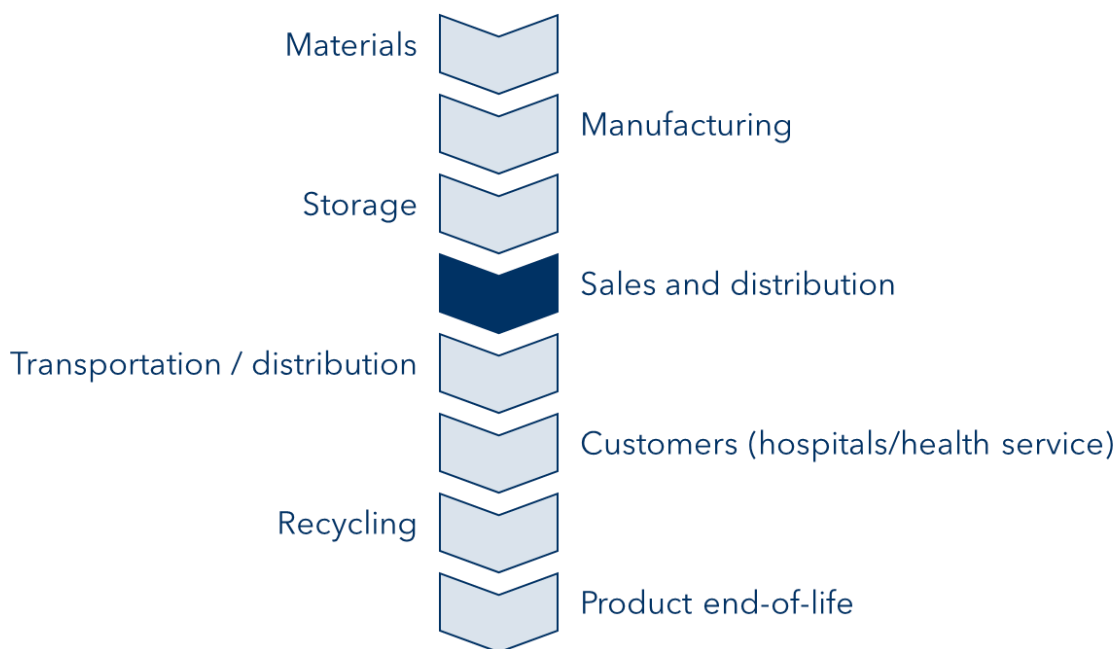


Figure 1: Observe Medical’s supply chain illustrated

Observe Medical is headquartered in Oslo, Norway, with development, quality, regulatory and commercial operations in Gothenburg, Sweden. The company’s market focus is on the Nordic and selected European markets. The company has 11 employees, of which 6 are women and 5 are men.

| Locations | Employees |
|--------------------|------------------|
| Oslo, Norway | 1 |
| Gothenburg, Sweden | 10 |

Table 1: Employees by location

Revenue 2020

| | |
|----------------|-----------------------|
| Revenue | NOK 2 961 thousand |
| EBITDA | NOK - 24 923 thousand |

Stakeholders

- **Employees:** Observe Medical's employees are directly affected by the company's internal policies and activities and directly affect the company through their performance and actions.
- **Investors/shareholders:** Observe Medical's investors and shareholders are primary stakeholders and directly affect the company's priorities and strategic direction. Observe Medical's economic and business performance may affect the priorities of investors and shareholders.
- **Government / regulatory authorities:** Government and regulatory authorities affect the company's operating conditions directly and indirectly.
- **Customers / patients:** Observe Medical's customers consists of hospitals and other health institutions in the Nordics and selected markets in Europe. Customers are directly affected by Observe Medical's product offering, and the product's quality and safety. Customers directly affect the company economically and customer expectations also impact Observe Medical's sustainability priorities.
- **Suppliers:** Suppliers directly affect Observe Medical through the quality and pricing of the company's product and services. Observe Medical's suppliers are economically affected by the company and their responsibilities are indirectly affected by Observe Medical's focus on responsible business practice and the expectations placed on them.
- **Academia and life science community:** Observe Medical is dependent on research and scientific evidence from academics and the life science community to grow the company's product portfolio and to deliver products of high quality which are safe for patients to use.



Figure 2: Observe Medical's stakeholders

Corporate governance and sustainability approach

Observe Medical 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 ensures good and healthy business practices, reliable financial reporting and an environment of compliance with legislation and regulations across the Group.

Observe Medical has governance documents setting out principles for how business should be conducted. These apply to all group entities. 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 (NUES recommendations), cf. section 7 on the continuing obligations of stock exchange listed companies.

In addition to the company's core goal of saving lives and improving health, environmental and social considerations are an integral part of Observe Medical's business operations. Observe Medical's Board of Directors ('the Board') bears the ultimate responsibility for the company's sustainability approach and the sustainability report is discussed and approved by the Board. Executive Management in addition to Observe Medical's quality manager is responsible for the follow-up of the company's sustainability efforts on a day-to-day basis.

Reporting themes and topics for 2020

For 2020, Observe Medical is reporting on the following sustainability topics:

- Working environment
- Business ethics, including supply chain management
- Environmental impact
- Product safety

The following chapters will discuss each of the overarching sustainability topics and their relevance to Observe Medical, including an explanation of why the topic is considered important, as well as the company's performance today and future goals and KPIs.

For the 2021 reporting cycle, Observe Medical is planning to undertake stakeholder dialogue and a materiality assessment according to the Global Reporting Initiative and/or the Euronext guidelines to ensure systematic and relevant reporting on material topics going forward.

Working environment

Investing in the working environment and making sure that Observe Medical's employees thrive and succeed is essential for the company's business success and for future value creation. A good working environment is therefore key for the company and its stakeholders. Observe Medical can have both a direct and indirect impact on the working environment through its policies, agreements and by engaging with employees.

| Observe Medical's workforce | 2019 | | | 2020 | | |
|-------------------------------------|-------------|--------------|--------------|-------------|--------------|--------------|
| | Men | Women | Total | Men | Women | Total |
| Total workforce | 6 | 2 | 8 | 5 | 6 | 11 |
| Total workforce full-time employees | 5 | 2 | 7 | 5 | 3 | 8 |
| Total workforce part-time employees | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of non-permanent employees | 1 | 0 | 1 | 0 | 3 | 3 |

Table 2: Observe Medical's workforce

Observe Medical is headquartered in Oslo, Norway, with development, quality, regulatory and commercial operations in Gothenburg, Sweden. The company follows the applicable legislation on employee rights in the countries it operates, including the Norwegian Working Environment Act (Arbeidsmiljøloven) and the Swedish Work Environment Act (Arbetsmiljölagen). The overall responsibility for the working environment and health and safety lies with the CEO. The company does not yet have an employee handbook, but this is currently being developed and will be completed and distributed to all employees in 2021.

Most of the company's employees have a background in the healthcare industry, including nurses, technical experts and engineers. All employees have access to internal and external training for development within their field of expertise, the company's products and applicable laws and regulations within the business. In 2020, 82% of the company's employees operated under a collective bargaining agreement ("Kollektivavtal") with IKEM, an industry and employers' organisation representing chemical and innovation companies in Sweden. Through the bargaining agreement, Observe Medical's employees have access to good pension and insurance schemes, as well as secured and well documented rights concerning for instance parental leave. The company does not yet carry out employee surveys, however, ensuring a systematic approach to measuring employee engagement and wellbeing is a focus area for the company going forward.

Keeping employee turnover at a minimum is important to the company. In 2020, Observe Medical saw an increase in the labour turnover rate of 27%, however, since there are only 11 employees working for Observe Medical today, the employee turnover rate is subject to large variation. As part of the development of Sippi, Observe Medical also shifted from a R&D focused business to a more a commercial focus business in 2020, which also affected the build-up of the organisation.

| Observe Medical's employee turnover | 2019 | 2020 |
|--|-------------|-------------|
| Labour turnover rate | 0% | 27% |
| Total turnover (no. of employees) | 0 | 3 |

Table 3: Employee turnover

Equal opportunity and gender equality are considered important success factors for Observe Medical. The company follows the Norwegian Equality and Anti-discrimination Act, which aims to promote gender equality and prevent discrimination on the basis of gender, ethnicity, age, religion or other similar characteristics of a person. The company has a zero tolerance for discrimination and employees are encouraged to report discriminating practices or other concerns regarding the working environment to the nearest line manager, the CEO, or to an external HR adviser. Observe Medical does not have an external whistle blowing channel as of today but is looking to establish this in 2021. The company experienced zero reported incidents of discrimination in 2020.

The share of female employees was 55 % in 2020, and women's average salary of men's average salary was 53%. The company will increase its focus on gender balance in senior positions going forward.

| Share of Observe Medical's workforce by age and gender | Men | Women | <30 year of age | 30-50 years of age | >50 years of age |
|---|------------|--------------|---------------------------|---------------------------|----------------------------|
| Organisation | 5 (45%) | 6 (55%) | 3 | 4 | 4 |
| Board of Directors | 2 (50%) | 2 (50%) | | | 4 |
| Management team | 4 (100%) | 0 (0%) | | 2 | 2 |

Table 4: Observe Medical's workforce by age and gender

Decent and safe working conditions are essential for a healthy workforce that can contribute to successful business operations and growth. Working in an office environment or remotely with sales without any inhouse production, the company is mainly exposed to risks relating to the psychological wellbeing of employees and physical risks related to for instance sedentary work. The Covid-19 situation, which emerged during Q1 2020, has had a significant impact on all aspects of society, and specifically the healthcare system and patients. In order to maintain the health and safety for its employees, Observe Medical has implemented a 'working from home policy', and the company monitors the situation closely and will continue to implement preventative measures in line with government laws and regulations.

There were no serious work-related injuries or incidents among Observe Medical employees in 2020. The absence rate for illness was 3% in 2020.

| Observe Medical's health and safety data | 2019 | 2020 |
|---|-------------|-------------|
| Absenteeism rate for illness | 5.5% | 3% |
| Accident frequency rate | 0 | 0 |
| Accident severity rate | 0 | 0 |

Table 5: Health and safety data

Goals and targets for 2021

- Promote more females to senior positions
- Establish and carry out regular employee surveys
- Complete the Employee Handbook and make sure that this is distributed to both current and new employees
- Establish an external whistleblowing channel

Business ethics, and supply chain management

As a medical device company, ensuring good corporate governance and strong ethical practices is essential for Observe Medical. Being part of a global value chain, Observe Medical is exposed to ethical risks through its business operations, and the company therefore actively strives to ensure good and healthy business practices.

The CEO bears the ultimate responsibility for business ethics and anti-corruption in Observe Medical. The Board ensures that the company has sound risk management and an internal control system that is appropriate to its activities and is further responsible for reviewing the company's internal control system and the main areas of business ethics risk annually. Observe Medical Nordic has developed its own CSR policy which will be updated and implemented by other companies in the Group during 2021.

Observe Medical has a zero tolerance for corruption and the company's anti-corruption policy explains which criteria all employees are required to comply with. Any potential misconduct can be reported directly to any member of the Corporate Management Team or directly to any member of the Board. Observe Medical is not part of any external initiatives or collaborations on corruption prevention.

Observe Medical is dependent on its distributors and those distributors' ability to perform and operate in key markets. Observe Medical relies on third-party suppliers for production and distribution and is thereby directly and indirectly exposed to risks and opportunities in its supply chain. In 2020 the Group has mainly operated in the Nordic countries, with most of its customers in Sweden, and distributes several products sourced both within and outside the EU. Observe Medical has distributors as partners for foreign markets, which are mainly located in Europe.

In general, Observe Medical operates in countries which are considered low risk in terms of corruption, according to the Corruption Perception Index. Still, all suppliers are screened using criteria related to business ethics prior to entering new contracts and the Group is also looking to establish an annual risk assessment of third parties and specific markets. Observe Medical is currently in the process of establishing a Supplier Code of Conduct which will be implemented by the Group once completed.

There were zero reported incidents of corruption or public legal cases regarding corruption in 2020. Observe Medical has not experienced any breaches of its policies or guidelines by suppliers in 2020, and the company has not terminated or discontinued any contracts with suppliers or business partners due to breaches in the reporting period.

Goals and targets for 2021

- Establish a Group wide CSR Policy / Code of Conduct based on an updated version of Observe Medical Nordic's CSR Policy
- Establish a Group wide supplier Code of Conduct
- Provide training on insider information regulations to employees

Environmental impact

Actively managing the environmental footprint of its business operations is important to Observe Medical, the company's stakeholders and is beneficial to reduce operating costs and sustain the company's ability to operate in the long-term. The main environmental challenges for the medical device industry in general are through use of disposable materials, equipment and/or packaging, and through the use of chemicals to meet sterilisation requirements.

The main environmental impacts from Observe Medical's business operations are related to waste generated from its products (such as disposable units) and packaging, production of purchased goods and products, transportation of goods and products (by truck, boat or plane from Europe, Asia and the US to storage facilities and customers), as well as employee business travels.

The Group complies with all applicable environmental laws and regulations. Observe Medical Nordic has an environmental management system with an environmental policy (ENV 2018-001) which is in the process of being updated. Observe Medical AB has also drafted an environmental policy (900POL03). In 2021, Observe Medical will consider reviewing both policies and establish a Group wide environmental policy. Going forward, the company's main focus is on reducing the energy, emissions and waste from its own operation and its products.

Energy

As Observe Medical in 2020 has shared office locations in Gothenburg, with all related costs included, including electricity, Observe Medical does not report indirect CO₂ emissions related to purchased electricity.

Emissions

In 2020, Observe Medical introduced a new company car policy which encourages employees to use an electrical or hybrid car and now fossil cars used for work has to be approved by the company. At the end of 2020 Observe Medical had two company cars, driving a total of 39,513 kilometers. Assuming a 2018 European average of 123.4 g CO₂/km for petrol cars, direct CO₂ emissions from Observe Medical company vehicles was 5 metric tonnes of CO₂.

Business travel by plane was significantly reduced in 2020 due to Covid-1 pandemic.

| Emissions (tonnes CO₂) | 2019 | 2020 |
|--|-------------|-------------|
| Company vehicles | 11.5 | 5 |

Materials and waste

The use of non-sustainable materials is a main concern in the medical device industry, and a much-debated topic is the extensive use of Polyvinyl Chloride (PVC). Observe Medical always seeks to use environmentally friendly materials in its products and together with the customers and suppliers find good alternatives within the regulatory requirements.

As a company selling medical devices, Observe Medical has to comply with strict requirements for product packaging, especially for products which are required to remain sterile. Naturally, the packaging becomes waste for the company's customers.

All hospitals where Observe Medical's products are being used are required to follow strict requirements for handling waste, which ensures the proper waste management of the packaging according to the laws in the country. The company reports the number of electrical components that are distributed to the market each month by El-Kretsen.

Waste from our in-house operations is relatively limited and we follow strict recycling routines at all locations. As Observe Medical had shared office space in Oslo and Gothenburg in 2020, with shared waste management, we do not report the amount of waste disposed of.

Goals and targets for 2021

- Start climate accounting on scope 1, 2 and 3
- Zero fossil company cars

Product safety

Product safety is fundamental to Observe Medical and is part of the company's license to operate. Risk management is applied within the group to ensure only products with acceptable risks are put to the market. The most likely health and safety hazards are related to human error when using the products, and the company therefore works continuously with usability. Observe Medical's main product, Sippi, 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.

To ensure safe and high-quality products, the company has appointed a dedicated quality manager which reports to the COO/CTO and that has the overall responsibility for product safety. The company's quality manager is responsible for ensuring that Observe Medical's products are of high quality and that they comply with rules and regulations for medical devices in the markets where the products are launched, including Swedish and Norwegian regulations.

As a medical device company, Observe Medical adheres to strict quality assurance procedures. The company follows the EU directive for medical devices and has also established a quality manual, which is the overarching document describing the overall structure, content and purpose of the Quality Management System (QMS). The purpose of the QMS is to ensure that the company, including its outsourced processes, continuously produce and releases products for safe and efficient use, meeting pre-determined quality levels/regulatory requirements and customer needs as a consequence of the defined processes and work instructions. The QMS has been developed taking a risk-based approach and is monitored by internal audits and management review meetings. Actions are taken based on the results, to ensure that the QMS and its processes are in compliance with regulatory requirements, customer and internal needs.

Observe Medical AB's Quality Management System (QMS) covers development, manufacturing and sales of medical devices and has been designed to fulfil the requirements in the Medical Devices Directive (MDD), Medical Device Regulation (MDR), applicable parts of 21 CFR, including but not limited to Part 820 (QSR), and EN ISO 13485:2016. The QMS at Observe Medical holds a Certificate of Registration on that the QMS has been registered by Intertek (0413) as conforming to the requirements of SS-EN ISO 13485:2016. The certified scope is; "Developing, manufacturing and sales of medical device systems for managing and measuring of body fluid".

Observe Medical AB has established its own Quality Manual (900TLD) which describes the overall structure, content and purpose of the company's Quality Management System (QMS), as well as Quality Objectives (901POL02) with clear responsibilities. Additionally, the company's Risk Policy (901POL01) outlines criteria for determining product risk acceptability towards patients and users. Observe Medical Nordic has also implemented a quality policy (QD 2018-001), which clearly states that the company shall meet regulatory requirements and applicable laws, regulations and guidelines and that our products shall be delivered at the right time, in the right place and with promised quality. The company will in 2021 work to compile and establish a joint quality management system and policies for the entire Group.

Ensuring high quality products and processes is a prerequisite for the Group's contribution to value creation and for ensuring the trust of its stakeholders. Observe Medical's overarching goal is to comply with the industry code of conduct in all markets, and standards relating to risk management, such as the ISO 14971 standard for Medical Devices. The company conducts quality checks on a regular basis, all products are CE-marked, and products developed by Observe Medical AB has been verified and validated prior to launch and is manufactured according to established requirements to achieve high quality and product safety.

As part of requirements in MDD and ISO13485 complaints and non-conformities are registered and analysed (including corrective and preventive actions and verification and validation of these actions. In order to identify potential product quality or safety issues, Observe Medical has an active post market surveillance process which is compliant with ISO13485, including issue handling, and an ISO 14971 compliant risk management process.

In 2020, there were no quality and/or safety incidents that led to any market actions or need for reporting to health authorities.

Goals and targets for 2021

- Transition to Medical Device Regulation (MDR)
- Establish a Quality Management System (QMS) with relevant policies/manuals for the entire Group

Consolidated Financial Statements 2020



Contents

| | |
|---|----|
| Consolidated Financial Statements 2020 | 44 |
| Consolidated Statement of Comprehensive Income | 46 |
| Consolidated Statement of Financial Position | 47 |
| Consolidated Statement of Changes in Equity | 48 |
| Consolidated Cash Flow Statement..... | 49 |
| Explanatory Notes to the Consolidated Financial Statements 2020 | 50 |
| Note 1 - General Information | 50 |
| Note 2 - Basis for Preparation and Summary of the Most Significant Accounting Policies | 51 |
| Note 3 - Financial Risk Management | 57 |
| Note 4 - Significant Judgements in the Application of Group Accounting Policies and Accounting Estimates..... | 58 |
| Note 5 - Segment Information and Revenue from Contracts with Customers | 59 |
| Note 6 - Tangible Assets | 61 |
| Note 7 - Intangible Assets | 62 |
| Note 8 - Lease | 64 |
| Note 9 - Financial Items | 65 |
| Note 10 - Cost of Materials..... | 65 |
| Note 11 - Trade Receivables and Other Receivables | 65 |
| Note 12 - Inventories | 66 |
| Note 13 - Financial Instruments | 66 |
| Note 14 - Contingent Consideration | 69 |
| Note 15 - Taxes | 70 |
| Note 16 - Other Operating Expenses..... | 72 |
| Note 17 - Payroll Expenses..... | 72 |
| Note 18 - Remuneration to Corporate Management and Board of Directors | 72 |
| Note 19 - Share Options..... | 75 |
| Note 20 - Earnings per Share | 76 |
| Note 21 - Related Parties..... | 76 |
| Note 22 - Research and Development | 77 |
| Note 23 - Shareholder Information..... | 77 |
| Note 24 - Business combination | 78 |

Observe Medical Group

Consolidated Statement of Comprehensive Income

| <i>Amounts in NOK thousand</i> | Note | FY 2020 | FY 2019 |
|---|------------|----------------|----------------|
| Operating revenues | | 2 961 | 177 |
| Cost of materials | 10 | 1 975 | 637 |
| Gross result | | 986 | -460 |
| Employee benefit expenses | 17, 18, 19 | 10 891 | 5 299 |
| Other operating expenses | 16, 22 | 15 018 | 5 742 |
| Operating expenses | | 25 910 | 11 041 |
| Operating result before depreciation and amortisation (EBITDA) | | -24 923 | -11 501 |
| Depreciation and amortisation | 6, 7, 8 | 3 163 | 4 285 |
| Operating result (EBIT) | | -28 087 | -15 787 |
| Financial income and expenses | | | |
| Financial income | 9 | 3 853 | 365 |
| Financial expenses | 9, 14 | 12 635 | 1 496 |
| Net financial items | | (8 782) | (1 131) |
| Result before tax | | -36 868 | -16 917 |
| Income tax expense | 15 | | |
| Result for the period | | -36 868 | -16 917 |
| Other comprehensive income that may be reclassified subsequently to profit or loss | | | |
| Currency translations differences | | 1 131 | -1 363 |
| Total comprehensive income/loss for the period | | -35 737 | -18 281 |
| Earnings per share (NOK per share) | 20 | -2,22 | -1,36 |

Observe Medical Group

Consolidated Statement of Financial Position

| <i>Amounts in NOK thousand</i> | Note | At 31 December 2020 | At 31 December 2019 |
|--|------|---------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 7 | 36 268 | 30 333 |
| Intangible assets | 7 | 20 965 | 20 997 |
| Tangible assets | 6, 8 | 703 | 339 |
| Total non-current assets | | 57 936 | 51 670 |
| Current assets | | | |
| Trade receivables | 11 | 1 460 | 66 |
| Inventories | 12 | 7 661 | 2 504 |
| Other receivables and prepaid expenses | 11 | 1 730 | 609 |
| Bank deposits | 13 | 18 945 | 485 |
| Total current assets | | 29 797 | 3 663 |
| Total assets | | 87 733 | 55 333 |
| EQUITY AND LIABILITIES | | | |
| Total equity | | 20 349 | 14 542 |
| Non-current liabilities | | | |
| Non-current lease liabilities | 8 | 260 | 78 |
| Contingent consideration | 14 | 22 368 | 12 398 |
| Non-current interest bearing liabilities | 13 | 34 821 | 25 413 |
| Total non-current liabilities | | 57 449 | 37 889 |
| Current liabilities | | | |
| Trade payables | 13 | 3 843 | 1 338 |
| VAT and other public taxes and duties payables | 13 | 2 348 | 499 |
| Current lease liabilities | 8 | 136 | 201 |
| Other current liabilities | 13 | 3 608 | 864 |
| Total current liabilities | | 9 935 | 2 902 |
| Total liabilities | | 67 384 | 40 791 |
| Total equity and liabilities | | 87 733 | 55 333 |

The Board of Directors and CEO of Observe Medical ASA
 Oslo, April 29, 2021



Terje Bakken
 Chair of the Board




Kathrine Gamborg Andreassen
 Director



Björn Larsson
 CEO



Kristin Nyberg
 Director



Thomas Grunfeld
 Director

Consolidated Statement of Changes in Equity

| (Amounts in NOK thousand) | Share capital | Share premium | Other paid in equity | Total paid-in capital | Retained earnings | Translation differences | Total |
|--------------------------------------|----------------------|----------------------|-----------------------------|------------------------------|--------------------------|--------------------------------|---------------|
| Equity as at 1 January 2019 | | | | | 16 920 | -97 | 16 823 |
| Incorporation of Observe Medical ASA | 1 000 | | | 1 000 | | | 1 000 |
| Capital decrease, repayment | -1 000 | | | -1 000 | | | -1 000 |
| Merger effect | 3 086 | 31 684 | 11 800 | 46 570 | -46 570 | | 0 |
| Debt conversion | 832 | 15 168 | | 16 000 | | | 16 000 |
| Result for the period | | | | | -16 917 | | -16 917 |
| Translation differences | | | | | | -1 364 | -1 364 |
| Equity as at 31 December 2019 | 3 918 | 46 852 | 11 800 | 62 570 | -46 568 | -1 461 | 14 542 |
| | Share capital | Share premium | Other paid in equity | Total paid-in capital | Retained earnings | Translation differences | Total |
| Equity as at 1 January 2020 | 3 918 | 46 852 | 11 800 | 62 570 | -46 568 | -1 461 | 14 542 |
| Share issue | 1 180 | 40 212 | | 41 392 | | | 41 392 |
| Options | | | | | 152 | | 152 |
| Result for the period | | | | | -36 868 | 0 | -36 868 |
| Translation differences | | | | | | 1 131 | 1 131 |
| Equity as at 31 December 2020 | 5 097 | 87 065 | 11 800 | 103 963 | -83 284 | -330 | 20 349 |

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.

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.

During 2020 the OM ASA has issued 4 537 784 new shares for gross proceeds of NOK 46,362 thousand. Expenses related to the capital increase amount to NOK 4,970 thousand.

See note 23 for further information about movement in share capital / number of shares and note 19 share options.

Observe Medical Group

Consolidated Cash Flow Statement

| <i>Amounts in NOK thousand</i> | Note | 2020 | 2019 |
|--|-------|----------------|----------------|
| Cash flow from operating activities | | | |
| Result before tax | | -36 868 | -16 917 |
| Depreciation and impairment | 6,7,8 | 3 163 | 4 285 |
| Interest expenses and change FV contingent consideration with no cash effect | 14 | 8 684 | 221 |
| Change in inventories | 12 | -1 844 | -173 |
| Change in trade receivables and other receivables | 11 | -829 | 405 |
| Change trade account payables and other current liabilities | 13 | 6 053 | -2 301 |
| Changes in other current items | | 0 | 507 |
| Net cash flow from operating activities | | -21 641 | -13 972 |
| Cash flow from investing activities | | | |
| Purchase of tangible and intangible assets | 22 | -1 239 | -2 141 |
| Net cash effect of business combination | 24 | -6 838 | 0 |
| Net cash flow from investing activities | | -8 077 | -2 141 |
| Cash flow from financing activities | | | |
| Net change interest bearing debt | 13 | 6 901 | 16 381 |
| Net proceeds from share issue | | 41 392 | 1 000 |
| Repayment share capital | | 0 | -1 000 |
| Payments of lease liabilities | 8 | -124 | -194 |
| Net cash flow from financing activities | | 48 169 | 16 187 |
| Currency translation differences | | 9 | -210 |
| Changes in cash | | 18 460 | -136 |
| Bank deposits as at 1 January | 13 | 485 | 621 |
| Bank deposits end of period | 13 | 18 945 | 485 |

Explanatory Notes to the Consolidated Financial Statements 2020

Note 1 – General Information

Observe Medical ASA is a Norwegian public listed company located in Norway and whose shares are public traded on Euronext Expand Oslo. Its head office is located in Henrik Ibsensgate 90, 0255 Oslo, Norway.

The Group currently is in phase of its commercialization and development process of the next generation urine meter, Sippi®.

Observe Medical ASA was incorporated on June 13, 2019 to own and manage the Observe Medical business previously owned by Navamedic ASA. Observe Medical's strategy is to continually grow the platform and product portfolio through R&D and M&A strategies. After the acquisition of Sylak AB in October 2020, Observe Medical is also a distributor in the Nordic market of well-established medtech products.

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. 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.

The consolidated financial statements for Observe Medical ASA ("OM group" or "the Group"), including notes, for the year 2020 were approved by the Board of Directors of Observe Medical ASA on April 29, 2021 and will be proposed to the Annual General Meeting on May 21, 2021

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 the acquired product portfolio, and the Group's 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. See separate section in note 3 Financial risk management for further information

Note 2 – Basis for Preparation and Summary of the Most Significant 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.

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.

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

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.

The Group's financial statements cover the following companies:

- Observe Medical ASA
- Observe Medical International AB
- Observe Medical ApS
- Observe Medical AB
- Sylak AB (Observe Medical Nordic AB), consolidated from November 2020 see note 24
Business combination

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. 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.

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, 2019 is equal to carrying values of the carve-out net assets contributed by Navamedic to the Group at this date. Total equity comprised "retained earnings" and "translation differences". 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 accounting policies applied are the same for all periods presented. New or revised accounting standards implemented as of January 1, 2020 have no impact on the Group's accounting policies.

Revisions to standards and interpretations that did not come into force for the Group for the period that ended December 31, 2020 are evaluated and are expected to not have any significant effect for the Group.

Basis of Combination and Consolidation

Companies that have been controlled by Navamedic ASA before the demerger and subsequent merger with Observe Medical 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.

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.

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

Segment Information

The Group has only one operating segment, consistent with the reporting to the CEO and the Board.

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, Observe Medical AB and Sylak AB is SEK, and DKK for Observe Medical ApS. 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.

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.

In 2020 the Group has acquired Sylak AB a distributor of ICU/anaesthesia products in the Swedish market. The Group recognizes revenue from sale of goods from the Sylak business at the point in time when the control of goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Revenue is generally recognised on delivery of the goods. The effects of variable consideration or existence of significant financing components are immaterial.

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

The Group 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. For lease contracts for which the lease term is less than one year or where the value of the underlying asset is low the lease payments are recognized as an expense on a straight-line basis over the lease period.

Share Options

The fair value of options granted to member of management is recognized as employee benefit expense with a corresponding increase in equity for equity settled awards. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognized over the vesting period. Social security contributions payable in connection with an option grant are treated as cash-settled transactions and expensed as employee benefit expenses.

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.

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 as expected, the Group's liquidity risk will increase further.

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 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. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

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, Sylak AB in 2020, 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 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.

Note 5 – Segment Information and Revenue from Contracts with Customers

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

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 SippiCoat® 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 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.

In October 2020 Observe Medical acquired Sylak AB, a Swedish distributor of well-established medtech products in the Nordic region. Sylak AB have a product portfolio highly complementary and synergistic to Sippi® in the product group Anaesthesia/ICU and Wound care, in addition to Urine measurement.

Overview of revenue per product group

Amounts in NOK thousand

| Revenue per product group | 2020 | 2019 |
|----------------------------------|--------------|-------------|
| Urine measurement | 219 | 177 |
| Anaesthesia/ICU | 2 295 | 0 |
| Wound care | 447 | 0 |
| Total | 2 961 | 177 |

Amounts in NOK thousand

| Revenue per geographic market | 2020 | 2019 |
|--------------------------------------|--------------|-------------|
| Norway | 85 | 0 |
| Sweden | 2 763 | 0 |
| Other European countries | 113 | 177 |
| Total | 2 961 | 177 |

Amounts in NOK thousand

| Tangible assets, goodwill and intangible assets by country* | 2020 | 2019 |
|--|---------------|---------------|
| Sweden | 56 023 | 49 533 |
| Denmark | 1 913 | 2 137 |
| Total | 57 936 | 51 670 |

Note 6 – Tangible Assets

| <i>Amounts in NOK thousand</i> | Tangible assets |
|---|------------------------|
| Acquisition cost 1 January 2019 | 1 836 |
| Additions | 49 |
| Recognition of right-of-use asset on initial application of IFRS 16 | 473 |
| Disposals | 0 |
| Currency translation differences | -2 |
| Acquisition cost 31 December 2019 | 2 356 |
| | |
| Acquisition cost 1 January 2020 | 2 356 |
| Additions | 680 |
| Disposals | -456 |
| Currency translation differences | 248 |
| Acquisition cost 31 December 2020 | 2 829 |
| | |
| Accumulated depreciation 1 January 2019 | 1 779 |
| Depreciation for the year | 238 |
| Currency translation differences | 1 |
| Accumulated depreciation 31 December 2019 | 2 017 |
| | |
| Accumulated depreciation 1 January 2020 | 2 017 |
| Depreciation for the year | 162 |
| Disposals | -268 |
| Currency translation differences | 215 |
| Accumulated depreciation 31 December 2020 | 2 126 |
| | |
| Carrying value 1 January 2019 | 57 |
| Additions | 49 |
| Recognition of right-of-use asset on initial application of IFRS 16 | 473 |
| Depreciation | 238 |
| Translation differences | -2 |
| Carrying value 31 December 2019 | 339 |
| | |
| Carrying value 1 January 2020 | 339 |
| Additions | 680 |
| Disposals | 187 |
| Depreciation | 162 |
| Translation differences | 32 |
| Carrying value 31 December 2020 | 703 |

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

Note 7 - Intangible Assets

| <i>Amounts in NOK thousand</i> | Goodwill | Technology assets / Patent | Technology development | Sum |
|--|-----------------|-----------------------------------|-------------------------------|---------------|
| Acquisition cost 1 January 2019 | 31 166 | 29 355 | 6 183 | 66 704 |
| Additions | | | 2 141 | 2 141 |
| Currency translation differences | -832 | -515 | -40 | -1 386 |
| Acquisition cost 31 December 2019 | 30 333 | 28 841 | 8 284 | 67 458 |
| Acquisition cost 1 January 2020 | 30 333 | 28 841 | 8 284 | 67 458 |
| Aquisitions | 2 815 | | | 2 815 |
| Additions | | | 867 | 867 |
| Currency translation differences | 3 120 | 2 864 | 764 | 6 748 |
| Acquisition cost 31 December 2020 | 36 268 | 31 705 | 9 915 | 76 154 |
| Accumulated amortization 1 January 2019 | | 10 084 | 1 947 | 12 030 |
| Amortization for the year | | 2 809 | 1 239 | 4 047 |
| Currency translation differences | | 40 | 9 | 50 |
| Accumulated amortization 31 December 2019 | | 12 933 | 3 194 | 16 127 |
| Accumulated amortization 1 January 2020 | | 12 933 | 3 194 | 16 127 |
| Amortization for the year | | 1 723 | 1 278 | 3 001 |
| Currency translation differences | | 1 226 | 300 | 1 526 |
| Accumulated amortization 31 December 2020 | | 15 882 | 4 773 | 20 655 |
| Carrying value 1 January 2019 | 31 166 | 19 272 | 4 236 | 54 673 |
| Additions | | | 2 141 | 2 141 |
| Amortization | | 2 809 | 1 239 | 4 047 |
| Translation differences | -832 | -555 | -49 | -1 436 |
| Carrying value 31 December 2019 | 30 333 | 15 908 | 5 089 | 51 331 |
| Carrying value 1 January 2020 | 30 333 | 15 908 | 5 089 | 51 331 |
| Aquisitions | 2 815 | | | 2 815 |
| Additions | | | 867 | 867 |
| Amortization | | 1 723 | 1 278 | 3 001 |
| Translation differences | 3 120 | 1 638 | 464 | 5 222 |
| Carrying value 31 December 2020 | 36 268 | 15 823 | 5 142 | 57 233 |
| Useful life | Indefinite | 10 year | 5 year | |

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015 and acquisition in 2020 relates to Sylak AB, see note 24 Business combination. Technology assets/patent relates to the Sippi® patent, and technology development relates to capitalized external expenses for further development of the Sippi® technology. Carrying value of assets under construction as at December 31, 2020 was NOK 2.47 million.

Impairment Test for Cash Generating Unit that Contain Goodwill

Goodwill is allocated to the Medtech business. 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, 2020. 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, 2020 was based on the budget for 2021 and estimates for subsequent periods. The detailed cash flow period used in the calculation was 4 years. Growth of 0.5% is assumed after 2024. The amount of revenue and when it will be generated is especially uncertain. A discount rate after tax of 9.6% was used to discount future cash flows. The impairment

test at year-end 2020 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. An increase in the discount rate with 1 percentage point, the calculated value in use at December 31, 2020 would decrease by NOK 46,1 million, but still exceed the carrying value. A decrease in EBITDA margin with 1 percentage point, the calculated value in use at December 31, 2020 would decrease by NOK 12,6 million, but still exceed the carrying value.

The value of the goodwill and intangible assets is dependent on the development of Sippi® technology. The book value of the technology is low compared with potential revenue from the product. At year-end 2020, the Group estimated that revenue from sales of OM's products will be realized at a later stage than what was assumed when OMI AB was acquired in 2015. Compared with 2019 estimated future cash flow and discount rate has decreased, which have led to an increase value of the contingent consideration (liability) at December 31, 2020. 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.

Note 8 – Lease

As at December 31, 2020, the Group has lease contracts for two cars (three cars as at December 31, 2019). In addition, the group has short term leases that are not recognized as right-of-use assets related to office buildings in Sweden and Norway. The Group is planning to move to a new location in Gothenburg in 2021, but no final decision has been made.

(Amounts in NOK thousand)

| Right of use assets | Cars |
|---|-------------|
| Opening cost at 1 January 2019 | 483 |
| Currency translation differences | -9 |
| Closing cost at 31 December 2019 | 474 |
| Right of use assets | |
| Opening cost at 1 January 2020 | 474 |
| Additions | 398 |
| Disposals | -456 |
| Currency translation differences | 46 |
| Closing cost at 31 December 2020 | 462 |
| Opening depreciation at 1 January 2019 | |
| Depreciation in the period | 195 |
| Currency translation differences | 2 |
| Accumulated depreciation at 31 December 2019 | 197 |
| Opening depreciation at 1 January 2020 | 197 |
| Depreciation in the period | 120 |
| Disposals | -268 |
| Currency translation differences | 2 |
| Accumulated depreciation at 31 December 2020 | 50 |
| Right of use assets at 31 December 2019 | 278 |
| Right of use assets at 31 December 2020 | 413 |

| Lease Liability | 2020 | 2019 |
|--|-------------|-------------|
| As at 1 January | 279 | 483 |
| Additions | 398 | |
| Disposal | -189 | |
| Lease payments in the period | -125 | -219 |
| Interest cost | 6 | 25 |
| Currency translation differences | 28 | -11 |
| Closing liability at 31 December 2019 | 396 | 279 |
| Due < 1 year | 260 | 201 |
| Due > 1 year | 136 | 78 |

Effect of IFRS 16 on Statement of Comprehensive Income

| (Amounts in NOK thousand) | 2020 | 2019 |
|---|------------|------------|
| Depreciation expense of right-of-use ass | 120 | 195 |
| Interest expense on lease liabilities | 6 | 25 |
| Expense relating to short-term leases (ir | 549 | 111 |
| Total amount recognised in result for th | 674 | 331 |

Undiscounted Lease Liabilities and Maturity of Cash Outflow

| (Amounts in NOK thousand) | 2020 | 2019 |
|--------------------------------|------------|------------|
| Due within 1 year | 150 | 208 |
| Due between 1 year and 3 years | 271 | 79 |
| Total | 421 | 287 |

Note 9 – Financial Items

(Amounts in NOK thousand)

| | 2020 | 2019 |
|---------------------------------|---------------|---------------|
| Financial income | | |
| Interest income | 0 | |
| Currency gain | 3 853 | 365 |
| Other financial income | | 0 |
| Total | 3 853 | 365 |
| Financial expenses | | |
| Interest expenses | 2 531 | 1 275 |
| Change contingent consideration | 9 970 | 221 |
| Other financial expenses | 134 | 0 |
| Total | 12 635 | 1 496 |
| Net financial items | -8 782 | -1 131 |

Note 10 – Cost of Materials

(Amounts in NOK thousand)

| | 2020 | 2019 |
|--------------------------------|--------------|------------|
| Cost of materials for resale | 1 965 | 41 |
| Write-down | 10 | 596 |
| Total cost of materials | 1 975 | 637 |

Note 11 – Trade Receivables and Other Receivables

(Amounts in NOK thousand)

| | 2020 | 2019 |
|-------------------|--------------|------------|
| Trade receivables | 1 460 | 66 |
| Other receivables | 1 730 | 609 |
| Total | 3 190 | 674 |

None of the trade receivables were due as at December 31, 2020 and 2019.

Note 12 - Inventories

| <i>(Amounts in NOK thousand)</i> | 2020 | 2019 |
|----------------------------------|--------------|--------------|
| Goods for resale | 7 661 | 3 100 |
| Write-down | 0 | -596 |
| Total | 7 661 | 2 504 |

Note 13 - Financial Instruments

NOK 121 thousand of the bank deposits was restricted as at December 31, 2020 (no part as at December 31, 2019). There are no significant restrictions on transferring cash within the group.

Financial liabilities as at 31 December 2020

| <i>(Amounts in NOK million)</i> | 0-3 months | 3-12 months | 1-2 years | 2-3 years | 3-4 years | > 4 years | Total | Carrying value |
|--|---------------|----------------|--------------|-------------|------------|------------|-------------|-------------------|
| Leasing liabilities | 0,0 | 0,1 | 0,1 | 0,1 | 0,0 | 0,0 | 0,4 | 0,4 |
| Contingent consideration upon acquisitions | 0,0 | 0,0 | 2,3 | 27,9 | 0,0 | 0,0 | 30,2 | 22,4 |
| Trade account payables | 3,8 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 3,8 | 3,8 |
| Public duties, tax deductions, etc. | 2,3 | 0,0 | 0,0 | 0,0 | 0,0 | 0,0 | 2,3 | 2,3 |
| Other current liabilities | 2,8 | 0,8 | 0,0 | 0,0 | 0,0 | 0,0 | 3,6 | 3,6 |
| Payables loan to Navamedic group | 0,0 | 0,0 | 39,9 | 0,0 | 0,0 | 0,0 | 39,9 | 34,8 |
| Total | 9,0 | 0,8 | 42,2 | 27,9 | 0,0 | 0,0 | 79,8 | 67,4 |

Financial liabilities as at 31 December 2019

| <i>(Amounts in NOK million)</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 | 2,0 | 0,7 | 0,6 | 39,4 | 15,5 | 0,0 | 58,1 | 40,8 |

The Group had no bank financing for the periods presented. As at December 31, 2020 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 thousand (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 thousand (the "Facility A"); and
- A subordinated convertible term loan facility in the amount of NOK 13,000 thousand (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 was paid in portion in the first 8 months after listing. The facility is fully drawn as at December 31, 2020.

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, 2020.

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 Euronext Expand or any other exchange having replaced Euronext Expand 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.

Contingent consideration from acquisitions has been discounted by an interest rate of 9.6 % per annum as at December 31, 2020 and 18.3% per annum as at December 31, 2019.

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 31 December 2020

| <i>(Amounts in NOK million)</i> | Measured at amortised cost | Fair value through profit or loss | Total |
|--|-------------------------------|--------------------------------------|-------------|
| Assets | | | |
| Bank deposits | 18,9 | 0,0 | 18,9 |
| Trade receivables and other receivables | 1,5 | 0,0 | 1,5 |
| Total financial assets ^{2) and 3)} | 20,4 | 0,0 | 20,4 |
| Liabilities | | | |
| Lease liabilities | 0,4 | 0,0 | 0,4 |
| Contingent consideration upon acquisitions ¹⁾ | 0,0 | 22,4 | 22,4 |
| Non-current interest bearing liabilities | 34,8 | 0,0 | 34,8 |
| Trade account payables and other liabilities | 6,8 | 0,0 | 6,8 |
| Total financial liabilities ³⁾ | 42,1 | 22,4 | 64,4 |

Classification of financial assets and liabilities as at 31 December 2019

| <i>(Amounts in NOK million)</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 | | | |
| Liabilities to financial institutions | 0,0 | 0,0 | 0,0 |
| 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 |

- 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 million)</i> | Net loans from Navamedic Group | Contingent consideration upon acquisitions | Lease liabilities | Total |
|---|-----------------------------------|---|----------------------|-------------|
| Carrying value 1 January 2020 | 25,4 | 12,4 | 0,3 | 38,1 |
| Cash flow | 6,9 | 0,0 | -0,1 | 6,8 |
| Change in liability with no cash effect | 2,5 | 10,0 | 0,2 | 12,7 |
| Carrying value 31 December 2020 | 34,8 | 22,4 | 0,4 | 57,6 |

| <i>(Amounts in NOK million)</i> | Net loans from Navamedic Group | Contingent consideration upon acquisitions | IFRS 16 Lease liabilities | Total |
|---|-----------------------------------|---|------------------------------|-------------|
| Carrying value 1 January 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 31 December 2019 | 25,4 | 12,4 | 0,3 | 38,1 |

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

Changes in loans from Navamedic Group without cash effect in 2020 relates to accrued interest and in 2019 relates to debt conversion in connection with the demerger from Navamedic. Changes in contingent considerations without cash effects relates to estimated changes in fair value of contingent consideration (which include calculated interest).

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 a discount rate of 9.6% as at December 31, 2020 and 18.3% as at December 31, 2019.

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

(Amounts in NOK thousand)

| | |
|--|--------|
| Estimated fair value 1 January 2019 | 12 177 |
| Change in estimated fair value in 2019 | 221 |
| Estimated fair value 31 December 2019 | 12 398 |
| Change in estimated fair value in 2020 | 9 970 |
| Estimated fair value 31 December 2020 | 22 368 |

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

The change in fair value in 2020 is due to decreased discount rate due to decreased risk related to the cash flow and increased estimated cash flows. The decreased discount rate from 18.3% to 9.6% in 2020 gives an increased fair value of approximately NOK 6 million.

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 as at December 31, 2020: A 1 percentage point reduction in the discount rate would increase the estimated present value by NOK 0.7 million and a 10% reduction in revenue would decrease the estimated present value by NOK 1.6 million.

Note 15 - Taxes

Income tax:

| | 2020 | 2019 |
|-------------------------------|-------------|-------------|
| Current tax | 0 | 0 |
| Deferred tax | 0 | 0 |
| Tax expense/income recognised | <u>0</u> | <u>0</u> |

Reconciliation of income tax

(Amounts in NOK thousand)

| | Tax rate | 2020 | 2019 |
|---|----------|--------------|--------------|
| Result before tax | | -36 868 | -16 917 |
| Expected income taxes, 22 of result before tax | | 8 111 | 3 722 |
| Differences in tax rates | | -108 | -85 |
| Norway, non-deductable expenses | 22 % | -2 494 | -49 |
| Sweden, non-deductable expenses | 21.4% | -34 | -1 |
| Tax expense before not recognised tax assets | | 5 476 | 3 587 |
| Norway, current-year losses for which no deferred tax assets is recognised | 22 % | -1 112 | -532 |
| Denmark, current-year losses for which no deferred tax assets is recognised | 22 % | -562 | -7 |
| Sweden, current-year losses for which no deferred tax assets is recognised | 21.4% | -3 801 | -3 048 |
| Total taxes | | <u>0</u> | <u>0</u> |
| Effective tax rate | | 0,0 % | 0,0 % |

Basis for Deferred Tax Liabilities and Tax Assets (-)

| 2020 | Temporary differences Norway | Temporary differences Sweden | Temporary differences Demark | Total 2020 |
|--|---------------------------------|---------------------------------|------------------------------------|-----------------|
| (Amounts in NOK thousand) | | | | |
| Intangible assets | | | 15 823 | -7 554 |
| Total temporary differences | 0 | 15 823 | -7 554 | 8 269 |
| Tax losses carried forward | -12 446 | -49 421 | -84 893 | -146 760 |
| Basis for temporary differences | -12 446 | -33 598 | -92 447 | -138 491 |
| Unrecognised temporary differences | 12 446 | 33 598 | 92 447 | 138 491 |
| Total recognised temporary differences | 0 | 0 | 0 | 0 |
| Tax rate | 22 % | 20,60 % | 22 % | |
| Recognised deferred tax liabilities and tax assets (-) | 0 | 0 | 0 | 0 |

| 2019 (Amounts in NOK thousand) | Temporary differences | Temporary differences | Temporary differences | Total 2019 | |
|--|-----------------------|-----------------------|-----------------------|--------------|----------------|
| | Norway | Sweden | Demark | | |
| Intangible assets | | | 15 908 | -6 782 | 9 126 |
| Total temporary differences | 0 | 15 908 | -6 782 | 9 126 | |
| Tax losses carried forward | -2 199 | -28 961 | -75 719 | | -106 878 |
| Basis for temporary differences | -2 199 | -13 053 | -82 501 | | -97 752 |
| Unrecognised temporary differences | 2 199 | 13 053 | 82 501 | | 97 752 |
| Total recognised temporary differences | 0 | 0 | 0 | | 0 |
| Tax rate | 22 % | 20,60 % | 22 % | | |
| Recognised deferred tax liabilities and tax assets (-) | 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

| (Amounts in NOK thousand) | Recognised in profit and | | Effect of acquisition | Foreign | 31.12.2020 |
|---|--------------------------|----------------------|-----------------------|---------------|----------------|
| | 01.01.2020 | loss during the year | and equity | currency | |
| Intangible assets | 2 008 | -601 | 0 | 191 | 1 598 |
| Tax losses carried forward | -23 408 | -4 875 | -1 624 | -1 689 | -31 595 |
| Gross tax liabilities / assets (-) | -21 400 | -5 476 | -1 624 | -1 498 | -29 997 |
| Deferred tax assets not recognised | 21 400 | 5 476 | 1 624 | 1 498 | 29 997 |
| Tax liabilities/assets (-) recognised | 0 | 0 | 0 | 0 | 0 |

| (Amounts in NOK thousand) | Recognised in profit and | | Foreign currency | 31.12.2019 |
|---|--------------------------|----------------------|----------------------|----------------|
| | 01.01.2019 | loss during the year | exchange differences | |
| Intangible assets | 2 937 | -903 | -26 | 2 008 |
| Tax losses carried forward | -21 530 | -2 083 | 206 | -23 408 |
| Gross tax liabilities / assets (-) | -18 593 | -2 986 | 179 | -21 400 |
| Deferred tax assets not recognised | 18 593 | 2 986 | -179 | 21 400 |
| 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 thousand (NOK 3,904 thousand at 31.12.2020) 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

(Amounts in NOK thousand)

| | 2020 | 2019 |
|--------------------------|---------------|--------------|
| External services | 11 479 | 4 694 |
| Travel expenses | 618 | 463 |
| Advertising expenses | 665 | 214 |
| Other operating expenses | 2 256 | 371 |
| Total | <u>15 018</u> | <u>5 742</u> |

In 2020 SEK 1.12 million (NOK 1.21 million) has been expensed in connection with acquisition of Sylak AB, see note 24. In 2019 the company had expenses in connection with the demerger from Navamedic and listing at Oslo Axess of NOK 1.7 million.

Auditor

(Amounts in NOK thousand)

| Fees paid | 2020 | 2019 |
|--------------------------|--------------|-------------|
| Statutory audit services | 1 289 | 318 |
| Other assurance services | 269 | 30 |
| Total | <u>1 559</u> | <u>348</u> |

Fees to auditors are reported exclusive VAT. KPMG is group auditor.

Note 17 – Payroll Expenses

(Amounts in NOK thousand)

| | 2020 | 2019 |
|--|---------------|--------------|
| Salaries | 6 911 | 2 914 |
| Employer's tax | 2 101 | 1 232 |
| Share options for employees | 152 | - |
| Pension expenses – defined-contribution scheme | 742 | 480 |
| Other payroll expenses | 984 | 674 |
| Total | <u>10 891</u> | <u>5 299</u> |

| | | |
|---|---|---|
| Average number of full-time equivalents | 7 | 5 |
|---|---|---|

See Note 19 for further information about the share options.

Note 18 – Remuneration to Corporate Management and Board of Directors

In accordance with the Norwegian public Limited Companies Act §6-16 a, the board of directors prepares a separate statement related to the determination of salary and other benefits for the corporate management. The statement shall be subject to an advisory vote by the annual general meeting in accordance with §5-6 (3). The statement for 2021 will be submitted for approval in the annual general meeting in May 2021 will be available on OM ASA's website after approval.

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 31.12.2020, 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 66.800) 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

2020

(Amounts in NOK thousand, except options and shares)

| Function | Name | Base salary | Paid salary | Other benefits | Bonus earned | Pension | Option expenses | Options | Shares | Loans |
|----------|-----------------|-------------|-------------|----------------|--------------|---------|-----------------|---------|--------|-------|
| CEO | Bjørn Larsson | 1 328 | 1 328 | 168 | 0 | 268 | 152 | 120 000 | 17 000 | 0 |
| CFO | Per Arne Nygård | 1 500 | 1 272 | 88 | 0 | 119 | 0 | 0 | 18 921 | 0 |
| | Total | 2 828 | 2 600 | 256 | 0 | 387 | 152 | 120 000 | 35 921 | 0 |

2019

(Amounts in NOK thousand, except options and shares)

| Function | Name | Base salary | Paid salary | Other benefits | Bonus earned | Pension | Shares | Loans |
|----------|-------------------------------|-------------|-------------|----------------|--------------|---------|--------|-------|
| CEO | Bjørn Larsson ¹⁾ | 1 226 | 54 | 0 | 0 | 6 | 0 | 0 |
| CFO | Per Arne Nygård ²⁾ | N/A | 83 | 0 | 0 | 0 | 0 | 0 |
| | Total | 1 226 | 137 | 0 | 0 | 6 | 0 | 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 for the period 1 December 2019 to 1 March 2020

In 2019 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. Bjørn Larsson was hired as CEO from December 16, 2019 and Per Arne Nygård was hired as interim CFO from December 1, 2019 and as CFO from March 1, 2020.

Remuneration to the Board of Directors

2020

(Amounts in NOK thousand, except options and shares)

| Function | Name | Board fee | Share options | Shares | Shares owned by related parties | Loans |
|--------------|------------------------|-----------|---------------|-----------------------|---------------------------------|-------|
| Chair | Terje Bakken | 263 | 0 | 0 | 8 162 121 ¹⁾ | 0 |
| Board member | Kathrine G. Andreassen | 188 | 0 | 586 668 ²⁾ | 4 222 727 ³⁾ | 0 |
| Board member | Thomas Grunfeld | 151 | 0 | 0 | 0 | 0 |
| Board member | Kristin Nyberg | 175 | 0 | 0 | 0 | 0 |
| | Total | 778 | 0 | 586 668 | 12 384 848 | 0 |

1) Terje Bakken is partner in Ingerø Reiten Investment Company AS who owns 3,939,394 shares in Observe Medical ASA

1) Terje Bakken is Chair in Navamedic ASA who owns 4,222,727 shares in Observe Medical ASA

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

3) Kathrine Gamborg Andreassen is CEO in Navamedic ASA who own 4,222,727 shares in Observe Medical ASA

2019

(Amounts in NOK thousand, except options and shares)

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

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

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

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

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

4) See note 19 for further information about the share options

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

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

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

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

Note 19 - Share Options

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.

Navamedic employee 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 option program, no options were outstanding at 31 December 2020.

During 2020, 275,000 series A options were exercised at a strike price of NOK 3,22 per OM ASA shares and 46,875 series B options at a strike price of NOK 2.44 per OM ASA shares. During 2019 no options were exercised.

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.

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. In 2020 the company has reversed an expense of NOK 79 thousand and in 2019 the company has expensed NOK 94 thousand related to social security taxes.

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. Earnings per share has been presented as if the number of shares at the demerger date were outstanding for prior periods.

See note 23 for an overview of movements in number of shares, See note 19 for a description of share options. No dilutive effects for the OM group have been calculated because of the net result for 2020 and 2019 were negative.

(Amounts in NOK thousand)

Earnings per share:

| | 2020 | 2019 |
|---|-------------------|-------------------|
| Net result for the year, company's shareholders | <u>-36 868</u> | <u>-16 917</u> |
| Average number of shares | <u>16 574 701</u> | <u>12 402 468</u> |
| Earnings per share (NOK per share) | <u>-2,22</u> | <u>-1,36</u> |

Note 21 – Related Parties

Transactions and shared costs have historically been charged from Navamedic to Observe Medical International AB and its subsidiaries.

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 2020 and 2019 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 thousand)</i> | 2020 | 2019 |
|----------------------------------|-------------|-------------|
| Revenues | 0 | 53 |
| Expenses | 241 | 2 141 |
| Finance expenses | 2 506 | 1 154 |
| Receivables | 0 | 66 |
| Liabilities | 34 821 | 25 777 |

Expenses is primarily fee to cover costs and activities as finance and logistics support. 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 1.1 million in 2020 (NOK 1.9 million), of which NOK 0.3 million (NOK 1.3 million) is capitalized and NOK 0.8 million (NOK 0.6 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, 2020:

| No | Name | Number of shares | Ownership % |
|-------------------------------|-------------------------------|-------------------|-----------------|
| 1 | NAVAMEDIC ASA | 4 222 727 | 21,54 % |
| 2 | INGERØ REITEN INV. COMPANY AS | 3 939 394 | 20,09 % |
| 3 | LARS RO | 1 500 000 | 7,65 % |
| 4 | UBS SWITZERLAND AG | 1 420 522 | 7,25 % |
| 5 | ARTAL AS | 897 407 | 4,58 % |
| 6 | ALPINE CAPITAL AS | 650 000 | 3,32 % |
| 7 | SOLEGLAD INVEST AS | 586 668 | 2,99 % |
| 7 | NORDA ASA | 516 570 | 2,63 % |
| 9 | TRANBERGKOLLEN INVEST AS | 500 000 | 2,55 % |
| 10 | LEIKERANE AS | 466 666 | 2,38 % |
| 11 | LAPAS AS | 336 924 | 1,72 % |
| 12 | MP PENSJON PK | 262 025 | 1,34 % |
| 13 | KRAEBER VERWALTUNG GMBH | 214 850 | 1,10 % |
| | OTHER | 4 091 704 | 20,87 % |
| Total number of shares | | 19 605 457 | 100,00 % |

Total number of shares are 19,605,457 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.

There were no number of treasury shares (own shares) at the end of 2020 and 2019.

The Annual General Meeting held on June 30, 2020 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 500,000 in one or more share issues. 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. As at 29 April 2021 NOK 44,688 of the authorization is used in connection with employee share option program. As at 29 April 2021 120,000 options are granted to members or the management. See note 19 share options.

Movement in number of shares

| Movement in number of shares | |
|-------------------------------------|-------------------|
| 13 June 2019 | 1 000 000 |
| October 2019, Capital decrease | -1 000 000 |
| October 2019, Demerger | 11 867 673 |
| November 2019, Debt conversion | 3 200 000 |
| 31 December 2019 | 15 067 673 |
| January 2020, share options | 275 000 |
| July 2020, capital increase | 4 090 909 |
| August 2020, share options | 171 875 |
| 31 December 2020 | 19 605 457 |

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 OM ASA was NOK 3,085 thousand with 11,867,673 shares. After the debt conversion of NOK 16 million the share capital increased to NOK 3,918 thousand with 15,067,673 shares.

During 2020, OM ASA has issued 4 537 784 new shares for gross proceeds of NOK 46,363 thousand. Expenses related to the capital increase amount to NOK 4,970 thousand.

Note 24 – Business combination

On 30 October, Observe Medical ASA acquired 100 per cent of the shares in Sylak AB for NOK 6.84 million. The amount comprises cash consideration transferred, reduced by cash and cash equivalents of the acquiree. External transaction related costs at SEK 1.12 million have been expensed as part of other operating expenses. Sylak is a distributor of ICU/anaesthesia products in the Swedish market, with a team of experienced professionals (ICU and anaesthesia nurses) and with a complementary product portfolio to the Sippi® system. The transaction will strengthen Observe Medical and fuel both our near-term execution and long-term success. Sylak's competent and experienced team and the product portfolio are highly complementary and synergistic to Observe Medicals main product Sippi®. Sylak AB had total revenues of SEK 13.4 million in 2019. Customers include several of the largest hospitals in Sweden. Sylak AB has been consolidated from 1 November 2020. Sylak AB has generated operating revenues of SEK 2.8 million and EBIT of negative SEK 0.2 million since the acquisition. If the company had been owned 100 per cent from 1 January 2020 it would have had an additional positive impact on the operating revenue of SEK 12.3 million and EBIT of negative SEK 0.8 million. Recognised goodwill of SEK 2.6 million (NOK 2.8 million) is related to the employee's competence and strong relation to the suppliers and customers.

| <i>(Amounts in NOK thousand)</i> | Carrying amount | Excess value | Fair value |
|---------------------------------------|------------------------|---------------------|-------------------|
| Inventories | 3 129 | 0 | 3 129 |
| Trade receivables | 1 629 | 0 | 1 629 |
| Other receivables | 55 | 0 | 55 |
| Current liabilities | -791 | 0 | -791 |
| Total indentifiable net assets | 4 023 | 0 | 4 023 |
| Goodwill | 0 | 2 815 | 2 815 |
| Total recognised | 4 023 | 2 815 | 6 838 |

The fair value of acquired receivables is NOK 1.6 million, of which NOK 0.0 million is expected to be uncollectable at the date of acquisition.

Parent Company Observe Medical ASA



Contents

| | |
|---|----|
| Income statement..... | 81 |
| Balance Sheet | 82 |
| Balance Sheet | 83 |
| Equity | 84 |
| Cash Flow Statement | 85 |
| Explanatory Notes to the Annual Financial Statements 2020 | 86 |
| Note 1 - Accounting Policies | 87 |
| Note 2 - Salary Expenses | 88 |
| Note 3 - Bank Deposits | 89 |
| Note 4 - Non-Current Liabilities | 89 |
| Note 5 - Trade Receivables | 91 |
| Note 6 - Loans to Group Companies | 92 |
| Note 7 - Financial Income and Expenses | 92 |
| Note 8 - Other Operating Expenses | 93 |
| Note 9 - Subsidiaries..... | 93 |
| Note 10 - Related Parties | 93 |
| Note 11 - Taxes | 94 |

Parent Company Observe Medical ASA

Annual Financial Statements 2020

Observe Medical ASA

Income statement

| <i>Amounts in NOK thousand</i> | Note | 2020 | 2019 |
|---|-------------|----------------|---------------|
| Operating revenues | 1 | 806 | 53 |
| Total operating revenues | | 806 | 53 |
| <hr/> | | | |
| Personnel expenses | 2 | 5,495 | 250 |
| Other operating expenses | 2,8 | 5,665 | 1,359 |
| Operating expenses | | 11,160 | 1,608 |
| Operating result before depreciation and amortization (EBITDA) | | -10,354 | -1,556 |
| Depreciation and amortization | | 0 | 0 |
| Operating result (EBIT) | | -10,354 | -1,556 |
| <hr/> | | | |
| Financial income and expenses | | | |
| Interest income from group companies | | 4,050 | 0 |
| Financial income | 7 | 3,820 | 508 |
| Interest expense to group companies | | 84 | 0 |
| Interest expenses | 7 | 2,506 | 0 |
| Financial expenses | 7 | 10,102 | 1,372 |
| Net financial items | | -4,823 | -864 |
| <hr/> | | | |
| Result before tax | | -15,178 | -2,420 |
| Income tax expense | 11 | 0 | 0 |
| Result for the period | | -15,178 | -2,420 |
| <hr/> | | | |
| Brought forward | | | |
| Transferred from other equity | | 15,178 | 2,420 |
| Net brought forward | | -15,178 | -2,420 |

Observe Medical ASA
Balance Sheet

| <i>Amounts in NOK thousand</i> | Note | 31.12.2020 | 31.12.2019 |
|--|-------------|-------------------|-------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Investments in subsidiaries | 9 | 207,984 | 58,969 |
| Loans to subsidiaries | 6 | 3,944 | 39,435 |
| Other non-current receivables | | 44 | 0 |
| Total non-current assets | | 211,972 | 98,403 |
| Current assets | | | |
| Trade receivables | 5 | 0 | 66 |
| Trade receivables from subsidiaries | 5, 10 | 0 | 55 |
| Other receivables and prepaid expenses | | 292 | 120 |
| Bank deposits | 3 | 14,327 | 195 |
| Total current assets | | 14,620 | 436 |
| Total assets | | 226,591 | 98,839 |

Observe Medical ASA

Balance Sheet

Amounts in NOK thousand

| EQUITY AND LIABILITIES | | | |
|--|------|----------------|---------------|
| Share capital | | 5,097 | 3,918 |
| Share premium reserve | | 86,278 | 46,852 |
| Other paid-in equity | | 12,739 | 11,800 |
| Total paid-in equity | | 104,115 | 62,570 |
| Other equity | | -17,598 | -2,420 |
| Total equity | | 86,517 | 60,150 |
| Non-current liabilities | | | |
| Contingent consideration | 4 | 22,368 | 12,398 |
| Non-current liabilities to group companies | | 80,931 | 0 |
| Non-current interest-bearing liabilities | 4,10 | 34,821 | 25,413 |
| Total non-current liabilities | | 138,120 | 37,811 |
| Current liabilities | | | |
| Trade payables | 10 | 501 | 582 |
| Public duties payable | | 166 | 0 |
| Other current liabilities | | 1,288 | 295 |
| Total current liabilities | | 1,954 | 878 |
| Total liabilities | | 140,074 | 38,689 |
| Total equity and liabilities | | 226,591 | 98,839 |

The Board of Directors and CEO of Observe Medical ASA
 Oslo, April 29, 2021



Terje Bakken
 Chair of the Board



Kathrine Gamborg Andreassen
 Director



Björn Larsson
 CEO



Kristin Nyberg
 Director



Thomas Grunfeld
 Director

Observe Medical ASA

Equity

Amounts in NOK thousand

| | Share capital | Share premium | Other paid-in equity | Total paid-in capital | Retained earnings | Total |
|---------------------------------------|---------------|---------------|----------------------|-----------------------|-------------------|---------------|
| Equity as at January 1, 2020 | 3,918 | 46,853 | 11,800 | 62,570 | -2,420 | 60,150 |
| Capital increase ¹⁾ | 1,180 | 39,426 | 787 | 41,392 | | 41,392 |
| Accrued cost options | | | 152 | 152 | | 152 |
| Net result for the period | | | | | -15,178 | -15,178 |
| Equity as at December 31, 2020 | 5,097 | 86,278 | 12,739 | 104,115 | -17,598 | 86,517 |

¹⁾ During 2020 Observe Medical ASA has issued 5,537,784 new shares for gross proceeds of NOK 46,363 thousand. Expenses related to the capital increase amount to NOK 4,970 thousand. See Note 23 in the consolidated financial statement for further information about movement in share capital/number of shares and Note 19 Share Options.

| Share capital: | NOK thousand | Shares | Par price |
|-------------------------------|--------------|-------------------|-------------|
| Share capital January 1, 2020 | 3,918 | 15,067,673 | 0.26 |
| Capital increases | 1,180 | 4,537,784 | 0.26 |
| Total | 5,097 | 19,605,457 | 0.26 |

Refer to Note 23 in the Observe Medical group's consolidated financial statement 2020 for shareholders' information.

Observe Medical ASA

Cash Flow Statement

| <i>Amounts in NOK thousand</i> | Note | 2020 | 2019 |
|---|-------------|---------------|---------------|
| Cash flow from operating activities | | | |
| Result before tax | | -15,178 | -2,420 |
| Interest expenses and change in contingent consideration not paid | 7, 10 | 6 675 | -192 |
| Change in trade receivables and other receivables | 5 | -96 | -241 |
| Change trade payables and other current liabilities | | 1,077 | 726 |
| Changes in other current items | | | -1 |
| Net cash flow from operating activities | | -7,522 | -2,128 |
| Cash flow from investment activities | | | |
| Paid cash acquisition of subsidiaries | | -8,759 | 0 |
| Net cash flow used in investment activities | | -8,759 | 0 |
| Cash flow from financing activities | | | |
| Paid in new share capital | | 0 | 1,000 |
| Repayment share capital | | 0 | -1,000 |
| Net proceeds from share issue | | 41,392 | 0 |
| Change interest bearing debt | | 6,902 | 3,995 |
| Net change interest bearing debt to group companies | | -17,881 | -2,728 |
| Net cash flow from financing activities | | 30,413 | 1,267 |
| Exchange rate fluctuations | | 0 | 1,056 |
| Changes in cash | | 14,132 | 195 |
| Bank deposits as at January 1 | | 195 | 0 |
| Bank deposits end of period | 3 | 14,327 | 195 |

Explanatory Notes to the Annual Financial Statements 2020

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.

In October 2020 Observe Medical ASA acquired Sylak AB, a Swedish distributor of well-established medtech products in the Nordic market. The acquisition strengthened Observe Medical's commercial organization and corresponding go-to-market execution power in the Nordics. Sylak is a distributor of ICU/anesthesia products in the Swedish market, with a team of experienced professionals (ICU and anesthesia nurses) and with a complementary product portfolio to the Sippi®.

In December 2020, the Group carried out a reorganization to simplify the group structure. Following the reorganization, Observe Medical ASA primarily holds 100% of all shares in its subsidiary Observe Medical International AB, Observe Medical AB, Observe Medical Nordic AB (former Sylak AB) and Observe Medical aps.

Observe Medical ASA provides financing to entities in the Group.

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

Note 1 – Accounting Policies

Shares in Subsidiaries

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 Financial income and expenses.

Revenue

Revenue stem from sale of administrative services to subsidiaries. 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

| <i>Amounts in NOK thousand</i> | 2020 | 2019 |
|--------------------------------------|--------------|-------------|
| Salaries | 3,443 | 156 |
| Remuneration to Board and Committees | 1,173 | 0 |
| Employment taxes | 521 | 94 |
| Pension insurance | 119 | 0 |
| Other benefits | 239 | 0 |
| Total salary expenses | 5,495 | 250 |

CFO is the only employee in the company. The company has a contribution pension scheme that meets the minimum requirement of the Norwegian Act of Mandatory Occupational Pension.

The CEO is employed by the fully owned subsidiary, Observe Medical AB. Employee benefit expenses is invoiced with TNOK 2,018 to Observe Medical ASA and is part of the salaries in the table.

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.

Share option expenses of NOK 152 thousand for 2020 are included in "Other Benefits". The company is 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 consolidated financial statement 2020 for further information related to the share options.

Auditor

Audit fees expensed for 2020 amounts to NOK 866 thousand ex VAT. Fees for other assurance services amounts to NOK 269 thousand.

Note 3 – Bank Deposits

Total funds on bank deposits at 31.12.2020 are NOK 14,327 thousand and restricted cash is NOK 121 thousand.

Note 4 – Non-Current Liabilities

| <i>Amounts in NOK thousand</i> | 2020 | 2019 |
|--|----------------|---------------|
| Contingent consideration | 22,368 | 12,398 |
| Interest bearing debt to Observe Medical Int. AB ¹⁾ | 80,931 | 0 |
| Interest bearing debt to Navamedic ASA ²⁾ | 34,821 | 25,413 |
| Total non-current liabilities | 138,120 | 37,811 |

¹⁾ Included accrued, not paid interest as at 31.12.2020 of NOK 84 thousand.

²⁾ Included accrued, not paid interest as at 31.12.2020 of NOK 2,821 thousand.

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 thousand (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 thousand (the "Facility A"); and
- A subordinated convertible term loan facility in the amount of NOK 13,000 thousand (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 was paid in portion in the first 8 months after listing. The facility is fully drawn as at December 31, 2020.

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.

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 a discount rate of 9.6% as at December 31, 2020 and 18.3 % as at December 31, 2019.

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 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 5,3 million

The change in fair value in 2020 is due to decreased discount rate due to decreased risk related to the cash flow and increased estimated cash flows. The decreased discount rate from 18.3% to 9.6% in 2020 gives an increased fair value of approximately NOK 6 million.

Sensitivity at 31 December 2020: A 1% reduction in the discount rate would increase the estimated present value by NOK 0.7 million and a 10% reduction in revenue would decrease the estimated present value by NOK 1.6 million.

Note 5 – Trade Receivables

| <i>Amounts in NOK thousand</i> | 2020 | 2019 |
|-----------------------------------|-------------|-------------|
| Trade receivables par value | 0 | 66 |
| Trade receivables to subsidiaries | 0 | 55 |
| Provision for losses | 0 | 0 |
| Trade receivables | 0 | 121 |

Note 6 – Loans to Group Companies

| <i>Amounts in NOK thousand</i> | 2020 | 2019 |
|---------------------------------------|--------------|---------------|
| Observe Medical AB | 0 | 14,261 |
| Observe Medical International AB | 0 | 893 |
| Observe Medical Nordic AB | 3,944 | 0 |
| Observe Medical ApS | 0 | 24,281 |
| Total loans to group companies | 3,944 | 39,435 |

The 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 signed loan agreement 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

Amounts in NOK thousand

| Financial income | 2020 | 2019 |
|--------------------------------------|---------------|--------------|
| Interest income from group companies | 4,050 | 508 |
| Net currency gain | 3,820 | 0 |
| Other interest income | 0 | 0 |
| Total financial income | 7,870 | 508 |
| Financial expenses | 2020 | 2019 |
| Interest expenses | 2,506 | 316 |
| Interest expenses to group companies | 84 | 0 |
| Net currency loss | 0 | 1,056 |
| Change in contingent consideration | 9,970 | 0 |
| Other financial cost | 133 | 0 |
| Total financial expenses | 12,693 | 1,372 |
| Net financial expenses | 4,823 | 864 |

Note 8 – Other Operating Expenses

| <i>Amounts in NOK thousand</i> | 2020 | 2019 |
|--|--------------|--------------|
| Audit and other assurance services | 1,134 | 100 |
| Administrative consultants | 2,557 | 264 |
| Administrative services from Navamedic ASA | 57 | 130 |
| Accounting and financial consultant services | 699 | 187 |
| Fees to Oslo Børs | 88 | 599 |
| Other fees and operating expenses | 1,130 | 78 |
| Total other operating expenses | 5,665 | 1,359 |

Note 9 – Subsidiaries

| <i>Amounts in NOK thousand</i> | Business office | Ownership share | Carrying amount December 31, 2020 |
|----------------------------------|------------------------|------------------------|--|
| Observe Medical AB | Gothenburg, Sweden | 100 % | 64,042 |
| Observe Medical ApS | Herlev, Denmark | 100 % | 80,247 |
| Observe Medical International AB | Gothenburg, Sweden | 100 % | 58,969 |
| Observe Medical Nordic AB* | Gothenburg, Sweden | 100 % | 4,727 |
| Total | | | 207,984 |

*) Sylak AB changed name to Observe Medical Nordic AB in 2021.

Note 10 – Related Parties

| <i>Amounts in NOK thousand</i> | Income | Operating expenses | Interest income | Interest expenses | Receivables | Liabilities |
|----------------------------------|---------------|---------------------------|------------------------|--------------------------|--------------------|--------------------|
| Navamedic ASA ¹⁾ | | 179 | | 2,506 | | 34,821 |
| Observe Medical AB | 724 | 2,018 | 1,881 | | | |
| Observe Medical International AB | 40 | | 75 | 84 | | 80,931 |
| Observe Medical ApS | 43 | | 2,041 | | | |
| Observe Medical Nordic AB | | | 53 | | 3,944 | |
| Total | 806 | 2,197 | 4,050 | 2,590 | 3,944 | 115,752 |

¹⁾ Navamedic ASA owns 21.54% of all shares in Observe Medical ASA

Note 11 - Taxes

| <i>Amount in NOK thousand</i> | 2020 | 2019 |
|-------------------------------|-------------|-------------|
| Income tax payable | 0 | 0 |
| Changes in deferred tax | 0 | 0 |
| Income tax expenses | 0 | 0 |

Reconciliation from Nominal to Actual Tax Rate

| <i>Amount in NOK thousand</i> | 2020 | 2019 |
|-----------------------------------|----------------|---------------|
| Result before income tax | -15,178 | -2,420 |
| Non-deductible expenses | 5,152 | 0 |
| Total taxable income | -10,025 | -2,420 |
| Expected income tax expenses, 22% | -2,206 | -532 |

Specification of Tax Effect to Temporary Differences

| | | |
|---|----------|----------|
| Non-current assets | 0 | 0 |
| Current assets | 0 | 0 |
| Liabilities and provisions | 0 | 0 |
| Non-recognized tax asset | 2,206 | 532 |
| Tax losses carried forward | 0 | 0 |
| Deferred tax assets/liabilities in the balance sheet | 0 | 0 |

Reconciliation of Deferred Tax Assets in the Balance Sheet

| | | |
|---|----------|----------|
| Deferred tax assets January 1 | 0 | 0 |
| Change in deferred taxes recognized in income statement | 0 | 0 |
| Change in deferred taxes recognized to equity | 0 | 0 |
| Deferred tax assets/liabilities in the balance sheet | 0 | 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. As at December 31, 2020 the company had NOK 12,445 thousand in tax loss carry-forward, and at December 31, 2019 the tax loss carry-forward was NOK 2,420 thousand.

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

We confirm that the financial statements for 2020 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, 2021

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

Terje Bakken
Chair of the Board

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

Kathrine Gamborg Andreassen
Director

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

Björn Larsson
CEO

A handwritten signature in blue ink, appearing to be "Kristin Nyberg".

Kristin Nyberg
Director

A handwritten signature in blue ink, appearing to be "Thomas Grunfeld".

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 2020, 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 2020, 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 2020, 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 2020, 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 sections "Financial risk" and "Going concern" in the Board of Directors' report, which indicates that there is substantial risk associated with the Company and the Group's liquidity in 2021. 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

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.

Statsautoriserede revisorer - medlemmer av Den norske Revisorforening

Offices in:

| | | | |
|---------|--------------|--------------|-----------|
| Oslo | Everum | Mo i Rana | Stord |
| Alta | Finnanås | Molde | Straume |
| Arendal | Hamer | Siden | Tromsø |
| Bergen | Haugesund | Sandnessjøen | Trondheim |
| Bodø | Knarvik | Sandnessjøen | Tynset |
| Drammen | Kristiansand | Stavanger | Ålesund |



Observe Medical ASA

adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

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 and the Group’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 16 in the Board of Director’s report, the accounting policies on page 55, the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 59, and Note 7 on page 63 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 57.2 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>Management has determined that it has one cash generating unit, Medtech business.</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 estimated 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 16 in the Board of Director’s report, the accounting policies on page 56, the critical accounting judgments and key sources of estimation uncertainty described in Note 4 on page 59, and Note 14 on page 70 in the consolidated financial statements.



Observe Medical ASA

| <i>The Key Audit Matter</i> | <i>How the matter was addressed in our audit</i> |
|--|--|
| <p>The valuation assessment of the contingent consideration with a total carrying value of NOK 22.4 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 2021-2026.</p> <p>The estimated amount of the contingent consideration is determined based on forecasted revenue for the period 2021-2026 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>Our audit procedures in this area included:</p> <ul style="list-style-type: none"> - We evaluated the assumptions, such as discount rates and projected future revenues from sales of Sippi® products and compared assumptions with those used for impairment analysis for consistency, - 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. |

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.



Observe Medical ASA

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 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



Observe Medical ASA

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.

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 2021
KPMG AS



Kjetil Kristoffersen
State Authorised 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. |
| EBITDA: | Earnings before interest, taxes, depreciation and amortization. |
| Operating expenses: | Employee benefit expenses plus other operating expenses. |
| Earnings per Share (EPS): | Profit divided by number of outstanding shares |
| Number of employees/ workforce: | Number of employees comprise all staff on payroll including both full time and part time employees and employees on temporarily leave (paid and unpaid) |
| Employee turnover %: | Number of employees who have leave the organization in percentage of total number of employees. |
| Absence rate for illness: | Number of hours: Number of hours of sick leave as percentage of the total number of possible hours worked |
| Equity ratio: | Total shareholders` equity in percentage of total assets |

Equity ratio

| <i>Amounts in NOK thousand</i> | At 31 December 2020 | At 31 December 2019 |
|--------------------------------|----------------------------|----------------------------|
| Total shareholders equity | 20 349 | 14 542 |
| Total assets | 87 733 | 55 333 |
| Equity ratio | 23.2% | 26.3% |

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