

Observe Medical ASA

ANNUAL REPORT 2021



Contents

| | |
|---|-----|
| We are Observe Medical | 3 |
| Highlights 2021 | 4 |
| Key Figures | 5 |
| About Observe Medical Portfolio | 8 |
| Executive Management and Board of Directors | 26 |
| Corporate Governance | 27 |
| Sustainability Report | 38 |
| Consolidated Financial Statements 2021 | 49 |
| Explanatory Notes to the Consolidated Financial Statements 2021 | 55 |
| Parent Company Observe Medical ASA Annual Financial Statements 2021 | 86 |
| Declaration in Accordance with §5-5 of the Securities Trading Act | 103 |
| Auditor's Report | 104 |
| Alternative Performance Measures (APMs) | 110 |

We are Observe Medical

Observe Medical is a Nordic medtech company that develops, markets and sells innovative medtech products for the global market. The Company is committed to improving patient welfare and patient outcomes, improving clinical data accuracy and promoting positive health economics.

The Company seeks to drive growth by leveraging its expertise in sales and commercialization of its broad portfolio of medical technology products, mainly in urine measurement, ultrasound, anesthesiology/ICUs, surgery and wound care, in combination with targeted M&A.

The Company is headquartered in Oslo, Norway, with wholly-owned subsidiaries in Narvik, Norway, Gothenburg in Sweden, Oulu in Finland and Seattle in the US. In addition, Observe Medical has a distributor and partner network internationally.

Sippi® a CE marked system for urine measurement, which offers a unique, effective, and innovative solution for automated and 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 alert for and hinder 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.

During 2021, 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. The Group has strong global patent protection for Sippi® proprietary technology and has further strengthen it with new patents in India, China, and Brazil during 2021.

In March 2022, Observe Medical acquired Biim Ultrasound AS, a Company that has developed a unique, wireless and pocketable ultrasound probe, Biim, that can scan patients and review images in seconds. The objective of Biim is to enhance healthcare personnel decision-making and improve patient outcomes. Biim's technology is patented, and the device received 510 (k) clearance from the US Food and Drug Administration (FDA) in 2018. Biim is approved for ultrasound imaging of the human body and is specifically used to guide needle and catheter insertions for dialysis and vascular access procedures.

A partner agreement with Fresenius Kidney Care, a leading provider of kidney care services in the US with approximately 2,500 clinics, is already in place whereby Biim is intended to be used across Fresenius' dialysis centers in the US. In April 2022, Biim completed phase 1, delivering 260 devices to Fresenius's training clinics in the US, and is now ready for the next phase in the partner agreement with Fresenius Kidney Care.

In addition, the Company has a broad distribution portfolio of medtech devices and disposables, mainly within Urine measurement, Anesthesiology/ICUs and wound care. This product portfolio from well-established suppliers in medical technology and wound care is through an experienced sales team and contributes to accelerating the clinical rollout of the proprietary products by enabling access to target customers. Our medtech distribution portfolio is mainly distributed in the Swedish market with the potential to expand to the rest of the Nordic region.

Highlights 2021

► **Significant organic growth for the Nordic distribution portfolio**

The Company reports total revenues of NOK 24 million compared to NOK 15.5 million in comparable pro forma figures for 2020, representing organic growth of 55%

► **Signed distribution agreement with Skamex (Poland) for the roll-out of Sippi® in the Polish and the Romanian market**

At June 30, 2021, Observe Medical announced that it had entered into a distribution agreement with Skamex (Poland) for the roll-out of Sippi® in the Polish and the Romanian market. Skamex is one of the leading distributors of medical equipment in Poland and Romania, two significant markets with together over 6.800 ICU beds.

► **Nye Karolinska Sjukhuset initiates new studies to broaden the clinical scope of use for Sippi®**

In 2021, Nya Karolinska Hospital in Stockholm, Sweden, initiated a study to evaluate Sippi® for early detection of AKI (Acute Kidney Injury), and the Hospital has completed the recruitment of 60 patients by the end of 2021. AKI affects more than 50% of patients in ICU departments and represents a significant clinical burden to patients and healthcare systems. Sippi® potential positive effect on early detection of AIK is thus driving significant health economic value of Sippi®.

Subsequent events

► **Acquired and completed the acquisition of Biim Ultrasound AS**

On January 14, 2022, Observe Medical announced the acquisition of Biim Ultrasound AS, an international medical ultrasound technology company, and its unique, wireless, and pocketable ultrasound probe, Biim. The acquisition significantly strengthened and broadened Observe Medical's distribution network in the US market and expanded the product portfolio.

► **The Company carried out a share capital increase by way of a Rights Issue**

In February 2022, the board of directors approved a fully underwritten Rights Issue to raise gross proceeds of NOK 180 million in connection with the Company's acquisition of Biim Ultrasound AS. The proceeds were used to partly finance the cash portion of the acquisition of Biim Ultrasound AS.

► **Rune Nystad was appointed Chief Executive Officer of Observe Medical**

Bringing broad experience from the US medtech industry, Nystad was appointed CEO in March 2022. His previous role was CEO of Biim Ultrasound.

Key Figures

- Observe Medical had operating revenues of NOK 24,042 thousand (2,961) in 2021 and a gross result of NOK 9,518 thousand (986). The change is mainly due to the acquisition of the Nordic distribution portfolio, which is consolidated as at November 1, 2020.
- EBITDA decreased in 2021 mainly due to higher operating expenses related to increased headcount, execution of the go-to market strategy, and transaction cost of NOK 4,619 thousand related to the acquisition of Biim Ultrasound AS.
- Net finance income of NOK 10,223 thousand (-8,782) are mainly related to change in the contingent consideration liability and the net currency gain that more than offset the interest expenses of borrowings for the year.
- Result for 2021 is negative NOK 26,321 thousand (-36,868).
- Observe Medical had an equity of NOK -14,122 thousand at December 31, 2021. In March 2022 the Company completed a Rights Issue of NOK 180,000 thousand and issued 8,171,913 consideration shares in connection with the Biim Ultrasound acquisition. These transactions significantly increases the Company's equity and which secure financing of the execution of the Company's strategy.

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

| | 2021 | 2020 |
|------------------------------------|-------------|-------------|
| Revenue | 24,042 | 2,961 |
| Gross result | 9,518 | 986 |
| EBITDA before non-recurring items* | -28,462 | -23,711 |
| EBITDA | -33,081 | -24,923 |
| EBIT | -36,544 | -28,087 |
| Net finance | 10,223 | -8,782 |
| Result | -26,321 | -36,868 |
| EPS | -1.34 | -2.22 |
| Equity | -14,122 | 20,349 |
| Total balance | 71,738 | 87,733 |
| Equity ratio | -20% | 23.2% |
| Number of employees | 14 | 11 |

* Non-recurring expenses in 2021 is related to expenses in connection with the acquisition of Biim Ultrasound AS, and in 2020 the expenses was related to acquisition of the Nordic distribution portfolio.

Letter from the CEO

Positioning the company for global growth

I am pleased to comment on Observe Medical's recent achievements and provide an overview of the way forward as part of this Annual Report, the first since my appointment as Chief Executive Officer in March 2022. I am grateful for the opportunity and look forward to working closely with the team to strengthen the Company's position as a Nordic medtech player with global reach.

We have gone through a transformational period over the last few months, so I would like to take this opportunity to focus on the way forward. We are surrounded by solid fundamentals, and I believe we are well-positioned to deliver on our potential. We have a strong portfolio of proprietary medtech products available globally, an international and dedicated team, and the drive to succeed. We are also supported by dedicated owners who take an active part in the development of the Company.

The transformational acquisition of Biim Ultrasound AS in January was a defining moment for the Company, demonstrating our commitment to improving patient welfare and patient outcomes, improving clinical data accuracy, and promoting positive health economics. As the prior Founder and CEO of Biim Ultrasound, I am confident Observe Medical will benefit and capitalise from the many synergies between the two companies.

As part of the acquisition, Observe Medical strengthened its product portfolio with the addition of a unique and patented, wireless, and pocketable ultrasound probe that can scan patients and review images in seconds from a smart device. Shortly before the acquisition, Biim Ultrasound had signed a significant partnership agreement with Fresenius Kidney Care to deliver probes to hundreds of its educational dialysis clinics in the US. Excitingly, the roll-out of Biim is well underway, and a total of 260 probes have already been delivered. Fresenius has more than 2 500 dialysis clinics in the USA, which are targeted to introduce ultrasound devices. Fresenius has also signalled interest in using Biim across additional applications, and we look forward to exploring this partnership further.

Beyond the acquisition, Observe Medical also made significant progress with Sippi®, our automated digital urine meter. Having agreed on the pathway forward for Sippi® in the US market with the US Food and Drug Administration, we expect Sippi® to be released in the fourth quarter of 2022. This would be followed by a market entry and launch with a selected partner by the first quarter of 2023.

In Europe, we have already experienced a successful pre-launch in Poland, and a full launch of the system will soon take place. In addition to the European roll-out, we have seen the Sippi® system be evaluated for early detection of increased risk of acute kidney injury at the Nya Karolinska Sjukhuset in Sweden. The data from this study is currently being analysed, and we look forward to updating the market once the analysis is complete.

During the first quarter of 2022, we also announced that we had received Medical Device Regulation (MDR) for the Sippi® Disposable Unit, ensuring continued market access for this part of the unit in Europe after 2024. The team is also in the process of obtaining MDR Certification for the Sippi® Base Unit, which is currently certified under MDD until 2024.

Our Nordic sales and distribution portfolio has had strong tailwinds and good sales numbers. This part of the business is continuing its expansion, and we have added a surgery product range to our distribution. This entity has great business potential in all Nordic countries for the years ahead.

We have an exciting road ahead, and I look forward to embarking on this journey alongside our dedicated and highly valued team. I would also like to thank the team for their patience as we go through the integration process and merge our strengths. Our shareholders have also exhibited strong backing for the combined business, and I am grateful for the continued support. Our strategy for growth is clear. With commercial focus, time and precision, we will succeed. I look forward to providing further updates as we continue to move forward.



Rune Nystad
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 by well-established manufacturers of innovative medical technology and wound care products and mainly distributed in the Swedish market with the potential to expand to the rest of the Nordic region.

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

Sippi® - The Digital, Automated Urine Measurement System

One can hardly imagine a space in 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 infections, it is essential to prevent biofilm from reaching critical levels and migrating 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 that 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.

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 detecting 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 the 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 ongoing urinary tract infection, albuminuria and hemoglobinuria. Finally, the study mentions that the Sippi detection system (SippSense®) may provide new information for early warning of kidney disease, which could be an indicator of the need for 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 published study addresses SippCoat® effectiveness in hindering the most common bacteria growth, including multi-resistant stems.

In 2021, Nya Karolinska Hospital in Stockholm, Sweden, initiated a study to evaluate Sippi® for early detection of AKI (Acute Kidney Injury) and the Hospital has completed the recruitment of 60 patients at the end of 2021. AKI is affecting more than 50% of patients in ICU departments and represents a significant clinical burden to patients and healthcare systems. Sippi® potential positive effect on early detection of AIK is thus driving significant health economic value of Sippi®

Additional Applications of the Technology

The 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 a focus on 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 a full European launch as well as preparations for launches in North America and the 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.

Biim wireless pocketable ultrasound device

At March 8, 2022, Observe Medical ASA acquired Biim Ultrasound AS ("Biim or Biim Ultrasound").

Biim has developed and sells a wireless pocketable ultrasound device which has been approved by the FDA since 2018. Historically ultrasound has been underutilized, despite its clinical value. Ultrasound has been expensive and served by large ultrasound devices in hospitals and not designed to be mobile solutions that is easy to bring and use in and outside the hospitals.



Biim's wireless pocketable ultrasound device is a cost efficient and small handheld wireless device that makes the technology available where its needed.

Biim offers nurses and medical staff an easy to use ultrasound device at low cost for them to ensure accuracy and quality in the treatment of their patients. The customers of Biim Group benefit from the device being intuitive, pocketable, flexible and cost efficient. Biim has extensive R&D conducted since 2014, and a recent agreement with Fresenius with an aim to roll-out Biim Ultrasound probe in their dialysis clinics has been a major important milestone.

The Biim Ultrasound system consists of an ultrasound probe and an App for display of the ultrasound image and/or video. The App can be downloaded from App Store and Google Play onto a tablet, pc or a phone. The wireless communication between the probe and the device for display is done via a Wifi connection. Both the probe and the display device each have a Wifi chip for a closed system connection to be established during operation. The system is typically used at the bedside but also in non-hospitals settings such as nursing homes, ambulances and in homes. The entire system is designed to display anatomy and needle insertions in the range of 0 to 4 cm.

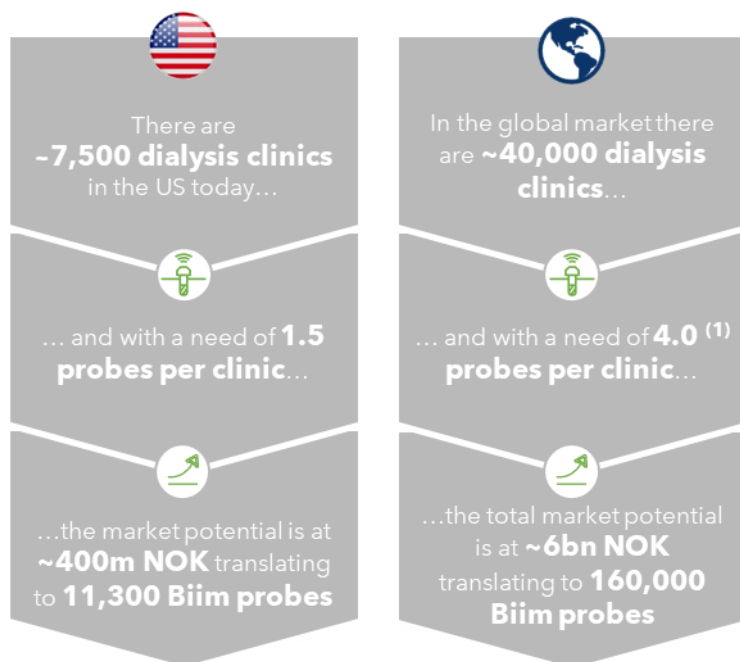
The main procedures are IV; PICC (Midline), CVC and dialysis procedures for graft and fistula view during procedures. The probe consists of many small plastic parts and electrical parts. The main circuit board has sufficient capacity to send, receive and process image data. It is operated by a chargeable battery.

The probe also consists of several wireless functions in order for the operator to keep the device in a sterile field with the display device outside of the sterile field established for a specific procedure. This has several advantages compared to most devices which have a cable between the probe and the display device, which is considered more cumbersome. Some of the App's functions are zoom, changing the depth of view, storing/sending data, measurements of length, circumference and annotations. The customer can also purchase additional batteries, probe holders, gel, sterile sheets and a rack to store the entire system. Biim offers most of these articles.



Market overview

The dialysis market opens a huge potential for Biim's wireless pocketable ultrasound device. (1): Over time, the Company believes that Biim's wireless pocketable ultrasound device will become the standard of care, thus, the estimated number of wireless pocketable ultrasound device/probes are higher for the global market size estimate.



Furthermore, Biim has identified an untapped potential to distribute its product in adjacent market segments.

The Nordic Portfolio

Observe Medical Nordic portfolio consists of medtech devices and disposables, from well-known international suppliers of products within Urine measurement, Anaesthesiology/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 fixating 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 sizes, 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 2021

Introduction

Observe Medical (the Group) is a medtech group developing and commercializing medical technology products on a global market through a global distributors and partners network and a direct sales operation in the Nordic. The Group aims to add value to the benefit of patients, healthcare professionals and hospitals through improved patient welfare, health economics and data accuracy. With headquarters in Oslo, Norway, Observe Medical is building a portfolio of medtech products through M&A as well as organic growth.

In March 2022, the Group acquired Biim Ultrasound AS (Biim or Biim Ultrasound) for a total consideration of NOK 185 million. Biim has developed and sells a wireless pocketable ultrasound device which has been approved by the FDA since 2018.

After the Biim acquisition, the Group has offices in Gothenburg (Sweden), Oulu (Finland), Seattle (US), in addition to the headquarters in Oslo (Norway), and we currently have two proprietary system in our global portfolio;

Sippi® a CE marked system for urine measurement, which offers a unique, effective, and innovative solution for automated and 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 alert for and hinder biofilm formation, which can lead to urinary infections. During 2021, 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. The Group has strong global patent protection for Sippi® proprietary technology and has further strengthen it with new patents in India, China, and Brazil during 2021.

The Biim Ultrasound system consists of an ultrasound probe and an App for display of the ultrasound image and/or video. The App can be downloaded from App Store and Google Play onto a tablet, pc or a phone. The wireless communication between the probe and the device for display is done via a Wifi connection. Both the probe and the display device each have a Wifi chip for a closed system connection to be established during operation. The system is typically used at the bedside but also in non-hospitals settings such as nursing homes, ambulances and in homes.

In the Nordic region, the Nordic distribution portfolio had organic growth in sales revenue at 55%, to NOK 24 million, compared to proforma figures from 2020. The Group has communicated a strategy to further grow and expand in the Nordic with a long-term ambition of NOK 100 million in revenues.

In February 2022, the Group strengthened its financial position with a rights issue of NOK 180 million (Rights Issue). Net proceeds from the Rights Issue will be used for the cash

settlement of NOK 50 million related to the acquisition of Biim Ultrasound AS, commercialization and growth initiatives for Sippi® and Biim ultrasound probe, and repayment of current interest-bearing debt, in addition to general corporate purposes.

Observe Medical ASA is the parent company of its wholly owned subsidiaries, Observe Medical International AB (merged into Observe Medical AB in January 2022), Observe Medical AB, Observe Medical ApS, Observe Medical Nordic AB, Biim Ultrasound AS. Biim Ultrasound Oy and Biim Ultrasound Inc is fully owned subsidiaries of Biim Ultrasound AS.

Summary of the Financial Results

The Group had operating revenues of NOK 24,042 thousand in 2021 compared to NOK 2,961 thousand in 2020. The gross result was NOK 9,519 thousand, compared to NOK 986 thousand in 2020. The Nordic distribution portfolio was acquired at the end of October 2020, and the increase in revenues and gross results is due to reported revenues for full year 2021 and further strong organic growth.

In 2021, EBITDA before non-recurring items was negative NOK 28,462 thousand compared to negative NOK 23,711 thousand in 2020. The decrease in EBITDA compared to last year was mainly due to increased average headcount and employee benefit expenses and reflects the Group's strategy to strengthen sales efforts. Non-recurring items at NOK 4,619 thousand in 2021 was expenses in connection with the Biim acquisition and in 2020, NOK 1,212 thousand related to the Sylak AB acquisition.

Depreciation and amortization increased from NOK 3,163 thousand in 2020 to NOK 3,463 thousand in 2021. The increase is mainly related to increased depreciation of lease liabilities due to IFRS 16.

Net finance income was NOK 10,223 thousand and was mainly related to a 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 net currency gain more than offset the increased interest expenses due to increased interest-bearing debt. In 2020, net finance expenses came in at NOK 8,782 thousand related to the 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 26,321 thousand in 2021, compared to a loss of NOK 36,868 thousand in 2020.

Earnings per share was negative NOK 1.34, compared to negative NOK 2.22 in 2020.

Financial Position

The Group had assets of NOK 71,738 thousand at December 31, 2021, compared to NOK 87,733 thousand at December 31, 2020. The book value of fixed assets was NOK 56,579 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.

The company has carried out impairment tests to test goodwill and intangible assets without identifying any need for impairment of booked values.

At year-end 2021, the Group had current assets of NOK 15,159 thousand, mainly related to inventories and prepaid expenses related to the Rights Issue that is completed in 2022. In 2020, the Group had current assets of NOK 29,797 thousand.

The Group had equity of negative NOK 14,122 thousand at December 31, 2021, compared to NOK 20,349 thousand at December 31, 2020. The decrease is mainly due to the negative result in 2021.

On March 7, 2022, the Company announced that the share capital increase pertaining to the Rights Issue with a total of 25,714,286 new shares each with a nominal value of NOK 0.26 was registered in the Norwegian Register of Business Enterprises (Nw: Foretaksregisteret). The subscription price per share was NOK 7.00, and the total gross proceeds from the Rights Issue was NOK 180 million. The Rights Issue has significantly increased the Group's equity.

On December 21, 2021, the Group had total non-current liabilities of NOK 13,581 thousand compared to NOK 57,449 thousand one year before. The decrease is mainly related to reclassification to current liabilities of interest-bearing loan from Navamedic ASA and change in the 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.

Total current liabilities at December 31, 2021, amounted to NOK 72,279 thousand, compared to NOK 9,935 thousand at December 31, 2020. The increase is mainly related to reclassification from non-current liabilities of interest-bearing loan from Navamedic ASA, loan agreement with Ingerø Reiten Investment Company AS and credit facility in Danske Bank.

Cash Flow

At the end of 2021, the Group had NOK 2,864 thousand in cash, a decrease from NOK 18,945 thousand at the end of 2020.

Cash flow from operating activities was negative NOK 22,126 thousand in 2021, compared to negative NOK 21,641 thousand in 2020. Change in result before tax is mainly offset by a change in interest expenses and change fair value contingent consideration with no cash effect due 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.

The Group used NOK 4,886 thousand for investing activities in 2021, down from NOK 8,077 thousand in 2020. The decrease is related to the net cash effect of the acquisition

of Sylak AB in October 2020, which more than offset the increased investment in intangible and tangible assets in 2021.

In 2021, net cash flow from financing activities was NOK 16,079 thousand due to the loan agreement with Ingerø Reiten Investment Company AS and credit facility in Danske Bank. In 2020, net cash flow from financing activities was NOK 48,169 thousand and related to net proceeds from rights issue completed in July 2020 and increased interest-bearing debt.

Financing

The Group is in the roll-out phase of its proprietary products Sippi® and Biim ultrasound probe, and in order to be able to continue the roll-out of the products in the global market, the Group will continue to focus and invest in sales channels, sales resources and business development going forward.

In addition, the Nordic distribution portfolio is expected to grow and 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. In June 2021 the Group entered into a short-term interest-bearing loan agreement with Ingerø Reiten Investment Company AS at NOK 10,000 thousand and in November 2021 a credit facility in Danske Bank which were drawn with NOK 6,509 at December 31, 2021.

Net proceeds from the Rights Issue in March 2022 has been used for the cash settlement of NOK 50 million related to the acquisition of Biim Ultrasound AS, and will be used for further commercialization and growth initiatives for Sippi® and Biim ultrasound probe and repayment of current interest-bearing debt in addition to general corporate purposes.

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, 2021, Observe Medical ASA had 1,224 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 2021.

| No | Name | Number of shares | Ownership % |
|-------------------------------|-------------------------|-------------------|-----------------|
| 1 | NAVAMEDIC ASA | 4 222 727 | 21.54 % |
| 2 | INGERØ REITEN INV. COMI | 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 | 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 GI | 214 850 | 1.10 % |
| | OTHER | 4 091 704 | 20.87 % |
| Total number of shares | | 19 605 457 | 100.00 % |

Corporate Governance

On February 26, 2021, the board of directors adopted a 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 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 and further described in Note 3 in the consolidated financial statements 2021.

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, and the acquisition of Biim Ultrasound AS in March 2022. Observe Medical

has a broad product portfolio within medtech products. For the acquired Nordic distribution portfolio, Observe Medical has distributions rights in Sweden and with the possibility to expand to rest of the Nordic region.

Observe Medical as developed and owns Sippi®, with supporting products Sippi® Base unit, SippBag disposable units and related technologies SippLink™ SippSense®, SippCoat® and SippBridge. From 2022, the company also owns the Biim ultrasound probe and the App for display of the ultrasound image and/or video. Hence, the market for these products and the Group's ability to commercialize the products will be important for the Group'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.

As with all clinical studies, there is a risk that the results will be less favorable than anticipated. This also applies to the initiated AKI related indication investigations. There is a risk that an unfavorable outcome of these studies will impact the ability to add new claims, and thus the expanded clinical value of the Sippi product. This may again impact the potential profits from the Sippi product.

The COVID-19 pandemic has significantly delayed the planned roll-out of Sippi® which was set to start in 2020. Therefore, Observe Medical's Sippi® product is still in an early stage in terms of roll-out into hospitals, and the technology is daily use 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 main operational risk short term for Biim relates to the continued roll-out and degree of adoption of the product in dialysis clinics in the US.

The Group has distributors and partners as sales channels 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 Russian invasion of Ukraine has resulted in a rapidly evolving geo-political situation and introduced a new set of challenges with respect to maintaining business continuity. The war in Ukraine and the Covid-19 pandemic are disrupting global supply chains which can impact our suppliers' ability to access material in time. This could in turn lead to lack of electronic components and delay the production of devices and revenues from sales.

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.

Based on updated cash flow forecasts for next 12 months, the Group will with available liquidity and cash flow from operations have sufficient liquidity to execute its commercialization and growth strategy, or for other purposes.

The economic impact of 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.

Organization

The Group had 14 employees at the end of 2021. The number of employees has increased by three from 2020 to strengthen our competence within QA/RA, sales, and finance. 12 employees are employed in Sweden and 2 in Norway.

In 2020, Observe Medical entered into a bargaining agreement ("Kollektivavtal") with IKEM, an industry and employers' organization 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, included in Note 18.

The Board of Directors appointed Rune Nystad as Chief Executive Officer (CEO) of Observe Medical ASA from March 28, 2022. Rune Nystad succeeded Björn Larsson, who headed the Company since December 2019.

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 the Environment, Social and Governance report as part of this Annual Report.

Research and Development

The Group has a strong global patent situation for Sippi® with a 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 on 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 0.6% in 2021, compared to 3.0% in 2020. The Group works continuously to protect and improve health and safety in the business. Observe Medical is committed to being 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 2021, one woman and three 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 were 14 employees in the Group at December 31, 2021, 8 women and 6 men. In 2020 there was 11 employees in the Group, 6 women and 5 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 2021. 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 COVID-19 situation has improved, but there are still challenges for the healthcare system, and healthcare providers in handling COVID-19. This provides constraints to the launch efforts for Sippi®, with some of the sales projects being slowed down or stalled.

By April 2022, Biim Ultrasound had delivered approximately 260 Biim ultrasound probes, thereby successfully completing the first phase of the roll-out to Fresenius training clinics. The Group is now ready for the second phase in the roll-out to Fresenius's dialysis clinics in the US.

At this stage, the Group expects increased revenues from sales from the product portfolio. In addition to increased revenues from sales, the main source of liquidity is cash generated from the completed Rights Issue.

Based on updated cash flow forecasts for the next 12 months, the Group will have sufficient liquidity to execute its strategy.

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. After the acquisition of Biim Ultrasound AS in March 2022, Observe Medical ASA also owns 100% of the shares in Biim Ultrasound AS.

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 2021, Observe Medical ASA had revenues of NOK 1,493 thousand compared to NOK 806 thousand in 2020 related to invoiced services and expenses to subsidiaries. The Company had operating expenses of NOK 18,807 thousand which mainly consists of personnel benefit expenses of NOK 8,725 thousand and other operating expenses of NOK 10,082 thousand which includes NOK 4,619 thousand in non-recurring M&A expenses.

In addition to personnel benefit expenses for one full-time employee, the total personnel benefit expenses include invoiced expenses for the CEO who is employed in Observe Medical AB, fees to the Board of Directors and Audit Committee, and option expenses. In 2020, operating expenses was NOK 11,160 thousand. EBIT was negative at NOK 17,421 thousand, compared to negative NOK 10,354 thousand in 2020.

The company had a finance income of NOK 5,177 thousand which consists of finance income related to change in contingent consideration and currency gain that more than offset interest expenses to group companies and interest expenses on other interest-bearing debt. In 2020, finance expenses were NOK 4,823 thousand. Finance expenses were mainly related to changes in contingent consideration and interest expenses on loan from Navamedic ASA, which more than offset interest income from loan to group companies and currency gain

The result for 2021 was negative NOK 12,224 thousand, compared to negative NOK 15,178 thousand in 2020.

Allocation of Result for the Year 2021

The result for the period in the parent company was negative NOK 12,244 thousand. The Board of Directors proposes that the loss for the year should be covered by a transfer from other equity.

Outlook

Observe Medical is a global medtech group, an attractive platform for building a portfolio of products through M&A as well as by organic growth.

The Biim Acquisition is in line with the Group's core strategy to be a platform for growth both to offer innovative products for the purpose of patient welfare, health economics and data accuracy, and to create a global distributor and partner network for the sale of the Group's proprietary products.

Biim's agreement with Fresenius to deliver approximately 2,500 wireless pocketable ultrasound devices to dialysis centers in the US is accelerating the Group's commercial strategy in the US. The acquisition will further accelerate the Group's global presence through an expanding distributor and partner network.

With the acquisition of Biim Ultrasound, the Group has two proprietary products in the market: the Sippi® system and the Biim ultrasound probe. Both products have a patented, unique and innovative technology and the potential to be the new standard of care.

The Sippi® system and the Biim ultrasound probe are currently in roll-out in Europe and the US, respectively. Both products have significant global market potential. The Group has strong competence and experience in bringing medtech products to the global market. It is the view of the Board of Directors that the company is well-positioned to continue development in line with its strategy and ambitions.

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

As the Covid-19 situation at hospitals seemed to be improving at the beginning of 2022, the Group is operating at full capacity and according to plan, focusing particularly on the Biim ultrasound probe roll-out in the US and roll-out of Sippi® in Europe, and aiming for the launch of Sippi® in the US in the first quarter of 2023.

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 28, 2022



Terje Bakken
Chair of the Board



Sanna Rydberg
Board member



Kathrine Gamborg Andreassen
Board member



Thomas Grünfeld
Board member



Rune Nystad
CEO

Executive Management and Board of Directors

Executive Management



Rune Nystad | Chief Executive Officer

More than 20 years of experience from global medtech and industrial technology from the Nordics, US, Germany, Ireland and Hong Kong, including Boston Scientific. Founder and CEO in Biim Ultrasound AS and joined Observe Medical as CEO in March 2022 after Observe Medical's acquisition of Biim Ultrasound AS.



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. Joined Observe Medical as CFO from December 2019.

Board of Directors



Terje Bakken | Chair 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 is the Chair of the Board of Directors of Navamedic ASA, QuestBack Group AS and Tivian Inc.



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.



Sanna Kristina Maria Rydberg | Board Member

Sanna is the CEO of Arcoma Group AB, a position she has held since 2020. Her previous work experience includes Managing Director in Eurofins BioPharma Sweden and Head of Healthcare Europe North in The Linde Group. Sanna has extensive experience from management, sales & marketing, and production of pharmaceuticals, medical devices and healthcare. Sanna holds a B.Sc in Chemistry from the University of Uppsala.



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 14, 2021, may be found at www.nues.no (the "Corporate Governance Code"). The annual statement on corporate governance for 2021 was approved by the board of directors on April 28, 2022 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 Corporate Governance Code. The board of directors' annual statement on how Observe Medical has implemented the Corporate Governance Code is set out below. The presentation covers each section of the Corporate Governance 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 conducted in a sustainable manner and 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, 2021, the Group had a consolidated equity of NOK -14.1 million, corresponding to an equity ratio of -20%.

On January 14, 2022 the board of directors of the company resolved to propose that the company carried out a share capital increase by way of a fully underwritten rights issue, to raise gross proceeds of NOK 180 million (the "Rights Issue"). The Rights Issue was approved by the Extraordinary General Meeting on February 4, 2022 and the share capital increase was registered in the Norwegian Register of Business Enterprises (Nw. Foretaksregisteret) on March 7, 2022. As a result of the completed Rights Issue, the board of directors consider that the Group has a capital structure that is appropriate for its objectives, strategy and risk profile.

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 May 21, 2021 authorized the board of directors pursuant to section 10-14 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 authorization could only be used to issue shares in connection with the group's share incentive programs. In addition the board of directors was granted an authorization to increase the share capital up to NOK 1,020 thousand in order to finance further growth for the Company. The shareholders' pre-emptive rights under §10-4 of the Public Limited Liability Companies Act could under both authorizations be set aside when utilized by the board. The authorizations described above had a term until the Annual General Meeting in 2022, but in no event later than June 30, 2022, but were replaced by a new authorization granted by the Extraordinary General Meeting held on February 4, 2022 as further described below.

On February 4, 2022, an Extraordinary General Meeting of the company, 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 2,124,697.38. The authorization could only be used to issue consideration shares to the sellers in connection with the company's acquisition of Biim Ultrasound AS ("Biim"). The shareholders' pre-emptive rights under §10-4 of the Public Limited Liability Companies Act could be set aside when utilized by the board. The authorization comprised share capital increases against contribution in kind and the right to incur specific obligations on behalf of the Company under section 10-2 of the Norwegian Public Limited Companies Act. The authorization was further conditional on the company completing the Rights Issue. The authorization was used in full when the company completed the acquisition of Biim.

As of December 31, 2021 the Company had 180,000 options issued and outstanding, which includes the options granted to the Company's CEO in January, 2020 and options granted to the Company's CFO in November 2021.

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 the exchange where the company's shares are listed, 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 reporting 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. For shareholders who are not able to be present at the general meeting, the company shall facilitate electronic participation unless the board of directors finds that it has reasonable cause to refuse such electronic participation. The annual general meeting shall take place prior to 30 June each year. 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 to 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 general meeting. The chairperson 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 not physically present at the Annual General Meeting, but is available by phone or video conference to answer questions. 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 chairperson 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 have 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. The board members and the chairperson of the board are currently elected by the general meeting based on a 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. Consideration 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, the majority of the board members are independent from the company's significant business relations 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 the board members are presented on the Group's website. Fifteen board meetings were held in 2021. 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, including how the board of directors and executive management shall handle agreements with related parties. The chairperson 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.

The Company have established a Board of Directors and management insurance that covers members of the board, committees and the Company's management. The insurance applies worldwide excluding the US and Canada, but after the acquisition of Biim Ultrasound AS the insurance will be changed so it applies worldwide including the US and Canada. The insurance covers the Insured's liability for property damage due to claims made against the insured during the insurance period as a result of an alleged liability-related act or omission.

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, 2021 the audit committee consisted of the following board members:

- 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, 2021, the compensation committee consisted of the following board members:

- Terje Bakken
- 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 secures M&A activities to support the Group's strategy for further development and growth of the Group.

As per December 31, 2021, the M&A committee consisted of the following board members:

- 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 the day-to-day follow-up of financial management and reporting. Management reports to the audit committee that conducts a review of the quarterly and annual presentation and reports before publication. The audit committee assess the integrity of Observe Medical's accounts. It also inquiries into, on behalf of the board, and 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 entire 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.

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.

The annual general meeting in 2021 approved 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). The guidelines are available at the company's website

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, including 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 Corporate Governance 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 28, 2022



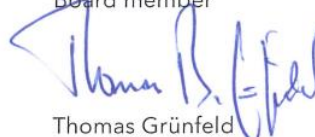
Terje Bakken
Chair of the Board



Sanna Rydberg
Board member



Kathrine Gamborg Andreassen
Board member



Thomas Grünfeld
Board member



Rune Nystad
CEO

Sustainability Report

About this report

It is of key importance to Observe Medical to operate our business in a sustainable manner and it is a prerequisite for the company's long-term results to understand the impact on environment, society and stakeholders. This sustainability report applies to the reporting period 1 January 2021 to 31 December 2021.

In March 2022, Observe Medical acquired Biim Ultrasound AS a Company that has developed a unique, wireless and pocketable ultrasound probe. Except for the description as part of "About Observe Medical", Biim Ultrasound is not included in this sustainability report.

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 Rune Nystad 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.

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.

In March 2022 Observe Medical acquired Biim Ultrasound AS, a Company that has developed a unique, wireless and pocketable ultrasound probe, Biim, that can scan

patients and review images in seconds. The objective of Biim is to enhance healthcare personnel decision-making and improve patient outcomes. Biim's technology is patented, and the device received 510 (k) clearance from the US Food and Drug Administration (FDA) in 2018. Biim is approved for ultrasound imaging of the human body and is specifically used to guide needle and catheter insertions for dialysis and vascular access procedures.

In addition, the Company has a broad distribution portfolio of medtech devices and disposables, mainly within Urine measurement, Anesthesiology/ICUs and wound care. 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 proprietary products by enabling access to target customers. Our medtech distribution portfolio is mainly distributed in the Swedish market with potential to expand to rest of the Nordic region.

Observe Medical's intent is to continually grow the company's platform and portfolio to improving patient welfare and patient outcomes, improving clinical data accuracy and promoting positive health economics., 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**.

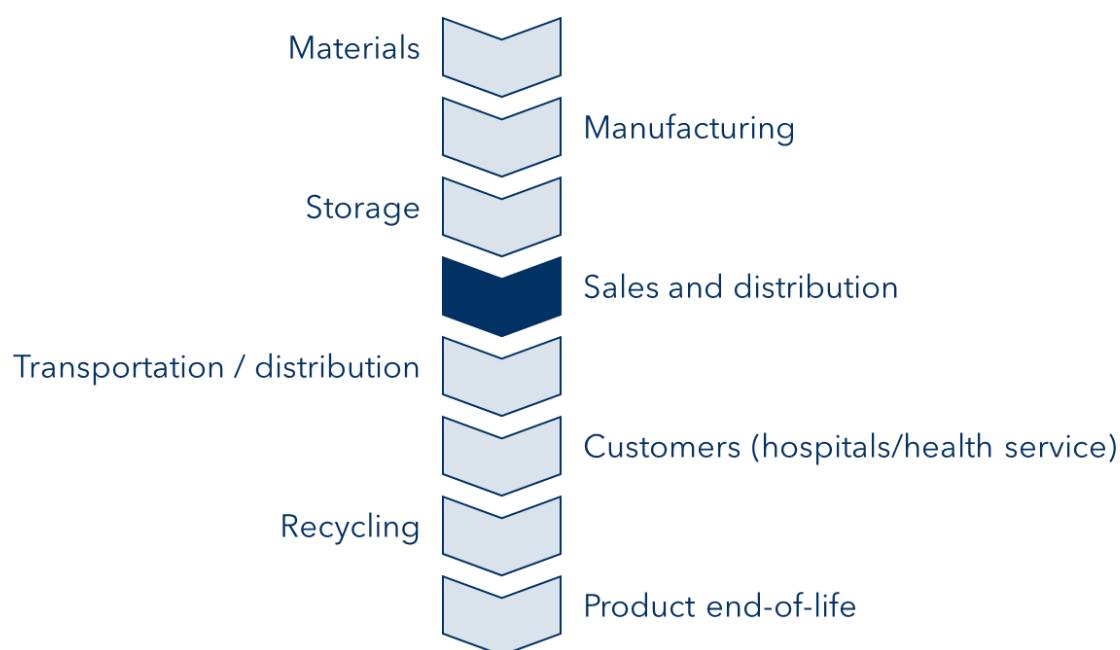


Figure 1: Observe Medical's supply chain illustrated

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 [14] employees, of which [8] are women and [6] are men.

| Locations | Employees |
|--------------------|-----------|
| Oslo, Norway | 2 |
| Gothenburg, Sweden | 12 |

Table 1: Employees by location

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 2021

For 2021, 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.

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 | 2020 | | | 2021 | | |
|-------------------------------------|------|-------|-------|------|-------|-------|
| | Men | Women | Total | Men | Women | Total |
| Total workforce | 5 | 6 | 11 | 6 | 8 | 14 |
| Total workforce full-time employees | 5 | 3 | 8 | 6 | 8 | 14 |
| Total workforce part-time employees | 0 | 0 | 0 | 0 | 0 | 0 |
| Number of non-permanent employees | 0 | 3 | 3 | 0 | 0 | 0 |

Table 2: Observe Medical's workforce

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 under development and will be completed and distributed to all employees in third quarter 2022.

In 2021, 80% 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.

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.

Keeping employee turnover at a minimum is important to the company. In 2021, Observe Medical saw an decrease in the labour turnover rate of 13% (27% in 2020), however, since there are only 14 employees working for Observe Medical, the employee turnover rate is subject to large variation.

| Observe Medical's employee turnover | 2021 | 2020 |
|--|-------------|-------------|
| Labour turnover rate | 13% | 27% |
| Total turnover (no. of employees) | 2 | 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 2022. The company experienced zero reported incidents of discrimination in 2021.

The share of female employees was 57% in 2021 (55% in 2020), and women's average base salary in relation to men's was 57% (53% in 2020). The company will increase its focus on gender balance in senior positions going forward. The company is further committed to equal pay for the same work and performance regardless of gender.

| 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 | 6 (43%) | 8 (57%) | 0 | 9 | 5 |
| Board of Directors | 2 (50%) | 2 (50%) | | | 4 |
| Management team group | 2 (100%) | 0 (0%) | | 1 | 1 |

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 has had a significant impact on all aspects of society, and specifically the healthcare system and patients. Observe Medical practiced a 'working from home policy', in line with government regulations and recommendations.

There were no serious work-related injuries or incidents among Observe Medical employees in 2021. The absence rate for sickness was 0.6% in 2021.

| Observe Medical's health and safety data | 2020 | 2021 |
|---|-------------|-------------|
| Sick leave per cent | 3% | 0.6% |
| Accident frequency rate | 0 | 0 |
| Accident severity rate | 0 | 0 |

Table 5: Health and safety data

Identified targets for 2022

- Seek gender balance in senior positions
- Establish and carry out regular employee surveys
- Complete the Employee Handbook
- Establish an external whistleblowing channel

Observe Medical is committed to be a responsible employer and is in a process of establishing several HR related processes and guidelines expected to be in place during 2022. The company is in the process of further developing its recruitment strategy to focus on age and gender balance for the specific departments that are recruiting.

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.

CSR policy and code of conduct for suppliers is implemented for Observe Medical Nordic AB. Group wide policies and code of conduct is under development.

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 2021 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.

There were zero reported incidents of corruption or public legal cases regarding corruption in 2021. Observe Medical has not experienced any breaches of its policies or guidelines by suppliers in 2021, and the company has not terminated or discontinued any contracts with suppliers or business partners due to breaches in the reporting period.

Identified targets for 2022

- Establish a Group wide CSR Policy / Code of Conduct
- Establish a Group wide supplier Code of Conduct
- Provide further 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 sterilization 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. Going forward, the company will focus on reducing energy consumption, emissions and waste from its own operation and its products, and to offer products that can reduce the total waste from the health sector.

Energy

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

Emissions

According to Observe Medical's company car policy, only electric or plug-in hybrid cars may be chosen as a company car. Vehicles that run on fossil fuels must be approved by the group management. At the end of 2021 Observe Medical had 5 company cars, where of 3 EV's and 2 hybrid.

Business travel by plane was limited also in 2021 due to Covid-19.

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 must 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 law. The company reports the number of electrical components that are distributed to the market monthly through El-Kretsen.

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

Identified targets for 2022

- Observe Medical will further work to understand how to reduce our environmental footprints, direct and indirect
- Establish a Group Environmental Policy with guidelines that outlines how to improve environmental performance

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 placed on 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 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).

To ensure safe and high-quality products, the company has in 2021 recruited a Quality Assurance and Regulatory Affairs (QA/RA) director that has the overall responsibility for product safety. The QA/RA director is further 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.

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 which describes the overall structure, content and purpose of the company's Quality Management System (QMS), as well as Quality Objectives with clear responsibilities. Additionally, the company's Risk

Policy outlines criteria for determining product risk acceptability towards patients and users. Observe Medical Nordic has also implemented a quality policy, 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 2022 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, MDR 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 MDR and ISO13485, including issue handling, and an ISO 14971 compliant risk management process.

In 2021, there were no quality and/or safety incidents that led to any market actions or need for reporting to health authorities

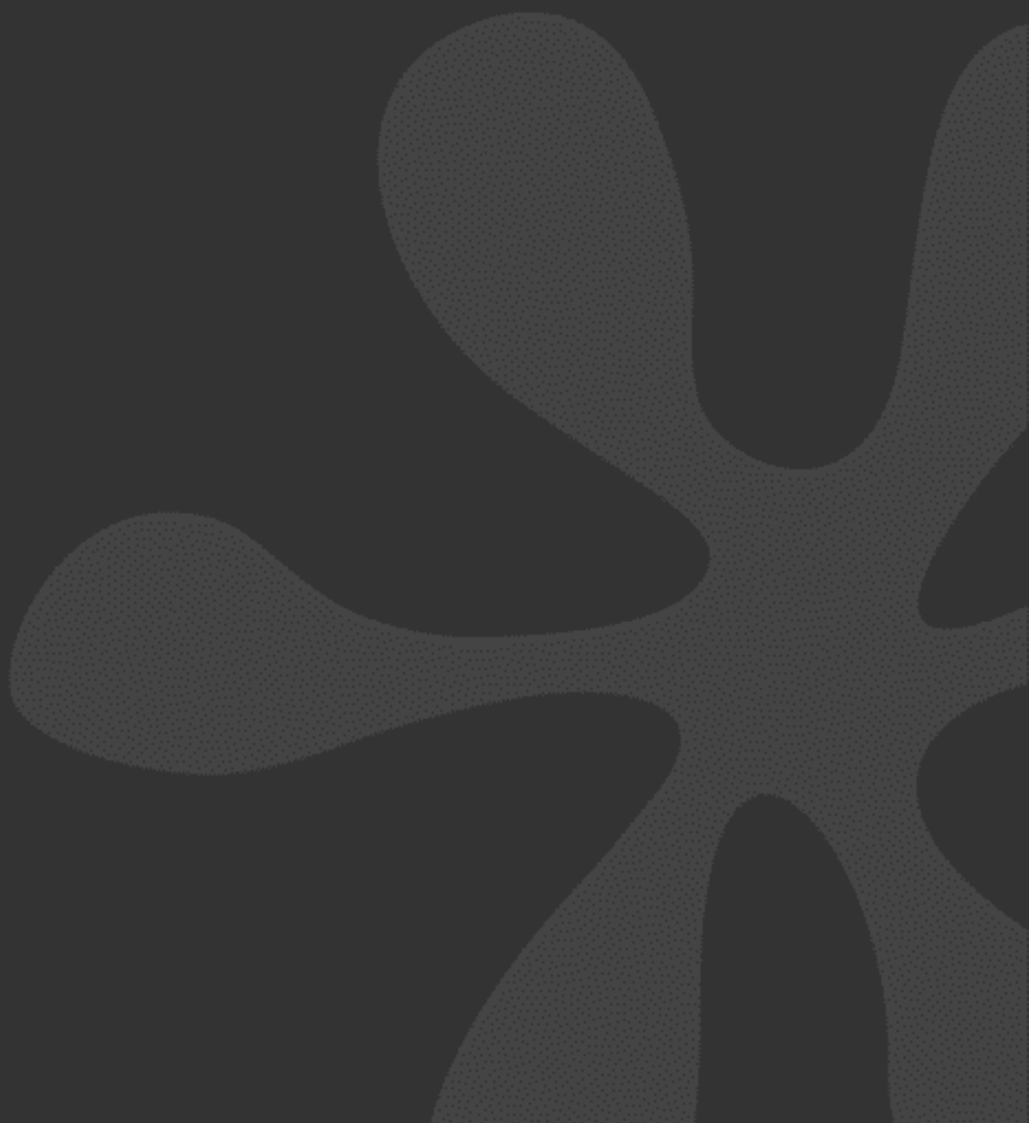
In 2021 Observe Medical applied for MDR conformity assessment of The Sippi® system, Observe Medical's proprietary automated digital urine meter. In January and February 2022 Observe Medical's Notified Body, Intertek (identification number 2862), performed the MDR audits (stage 1 and 2) resulting in no identified non-conformities. As a result, Observe Medical has received the EC certificate, listing Sippi Disposable Unit™. This demonstrates that our Quality Management System is compliant with EU Regulation 2017/745 for Medical Devices, Annex IX Chapter I and II.

In the coming months, we continue the MDR journey with focus on getting Sippi Base Unit™ MDR compliant and getting EC certification. Observe Medical is continuously evaluating the clinical use of Sippi® and currently improving the user experience of Sippi by improved functionality and an update of the display design.

Identified targets for 2022

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

Consolidated Financial Statements 2021



Contents

| | |
|--|----|
| Consolidated Financial Statements 2021 | 49 |
| Consolidated Statement of Comprehensive Income | 51 |
| Consolidated Statement of Financial Position | 52 |
| Consolidated Statement of Changes in Equity | 53 |
| Consolidated Cash Flow Statement..... | 54 |
| Explanatory Notes to the Consolidated Financial Statements 2021 | 55 |
| Note 1 – General Information | 55 |
| Note 2 – Basis for Preparation and Summary of the Most Significant Accounting Policies | 56 |
| Note 3 – Financial Risk Management | 61 |
| Note 4 – Significant Judgements in the Application of Group Accounting Policies and Accounting Estimates | 62 |
| Note 5 – Segment Information and Revenue from Contracts with Customers | 63 |
| Note 6 – Tangible Assets | 66 |
| Note 7 – Intangible Assets | 67 |
| Note 8 – Lease | 69 |
| Note 9 – Financial Items | 70 |
| Note 10 – Cost of Materials..... | 70 |
| Note 11 – Trade Receivables and Other Receivables | 71 |
| Note 12 – Inventories | 71 |
| Note 13 – Financial Instruments | 71 |
| Note 14 – Contingent Consideration | 74 |
| Note 15 – Taxes | 75 |
| Note 16 – Other Operating Expenses..... | 77 |
| Note 17 – Payroll Expenses..... | 77 |
| Note 18 – Remuneration to Corporate Management and Board of Directors | 78 |
| Note 19 – Share Options..... | 80 |
| Note 20 – Earnings per Share | 81 |
| Note 21 – Related Parties..... | 81 |
| Note 22 – Research and Development | 82 |
| Note 23 – Shareholder Information..... | 82 |
| Note 24 –Subsequent event | 84 |

Observe Medical Group

Consolidated Statement of Comprehensive Income



| <i>Amounts in NOK thousand</i> | Note | FY 2021 | FY 2020 |
|---|------------|----------------|----------------|
| Operating revenues | | 24 042 | 2 961 |
| Cost of materials | 10 | 14 524 | 1 975 |
| Gross result | | 9 518 | 986 |
| Employee benefit expenses | 17, 18, 19 | 19 013 | 10 891 |
| Other operating expenses | 16, 22 | 23 586 | 15 018 |
| Operating expenses | | 42 599 | 25 910 |
| Operating result before depreciation and amortisation (EBITDA) | | -33 081 | -24 923 |
| Depreciation and amortisation | 6, 7, 8 | 3 463 | 3 163 |
| Operating result (EBIT) | | -36 544 | -28 087 |
| Financial income and expenses | | | |
| Financial income | 9 | 15 711 | 3 853 |
| Financial expenses | 9, 14 | 5 488 | 12 635 |
| Net financial items | | 10 223 | (8 782) |
| Result before tax | | -26 321 | -36 868 |
| Income tax expense | 15 | 0 | 0 |
| Result for the period | | -26 321 | -36 868 |
| Other comprehensive income that may be reclassified subsequently to profit or loss | | | |
| Currency translations differences | | -9 064 | 1 131 |
| Total comprehensive income/loss for the period | | -35 385 | -35 737 |
| Earnings per share (NOK per share) | 20 | -1.34 | -2.22 |


Observe Medical Group

Consolidated Statement of Financial Position

| Amounts in NOK thousand | Note | At 31 December 2021 | At 31 December 2020 |
|---|-------|---------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Goodwill | 7 | 33 870 | 36 268 |
| Intangible assets | 7 | 21 328 | 20 965 |
| Tangible assets | 6, 8 | 1 381 | 703 |
| Total non-current assets | | 56 579 | 57 936 |
| Current assets | | | |
| Trade receivables | 11 | 1 348 | 1 460 |
| Inventories | 12 | 7 013 | 7 661 |
| Other receivables and prepaid expenses | 11 | 3 934 | 1 730 |
| Bank deposits | 13 | 2 864 | 18 945 |
| Total current assets | | 15 159 | 29 797 |
| Total assets | | 71 738 | 87 733 |
| EQUITY AND LIABILITIES | | | |
| Total equity | | -14 122 | 20 349 |
| Non-current liabilities | | | |
| Non-current lease liabilities | 8 | 550 | 260 |
| Contingent consideration | 14 | 13 031 | 22 368 |
| Non-current interest bearing liabilities | 13 | 0 | 34 821 |
| Total non-current liabilities | | 13 581 | 57 449 |
| Current liabilities | | | |
| Bank overdraft | | 6 509 | 0 |
| Trade payables | 13 | 6 163 | 3 843 |
| VAT and other public taxes and duties pay | 13 | 3 747 | 2 348 |
| Other current liabilities | 13, 8 | 55 860 | 3 744 |
| Total current liabilities | | 72 279 | 9 935 |
| Total liabilities | | 85 860 | 67 384 |
| Total equity and liabilities | | 71 738 | 87 733 |

The Board of Directors and CEO of Observe Medical ASA
 Oslo, April 28, 2022


 Terje Bakken
 Chair of the Board

 Sanna Rydberg
 Board member


 Kathrine Gamborg Andreassen
 Board member

 Thomas Grünfeld
 Board member


 Rune Nystad
 CEO

Observe Medical Group

Consolidated Statement of Changes in Equity

| <i>Amounts in NOK thousand</i> | 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 | - | -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 |
| | Share capital | Share premium | Other paid in equity | Total paid-in capital | Retained earnings | Translation differences | Total |
| Equity as at 1 January 2021 | 5 097 | 87 065 | 11 800 | 103 963 | -83 284 | -330 | 20 349 |
| Share issue | - | - | - | - | - | - | - |
| Options | - | - | - | - | 913 | - | 913 |
| Result for the period | - | - | - | - | -26 321 | - | -26 321 |
| Translation differences | - | - | - | - | - | -9 064 | -9 064 |
| Equity as at 31 December 2021 | 5 097 | 87 065 | 11 800 | 103 963 | -108 691 | -9 394 | -14 122 |

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 | 2021 | 2020 |
|--|-------|----------------|----------------|
| Cash flow from operating activities | | | |
| Result before tax | | -26 321 | -36 868 |
| Tax paid | 15 | -192 | 0 |
| Depreciation and impairment | 6,7,8 | 3 463 | 3 163 |
| Gain(-)/ loss from sale of fixed asset | | -6 | 0 |
| Interest expenses and change FV contingent consideration with no cash effect | 14 | -6 144 | 8 684 |
| Change in inventories | 12 | 145 | -1 844 |
| Change in trade receivables and other receivables | 11 | -2 103 | -829 |
| Change trade account payables and other current liabilities | 13 | 9 031 | 6 053 |
| Net cash flow from operating activities | | -22 126 | -21 641 |
| Cash flow from investing activities | | | |
| Purchase of tangible and intangible assets | 6,7,8 | -4 886 | -1 239 |
| Net cash effect of business combination | 24 | 0 | -6 838 |
| Net cash flow from investing activities | | -4 886 | -8 077 |
| Cash flow from financing activities | | | |
| Net change interest bearing debt | 13 | 10 000 | 6 901 |
| Net change bank overdrafts | 13 | 6 509 | 0 |
| Net proceeds from share issue | | 0 | 41 392 |
| Payments of lease liabilities | 8 | -429 | -124 |
| Net cash flow from financing activities | | 16 079 | 48 169 |
| Currency translation differences | | -5 149 | 9 |
| Changes in cash | | -16 081 | 18 460 |
| Bank deposits as at 1 January | 13 | 18 945 | 485 |
| Bank deposits end of period | 13 | 2 864 | 18 945 |

Explanatory Notes to the Consolidated Financial Statements 2021

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 Dronning Eufemias gate 16, 0191 Oslo, Norway.

The Group currently is in phase of its commercialization and development process of the next generation urine meter, Sippi®. Sippi® was previous owned by Observe Medical International AB which was acquired in August 2015. The acquisition has an earn-out obligation to the sellers of Observe Medical International AB presented in the Financial Statements as "contingent consideration".

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.

The consolidated financial statements for Observe Medical ASA ("OM group" or "the Group"), including notes, for the year 2021 were approved by the Board of Directors of Observe Medical ASA on April 28, 2022 and will be proposed to the Annual General Meeting on June 2, 2022.

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, the Nordic distribution portfolio, the newly acquired Biim ultrasound probe, 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. In March 2022 the Group acquired Biim Ultrasound AS (Biim) for a total estimated acquisition consideration of NOK 185 million. The acquisition consideration was financed through issue of 8,171,913 new shares in Observe Medical and cash settlement of NOK 50 million. Biim is a Norwegian company with presence in Narvik (Norway), Oulu (Finland) and Seattle (US) and is in roll-out in US with their innovative handheld ultrasound probe. Biim has currently completed phase 1 in the roll-out to Fresenius's dialysis training clinics and has delivered appr. 260 Biim probes to Fresenius. The product represents significant short-term and long-term earnings potential for the Group. The Nordic distribution portfolio had a significant organic growth in 2021 with 55% compared to pro-forma figures 2020. The Group's strategy is to further develop the Nordic distribution portfolio and expect it will provide a growing positive cashflow going forward. In addition, the Group in February 2022 completed a Rights Issue with gross proceeds of NOK 180 million, this will together with cash generated from operations be basis for financing of the operations and further growth initiatives in line with the strategy.

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 based on 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.

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, 2021 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, 2021 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 Observe Medical ASA, have been fully combined and consolidated for all periods presented for the purpose of these financial statements ("subsidiaries").

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 Observe Medical Nordic AB is SEK, Observe Medical ApS, DKK and for Observe Medical ASA NOK. 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 SipppbagTM® 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 roll-out 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 roll-out phase, the investments will mainly be related to connectivity to PDMS systems and if necessary smaller adjustments to meet regulatory requirements in the new Medical Device Regulation (MDR).

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 ASA, Ingerø Reiten Investment Company AS and credit facility from Danske Bank in addition to 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 Norway, 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 addition, the Group is a distributor of ICU/anaesthesia products in the Swedish market. The Group recognizes revenue from sale of goods from the Nordic distribution portfolio 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 significant growth in sales and revenues, mainly from the Nordic distribution portfolio. 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.

Due to the pandemic and the Ukraine crisis, the world is experiencing challenges both in terms of raw material supply and in the transportation of goods. The company is following the situation closely, but the situation may lead to delays in deliveries.

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

These financial statements have been prepared on the assumption that the Group is a going concern. The opinion is based on the future prospects and potential of the Sippi® product family, the Nordic distribution portfolio, the newly acquired Biim ultrasound probe, in addition to 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. In March 2022 the Group acquired Biim Ultrasound AS (Biim) for a total estimated acquisition consideration of NOK 185 million. The acquisition consideration was financed through issue of 8,171,913 new shares in Observe Medical and cash settlement of NOK 50 million. Biim is a Norwegian company with presences in Narvik (Norway), Oulu (Finland) and Seattle (US) and is in roll-out in the US with their innovative handheld ultrasound probe. Biim has now completed phase 1 in the roll-out to Fresenius's dialysis training clinics and has delivered approx. 260 Biim probes to Fresenius. The product represents significant short-term and long-term earnings potential for the Group. In addition, the Group in February 2022 completed a Rights Issue with gross proceeds of NOK 180 million, this will together with cash generated from operations be the basis for financing of the operations and further growth initiatives in line with the strategy.

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 it will be in a position to cover the liquidity needs for the next 12 months. If the Group experience delays in the forecasted revenues the management and the board of directors have identified initiatives to reduce spending and to improve the efficiency of the Group's operations.

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, and interest-bearing liabilities to Ingerø Reiten Investment Company AS and Danske Bank are current debt with due dates before date of signing of the financial statement for 2021. 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® and Biim ultrasound probe. 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, the management has 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 met, 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 has also developed SippCoat®, an innovative technology that hampers the formation of biofilms in urine collection and drainage systems.

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

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

The Group's goal is to establish Sippi® as a global niche leader. This will be done by building a network of distributors and partners 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 (now Observe Medical Nordic AB), a Swedish distributor of well-established medtech products in the Nordic region. Observe Medical Nordic have a product portfolio highly complementary and synergistic to Sippi® in the product group Anaesthesia/ICU and Wound care, in addition to Urine measurement.

In March 2022 the Group acquired Biim Ultrasound AS and their patented Biim Ultrasound probe. This is a handheld device currently in commercial sale in the US. The Group will have revenues from sale of the Biim ultrasound probe from March 2022.

Overview of revenue per product group

Amounts in NOK thousand

| Revenue per product group | 2021 | 2020 |
|------------------------------------|---------------|--------------|
| Urine Measurement - Sippi® | 122 | - |
| Urine Measurement - Other products | 700 | 219 |
| Anaesthesia / ICU | 19 835 | 2 295 |
| Wound Care | 2 280 | 447 |
| Other | 1 105 | - |
| Total | 24 042 | 2 961 |

Amounts in NOK thousand

| Revenue per geographic market | 2021 | 2020 |
|--------------------------------------|---------------|--------------|
| Norway | 815 | 85 |
| Sweden | 22 976 | 2 763 |
| Other European countries | 251 | 113 |
| Total | 24 042 | 2 961 |

Amounts in NOK thousand

| Tangible assets, goodwill and intangible assets by country* | 2021 | 2020 |
|--|---------------|---------------|
| Sweden | 54 980 | 56 023 |
| Denmark | 1 223 | 1 913 |
| Norway | 376 | 0 |
| Total | 56 579 | 57 936 |

* Business assets, goodwill and intangible assets is distributed based on the country in which the legal entity in the Group that owns the assets is located.

Note 6 – Tangible Assets

Amounts in NOK thousand

| | |
|--|--------------|
| Acquisition cost 1 January 2020 | 2 356 |
| Additions | 680 |
| Disposals | -456 |
| Currency translation differences | 248 |
| Acquisition cost 31 December 2020 | 2 829 |

| | |
|--|--------------|
| Acquisition cost 1 January 2021 | 2 829 |
| Additions | 1 611 |
| Disposals | -357 |
| Currency translation differences | -138 |
| Acquisition cost 31 December 2021 | 3 945 |

| | |
|--|--------------|
| 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 |

| | |
|--|--------------|
| Accumulated depreciation 1 January 2021 | 2 126 |
| Depreciation for the year | 549 |
| Disposals | -22 |
| Currency translation differences | -88 |
| Accumulated depreciation 31 December 2021 | 2 565 |

| | |
|--|------------|
| Carrying value 1 January 2020 | 339 |
| Additions | 680 |
| Disposals | -188 |
| Depreciation | -162 |
| Translation differences | 33 |
| Carrying value 31 December 2020 | 703 |

| | |
|--|--------------|
| Carrying value 1 January 2021 | 703 |
| Additions | 1 611 |
| Disposals | -334 |
| Depreciation | -549 |
| Translation differences | -50 |
| Carrying value 31 December 2021 | 1 381 |

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 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 | 77 888 |
| Acquisition cost 1 January 2021 | 36 268 | 31 705 | 9 915 | 77 888 |
| Additions | | 104 | 4 564 | 4 668 |
| Currency translation differences | -2 398 | -392 | -2 477 | -5 267 |
| Acquisition cost 31 December 2021 | 33 870 | 31 416 | 12 002 | 77 288 |
| 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 |
| Accumulated amortization 1 January 2021 | | 15 882 | 4 773 | 20 655 |
| Amortization for the year | | 717 | 2 197 | 2 914 |
| Currency translation differences | | -316 | -1 163 | -1 479 |
| Accumulated amortization 31 December 2021 | | 16 283 | 5 807 | 22 090 |
| 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 |
| Carrying value 1 January 2021 | 36 268 | 15 823 | 5 142 | 57 233 |
| Additions | | 104 | 4 564 | 4 668 |
| Amortization | | -717 | -2 197 | -2 914 |
| Translation differences | -2 398 | -76 | -1 314 | -3 789 |
| Carrying value 31 December 2021 | 33 870 | 15 134 | 6 195 | 55 198 |
| 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, 2021 was NOK 3.87million.

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, 2021. 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, 2021 was based on a forecast for 2022 and estimates for subsequent periods. The amount of revenue and when it will be generated is especially uncertain. A discount rate after tax of 11.2% was used to discount future cash flows. The impairment test at year-end 2021 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, 2021 would decrease by 13.2%, but still exceed the carrying value. A decrease in EBITDA margin with 1 percentage point, the calculated value in use at December 31, 2021 would decrease by 3%, 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 2021, 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 2020 estimated short time cash flow has decreased, which have led to an decreased contingent consideration liability at December 31, 2021. 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, 2021, the Group has lease contracts for four cars (two cars as at December 31, 2020). 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.

Amounts in NOK thousand

| Right of use assets | Cars | |
|---|--------------|-------------|
| Opening cost at 1 January 2020 | 474 | |
| Additions | 398 | |
| Disposal | -456 | |
| Currency translation differences | 46 | |
| Closing cost at 31 December 2020 | 462 | |
| Right of use assets | | |
| Opening cost at 1 January 2021 | 462 | |
| Additions | 1 393 | |
| Disposals | -357 | |
| Currency translation differences | -49 | |
| Closing cost at 31 December 2021 | 1 450 | |
| 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 | |
| Opening depreciation at 1 January 2021 | 50 | |
| Depreciation in the period | 446 | |
| Disposals | -22 | |
| Currency translation differences | -5 | |
| Accumulated depreciation at 31 December 2021 | 469 | |
| Right of use assets at 31 December 2020 | 412 | |
| Right of use assets at 31 December 2021 | 981 | |
| Lease Liability | 2021 | 2020 |
| As at 1 January | 396 | 279 |
| Additions | 1 393 | 398 |
| Disposal | -323 | -189 |
| Lease payments in the period | -481 | -125 |
| Interest cost | 52 | 6 |
| Currency translation differences | -44 | 28 |
| Closing liability at 31 December | 993 | 396 |
| Due < 1 year | 443 | 136 |
| Due > 1 year | 550 | 260 |

Effect of IFRS 16 on Statement of Comprehensive Income

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--|--------------|-------------|
| Depreciation expense of right-of-use assets | 446 | 120 |
| Interest expense on lease liabilities | 52 | 6 |
| Expense relating to short-term leases (included in other operating expenses) | 1 498 | 549 |
| Total amount recognised in result for the period | 1 996 | 675 |

Undiscounted Lease Liabilities and Maturity of Cash Outflow

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--------------------------------|-------------|-------------|
| Due within 1 year | 443 | 150 |
| Due between 1 year and 3 years | 550 | 271 |
| Total | 993 | 421 |

Note 9 – Financial Items

Note 9 Financial items

Amounts in NOK thousand

| | 2021 | 2020 |
|---------------------------------|---------------|---------------|
| Financial income | | |
| Change contingent consideration | 10 432 | |
| Currency gain | 5 279 | 3 853 |
| Total | 15 711 | 3 853 |
| Financial expenses | 2020 | 2020 |
| Interest expenses | 3 326 | 2 531 |
| Change contingent consideration | 1 095 | 9 970 |
| Currency loss | 639 | |
| Other financial expenses | 428 | 134 |
| Total | 5 488 | 12 635 |
| Net financial items | 10 223 | -8 782 |

Note 10 – Cost of Materials

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--------------------------------|---------------|--------------|
| Cost of materials for resale | 14 383 | 1 965 |
| Write-down | 141 | 10 |
| Total cost of materials | 14 524 | 1 975 |

Write-down in 2021, of NOK 141 thousand, is related to inventories of the first version of the Sippi® Base Unit. This version has not functionality for connection to the hospitals PDMS (patient data management system) and the Company has decided to write-off the value of these devices.

Note 11 – Trade Receivables and Other Receivables

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--------------------------------|--------------|--------------|
| Trade receivables | 1 348 | 1 460 |
| Other receivables | 3 934 | 1 730 |
| Total | 5 282 | 3 190 |

NOK 275 thousand of trade receivables were due at December 31, 2021.

Note 12 – Inventories

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--------------------------------|--------------|--------------|
| Goods for sale | 7 150 | 7 661 |
| Write-down | -137 | 0 |
| Total | 7 013 | 7 661 |

Note 13 – Financial Instruments

NOK 561 thousand of the bank deposits was restricted as at December 31, 2021 (NOK 121 thousand at December 31, 2020). There are no significant restrictions on transferring cash within the group.

Financial liabilities as at 31 December 2021

| <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 |
|--|-------------|-------------|-------------|------------|-----------|-----------|-------------|----------------|
| Bank overdraft | | 6,5 | | | | | 6,5 | 6,5 |
| Leasing liabilities | 0,1 | 0,3 | 0,3 | 0,2 | | | 1,0 | 1,0 |
| Contingent consideration upon acquisitions | | | 16,2 | | | | 16,2 | 13,0 |
| Trade account payables | 6,2 | | | | | | 6,2 | 6,2 |
| Public duties, tax deductions, etc. | 3,7 | | | | | | 3,7 | 3,7 |
| Other current liabilities | 6,2 | 1,2 | | | | | 7,4 | 7,4 |
| Payables loan to Ingerø Reiten Invest. Comp. | | 10,4 | | | | | 10,4 | 10,4 |
| Payables loan to Navamedic group | | 37,6 | | | | | 37,6 | 37,6 |
| Total | 16,3 | 56,1 | 16,5 | 0,2 | | | 89,1 | 85,9 |

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 | | | 0,4 | 0,4 |
| Contingent consideration upon acquisitions | | | 2,3 | 27,9 | | | 30,2 | 22,4 |
| Trade account payables | 3,8 | | | | | | 3,8 | 3,8 |
| Public duties, tax deductions, etc. | 2,3 | | | | | | 2,3 | 2,3 |
| Other current liabilities | 2,8 | 0,8 | | | | | 3,6 | 3,6 |
| Payables loan to Navamedic group | | | 39,9 | | | | 39,9 | 34,8 |
| Total | 9,0 | 0,9 | 42,3 | 28,0 | | | 80,2 | 67,4 |

At December 31, 2021 the Group had drawn NOK 6,509 thousand from the credit facility the Group had in Danske Bank. Total limit at the credit facility was NOK 10 million and the Company has

repaid and terminated this facility in first quarter 2022. As at December 31, 2021 debt financing has been provided by Navamedic ASA and Ingerø Reiten Investment Company AS

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, 2021.

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, 2021.

Contingent consideration from acquisitions has been discounted by an interest rate of 9.6 % per annum as at December 31, 2021 and 9.6% per annum as at December 31, 2020.

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 2021

| <i>Amounts in NOK million</i> | Measured at amortised cost | Fair value through profit or | Total |
|--|-------------------------------|---------------------------------|-------------|
| Assets | | | |
| Bank deposits | 2,9 | | 2,9 |
| Trade receivables and other receivables | 1,8 | | 1,8 |
| Total financial assets ^{2) and 3)} | 4,7 | | 4,7 |
| Liabilities | | | |
| Liabilities to financial institutions | | | |
| Lease liabilities | 1,0 | | 1,0 |
| Contingent consideration upon acquisitions ¹⁾ | | 13,0 | 13,0 |
| Non-current interest bearing liabilities | 48,0 | | 48,0 |
| Trade account payables and other liabilities | 13,5 | | 13,5 |
| Total financial liabilities ³⁾ | 62,5 | 13,0 | 75,5 |

Classification of financial assets and liabilities as at 31 December 2020

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

- 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> | Credit institutions incl. overdraft facility | Loans from Navamedic Group and Ingerø Reiten Invest. Comp. | Contingent consideration upon acquisitions | Lease liabilities | Total |
|---|---|--|---|-------------------|-------|
| Carrying value 1 January 2021 | | 34,8 | 22,4 | 0,4 | 57,6 |
| Cash flow | 6,5 | 10,0 | | -0,8 | 15,7 |
| Change in liability with no cash effect | | 3,2 | -9,4 | 1,4 | -4,8 |
| Carrying value 31 December 2021 | 6,5 | 48,0 | 13,0 | 1,0 | 68,5 |

| <i>Amounts in NOK million</i> | Credit institutions incl. overdraft facility | 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 | | -0,1 | 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 |

Changes in loans from Navamedic ASA without cash effect relates to accrued interest. Changes in contingent considerations without cash effects relates to estimated changes in fair value of contingent consideration (which include calculated interest). The Company entered into a current loan agreement with Ingerø Reiten Investment Company in June 2021. Total loan was NOK 10 million and changes in loan without cash effect is related to accrued not paid interest. In November 2021, the Company entered into a credit-facility of NOK 10 million with Danske Bank. As of December 21, 2021 the Company had drawn NOK 6,509 thousand of the credit-facility.

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%.

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 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 in 2021 | -9 337 |
| Estimated fair value 31 December 2021 | 13 031 |

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

The change in fair value in 2021 is due to updated estimate related to when the sales of OM's products will be realized. The potential revenue and expected realizations remain unchanged but have been postponed due to effects of Covid-19.

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 as at December 31, 2021: A 1 percentage point reduction in the discount rate would increase the estimated present value by NOK 0.3 million and a 10% reduction in revenue would decrease the estimated present value by NOK 5.2 million. The relative high decrease is due to the fact that reduces sale will result in breach of achieving milestone.

Note 15 – Taxes

Income tax

| | 2021 | 2020 |
|--------------------------------------|----------|----------|
| Current tax | 0 | 0 |
| Deferred tax | 0 | 0 |
| Tax expense/income recognised | 0 | 0 |

Reconciliation of income tax

Amounts in NOK thousand

| | Tax rate | 2021 | 2020 |
|---|----------|----------------|----------------|
| Result before tax | | -26 321 | -36 868 |
| Expected income taxes, 22 of result before tax | | 5 791 | 8 111 |
| Differences in tax rates | | -186 | -108 |
| Norway, non-deductable expenses | 22 % | 1 853 | -2 494 |
| Sweden, non-deductable expenses | 20,6 % | -30 | -34 |
| Tax expense before not recognised tax assets | | 7 428 | 5 476 |
| Norway, current-year losses for which no deferred tax assets is recognised | 22 % | -4 547 | -1 112 |
| Denmark, current-year losses for which no deferred tax assets is recognised | 22 % | -175 | -562 |
| Sweden, current-year losses for which no deferred tax assets is recognised | 20.6% | -2 707 | -3 801 |
| Total taxes | | 0 | 0 |
| Effective tax rate | | 0,0 % | 0,0 % |

Basis for Deferred Tax Liabilities and Tax Assets (-)

| | Temporary differences Norway | Temporary differences Sweden | Temporary differences Denmark | Total 2021 |
|--|------------------------------------|------------------------------------|-------------------------------------|-----------------|
| 2021 | | | | |
| <i>Amounts in NOK thousand</i> | | | | |
| Intangible assets | | 13 123 | | 13 123 |
| Other | 37 | -227 | | -190 |
| Total temporary differences | 37 | 12 896 | 0 | 12 933 |
| Tax losses carried forward | -33 149 | -59 373 | -89 065 | -181 587 |
| Basis for temporary differences | -33 112 | -46 477 | -89 065 | -168 654 |
| Unrecognised temporary differences | 33 112 | 46 477 | 89 065 | 168 654 |
| 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 |

| | Temporary differences Norway | Temporary differences Sweden | Temporary differences Denmark | Total 2020 |
|--|------------------------------------|------------------------------------|-------------------------------------|-----------------|
| 2020 | | | | |
| <i>Amounts in NOK thousand</i> | | | | |
| Intangible assets | | 15 823 | -7 554 | 8 269 |
| 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 |

Change in Deferred Tax Assets and Deferred Tax Liabilities

| | 01.01.2020 | Recognised in profit and loss during the year | Effect of acquisition and equity transactions | Foreign currency exchange differences | 31.12.2020 |
|---|----------------|---|--|--|----------------|
| <i>Amounts in NOK thousand</i> | | | | | |
| Intangible assets | 2 008 | -601 | | 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 | | | | | |

Use of Tax Losses Carried Forward

There is not any expiring date of the use of tax losses carried forward.

Note 16 – Other Operating Expenses

Amounts in NOK thousand

| | 2021 | 2020 |
|--------------------------|---------------|---------------|
| External services | 16 867 | 11 479 |
| Travel expenses | 864 | 618 |
| Advertising expenses | 702 | 665 |
| Other operating expenses | 5 153 | 2 256 |
| Total | 23 586 | 15 018 |

The company has incurred non-recurring transaction cost related to the acquisition of Biim Ultrasound AS of NOK 4.619 thousand in 2021 and in the table above this cost is part of the external services expenses.

Auditor

Amounts in NOK thousand

| Fees paid | 2021 | 2020 |
|--------------------------|--------------|--------------|
| Statutory audit services | 1 662 | 1 289 |
| Other services | 691 | 269 |
| Total | 2 353 | 1 559 |

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

Note 17 – Payroll Expenses

Amounts in NOK thousand

| | 2021 | 2020 |
|--|---------------|---------------|
| Salaries | 11 047 | 6 083 |
| Remuneration to the Board and Nomination Committee | 895 | 828 |
| Employer's tax | 3 950 | 2 101 |
| Share options for employees | 913 | 152 |
| Pension expenses – defined-contribution scheme | 1 727 | 742 |
| Other payroll expenses | 481 | 984 |
| Total | 19 013 | 10 891 |

| | | |
|---|----|---|
| Average number of full-time equivalents | 10 | 7 |
|---|----|---|

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 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.

The Group appointed new CEO at March 28, 2022. The information in this note applies to the CEO who held the position in 2021, unless otherwise is stated.

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

Refer to note 19 for information about share options to the Corporate Management team.

Loans to employees

As at 31.12.2021, there are no loans to employees.

Pension

The Group has defined contribution pension schemes.

Up to the change of CEO on March 28, 2022 the CEO had an occupational pension insurance scheme where the company paid 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.

The new CEO has a defined contribution pension scheme within the requirement of the law in Norway.

Remuneration to the Group Management

2021

| <i>Amounts in NOK thousand</i> | | Salary | Other benefits | Bonus | Pension | Option expenses | Options | Shares |
|--------------------------------|-----------------------------|--------|-------------------|-------|---------|--------------------|---------|--------|
| CEO | Björn Larsson ¹⁾ | 1 636 | 76 | 751 | 485 | 46 | 60 000 | 17 000 |
| CFO | Per Arne Nygård | 1 588 | 104 | 750 | 182 | 867 | 120 000 | 18 921 |
| Total | | 3 224 | 180 | 1 501 | 667 | 913 | 180 000 | 35 921 |

¹⁾ Salary are paid in SEK and converted to NOK

2020

| <i>Amounts in NOK thousand, except options and shares</i> | | Salary | Other benefits | Bonus | Pension | Option expenses | Options | Shares |
|---|-----------------|--------|-------------------|-------|---------|--------------------|---------|--------|
| CEO | Björn Larsson | 1 328 | 168 | | 268 | 152 | 120 000 | 17 000 |
| CFO | Per Arne Nygård | 1 272 | 88 | | 119 | | | 18 921 |
| Total | | 2 600 | 256 | | 387 | 152 | 120 000 | 35 921 |

Remuneration to the Board of Directors

2021

Amounts in NOK thousand, except number of shares

| Function | Name | Board fee | Shares | Shares owned by related parties | Loans |
|--------------|------------------------|-------------------|-----------------------|---------------------------------|-------|
| Chair | Terje Bakken | 270 ⁴⁾ | | 8 162 121 ¹⁾ | |
| Board member | Kathrine G. Andreassen | 195 ⁴⁾ | 586 668 ²⁾ | 4 222 727 ³⁾ | |
| Board member | Thomas Grunfeld | 205 ⁵⁾ | | | |
| Board member | Kristin Nyberg | 175 | | | |
| | Total | 845 | 586 668 | 12 384 848 | |

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

⁴⁾ Includes NOK 20 thousand in fee as member of the Audit Committee

⁵⁾ Includes NOK 30 thousand in fee as Chair of the Audit Committee

2020

Amounts in NOK thousand, except number of shares

| Function | Name | Board fee | Shares | Shares owned by related parties | Loans |
|--------------|------------------------|-----------|-----------------------|---------------------------------|-------|
| Chair | Terje Bakken | 263 | | 8 162 121 ¹⁾ | |
| Board member | Kathrine G. Andreassen | 188 | 586 668 ²⁾ | 4 222 727 ³⁾ | |
| Board member | Thomas Grunfeld | 151 | | | |
| Board member | Kristin Nyberg | 175 | | | |
| | Total | 777 | 586 668 | 12 384 848 | |

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

In addition, board member Thomas Grunfeld have acted as Chief Medical Officer (CMO) on a consultancy agreement. This agreement is based on hourly fee per hour worked with an hourly rate at NOK 1,500. The agreement has been approved by the board of directors and in total in 2021 it has been paid NOK 1,187 thousand in fees to Thomas Grunfeld based on the consultancy agreement.

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 was not exercised and lapsed as of 1 January 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.

CFO granted 120,000 share options

Per Arne Nygård was engaged as interim CFO of the group as a consultant on 10 December 2019, and was permanently employed as CFO of the group effective 1 March 2020. In connection with entering into the employment agreement in 2020, it was agreed that Per Arne Nygård would be granted options on such terms and conditions with respect to vesting period and exercise price, as if they had been awarded on 1 March 2020.

On the basis of the above, the options have been granted with an exercise price of NOK 8.29, which reflects the volume weighted average share trading price of the Company's shares the 10 trading days prior to 1 March 2020. Furthermore, 4/6 of the options vested upon grant, while the remaining 2/6 vest with 50% on 1 March 2022 and 1 March 2023, respectively.

The options have been granted without consideration and each option will upon exercise give the right to acquire one share in the Company. Any shares acquired upon exercise will be subject to a 12 months' lock-up period from the date received by the option holder, and all options will expire and lapse if not exercised within 1 March 2024.

Note 20 – Earnings per Share

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 2021 and 2020 were negative.

Amounts in NOK thousand

Earnings per share:

| | 2021 | 2020 |
|---|-------------|-------------|
| Net result for the year, company's shareholders | -26 321 | -36 868 |
| Average number of shares | 19 605 457 | 16 574 701 |
| Earnings per share (NOK per share) | -1,34 | -2,22 |

Note 21 – Related Parties

Transactions and shared costs have historically been charged from the parent Company to its subsidiary

In addition to Group companies, 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 2021 and 2020 besides remuneration and issue of options explained in Note 18.

Transactions and balances within the Group are eliminated in the financial statements and are not disclosed in this note.

Transaction and Balances with related parties includes transactions with Navamedic ASA and Ingerø Reiten Investment Company AS.

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--------------------------------|-------------|-------------|
| Revenues | | |
| Expenses | | 241 |
| Finance income | | |
| Finance expenses | 3 191 | 2 506 |
| Group contributions received | | |
| Receivables | | |
| Liabilities | 48 012 | 34 821 |

Expenses is primarily fee to cover costs and activities as finance and logistics support. Finance expense is interest on interest bearing loan towards Navamedic ASA and Ingerø Reiten Investment Company.

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 4.6 million in 2021 (NOK 1.1 million), of which NOK 4.1 million (NOK 0.3 million) is capitalized and NOK 0.5 million (NOK 0.8 million) is expensed as operating expenses. Expenses consist of estimated internal employee expenses related to project management and monitoring of the company's research and development activities, as well as not capitalized external expenses.

Note 23 – Shareholder Information

The following table shows shareholders owning 1% or more of Observe Medical ASA as at December 31, 2021:

| No | Name | Number of shares | Ownership % |
|-------------------------------|-------------------------|-------------------|-----------------|
| 1 | NAVAMEDIC ASA | 4 222 727 | 21.54 % |
| 2 | INGERØ REITEN INV. COMI | 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 | 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 GI | 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 2021 and 2020.

At the annual General Meeting held on 21 May 2021 the General Meeting resolved to grant the Board of Directors:

- (i) an authorisation to increase the Company's share capital by up to NOK 500,000 (approx. 9.8% of the Company's share capital at the date of the General Meeting) in order to increase the Company's share capital in connection with option and investment programmes; and
- (ii) an authorisation to increase the Company's share capital by up to NOK 1,020,000 (approximately 20% of the Company's share capital at the date of the General Meeting) in order to finance further growth of the Company. The authorisations are valid until the annual General Meeting in 2022, but no longer than to and including 30 June 2022.

Further, at an extraordinary General Meeting held on 4 February 2022, the General meeting resolved to grant the Board of Directors an authorisation to increase the Company's share capital by up to NOK 2,124,697.38 in order for the Board to issue the Consideration Shares upon Completion of the Biim SPA. The authorisation was subject to the Company completing the Rights Issue (see Section 14.1 "The Rights Issue"), which shall be considered completed upon the registration of the share capital increase pertaining to the Rights Issue in the Norwegian Register of Business Enterprises. The authorisation shall not be registered in the Norwegian Register of Business Enterprises prior to the share capital increase pertaining to the Rights Issue is registered in the Norwegian Register of Business Enterprises. From the time of registration in the Norwegian Register of Business Enterprises, this authorisation replaces the previous authorisations to increase the share capital in the Company by up to NOK 1,020,000 and NOK 500,000, respectively, given to the board of directors at the Company's annual general meeting held on 21 May 2021. The authorisation is valid until the Company's annual general meeting in 2022, but no longer than to and including 30 June 2022. For all authorisations, the Board of Directors have been authorised to

deviate from the shareholders' pre-emptive right to the new Shares in accordance with section 10-4 of the Norwegian Public Limited Companies Act. Furthermore, the authorisations to increase the share capital in order to finance further growth and to issue the Consideration Shares comprises share capital increases against contribution in kind and the right to incur specific obligations on behalf of the Company, cf. section 10-2 of the Norwegian Public Limited Companies Act, and share capital increases in connection with mergers pursuant to section 13-5 of the Norwegian Public Limited Companies Act.

Movement in number of shares

| Movement in number of shares | |
|-------------------------------------|-------------------|
| 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 |
| 31 December 2021 | 19 605 457 |

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 -Subsequent event

Rights Issue

On March 7, 2022 the Company announced that the share capital increase pertaining the Rights Issue with a total of 25,714,286 new shares each with a nominal value of NOK 0.26 was registered in the Norwegian Register of Business Enterprises (Nw: Foretaksregisteret)., Subscription price per share of NOK 7.00, and a total gross proceeds from the Rights Issue is NOK 180 million.

Net proceeds from the Rights Issue will be used for the cash settlement of NOK 50 million related to the acquisition of Biim Ultrasound AS, commercialization and growth initiatives for Sippi® and Biim ultrasound probe, and repayment of current interest-bearing debt in addition to general corporate purposes.

Acquisition of Biim Ultrasound AS

Biim Ultrasound AS ("Biim Ultrasound") was acquired in March 2022. The transaction, with estimated acquisition consideration of NOK 185 million, financed through a combination of 8,171,913 consideration shares issued by the Company at a price of NOK 16.52 per share, and cash settlement of NOK 50 million.

Biim Ultrasound has developed a unique, wireless and pocketable ultrasound probe, Biim, that can scan patients and review images in seconds. The objective of Biim is to enhance healthcare personnel decision-making and improve patient outcomes. Biim Ultrasound's US network is also expected to further drive the pace of the global commercial roll-out of Sippi®, accelerating the current roll-out in Europe and drive an earlier US market entry.

A partner agreement with Fresenius Kidney Care, the leading provider of kidney care services in the US, is already in place, whereby Biim is intended to be used across Fresenius' dialysis centres in the US.

As the purchase price allocation and the initial accounting for the business combination is incomplete, no proforma numbers are available.

Following the Rights Issue and issuance of the consideration shares by registration of the share capital increase with the Norwegian Register of Business Enterprises (Nw. Foretaksregisteret), the share capital of Observe Medical is NOK 13,907,830.56, divided into 53,491,656 shares, each with a nominal value of NOK 0.26.

Rune Nystad appointed CEO of Observe Medical ASA

The Board of Directors appointed Rune Nystad as Chief Executive Officer (CEO) of Observe Medical ASA from March 28, 2022. Rune Nystad succeed Björn Larsson who has headed the Company since December 2019.

Björn Larsson is entitled to 6 months' severance pay.

The Russian invasion of Ukraine

The Russian invasion of Ukraine has resulted in a rapidly evolving geo-political situation and introduced a new set of challenges with respect to maintaining business continuity. In order to mitigate the potential impact on the company's operation particularly in respect of potential interruptions of supply chains, Observe Medical is monitoring the situation closely.

The company has close contact with both suppliers and carriers to, as far as possible, secure the supply chain. The company has a special focus on the global situation related to the lack of components to electronic equipment.

Parent Company Observe Medical ASA
Annual Financial Statements 2021



Contents

| | |
|--|-----|
| Income statement..... | 88 |
| Balance Sheet | 89 |
| Balance Sheet | 90 |
| Equity | 91 |
| Cash Flow Statement | 92 |
| General | 93 |
| Note 1 – Accounting Policies | 94 |
| Note 2 – Salary Expenses | 96 |
| Note 3 – Bank Deposits | 96 |
| Note 4 – Non-Current Liabilities | 97 |
| Note 5 – Current Liabilities | 97 |
| Note 6 – Current assets | 99 |
| Note 7 – Loans to Group Companies..... | 99 |
| Note 8 – Financial Income and Expenses | 100 |
| Note 9 – Other Operating Expenses | 100 |
| Note 10 – Subsidiaries | 100 |
| Note 11 – Related Parties | 101 |
| Note 12 – Non-current assets | 101 |
| Note 13 – Taxes | 102 |

Observe Medical ASA

Income statement

| <i>Amounts in NOK thousand</i> | Note | 2021 | 2020 |
|---|-------------|----------------|----------------|
| Operating revenues | 11 | 1,493 | 806 |
| Total operating revenues | | 1,493 | 806 |
| Personnel expenses | 2 | 8,725 | 5,495 |
| Other operating expenses | 2,9 | 10,082 | 5,665 |
| Operating expenses | | 18,807 | 11,160 |
| Operating result before depreciation and amortization (EBITDA) | | -17,314 | -10,354 |
| Depreciation and amortization | 12 | 107 | 0 |
| Operating result (EBIT) | | -17,421 | -10,354 |
| Financial income and expenses | | | |
| Interest income from group companies | 8,11 | 337 | 4,050 |
| Financial income | 8 | 15,053 | 3,820 |
| Interest expense to group companies | 8,11 | 5,537 | 84 |
| Interest expenses | 8 | 3,203 | 2,506 |
| Financial expenses | 8 | 1,472 | 10,102 |
| Net financial items | | 5,177 | -4,823 |
| Result before tax | | -12,244 | -15,178 |
| Income tax expense | 13 | 0 | 0 |
| Result for the period | | -12,244 | -15,178 |
| Brought forward | | | |
| Transferred from other equity | | 12,244 | 15,178 |
| Net brought forward | | -12,244 | -15,178 |

Observe Medical ASA

Balance Sheet

| <i>Amounts in NOK thousand</i> | Note | 31.12.2021 | 31.12.2020 |
|---|-------------|-------------------|-------------------|
| ASSETS | | | |
| Property, Plant and Equipment | | | |
| Equipment and other movables | 12 | 376 | 0 |
| Non-current assets | | | |
| Investments in subsidiaries | 10 | 211,986 | 207,984 |
| Loans to subsidiaries | 7 | 0 | 3,944 |
| Total non-current financial assets | | 211,986 | 211,928 |
| Total non-current assets | | 212,362 | 211,928 |
| Current assets | | | |
| Receivables from group companies | 6 | 974 | 0 |
| Other receivables and prepaid expenses | 6 | 2,844 | 336 |
| Bank deposits | 3 | 507 | 14,327 |
| Total current assets | | 4,325 | 14,663 |
| Total assets | | 216,686 | 226,591 |

Observe Medical ASA

Balance Sheet

Amounts in NOK thousand

EQUITY AND LIABILITIES

| | | | |
|--|------|----------------|----------------|
| Share capital | | 5,097 | 5,097 |
| Share premium | | 86,278 | 86,278 |
| Other paid-in equity | | 13,652 | 12,739 |
| Total paid-in equity | | 105,028 | 104,115 |
| Other equity | | -29,841 | -17,598 |
| Total equity | | 75,187 | 86,517 |
| Non-current liabilities | | | |
| Contingent consideration | 4 | 13,031 | 22,368 |
| Non-current liabilities to group companies | 11 | 66,240 | 80,931 |
| Non-current interest-bearing liabilities | 4,11 | 0 | 34,821 |
| Total non-current liabilities | | 79,271 | 138,120 |
| Current liabilities | | | |
| Liabilities to financial institutions | | 6,509 | 0 |
| Trade payables | 11 | 2,020 | 501 |
| Public duties payable | 5 | 668 | 166 |
| Interest-bearing current liabilities | 5 | 48,012 | 0 |
| Other current liabilities | 5 | 5,019 | 1,288 |
| Total current liabilities | | 62,228 | 1,954 |
| Total liabilities | | 141,499 | 140,074 |
| Total equity and liabilities | | 216,686 | 226,591 |

The Board of Directors and CEO of Observe Medical ASA
 Oslo, April 28, 2022



Terje Bakken
 Chair of the Board



Sanna Rydberg
 Board member



Kathrine Gamborg Andreassen
 Board member



Thomas Grünfeld
 Board member



Rune Nystad
 CEO

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, 2021 | 5,097 | 86,278 | 12,739 | 104,115 | -17,598 | 86,517 |
| Accrued cost options | | | 913 | 913 | | 913 |
| Net result for the period | | | | | -12,244 | -12,244 |
| Equity as at December 31, 2021 | 5,097 | 86,278 | 13,652 | 105,028 | -29,841 | 75,187 |

| Share capital: | NOK thousand | Shares | Par price |
|--|--------------|-------------------|-------------|
| Share capital January 1, 2021 | 5,097 | 19,605,457 | 0.26 |
| Changes | 0 | 0 | 0 |
| Share capital December 31, 2021 | 5,097 | 19,605,457 | 0,26 |

Refer to Note 23 in the Observe Medical group's consolidated financial statement 2021 for shareholders' information.

Observe Medical ASA

Cash Flow Statement

| <i>Amounts in NOK thousand</i> | Note | 2021 | 2020 |
|---|-------------|----------------|---------------|
| Cash flow from operating activities | | | |
| Result before tax | | -12,244 | -15,178 |
| Depreciation | | 107 | 0 |
| Interest expenses and change in contingent consideration not paid | 8, 11 | -9,337 | 6,675 |
| Interest income from group companies not paid | 8, 11 | | |
| Change in trade receivables and other receivables | 6 | -2,865 | -96 |
| Change trade payables and other current liabilities | | 7,923 | 1,077 |
| Net cash flow from operating activities | | -16,416 | -7,522 |
| Cash flow from investment activities | | | |
| Payments on the purchase of equipment | | -483 | 0 |
| Payment for shares in subsidiaries | | | -8,759 |
| Net cash flow used in investment activities | | -483 | -8,759 |
| Cash flow from financing activities | | | |
| Liabilities to financial institutions | | 6,509 | 0 |
| Paid in new share capital | | 913 | 41,392 |
| Repayment share capital | | 0 | 0 |
| Change interest bearing debt | | 10,405 | 6,902 |
| Net change interest bearing debt to group companies | | -14,748 | -17,881 |
| Net cash flow from financing activities | | 3,079 | 30,413 |
| Exchange rate fluctuations | | 0 | 0 |
| Changes in cash | | -13,820 | 14,132 |
| Bank deposits as at January 1 | | 14,327 | 195 |
| Bank deposits end of period | 3 | 507 | 14,327 |

Explanatory Notes to the Annual Financial Statements 2021

General

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

Observe Medical ASA was listed on Euronext Expand (previously Oslo Axess) on November 4, 2019. Observe Medical ASA holds 100% of all shares in its subsidiary Observe Medical International AB, Observe Medical AB, Observe Medical Nordic 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.

The consolidated financial statements of the Group have been prepared in accordance with IFRS. The Company's accounting principles are similar to the accounting principles for the Group unless otherwise noted. Financial statement disclosures for the Company that are substantially different from the disclosures for the Group are shown below. See notes to the consolidated financial statements.

Observe Medical ASA is registered and based in Norway. Its head office is located in Dronning Eufemias gate 16, 0191 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.

Classification and valuation of fixed assets

Fixed assets consist of assets intended for long-term ownership and use. Fixed assets are valued at acquisition cost less depreciation and write-downs. Long-term liabilities are entered on the balance sheet at the nominal amount at the time of the transaction.

Plant and equipment is capitalized and appreciated over the economic lifetime of the asset. Significant items of plant and equipment that consist of several material components with different lifetimes are broken down in order to establish different depreciation periods for the different components. Direct maintenance of plant and equipment is expensed on an ongoing basis under operating costs, while additions or improvements are added to the asset's cost price and depreciated in line with the asset. Plant and equipment is written down to the recoverable amount in the event of a fall in value that is not expected to be temporary. The recoverable amount is the higher of the net sales value and the value in use. Value in use is the present value of future cash flows related to the asset. The write-down is reversed when the basis for the write-down is no longer present.

Note 2 – Salary Expenses

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|---|--------------|--------------|
| Salaries | 2,533 | 1,424 |
| CEO cost invoiced from subsidiary | 3,146 | 2,018 |
| Fees to Board of Directors and Nomination Committee | 895 | 828 |
| Employment taxes | 838 | 521 |
| Pension insurance | 207 | 119 |
| Other benefits | 1,106 | 585 |
| Total salary expenses | 8,725 | 5,495 |

At year end the company had 2 employees. The company has a contribution pension scheme that meets the requirement of the Norwegian Act of Mandatory Occupational Pension.

The chief executive is employed by the fully owned subsidiary, Observe Medical AB and is hired to Observe Medical ASA. CEO costs including expenses and bonus payment to Observe Medical ASA according to principles for internal transactions. For remuneration to the group management, please refer to the consolidated financial statement note 18.

Share option expenses of TNOK 913 for 2021 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 2021 for further information related to the share options.

Auditor

Audit fees expensed for 2021 amounts to NOK 966 thousand ex VAT. Fees for other assurance services amounts to NOK 691 thousand.

Note 3 – Bank Deposits

Funds standing on the tax deduction account (restricted funds) are NOK 507 thousand.

Note 4 – Non-Current Liabilities

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--|---------------|----------------|
| Contingent consideration | 13,030 | 22,368 |
| Interest bearing debt to Observe Medical Int. AB ¹⁾ | 66,240 | 80,931 |
| Interest bearing debt to Navamedic ASA ²⁾ | 0 | 34,821 |
| Total non-current liabilities | 79,271 | 138,120 |

¹⁾ Included accrued, not paid interest as at 31.12.2021 of TNOK 5,536.

²⁾ Maturity date of the loan is in October 2022 and the loan has been classified at current interest-bearing debt at 31 December 2021. New loan agreement is signed in 2022.

Note 5 – Current Liabilities

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--|---------------|--------------|
| Liabilities to financial institutions | 6,509 | 0 |
| Trade payables | 2,020 | 501 |
| Public duties payable | 668 | 166 |
| Interest bearing debt to Navamedic ASA ¹⁾ | 37,606 | 0 |
| Loan Ingerø Reiten Investment Company ²⁾ | 10,405 | 0 |
| Other liabilities | 5,019 | 1,288 |
| Total non-current liabilities | 62,228 | 1,954 |

¹⁾ Included accrued, not paid interest as at 31.12.2021 of TNOK 2,786.

²⁾ Included accrued, not paid interest as at 31.12.2021 of TNOK 405.

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 TNOK 32,000 (the "Bond Loan").

The Bond Loan consists of the two following facilities:

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

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

The Facility A was to refinance existing loan to Navamedic ASA on October 1, 2019 while the Liquidity Facility was paid in portion in the first 8 months after listing. The facility is fully drawn as at December 31, 2021.

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.

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, 2021.

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.

The change in fair value in 2021 is due to updated estimate related to when the sales of OM's products will be realized. The potential revenue and expected realizations remain unchanged but have been postponed due to effects of Covid-19.

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 as at December 31, 2021: A 1 percentage point reduction in the discount rate would increase the estimated present value by NOK 0.3 million and a 10% reduction in revenue would decrease the estimated present value by NOK 5.2 million. The relative high decrease is due to the fact that reduces sale will result in breach of achieving milestone.

Note 6 – Current assets

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|----------------------------------|--------------|-------------|
| Other short-term receivables* | 2,586 | 292 |
| Receivables from group companies | 974 | 0 |
| Total receivables | 3,560 | 292 |

*In connection with the Rights Issue completed in February 2022, the cost related to the Rights issue has been capitalized under other short-term receivables, TNOK 1 520. When the Rights Issue was completed in March 2022 the transaction cost was reclassified from short-term receivables to equity.

Note 7 – Loans to Group Companies

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|---------------------------------------|-------------|--------------|
| Observe Medical Nordic AB | 0 | 3,944 |
| Total loans to group companies | 0 | 3,944 |

All group internal loans 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.

In December 2021 Observe Medical ASA converted TNOK 4,002 to equity in Observe Medical Nordic AB.

Note 8 – Financial Income and Expenses

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|---|---------------|---------------|
| Interest income from group companies | 337 | 4,050 |
| Net currency gain | 4,621 | 3,820 |
| Other interest income | 10,432 | 0 |
| Total financial income | 15,390 | 7,870 |
| Financial expenses | 2021 | 2020 |
| Interest expenses | 3,203 | 2,506 |
| Interest expenses to group companies | 5,537 | 84 |
| Net currency loss | 0 | 0 |
| Change in contingent consideration | 1,095 | 9,970 |
| Other financial cost | 377 | 133 |
| Total financial expenses | 10,212 | 12,693 |
| Net financial income(+)/expenses (-) | -5,177 | -4,823 |

Note 9 – Other Operating Expenses

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--|---------------|--------------|
| Audit and other assurance services | 1,096 | 1,002 |
| Administrative consultants | 4,070 | 2,557 |
| Administrative services from Navamedic ASA | 133 | 57 |
| Accounting and financial consultant services | 385 | 699 |
| Fees to Oslo Børs | 218 | 88 |
| Other fees and operating expenses | 4,180 | 1,261 |
| Total other operating expenses | 10,082 | 5,665 |

Observe Medical ASA completed the acquisition of Biim Ultrasound AS at 8 March 2022. In 2021 total NOK 4,619 thousand was expensed as other operating expenses in connection with this process.

Note 10 – Subsidiaries

| <i>Amounts in NOK thousand</i> | Business office | Ownership share | Carrying amount December 31, 2021 |
|--|------------------------|------------------------|--|
| Observe Medical AB | Gothenburg, Sweden | 100 % | 64,042 |
| Observe Medical ApS | Herlev, Denmark | 100 % | 80,247 |
| Observe Medical International AB ¹⁾ | Gothenburg, Sweden | 100 % | 58,970 |
| Observe Medical Nordic AB ²⁾ | Gothenburg, Sweden | 100 % | 8,729 |
| Total | | | 211,986 |

¹⁾ Observe Medical International AB merged in January 2022 with Observe Medical AB.

²⁾ In December 2021 Observe Medical ASA converted TNOK 4,002 to equity in Observe Medical Nordic AB. Biim Ultrasound AS was acquired at March 8, 2022. The transaction, with estimated acquisition consideration of NOK 185 million, financed through a combination of 8,171,913 consideration shares issued by the Company at a price of NOK 16.52 per share, and cash settlement of NOK 50 million.

Biim Ultrasound has developed a unique, wireless and pocketable ultrasound probe, Biim, that can scan patients and review images in seconds. The objective of Biim is to enhance healthcare personnel decision-making and improve patient outcomes. Biim Ultrasound's US network is also expected to further drive the pace of the global commercial roll-out of Sippi®, accelerating the current roll-out in Europe and drive an earlier US market entry.

A partner agreement with Fresenius Kidney Care, the leading provider of kidney care services in the US, is already in place, whereby Biim is intended to be used across Fresenius' dialysis centres in the US.

Note 11 – Related Parties

| <i>Amounts in NOK thousand</i> | Income | Operating expenses | Financial income | Financial expenses | Receivables | Liabilities |
|---|---------------|---------------------------|-------------------------|---------------------------|--------------------|--------------------|
| Navamedic ASA ¹⁾ | | | | 2,786 | | 37,606 |
| Ingerø Reiten Investment Company AS ²⁾ | | | | 405 | | 10,405 |
| Navamedic Medtech AB | | | | | | |
| Observe Medical AB | 852 | 3,146 | | 33 | 922 | |
| Observe Medical International AB | 72 | | | 667 | | 66,240 |
| Observe Medical ApS | 82 | | 2 | 1 | 14 | |
| Observe Medical Nordic AB | 487 | | 335 | 228 | 39 | |
| Total | 1,493 | 3,146 | 337 | 4,120 | 974 | 114,252 |

¹⁾ Navamedic ASA owned 21.54% of all shares in Observe Medical ASA as of 31 December 2021.

²⁾ Ingerø Reiten Investment Company AS owned 20.09% of all shares in Observe Medical ASA as of 31 December 2021.

Note 12 – Non-current assets

| <i>Amounts in NOK thousand</i> | Fixtures and fittings | Total |
|-------------------------------------|------------------------------|--------------|
| Purchased fixed assets | 483 | 483 |
| Accumulated depreciation 31.12.2021 | 107 | 107 |
| Book value 31.12.2021 | 376 | 376 |

Economic life

3 years

Note 13 – Taxes

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|--------------------------------|-------------|-------------|
| Income tax payable | 0 | 0 |
| Changes in deferred tax | 0 | 0 |
| Income tax expenses | 0 | 0 |

Reconciliation from Nominal to Actual Tax Rate

| <i>Amounts in NOK thousand</i> | 2021 | 2020 |
|-----------------------------------|----------------|----------------|
| Result before income tax | -12,244 | -15,178 |
| Non-deductible expenses | -8,423 | 5,152 |
| Changes in temporary differences | -37 | 0 |
| Total taxable income | -20,704 | -10,025 |
| Expected income tax expenses, 22% | -2,252 | -2,206 |

Specification of Tax Effect to Temporary Differences

| | | |
|---|----------|----------|
| Non-current assets | 37 | 0 |
| Current assets | 0 | 0 |
| Liabilities and provisions | 0 | 0 |
| Non-recognized tax asset | 0 | 0 |
| Tax losses carried forward | -33,149 | -12,445 |
| 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 |

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.

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

We confirm that the financial statements for 2021 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 28, 2022

A stylized blue ink signature of Terje Bakken.

Terje Bakken
Chair of the Board

A stylized blue ink signature of Sanna Rydberg.

Sanna Rydberg
Board member

A stylized blue ink signature of Kathrine Gamborg Andreassen.

Kathrine Gamborg Andreassen
Board member

A stylized blue ink signature of Thomas Grünfeld.

Thomas Grünfeld
Board member

A stylized blue ink signature of Rune Nystad.

Rune Nystad
CEO

Auditor's Report





KPMG AS
 Sørkedalsveien 6
 Postboks 7000 Majorstuen
 0306 Oslo

Telephone +47 45 40 40 63
 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 2021, the income statement, equity 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 consolidated statement of financial position as at 31 December 2021, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion:

- the financial statements comply with applicable statutory requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2021, 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, and
- the financial statements give a true and fair view of the financial position of the Group as at 31 December 2021, 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.

Our opinion is consistent with our additional report to the Audit Committee.

Basis for Opinion

We conducted our audit in accordance with 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 the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), 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.

To the best of our knowledge and belief, no prohibited non-audit services referred to in the Audit Regulation (537/2014) Article 5.1 have been provided.

We have been the auditor of the Company for 3 years from the election by the general meeting of the shareholders on 13 June 2022 for the accounting year 2019.

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

Statsautoriserte revisorer - medlemmer av Den norske Revisorforening

Offices in:

| | | | |
|---------|--------------|--------------|-----------|
| Oslo | Elverum | Mo i Rana | Stord |
| Alta | Finnsnes | Molde | Straume |
| Arendal | Hamar | Ski | Tromsø |
| Bergen | Haugesund | Sandefjord | Trondheim |
| Bodø | Karvik | Sandnessjøen | Tynset |
| Drammen | Kristiansund | Stavanger | Ålesund |



Independent Auditor's Report - Observe Medical ASA

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.

Impairment of goodwill and intangible assets

Refer to section "Operational risk" in the Board of Director's report, the accounting policies in Note 2 Basis for Preparation and Summary of the Most Significant Accounting Policies section "Impairment of Non-Financial Assets", the Significant Judgements in the Application of Group Accounting Policies and Accounting Estimates described in Note 4, Note 7 Intangible assets in the consolidated financial statements and Note 10 Subsidiaries for the parent company.

| <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 55.2 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 the operating activities form one cash generating unit, the Medtech business.</p> <p>When performing 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>For Observe Medical ASA these risks have led to a risk of impairment of shares in subsidiaries. Management has performed impairment tests of the investments in subsidiaries where impairment indicators above have been identified.</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 historical accuracy of management's budgets and forecasts and challenged management on the current year cash flow forecasts as well as estimated future cash flows; • We evaluated the growth assumptions and management's future business plan assumptions with reference to current market conditions, including the consideration of disconfirming evidence in order to identify any indicators of management bias; • 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; • We considered the appropriateness of the disclosures in light of the requirements; and • We compared the carrying value of the investment in subsidiaries with the value in use calculation considering the net interest bearing debt, when impairment indicators were identified. |



Independent Auditor's Report - Observe Medical ASA

Valuation of contingent considerations

Refer to section "Financial Position" in the Board of Director's report the accounting policies in Note 2 Basis for Preparation and Summary of the Most Significant Accounting Policies section "Financial Liabilities", the Significant Judgements in the Application of Group Accounting Policies and Accounting Estimates described in Note 4, Note 14 Contingent Consideration in the consolidated financial statements and Note 5 Current Liabilities for the parent company.

| <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 13.0 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 2022-2026.</p> <p>The estimated amount of the contingent consideration is determined based on forecasted revenue for the period 2022-2026 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 share purchase agreement; and • We considered the appropriateness of the disclosures in light of the requirements |

Other Information

The Board of Directors and the Managing Director (management) are responsible for the information in the Board of Directors' report and the other information accompanying the financial statements. The other information comprises information in the annual report, but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the information in the Board of Directors' report nor the other information accompanying the financial statements.

In connection with our audit of the financial statements, our responsibility is to read the Board of Directors' report and the other information accompanying the financial statements. The purpose is to consider if there is material inconsistency between the Board of Directors' report and the other information accompanying the financial statements and the financial statements or our knowledge obtained in the audit, or whether the Board of Directors' report and the other accompanying information otherwise appears to be materially misstated. We are required to report if there is a material misstatement in the Board of Directors' report or the other information accompanying the financial statements. We have nothing to report in this regard.

Based on our knowledge obtained in the audit, it is our opinion that the Board of Directors' report

- is consistent with the financial statements and
- contains the information required by applicable legal requirements.

Our opinion on the Board of Director's report applies correspondingly to the statements on Corporate Governance and the Sustainability report.



Independent Auditor's Report - Observe Medical ASA

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and true and fair view of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 ISAs, we exercise professional judgment and maintain professional skepticism 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 a true and fair view.
- 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.



Independent Auditor's Report - Observe Medical ASA

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 Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on Other Legal and Regulatory Requirements

Report on compliance with Regulation on European Single Electronic Format (ESEF)

Opinion

We have performed an assurance engagement to obtain reasonable assurance that the financial statements with file name "Observe_Medical_ASA-2021-12-31-en" have been prepared in accordance with Section 5-5 of the Norwegian Securities Trading Act (Verdipapirhandelloven) and the accompanying Regulation on European Single Electronic Format (ESEF).

In our opinion, the financial statements have been prepared, in all material respects, in accordance with the requirements of ESEF.

Management's Responsibilities

Management is responsible for preparing, tagging and publishing the financial statements in the single electronic reporting format required in ESEF. This responsibility comprises an adequate process and the internal control procedures which management determines is necessary for the preparation, tagging and publication of the financial statements.

Auditor's Responsibilities

Our responsibility is to express an opinion on whether the financial statements have been prepared in accordance with ESEF. We conducted our work in accordance with the International Standard for Assurance Engagements (ISAE) 3000 – "Assurance engagements other than audits or reviews of historical financial information". The standard requires us to plan and perform procedures to obtain reasonable assurance that the financial statements have been prepared in accordance with the European Single Electronic Format.

As part of our work, we performed procedures to obtain an understanding of the company's processes for preparing its financial statements in the European Single Electronic Format. We evaluated the completeness and accuracy of the iXBRL tagging and assessed management's use of judgement. Our work comprised reconciliation of the financial statements tagged under the European Single Electronic Format with the audited financial statements in human-readable format. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Oslo, 28 April 2022
 KPMG AS

Kjetil Kristoffersen
 State Authorised Public Accountant

PENNEO

Signaturene i dette dokumentet er juridisk bindende. Dokument signert med "Penneo" – sikker digital signatur.
 De signerende parter sin identitet er registrert, og er listet nedenfor.

"Med min signatur bekrefter jeg alle datoer og innholdet i dette dokument."

Kjetil Kristoffersen
 Oppdragsansvarlig revisor
 På vegne av: KPMG
 Serienummer: 9578-5998-4-1007631
 IP: 86.232.xxx.xxx
 2022-04-28 20:07:26 UTC



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. |
| EBITDA before non-recurring items: | EBITDA of the Company before any extraordinary or unusual one-time non-recurring expenses or other charges as reflected in the Company's audited consolidated financial statements for the year |
| 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 2021 | At 31 December 2020 |
|--------------------------------|----------------------------|----------------------------|
| Total shareholders equity | -14,122 | 20,349 |
| Total assets | 70,738 | 87,733 |
| Equity ratio | -20.0% | 23.2% |

MEDTECH THAT MATTERS

IR Contacts

Rune Nystad, CEO
+47 91 62 46 83
rune.nystad@observemedical.com

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

Address

Observe Medical ASA
Dronning Eufemias gate 16
0191 Oslo, Norway