



Observe Medical ASA

ANNUAL REPORT 2022



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We are Observe Medical

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

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

The current portfolio of proprietary products consist of Sippi®, a CE marked system for urine measurement, and Biim ultrasound probe, which is a unique, wireless and pocketable ultrasound probe, that can scan patients and review images in seconds. In addition, the Company has a broad distribution portfolio of medtech devices and disposables, mainly within Urine measurement, Anesthesiology/ICUs and wound care.

For further descriptions of the products see section “About Observe Medical portfolio”.



Patient
welfare



Health
economics



Data
accuracy

Highlights 2022

► **Biim Ultrasound AS acquisition and financing of the transaction**

In March 2022, Observe Medical completed 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 Company completed a fully underwritten Rights Issue and raised 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 in addition to commercialization and growth initiatives for Sippi® and Biim, repayment of due interest-bearing debt and general corporate purposes.

► **Completed delivery phase 1 of ultrasound probes to Fresenius Medical Care in the US and partnership for next step on track**

In first half year 2022, the Group delivered 120 Biim ultrasound probes to Fresenius Medical Care ('Fresenius') in the US, completing the delivery of a total of 265 ultrasound probes in the first phase of the delivery as planned, and currently working closely with Fresenius Medical Care to get ready for the next phase.

► **Recruitment of key personnel in 2022:**

Rune Nystad appointed as Chief Executive Officer (CEO)

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

Carsten Bøgh appointed as Chief Technology Officer (CTO)

More than 20 years experience from industrial and global medtech. Previous experience from senior roles at Fresenius and Oticon.

► **Entered into an exclusivity agreement with the intention to acquire the UnoMeter™ product portfolio**

In October the Company entered into an exclusivity agreement with the intention to acquire the UnoMeter™ portfolio from Convatec Group Plc. The portfolio consists of products such as Unometer™ Safeti™ Plus, Unometer™ 500 and UnoMeter™ Abdo-Pressure™, market leading products within routine or post-operative drainage, collection and measurement of urine output from patients. The product range is complementary to Observe Medical's digital and automated urine meter, Sippi®

Key figures

- Observe Medical had **operating revenues** of NOK 19.5 million (24 million) in 2022 and a gross result of NOK 5.2 million (9.5 million). The change is mainly due to loss of Covid-19 related revenues in 2021 that more than offset revenues from Biim ultrasound probe sales in 2022.
- **EBITDA** decreased in 2022 mainly due to increased operating expenses as a result of consolidation of Biim Ultrasound as part of the Group from March 2022.
- **Net finance** income of NOK 8.4 million (10.2 million) are mainly related to change in the contingent consideration liability and the net currency gain that more than offset the interest expenses of interest-bearing debt.
- **Result** for 2022 is negative NOK 50.7 million (negative 26.3 million).
- Observe Medical had an **equity** of NOK 138.3 million at December 31, 2022. In March 2022 the Company completed a Rights Issue of NOK 180 million and issued 8,171,913 consideration shares in connection with the Biim Ultrasound acquisition. These transactions significantly increased the Company's equity.

(Amounts in NOK thousand, except EPS, equity ratio and number of employees)	2022	2021
Revenue	19,521	24,042
Gross result	5,177	9,518
EBITDA before non-recurring items*	-44,933	-28,462
EBITDA	-48,012	-33,081
EBIT	-59,143	-36,544
Net finance	8,418	10,223
Result	-50,725	-26,321
EPS	-1.08	-1.34
Equity	138,306	-14,122
Total balance	215,812	71,738
Equity ratio	64%	-20%
Number of employees	17	14

* Non-recurring expenses in 2022 is related to expenses in connection with the acquisition of Biim Ultrasound AS, and severance pay to CEO and CTO. In 2021 the expenses was related to acquisition of Biim.

Letter from the CEO

In 2022, Observe Medical explored several paths to broaden our product portfolio and build capacity for growth. It started with the acquisition of Biim Ultrasound in March, which broadened our distribution network in the US and added to our medtech portfolio. The acquisition also came with a signed agreement with Fresenius Medical Care, and it has been exciting to witness the relationship with one of the world leading kidney care providers develop throughout the year. The initial batches of ultrasound probes were delivered in the first half of 2022, adding up to 265 systems across the same number of treatment clinics. We are now working with management to ramp up for the next phase, a process spearheaded by a dedicated business unit of Fresenius with our support.

In the months that followed, we actively sought out synergistic opportunities and came across the prospect of acquiring Convatec's UnoMeter™ portfolio, which consists of several market-leading products within routine urine measurement systems. With an exclusivity agreement with Convatec signed in October, with the aim of acquiring the portfolio, we have worked diligently to arrange for manufacturing and developed an excellent relationship with hundreds of customers and distributors of the Convatec UnoMeter™ portfolio in more than 50 countries worldwide. This will further accelerate the commercial pathway for our own digital and automated urine meter product, Sippi®.

With the objective of securing production capacity for our expanding range of products, we also signed an exclusivity agreement to acquire Ferrari L., an Italian manufacturer of medical and surgical equipment, in December 2022. Recently, we decided to discontinue the acquisition process as a result of having identified more cost-efficient manufacturing alternatives. We may still decide to work with Ferrari L. as a supplier.

To support all these projects, we also secured several key hires in 2022. In September, Carsten Bøgh joined Observe Medical as Chief Technology Officer and Jørgen Mann joined as Chief Commercial Officer at the start of 2023.

With a strong leadership team in place, we have strengthened our relationships with potential distributors who, in 2023, have been on the receiving end of Letters of Intent, which have started to convert into signed contracts. The level of engagement from distributors has been encouraging and we are now in the process of accelerating our sales efforts with the expectation of the first delivery of products to take place by the summer of 2023.

All these workstreams require additional capital, and in March 2023, as an interim financing step, we announced that we had entered into loan agreements with some of our largest shareholders. We are grateful to have such strong support and commitment from our owners, which will support our short-term action plan. To see through our long-term

action plan, we will require additional funding and are in the process of considering potential finance providers and investors to support future growth.

Overall, despite the challenges we have encountered in 2022, it has been a year of exciting opportunities. I am grateful to the team at Observe Medical, who have met each challenge and opportunity without hesitation and to our shareholders, who have supported us along the way.

Our ambition for the longer term remains unchanged, and I look forward to keeping you all updated in the coming period.

A handwritten signature in blue ink, which appears to read "Rune Nystad". The signature is fluid and stylized, with a long horizontal stroke extending to the right.

Rune Nystad
CEO

About the Observe Medical Portfolio

Observe Medical has a portfolio of medtech devices and disposables within Urine measurement, Ultrasound, Anesthesiology/ICUs and wound care.

Sippi® - The Digital, Automated Urine Measurement 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® provides patient data accuracy and saves significant time and effort for healthcare professionals.



Manual Urine Measurement system

Observe Medical has in 2023 introduced a manual urine measurement system to a broad global distribution network. The manual system is an important step for Observe Medical to be established as a preferred supplier in this segment. This will create a unique market access channel for our existing portfolio and will catapult Sippi® to the market.

Biim wireless pocketable ultrasound device

Biim Ultrasound probe is a wireless pocketable ultrasound device. This is a unique, cost efficient and small handheld wireless device that makes the technology available where its needed.

The Biim Ultrasound system consists of an ultrasound probe and an App for display of the ultrasound image and/or video.



Biim offers nurses and medical staff an easy to use ultrasound device which ensure accuracy and quality in the treatment of their patients.

Biim has an agreement with Fresenius Medical Care with an aim to roll-out Biim Ultrasound probe in their approximately 3,000 dialysis clinics in the US has been a major important milestone. As of year end 2022, a total of 265 Fresenius clinics has received Biim Ultrasound probes.

The Nordic Portfolio

Observe Medical Nordic portfolio consists of medtech devices and disposables, from well-known international suppliers of products within Urine measurement, Anesthesiology/ICUs and wound care. The portfolio of products are aimed at ICUs and other wards at hospitals as well as towards primary care and homecare settings, thus synergistic with Sippi® target customers.





Board of Directors' Report 2022



Board of Directors' Report 2022

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 Food and Drug Administration (FDA) since 2018.

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.

After the Biim acquisition, the Group has offices in Gothenburg (Sweden), Oulu (Finland), Seattle (US), Narvik (Norway), in addition to the headquarters in Oslo (Norway), and we currently have two proprietary systems 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.

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 were used for the cash settlement of NOK 54 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.

In October 2022, the Group entered into an exclusivity agreement with the intention to acquire the UnoMeter™ portfolio from Convatec Group Plc. The portfolio consist of products such as Unometer™ Safeti™ Plus, Unometer™ 500 and UnoMeter™ Abdo-Pressure™, market leading products within routine or post-operative drainage, collection

and measurement of urine output from patients. The product range is complementary to Observe Medical's digital and automated urine meter, Sippi®.

In December 2022, the Group entered into an exclusivity agreement to negotiate an acquisition of Ferrari L., which owns and operates a production facility for medical and surgical equipment located in Verona, Italy. Talks about this potential acquisition was terminated in April 2023 as a result of Observe Medical having identified a more cost-efficient manufacturer alternative for the UnoMeter™ product range.

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 are fully owned subsidiaries of Biim Ultrasound AS.

Summary of the Financial Results

The Group had operating revenues of NOK 19.5 million in 2022 compared to NOK 24 million in 2021. The gross result was NOK 5.2 million, compared to NOK 9.5 million in 2021. In 2021 the Nordic distribution portfolio had one single order of NOK 10 million related to delivery of safety needles delivered to Covid-19 vaccination program. Loss of this revenues more than offset the sales revenues from Biim Ultrasound probes in 2022.

In 2022, EBITDA before non-recurring items was negative NOK 45 million compared to negative NOK 28.5 million in 2021. The decrease in EBITDA compared to last year is mainly due to increased average headcount and inclusion of the Biim Ultrasound in the Group's consolidated financial statement from March 2022. Non-recurring items at NOK 3.1 million in 2022 was expenses in connection with the Biim acquisition and expenses related to organisational changes. In 2021 non-recurring expenses of NOK 4.6 million were related to the Biim Ultrasound acquisition.

Depreciation and amortization increased from NOK 3.5 million in 2021 to NOK 10.9 million in 2022. The increase is mainly related to depreciation and amortization from Biim Ultrasound in the period from March to year end.

Net finance income was NOK 8.4 million and was mainly related to a change in estimated contingent consideration as a result of the likelihood of discounted milestone payments in the purchase agreement of Observe Medical International AB in 2015. The net finance was also affected by increased interest on interest bearing debt, that more than offset the net currency gain. In 2021, net finance expenses came in at NOK 10.2 million and was mainly related to a change in estimated fair value of contingent consideration and net currency gain that more than offset the increased interest expenses.

As a result, the Group had a loss after tax of NOK 50.8 million in 2022, compared to a loss of NOK 26.3 million in 2021.

Earnings per share was negative NOK 1.08, compared to negative NOK 1.34 in 2021.

Financial Position

The Group had assets of NOK 215.8 million at December 31, 2022, compared to NOK 71.7 million at December 31, 2021. The book value of fixed assets were NOK 186.9 million and consists mainly of goodwill related to the acquisition of Biim Ultrasound AS in 2022, Observe Medical International AB in 2015 and Sylak AB in 2020, as well as the technologies and patents related to Sippi® and Biim ultrasound probe.

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

At year-end 2022, the Group had current assets of NOK 28.9 million, mainly related to trade receivables, inventories and bank deposits. In 2021, the Group had current assets of NOK 15.2 million. The increase is related to increased cash and cash equivalents due to the rights issue in first quarter 2022 and inclusion of Biim Ultrasound from March 2022.

The Group had equity of NOK 138.3 million at December 31, 2022, compared to negative NOK 14.1 million at December 31, 2021. The increase is due to the net proceeds from the rights issue in first quarter 2022 in addition to the consideration shares in connection with the settlement of the Biim Ultrasound transaction deducted with the negative result in 2022.

On December 31, 2022, the Group had total non-current liabilities of NOK 5.2 million compared to NOK 13.6 million one year before. The decrease is related decreased 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 that more than offset the increased non-current interest-bearing liabilities. The increased non-current interest-bearing liabilities are related to interest bearing loan to finance tangible asset.

Total current liabilities at December 31, 2022, amounted to NOK 72.2 million, compared to NOK 72.3 million at December 31, 2021.

Cash Flow

At the end of 2022, the Group had NOK 13.6 million in cash, an increase from NOK 2.9 million at the end of 2021.

Cash flow from operating activities was negative NOK 51.3 million in 2022, compared to negative NOK 22.1 million in 2021. Change in result before tax, partly offset by increased depreciation and amortization, and negative change in working capital in 2022 is the main changes in net cash flow from operating activities compared to 2021.

The Group used NOK 58.4 million for investing activities in 2022, up from NOK 4.9 million in 2021. The increase is related to the cash settlement of NOK 54 million in connection with the Biim Ultrasound acquisition.

In 2022, net cash flow from financing activities were NOK 120.9 million due to the net proceeds of NOK 155.6 million from the rights issue partly offset by repayment of interest-

bearing loan of NOK 33.3 million. In 2021, net cash flow from financing activities was NOK 16.1 million and related to the loan agreement with Ingerø Reiten Investment Company AS and credit facility in Danske Bank.

Financing

In March 2022, the Company completed a share capital increase pertaining to the Rights Issue with a total of 25,714,286 new shares. The subscription price per share was NOK 7.00, and the total gross proceeds from the Rights Issue was NOK 180 million and the net proceeds was NOK 155.6 million. The Rights Issue significantly strengthened the Group's financial position.

Net proceeds from the Rights Issue has been used for the cash settlement of NOK 54 million related to the acquisition of Biim Ultrasound AS, repayment of current interest-bearing debt, in addition to general corporate purposes.

In October 2022 the Group entered into an exclusive agreement with the intention to acquire the rights to own, produce and sell the Unometer™ portfolio of urine measurement products from Convatec Group Plc. The products Observe Medical intends to acquire are market leading in Europe and in several other countries and have generated annual revenues of around EUR 180 million and will contribute significantly to the Group's gross profit. Yearly, more than five million of these urine bags and accessories are sold and shipped to several hundred customers and distributors in more than 50 countries worldwide.

The Group is in the roll-out phase of its proprietary product Sippi® and an acquisition of the Unometer™ portfolio will further accelerate and strengthen the commercial pathway for Sippi®.

The Group has an agreement with Fresenius Medical Care in the US for implementation of the Biim ultrasound probe at their dialyses clinics. The Group completed the delivery of 265 probes in first half 2022, and is now working closely with Fresenius Medical Care to get ready for the next phase. Fresenius Medical Care have ~2700 dialyses clinics in the US. 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.

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, 2022, Observe Medical ASA had 2,086 shareholders and a total of 53,491,656 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 2022.

Rank	Name	Number of shares	Ownership %
1	INGERØ REITEN INV. COMPANY AS	9 653 680	18.05 %
2	NAVAMEDIC ASA	4 222 727	7.89 %
3	RO, LARS	3 238 233	6.05 %
4	JPB AS	2 830 209	5.29 %
5	ELI AS ¹⁾	2 178 078	4.07 %
6	MP PENSJON PK	1 701 188	3.18 %
7	UBS SWITZERLAND AG	1 457 913	2.73 %
8	BJØRNTVEDT, VEGARD	807 538	1.51 %
9	LAPAS AS	805 185	1.51 %
10	SILVERCOIN INDUSTRIES AS	624 464	1.17 %
11	NORDNET BANK AB	608 550	1.14 %
12	NORDNET LIVSFORSIKRING AS	594 902	1.11 %
13	SOLEGLAD INVEST AS	586 668	1.10 %
14	HIMALAYA TANDORI AS	560 000	1.05 %
	OTHER	23 622 321	44.16 %
Total number of shares		53 491 656	100.00 %

¹⁾ Pending transfer to each shareholders VPS account ELI AS has, since the closing of the Biim Ultrasound acquisition in March 2022, held 433,818 shares owned by former shareholders in Biim Ultrasound AS. The transfer of the shares took place on March 14 2023 with the result that ELI's registered shareholding in Observe Medical have been reduced by the corresponding number of shares.

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 2022.

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. 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 has 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.

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 or changes in the 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 implications after 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.

Observe Medical entered into an exclusive agreement with the intention to acquire the rights to own, produce and sell the Unometer™ portfolio of urine measurement products from Convatec Group Plc. The products Observe Medical intends to acquire are market leading in Europe and in several other countries and have generated annual revenues of around EUR 180 million and will contribute significantly to the Group's gross profit. Yearly, more than five million of these urine bags and accessories are sold and shipped to several hundred customers and distributors in more than 50 countries worldwide. A transaction will also significantly strengthen the Company's distributor network for Sippi® and potential Biim ultrasound probe.

There is a risk that the Company not succeed to entering a final agreement to acquire the Unometer™ product portfolio and/or to produce this products. This may again impact the potential revenue and profits forecast from the Unometer product portfolio.

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, the Group will require additional funds in order to execute and complete its commercialization and growth strategy, and for other purposes. The additional funding is planned to be carried out through an equity funding in mid 2023. There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed.

Due to the pandemic and the Ukraine crisis, the world is experiencing challenges both in terms of raw material supply and uncertainty across the globe with impact in the financial markets and causes globally high inflation rates. The company is following the situation closely.

Organisation

The Group had 17 employees at the end of 2022. The net increase of 4 employees from 2021 is mainly driven by new employees from Biim Ultrasound. 8 employees are employed in Sweden, 5 in Norway, 2 in Finland, 1 in Denmark and 1 in USA.

The Group has established employee insurances which, as a minimum, satisfies the legal requirement in the specific country.

In accordance with the Public Limited Companies Act, the board has prepared a statement of salary and other remuneration to senior executive employees, as well as included the information in Note 17.

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.

The Transparency Act shall promote companies' respect for basic human rights and decent working conditions, and ensure the public's access to information. The Act imposes, among other things, a duty for Observe Medical to inform and carry out due diligence assessments which must be explained and made public. Observe Medical has established routines and Code of Conduct that covers such due diligences on suppliers and business relationships as part of our Quality Management System. This work is led by the QA/RA department and is based on a risk based approach. The obligation to provide information came into effect from 1 July 2022 and the report will be published on 30 June 2023 at the latest.

For further information about corporate social responsibility, see the Sustainability report as part of this Annual Report.

Work Environment, Gender Equality and Discrimination

The working environment is generally satisfactory. Sick leave was 2.8% in 2022, compared to 0,6% in 2021. 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 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 or to the CEO

The Group's leadership consisted of five members in end 2022, one woman and four 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 seventeen employees in the Group at December 31, 2022, six women and eleven men. In 2021 there was fourteen employees in the Group, eight women and six 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 five members of the Board of Directors are three women and two men.

The Group had no serious incidents with personal injury or absence in 2022. Neither was any damage to property nor equipment reported.

The Directors' and management liability insurance

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. 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.

Going Concern assumption

The annual accounts are based on the going concern assumption.

Based on current forecasts and working plans, the Group's working capital is not sufficient to fund operations and payment of financial obligations for the next 12 months from 31 December 2022. Going forward, the Group will need to raise more equity, issue debt instruments or divest assets to fund further development of ongoing business.

In April 2023 the Group entered into loan agreements, to a total amount of NOK 10 million, with leading shareholders (refer to note 24 «Subsequent event» for further information). The Group continues talks with potential financial providers and investors to support further operations and growth with equity and debt funding, in addition to working with alternatives to reduce funding need.

There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed. Therefore, there is a material uncertainty with regards of the going concern assumption

Reference is made to note 3 Financial Risk management for further information on liquidity risk.

Parent Company

Observe Medical ASA (the Company) is the parent company of the Group, owning 100% of the shares in its subsidiaries Observe Medical ApS, Observe Medical AB, Observe Medical Nordic AB and 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 2022, Observe Medical ASA had revenues of NOK 1.5 million, the same as in 2021, related to invoiced services and expenses to subsidiaries. The Company had operating expenses of NOK 20.1 million which mainly consists of personnel benefit expenses of NOK

10.4 million and other operating expenses of NOK 9.8 million which includes NOK 3.1 million in non-recurring expenses.

Personnel benefit expenses consists of two full-time employees, CEO employed from April 2022, salary and expenses related to the 6 months notice period and 6 months severance pay to previous CEO who left the Company end of March 2022. In addition fees to the Board of Directors and Audit Committee, and option expenses. In 2021, operating expenses was NOK 18.8 million.

EBIT was in 2022 negative at NOK 18.9 million, compared to negative NOK 17.4 million in 2021.

The company had net finance income of NOK 5.3 million which consists of finance income related to change in contingent consideration, interest from group companies and currency gain that more than offset interest expenses to group companies and interest expenses on other interest-bearing debt. In 2021, net finance income were NOK 5.2 million.

The result for 2022 was negative NOK 13.6 million, compared to negative NOK 12.2 million in 2021.

Allocation of Result for the Year 2022

The result for the period in the parent company was negative NOK 13.6 million. 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 with the aim to deliver approximately 2,700 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. In second quarter 2022 the Group completed the delivery of total 265 Biim probes to Fresenius' training clinics in the US and is now working closely with Fresenius to prepare for the next phase with the aim to deliver to all the Fresenius dialyses clinics in the US.

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 October 2022 Observe Medical entered into an exclusive agreement with the intention to acquire the rights to own, produce and sell an extensive portfolio of urine measurement products from Convatec Group Plc, a global medical products and technologies company. The agreed purchase price for the Unometer™ product portfolio is USD 4.25 million.

The Convatec product range comprises industry-recognised products and brands such as UnoMeter™ Safeti™ Plus, UnoMeter™ 500, and UnoMeter™ Abdo-Pressure™. These products are used for routine or post-operative drainage, collection, and measurement of urine output from critically ill patients in hospitals and intensive care units (ICUs). The product range is complementary to Observe Medical's digital and automated urine meter, Sippi®.

The products Observe Medical intends to acquire are market leading in Europe and in several other countries and have generated annual revenues of around EUR 18 million and will contribute significantly to the Group's gross profit. Yearly, more than five million of these urine bags and accessories are sold and shipped to several hundred customers and distributors in more than 50 countries worldwide.

A transaction will significantly strengthen Observe Medical's distribution network, revenues, profit and cashflows from operations. The potential acquisition of the product portfolio from Convatec is still subject to agreement between the parties on a final acquisition agreement and completion of such agreement.

Observe Medical's 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.

The Group is focusing particularly on the Biim ultrasound probe roll-out in the US and the acquisition of the Unometer™ portfolio. An acquisition of the Unometer™ portfolio is expected to accelerate the roll-out of Sippi® through the expanded distribution network.

Subsequent events

In December 2022, the Group informed that it was planning to issue a bond loan in the first quarter of 2023 and offer new shares to investors as part of an equity raise around mid-year 2023. In March 2023, the Group announced that it had instead, and as an interim solution, entered into loan agreements with shareholders of the Company. The lenders have committed to a total amount of NOK 10 million. In parallel the Company is

continuing conversations with potential creditors and investors to support planned growth.

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 27, 2023



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Board member



Sanna Rydberg
Board member



Line Tønnessen
Board member



Eskild Endrerud
Board member



Rune Nystad
CEO

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

We confirm that the financial statements for 2022 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 27, 2023



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Board member



Sanna Rydberg
Board member



Line Tønnessen
Board member



Eskild Endrerud
Board member



Rune Nystad
CEO

Management and Board of Directors

Management team



Rune Nystad | Chief Executive Officer
Part of Executive Management

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
Part of Executive Management

20+ years of experience from finance and accounting in various sectors with leadership roles in several publicly listed companies, such as Veidekke and Multiconsult. Joined Observe Medical as CFO from December 2019.



Carsten Trygve Bøgh | Chief Technology Officer

Brings more than 25 years of strategic leadership experience in medtech. He joined from Fresenius Medical Care Global R&D in Germany, a world leading provider of products and services for individuals with renal diseases, where he held the role of Senior Vice President, Global Product Development.



Jørgen Mann | Chief Commercial Officer

Appointed CCO from February 2023. With nearly 20 years of experience in sales and senior management roles from global medtech companies in Europe, he brings highly relevant experience to Observe Medical, as the company strengthens its commercial efforts in the market.



Jenny Wennerberg | QA & RA Director

Jenny has 20 years experience from medtech and healthcare and has held several quality management and product development positions.

Board of Directors



Terje Bakken | Chair of the Board

Terje is 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.



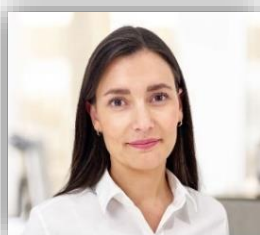
Kathrine Gamborg Andreassen | Board Member

Kathrine is 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 CEO at Unilabs Sweden. Previously CEO of Arcoma AB, and Head of Healthcare Europe North in The Linde Group. 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.



Line Tønnessen | Board Member

Line is Investment Director at Reiten & Co. She currently sits on the Board of Directors of Vow Green Metals AS and Grilstad Holding AS. Prior to joining Reiten, she worked at Nordea Markets as an Equity Analyst. Line holds a Bachelor of Business Administration from the Norwegian Business School (BI), an MBA in Finance from the Norwegian School of Economics (NHH) and is a Certified Financial Analyst (CFA/AFA)



Eskild Endrerud | Board Member

Eskild is Managing Partner at Arctic Investment Group and has broad investment experience with focus on strategically building growth and financial robustness in early-stage companies. Eskild holds board positions in Heymat AS, Lifeness AS, Nanize AS and Care Holding AS. Holds a M.Sc. in Real Estate Development from NMBU and a B.Sc. in Business and Entrepreneurship from BI, Norwegian Business School.

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 2022 was approved by the board of directors on April 27, 2023 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, 2022, the Group had a consolidated equity of NOK 138.3 million, corresponding to an equity ratio of 64.1%.

Dividend Policy

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

Authorizations to the Board of Directors

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

The Annual General Meeting held on June 3, 2022 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 750 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 2,781 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 2023, but in no event later than June 30, 2023.

As of December 31, 2022 the Company had 1,191,939 options issued and outstanding, which includes the options granted to the Company's CEO in November, 2023 and options granted to the Company's CFO in November 2021 and to previous CEO in January 2020.

Equal Treatment of Shareholders and Transactions with Related Parties

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

Any transactions in treasury shares carried out by the company shall be carried out on 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. 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. 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 five 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. Twenty four board meetings were held in 2022. Each board member's attendance at board meetings is recorded by the company. The shareholding of each board member can be found in Note 17 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. 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 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. 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, 2022 the audit committee consisted of the following board members:

- Line Tønnessen, Chair
- Eskild Endrerud

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, 2022, 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, 2022, the M&A committee consisted of the following board members:

- Eskild Endrerud
- Line Tønnessen
- 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 17 to the consolidated financial statement.

Members of the board of directors and/or companies 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 annual general meeting in 2022 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 treatment of 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, EY, 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 27, 2023



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Board member



Sanna Rydberg
Board member



Line Tønnessen
Board member



Eskild Endrerud
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 2022 to 31 December 2022.

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 ('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. 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**.

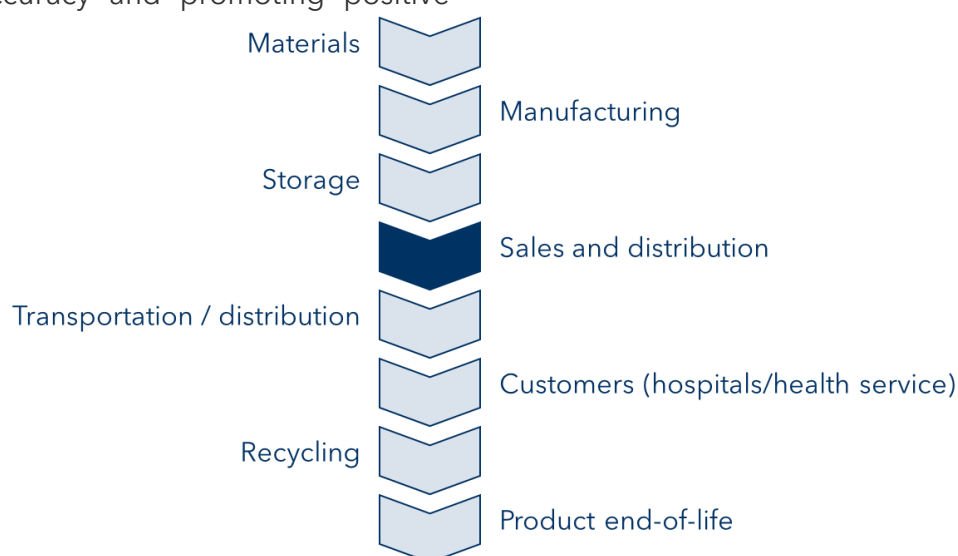


Figure 1: Observe Medical's supply chain illustrated

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.

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 2022

For 2022, 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

Maintaining a safe and healthy working environment is a key priority for Observe Medical, and the ability to attract and retain skilled workers is critical to the company. The company can impact the working environment through the guidelines, and by dialogue with the employees. 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.

8 employees are employed in Sweden, 5 in Norway, 2 in Finland, 1 in Denmark and 1 in USA.

Observe Medical's workforce

	At 31 Dec 2022			At 31 Dec 2021		
	Men	Women	Total	Men	Women	Total
Total workforce	11	6	17	6	7	13
Total workforce full-time employees	11	6	17	6	7	13
Total workforce part-time employees	0	0	0	0	0	0
Number of non-permanent employees	0	0	0	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.

In 2022, the employees in Sweden 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. The Group has a mandatory defined-contribution pension scheme that meets the requirement in each country the Group has employees.

Keeping employee turnover at a minimum is important to the company. In 2022, Observe Medical had labour turnover rate of 18% (13% in 2021), however, since there are only 17 employees working for Observe Medical, the employee turnover rate is subject to large variation.

Observe Medical's employee turnover	2022	2021
Labour turnover rate	18%	13%
Total turnover (no. of employees)	3	2

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 on the agenda as the company grows. The company experienced zero reported incidents of discrimination in 2022.

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	9 (60%)	6 (40%)	0	10	5
Group Management team	2 (100%)	0 (0%)	0	2	0
Board of Directors	2 (40%)	3 (60%)	0	2	3

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.

There were no serious work-related injuries or incidents among Observe Medical employees in 2022. Nor was there any damage to property or equipment reported. The absence rate for sickness was 2,8% compared with 0,6% in 2021.

Observe Medical's health and safety data	2022	2021
Sick leave per cent	2,8%	0.6%
Accident frequency rate	0	0
Accident severity rate	0	0

Table 5: Health and safety data

Goals for 2023

- Seek gender balance in senior positions
- Complete Employee Handbooks for the Group
- 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. 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. 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. With the opportunity to

acquire the urine measurement portfolio from Convatec Group Plc, the exposure to new suppliers and partners will increase significantly. Observe Medical has distributors as partners for foreign markets, which are mainly located in Europe and US.

In general, Observe Medical operates in countries which are considered low risk in terms of corruption, according to the Corruption Perception Index. Still, all suppliers are screened using criteria related to business ethics prior to entering new contracts and the Group is also looking to establish an annual risk assessment of third parties and specific markets. Observe Medical has decided not to engage in business with companies in Belarus or Russia.

There were zero reported incidents of corruption or public legal cases regarding corruption in 2022. Observe Medical has not experienced any breaches of its policies or guidelines by suppliers in 2022, and the company has not terminated or discontinued any contracts with suppliers or business partners due to breaches in the reporting period.

Observe Medical has in 2022 performed a mandatory training session on insider information regulations to employees.

Goals for 2023

- 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 new employees

Environmental impact

Actively managing the environmental footprint of its business operations is important to Observe Medical, and it will become even more important in the future and may impact 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.

Energy

As Observe Medical has shared offices in Oslo, Gothenburg, Narvik, Oulu and Seattle with all related costs included. 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 2022 Observe Medical had 5 company cars, where of 4 EV's and 1 hybrid.

Observe Medical reduces the travel activity by using video conferencing tools.

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.

Goals for 2023

- 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.


The Quality Assurance and Regulatory Affairs (QA/RA) director has the overall responsibility for product safety. The QA/RA director is further responsible for ensuring that Observe Medical's products comply with rules and regulations for medical devices in the markets where the products are launched.

In 2022 Observe Medical has implemented a digital group Quality Management System (QMS) that covers development, manufacturing and sales of medical devices in all legal entities and sites within the group, 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.

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 or FDA approved, 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.



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Consolidated Financial Statements 2022



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Observe Medical Group

Consolidated Statement of Comprehensive Income

<i>Amounts in NOK thousand</i>	Note	FY 2022	FY 2021
Operating revenues	5	19 521	24 042
Cost of materials	9	14 344	14 524
Gross result		5 177	9 518
Employee benefit expenses	16, 17, 18	28 521	19 013
Other operating expenses	15, 21	24 868	23 586
Operating expenses		53 389	42 599
Operating result before depreciation and amortisation (EBITDA)		-48 212	-33 081
Depreciation and amortisation	6, 7	10 931	3 463
Operating result (EBIT)		-59 143	-36 544
Financial income and expenses			
Financial income	8	19 122	15 711
Financial expenses	8, 13	10 704	5 488
Net financial items		8 418	10 223
Result before tax		-50 725	-26 321
Income tax expense	14	76	0
Result for the period		-50 801	-26 321
Other comprehensive income that may be reclassified subsequently to profit or loss			
Currency translations differences		-2 504	-9 064
Total comprehensive income/loss for the period		-53 305	-35 385
Basic earnings per share (NOK per share)	19	-1.08	-1.34
Diluted earnings per share (NOK per share)	19	-1.08	-1.34

Observe Medical Group

Consolidated Statement of Financial Position

<i>Amounts in NOK thousand</i>	Note	At 31 December 2022	At 31 December 2021
ASSETS			
Non-current assets			
Goodwill	7	99 961	33 870
Intangible assets	7	82 767	21 328
Tangible assets	6	4 152	1 381
Total non-current assets		186 880	56 579
Current assets			
Trade receivables	10, 12	4 731	1 348
Inventories	11	8 117	7 013
Other receivables and prepaid expenses	10	2 443	3 934
Cash and cash equivalents	12	13 641	2 864
Total current assets		28 932	15 159
Total assets		215 812	71 738
EQUITY AND LIABILITIES			
Share capital		13 908	5 097
Other equity		124 398	-19 219
Total equity		138 306	-14 122
Non-current liabilities			
Non-current lease liabilities	6	965	550
Contingent consideration	12, 13	3 365	13 031
Non-current interest bearing liabilities	12	946	0
Total non-current liabilities		5 276	13 581
Current liabilities			
Bank overdraft	12	0	6 509
Trade payables	12	8 610	6 163
Current tax liabilities	14	51	0
VAT and other public taxes and duties payables		6 074	3 747
Current interest bearing debt	12, 20	44 802	48 012
Other current liabilities	12, 6	12 693	7 848
Total current liabilities		72 230	72 279
Total liabilities	12	77 506	85 860
Total equity and liabilities		215 812	71 738

The Board of Directors and CEO of Observe Medical ASA

Oslo, April 27, 2023



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Board member



Sanna Rydberg
Board member



Line Tønnessen
Board member



Eskild Endrerud
Board member



Rune Nystad
CEO

Consolidated Statement of Changes in Equity

Amounts in NOK thousand	Equity					
	Attributable to the equity holders of the parent					
	Issued capital	Share premium	Other paid in equity	Total paid-in capital	Retained earnings	Translation differences
Equity as at 1 January 2021	5 097	87 065	11 800	103 963	-83 284	-330
Share issue	-	-	-	-	-	-
Options	-	-	-	-	913	-
Result for the period	-	-	-	-	-26 321	-
Translation differences	-	-	-	-	-	-9 064
Equity as at 31 December 2021	5 097	87 065	11 800	103 963	-108 691	-9 394
	Issued capital	Share premium	Other paid in equity	Total paid-in capital	Retained earnings	Translation differences
Equity as at 1 January 2022	5 097	87 065	11 800	103 963	-108 691	-9 394
Share issue	8 811	196 635	-	205 446	-	-
Options	-	-	-	-	287	-
Result for the period	-	-	-	-	-50 801	-
Translation differences	-	-	-	-	-	-2 504
Equity as at 31 December 2022	13 908	283 700	11 800	309 409	-159 205	-11 898

During 2022 Observe Medical ASA has issued 33 886 199 new shares for net proceeds of NOK 205,733 thousand.

See note 22 for further information about movement in share capital / number of shares, note 18 share options and note 23 acquisitions.

Observe Medical Group

Consolidated Cash Flow Statement

<i>Amounts in NOK thousand</i>	Note	2022	2021
Cash flow from operating activities			
Result before tax		-50 725	-26 321
Tax paid	14	-142	-192
Depreciation and impairment	6,7	10 931	3 463
Gain(-)/ loss from sale of fixed asset		-320	-6
Interest expenses and change FV contingent consideration with no cash effect	13	-6 628	-6 144
Change in inventories	11	-294	145
Change in trade receivables and other receivables	10	-1 908	-2 103
Change trade account payables and other current liabilities	12	-2 249	9 031
Net cash flow from operating activities		-51 334	-22 126
Cash flow from investing activities			
Sale of tangible and intangible assets	6,7	559	0
Purchase of tangible and intangible assets	6,7	-4 927	-4 886
Net cash effect of business combination	23	-54 002	0
Net cash flow from investing activities		-58 370	-4 886
Cash flow from financing activities			
Net change interest bearing debt	12	-19 404	10 000
Net change bank overdrafts	12	-13 863	6 509
Net proceeds from share issue		155 597	0
Payments of lease liabilities	6	-1 390	-429
Net cash flow from financing activities		120 940	16 079
Currency translation differences		-460	-5 149
Changes in cash		10 777	-16 081
Cash and cash equivalents as at 1 January	12	2 864	18 945
Cash and cash equivalents end of period	12	13 641	2 864

Explanatory Notes to the Consolidated Financial Statements 2022

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 the commercialization phase of the next generation urine meter, Sippi®. Sippi® was previously 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".

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. 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 Medical Care, a leading provider of kidney care services in the US with approximately 2,500 clinics, is in place whereby Biim has delivered 265 devices to Fresenius's training clinics in the US.

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

Observe Medical's strategy is to continually grow the platform and product portfolio through R&D and M&A strategies.

The consolidated financial statements for Observe Medical ASA ("OM group" or "the Group"), including notes, for the year 2022 were approved by the Board of Directors of Observe Medical ASA on April 27, 2023 and will be proposed to the Annual General Meeting on May 26, 2023.

The Group has focus on measures to reduce its environmental footprint. Climate-related development may have impact on the business, such as increased cost of production and transportation as a result of measures to reduce carbon emission, from disposable units in particular.

The Transparency Act shall promote companies' respect for basic human rights and decent working conditions, and ensure the public's access to information. The Act imposes, among other things, a duty for Observe Medical to inform and carry out due

diligence assessments which must be explained and made public. Observe Medical has established routines and Code of Conduct that covers such due diligences on suppliers and business relationships as part of our Quality Management System. This work is led by the QA/RA department and is based on a risk based approach. The obligation to provide information came into effect from 1 July 2022 and the report will be published on 30 June 2023 at the latest.

Going Concern assumption and Liquidity

The annual accounts are based on the going concern assumption. Reference is made to the next paragraph and the Board of Directors' report for further details.

Based on current forecasts and working plans, the Group's working capital is not sufficient to fund operations and payment of financial obligations for the next 12 months from 31 December 2022. Going forward, the Group will need to raise more equity, issue debt instruments or divest assets to fund further development of ongoing business.

In April 2023 the Group entered into loan agreements, to a total amount of NOK 10 million, with leading shareholders (refer to note 24 «Subsequent event» for further information). The Group continues talks with potential financial providers and investors to support further operations and growth with equity and debt funding, in addition to working with alternatives to reduce funding need.

There is a risk that adequate sources of funds may not be available, or available at acceptable terms and conditions, when needed. Therefore, there is an material uncertainty with regards of the going concern assumption

Reference is made to note 3 Financial Risk management for further information on liquidity risk.

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.

The consolidated annual financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) which have been adopted by the Eu and are mandatory for financial years beginning on or after 1 January 2022, and Norwegian disclosure requirements listed in the Norwegian Accounting Act as of 31 December 2022.

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, 2022 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, 2022 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 chief operating decision maker, consisting of the CEO and the Board of Directors.

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 AB and Observe Medical Nordic AB is SEK, Observe Medical ApS DKK, Observe Medical ASA and Biim Ultrasound AS is NOK, Biim Ultrasound Oy EURO and Biim Ultrasound Inc. USD. 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 Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the asset, discount rates to be applied and the expected period of benefits. For the year 2022, capitalised investments is related the development of Sippi® and the new Unometer™ portfolio.

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 lower of cost and at net realizable value. To determine cost the company 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.

The company uses historical figures to calculate provision for expected credit losses on trade receivables. A significant proportion of the customers are public customers/healthcare institutions and hospitals, and historically the company has had immaterial credit losses. 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, and Business Finland, 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

The Group recognizes revenue from sale of goods 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.

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. The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk

Due to the pandemic and the Ukraine crisis, the world is experiencing challenges both in terms of raw material supply and uncertainty across the globe with impact in the financial markets and causes globally high inflation rates. The company is following the situation closely.

Currency Risk

For the periods presented, currency risk has primarily been related to payables and receivables within the Observe Medical group and related parties. The Payroll and operating expenses are generally incurred in the currency of the country in which the individual company is registered (NOK, SEK, DKK, EUR and USD). There is a currency risk related to funding of the companies in USA and Finland where operating expenses is incurred in USD and EUR and no income. A sensitivity analysis of the effect of a potential change in NOK/USD and NOK/EUR of +/- 10% shows that the impact on the operating expenses in 2022 would be +/- NOK 221 thousand against USD and +/- NOK 178 thousand against EUR.

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. The company's customers are mainly largely public enterprises and larger distributors that represent a low credit risk. At 31 December 2022, Observe Medical had one overdue invoice with the amount of 32k USD, but this was paid in full in March 2023. See also note 10.

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle its financial obligations as they fall due. The Group has mainly used equity financing in order to meet liquidity requirements relating to financial obligations, covering operational losses and investments. The Group's financial liabilities as at 31 December 2022 were NOK 61.8 million and 56.8 million are mature within 12 months from balance sheet date.

Based on current forecasts and working plans, the Group's working capital is not sufficient to fund operations and payment of financial obligations for the next 12 months from 31 December 2022. Going forward, the Group will need to raise more equity, issue debt instruments or divest assets to fund further development of ongoing projects. Reference is also made to the Board of Directors' report.

Variable Interest Rate Risk

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

Management of Capital

The Group has so far not had any expressed goals or requirements in relation to management of capital. Focus in the short term will be to ensure continued operations to further develop and commercialize Sippi® 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. The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Estimations 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 Biim Ultrasound AS in 2022, in addition to further capitalization of costs for development of the technology assets.

As part of the business combination, the management has based their judgments on assumptions and made estimates of the fair values of assets and liabilities acquired, as well as the fair value of the contingent consideration. These assumptions and estimates 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. Observe Medical has developed an automated digital urine meter for the global market, **Sippi®** and is currently in a commercialization phase.

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 Anesthesia/ICU and Wound care, in addition to Urine measurement. 97% of the sales was on the Swedish market.

In March 2022 the Group acquired **Biim** Ultrasound AS and their patented Biim Ultrasound probe. The wireless pocketable device is currently in commercial sale in USA. The Group had sales of NOK 5 million related to the completion of the delivery of 260 ultrasound probes to Fresenius Medical Care.

For more information about our products, see section about the Observe Medical portfolio in the annual report.

Overview of revenue per product group

Revenue per product group

<i>Amounts in NOK thousand</i>	2022	2021
Sippi	139	122
Biim	5 051	0
Nordic Portfolio	13 725	23 902
Other	606	18
Total	19 521	24 042

Revenue per geographic market

<i>Amounts in NOK thousand</i>	2022	2021
Norway	962	815
Sweden	13 369	22 976
USA	5 051	0
Other European countries	139	251
Total	19 521	24 042

Tangible assets, goodwill and intangible assets by country*

<i>Amounts in NOK thousand</i>	2022	2021
Sweden	53 985	54 980
Denmark	729	1 223
Norway	131 725	376
Total	186 439	56 579

* 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 incl. right-of-use

Amounts in NOK thousand

	Right-of-use	Other	Sum
Acquisition cost 1 January 2021	462	2 366	2 829
Additions	1 393	218	1 611
Disposals	-357	0	-357
Currency translation differences	-49	-89	-138
Acquisition cost 31 December 2021	1 450	2 495	3 945
Acquisition cost 1 January 2022	1 450	2 495	3 945
Additions	969	1 403	2 372
Additions from acquisition of companies	2 257	449	2 707
Disposals	-2 000	-1 481	-3 481
Currency translation differences	-128	4	-124
Acquisition cost 31 December 2022	2 549	2 870	5 419
Accumulated depreciation 1 January 2021	50	2 076	2 126
Depreciation for the year	446	102	549
Disposals	-22	0	-22
Currency translation differences	-5	-83	-88
Accumulated depreciation 31 December 2021	469	2 096	2 565
Accumulated depreciation 1 January 2022	469	2 096	2 565
Depreciation for the year	1 433	297	1 730
Disposals	-2 000	-1 095	-3 095
Currency translation differences	52	16	68
Accumulated depreciation 31 December 2022	-46	1 314	1 268
Carrying value 1 January 2021	412	290	702
Additions	1 393	218	1 611
Disposals	-334	0	-334
Depreciation	-446	-102	-549
Translation differences	-43	-6	-49
Carrying value 31 December 2021	981	400	1 381
Carrying value 1 January 2022	981	400	1 381
Additions	969	1 403	2 372
Additions from acquisition of companies	2 257	449	2 707
Disposals	0	-386	-386
Depreciation	-1 433	-297	-1 730
Translation differences	-180	-12	-192
Carrying value 31 December 2022	2 595	1 557	4 152

Right-of-use

As at December 31, 2022, the Group has lease contracts for four cars and office in Seattle. In addition, the group has short term leases that are not recognized as right-of-use assets related to offices in Sweden and Norway.

Lease Liability	2022	2021
As at 1 January	993	396
Additions	969	1 393
Additions from acquisition of companies	2 257	0
Disposal	-147	-323
Lease payments in the period	-1 390	-481
Interest cost	0	52
Currency translation differences	-40	-44
Closing liability at 31 December	2 643	993
Due < 1 year	1 678	443
Due > 1 year	965	550
	2 643	993

Effect of leases Contract on the Statement of Comprehensive Income

<i>Amounts in NOK thousand</i>	2022	2021
Depreciation expense of right-of-use assets	1 433	446
Interest expense on lease liabilities	0	52
Expense relating to short-term leases (included in other operating expenses)	2 459	1 498
Total amount recognised in result for the period	3 892	1 996

Undiscounted Lease Liabilities and Maturity of Cash Outflow

<i>Amounts in NOK thousand</i>	2022	2021
Due within 1 year	1 878	477
Due between 1 year and 3 years	1 012	575
Total	2 890	1 052

Note 7 – Intangible Assets

<i>Amounts in NOK thousand</i>	Goodwill	Technology assets / Patent	Technology development	Sum
Acquisition cost 1 January 2021	36 268	31 705	9 915	77 888
Additions	0	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
Acquisition cost 1 January 2022	33 870	31 416	12 002	77 288
Additions	0	0	3 524	3 524
Additions from aquisition of companies	67 106	67 662	0	134 768
Currency translation differences	-1 015	-219	-108	-1 343
Acquisition cost 31 December 2022	99 961	98 859	15 418	214 238
Accumulated amortization 1 January 2021	0	15 882	4 773	20 655
Amortization for the year	0	717	2 197	2 914
Currency translation differences	0	-316	-1 163	-1 479
Accumulated amortization 31 December 2021	0	16 283	5 807	22 090
Accumulated amortization 1 January 2022	0	16 283	5 807	22 090
Amortization for the year	0	7 240	1 961	9 201
Currency translation differences	0	164	54	219
Accumulated amortization 31 December 2022	0	23 687	7 822	31 509
Carrying value 1 January 2021	36 268	15 823	5 142	57 233
Additions	0	104	4 564	4 668
Amortization	0	-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
Carrying value 1 January 2022	33 870	15 134	6 195	55 198
Additions	0	0	3 524	3 524
Additions from aquisition of companies	67 106	67 662	0	134 768
Amortization	0	-7 240	-1 961	-9 201
Translation differences	-1 015	-384	-163	-1 561
Carrying value 31 December 2022	99 961	75 172	7 595	182 728
Useful life	Indefinite	10 year	5 year	

Goodwill relates to the acquisition of Observe Medical International AB (OMI AB) in 2015, Sylak AB in 2020 and Biim in 2022, see note 23 Business combination. Technology assets/patent relates to the Sippi® patents and Biim, and technology development relates to capitalized external expenses. Carrying value of assets under construction as at December 31, 2022 was NOK 0.63 million.

Impairment Test for Cash Generating Unit that Contain Goodwill

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, 2022. 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, 2022 was based on a forecast for 2023 and estimates for subsequent periods. The amount of revenue and when it will be generated is especially uncertain. A post-tax discount rate of 12.0% was used to discount future cash flows. The impairment test at year-end 2022 concluded that there was no need to impair goodwill or other intangible or tangible assets related to the business. The use of post-tax discount rates in determining value in use does not result in a materially different determination of the need for, or the amount of, impairment that would be required if pre-tax discount rates had been used.

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 the calculated value by 11.6%, but still exceed the carrying value. A decrease in revenue by 30%, the calculated value in use at December 31, 2022 would decrease by 58%, but still exceed the carrying value.

The book value of the Sippi® technology is low compared with future revenue potential. Substantial deviations in future revenue forecasts would be of direct significance in measuring the value of intangible assets, as well as the estimated fair value of the contingent consideration.

As none of the goodwill is impaired, the book value of the Sippi ultrasound probe, Biim, is based on the PPA updated as part of the year end closing.

Note 8 – Financial Items

Note 8 Financial items

Amounts in NOK thousand

	2022	2021
Financial income		
Interest income	283	0
Change contingent consideration (note 13)	10 026	10 432
Currency gain	7 981	5 279
Other financial income	832	0
Total	19 122	15 711
Financial expenses		
Interest expenses	3 818	3 326
Change contingent consideration (note 13)	361	1 095
Currency loss	6 345	639
Other financial expenses	180	428
Total	10 704	5 488
Net financial items	8 418	10 223

Note 9 – Cost of Materials

<i>Amounts in NOK thousand</i>	2022	2021
Cost of materials for resale	12 003	14 383
Write-down	2 341	141
Total cost of materials	14 344	14 524

Write-down in 2022 is mainly related to inventory of Sippi® disposable unit due to expiry date.

Note 10 – Trade Receivables and Other Receivables

<i>Amounts in NOK thousand</i>	2022	2021
Trade receivables	4 731	1 348
Other receivables	2 443	3 934
Total	7 174	5 282

Due date profile for trade receivables

<i>Amounts in NOK thousand</i>	2022	2021
Not due	4 436	1 072
0-3 months		276
> 3 months	295	
Total	4 731	1 348

Trade receivables due at December 31, 2022, paid in full in March 2023.

Note 11 – Inventories

<i>Amounts in NOK thousand</i>	2022	2021
Raw materials and extra parts (at cost)	3 379	674
Finished goods (at lower of cost and net realisable value)	8 323	6 476
Write-down	-3 585	-137
Total	8 117	7 013

Note 12 – Financial Instruments

NOK 366 thousand of the bank deposits was restricted as at December 31, 2022 (NOK 561 thousand at December 31, 2021). There are no significant restrictions on transferring cash within the group.

Financial liabilities as at 31 December 2022

<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								
Leasing liabilities	0,5	1,4	0,8	0,2			2,9	2,6
Contingent consideration upon acquisitions					0,1	5,2	5,3	3,4
Non-current interest bearing liabilities	0,0	0,1	0,1	0,1	0,1	0,7	1,1	0,9
Trade account payables	8,6						8,6	8,6
Other current liabilities		1,4					1,4	1,4
Payables loan to Navamedic group		43,3					43,3	40,6
Other current interest bearing liabilities	4,2						4,2	4,2
Total	13,3	46,2	0,9	0,3	0,2	5,9	66,8	61,8

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
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		40,1					40,1	37,6
Total	12,5	58,6	16,5	0,2			87,9	82,2

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.

At December 31, 2021 the Group had a loan from Ingerø Reiten Investment Company of NOK 10 million, repaid with interest in first quarter 2022.

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.

Both the facilities are fully drawn as of December 31, 2022.

Each loan facility given under the Bond Loan accrues 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 48 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, 2022.

Contingent consideration from acquisitions has been discounted by an interest rate of 12% per annum as of December 31, 2022 and 9.6% per annum as of December 31, 2021.

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

Other current interest bearing liabilities includes a delayed payment to the Business Finland of NOK 4,188 thousand. Although it seems clear that an application for deferred payment will be granted, the amount is presented as overdue.

Classification of financial assets and liabilities as at 31 December 2022

<i>Amounts in NOK million</i>	Measured at amortised cost	Fair value through profit or loss	Total
Assets			
Cash and cash equivalents	13,6		13,6
Trade receivables and other receivables	5,3		5,3
Total financial assets ^{2) and 3)}	18,9		18,9
Liabilities			
Lease liabilities	2,6		2,6
Contingent consideration upon acquisitions ¹⁾		3,4	3,4
Non-current interest bearing liabilities	0,9		0,9
Payables loan to Navamedic group	40,6		40,6
Trade account payables and other liabilities	10,0		10,0
Other current interest bearing liabilities	4,2		4,2
Total financial liabilities ³⁾	58,4	3,4	61,8

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			
Cash and cash equivalents	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

- 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.

	Bank loans	Overdraft facility	Loans from Navamedic Group and Ingerø Reiten Invest. Comp.	Contingent consideration upon acquisitions	Lease liabilities	Total
<i>Amounts in NOK million</i>						
Carrying value 1 January 2022		6.5	48.0	13.0	1.0	68.5
Cash flow	5.1	-13.9	-24.4		-1.5	-34.7
Change in liability do to aquisition		7.4	13.9		2.3	23.6
Change in liability with no cash effect			3.1	-9.6	0.8	-5.7
Carrying value 31 December 2022	5.1		40.6	3.4	2.6	51.7

	Bank loans	Overdraft facility	Loans from Navamedic Group and Ingerø Reiten Invest. Comp.	Contingent consideration upon acquisitions	Lease liabilities	Total
<i>Amounts in NOK million</i>						
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

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 in 2021 is related to accrued not paid interest. The loan, with interest was settled in 2022.

In November 2021, the Company entered into a credit-facility of NOK 10 million with Danske Bank. The credit-facility was settled and the agreement terminated in 2022.

Note 13 – Contingent Consideration

Background

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 12%.

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 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 in 2022	-9 666
Estimated fair value 31 December 2022	3 365

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

The change in fair value in 2022 is due to updated estimate related to when the sales of OM's products will be realized. The revenue and market potential remain unchanged but have been postponed.

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.

Sensitivity as at December 31, 2022: A 1 percentage point reduction in the discount rate would increase the estimated present value by NOK 0.1 million and a 10% reduction in revenue would decrease the estimated present value by NOK 0.4 million.

Note 14 – Taxes

Income tax

	2022	2021
Current tax	76	0
Deferred tax	0	0
Tax expense/income recognised	76	0

Reconciliation of income tax

Amounts in NOK thousand

	Tax rate	2022	2021
Result before tax		-50 725	-26 321
Expected income taxes, 22 of result before tax		11 159	5 791
Differences in tax rates		-287	-186
Norway, permanent differences	22 %	3 244	1 853
Sweden, permanent differences	20,6 %	-3 440	-30
Denmark, permanent differences	22 %	-2 087	0
Finland, permanent differences	22 %	6	0
US, permanent differences	21,0 %	60	0
Tax expense before not recognised tax assets		8 656	7 428
Norway, change in deferred tax assets not recognised	22 %	-9 705	-4 547
Denmark, change in deferred tax assets not recognised	22 %	1 816	-175
Sweden, change in deferred tax assets not recognised	20.6%	-843	-2 707
Total taxes		-76	0
Effective tax rate		-0,2 %	0,0 %

Basis for Deferred Tax Liabilities and Tax Assets (-)

	Temporary differences Norway	Temporary differences Sweden	Temporary differences Denmark	Total 2022
2022				
Amounts in NOK thousand				
Intangible assets	20 052	11 100	0	31 152
Other	17 247	0	1 287	18 534
Total temporary differences	37 299	11 100	1 287	49 686
Tax losses carried forward	-221 901	-60 246	-86 291	-368 438
Basis for temporary differences	-184 602	-49 146	-85 004	-318 752
Unrecognised temporary differences	184 602	49 146	85 004	318 752
Total recognised temporary differences	0	0	0	0
Tax rate	22 %	20.60 %	22 %	
Recognised deferred tax liabilities and tax assets (-)	0	0	0	0

Change in Deferred Tax Assets and Deferred Tax Liabilities

<i>Amounts in NOK thousand</i>	01.01.2022	Recognised in profit and loss during the year	Effect of acquisition and equity transactions	Foreign currency exchange differences	31.12.2022
Intangible assets	2 703	496	3 578	-79	6 698
Other	-39	504	0	3	468
Tax losses carried forward	-39 118	-9 654	-30 810	-631	-80 213
Gross tax liabilities / assets (-)	-36 453	-8 655	-27 232	-707	-73 047
Deferred tax assets not recognised	36 453	8 655	27 232	707	73 047
Tax liabilities/assets (-) recognised	0	0	0	0	0

<i>Amounts in NOK thousand</i>	01.01.2021	Recognised in profit and loss during the year	Effect of acquisition and equity transactions	Foreign currency exchange differences	31.12.2021
Intangible assets	1 598	1 272	0	-167	2 703
Other	0	-40	0	1	-39
Tax losses carried forward	-31 595	-8 660	0	1 138	-39 118
Gross tax liabilities / assets (-)	-29 997	-7 428	0	972	-36 453
Deferred tax assets not recognised	29 997	7 428	0	-972	36 453
Tax liabilities/assets (-) recognised	0	0	0	0	0

Use of Tax Losses Carried Forward

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

Note 15 – Other Operating Expenses

Amounts in NOK thousand

	2022	2021
Consultants	6 713	10 376
Audit Services	3 089	2 353
Legal and professional fees	2 647	3 043
Expense relating to short-term leases	2 459	1 016
Accounting and financial services	1 774	624
IT expenses	1 253	845
Travel expenses	862	864
Advertising expenses	302	702
Other operating expenses	5 769	3 763
Total	24 868	23 586

The company has incurred transaction costs related to the acquisition of Biim Ultrasound AS of NOK 666 thousand in 2022 (4 619 thousand in 2021), part of the external services expenses and in the table above.

Auditor*Amounts in NOK thousand*

Fees paid	2022	2021
Statutory audit services	2 664	1 662
Other services	425	691
Total	3 089	2 353

Fees to auditors are reported excluding VAT. The group auditor is changed from KPMG to EY with effect from year 2022. NOK 425 thousand is paid to KPMG for Other Services.

Note 16 – Payroll Expenses

Amounts in NOK thousand

	2022	2021
Salaries	20 261	11 047
Remuneration to the Board and Nomination Committee	1 265	895
Employer's tax	3 973	3 950
Share options for employees	287	913
Pension expenses – defined-contribution scheme	2 394	1 727
Other payroll expenses	341	481
Total	28 521	19 013

Average number of full-time equivalents	17.5	10.0
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See Note 18 for further information about the share options.

Note 17 – 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 former CEO was entitled to salary during the 6 months' notice period in addition to 6 months' severance pay.

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 31.12.2022, 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

2022

<i>Amounts in NOK thousand</i>		Salary	benefits	Bonus	Pension	expenses	Options	Shares
CEO	Rune Nystad ¹⁾²⁾	1 781	118	800	124	67	1 000 000	172 099
CFO	Per Arne Nygård	1 636	94	810	158	256	143 955	218 921
CEO	Björn Larsson ³⁾⁴⁾	1 407	486		415	-37	47 984	17 000
Total		4 824	698	1 610	697	286	1 191 939	408 020

1) Appointed as CEO at March 28, 2023. Salary in the table is for the periode March 28 - December 31, 2023.

2) 132,906 shares owned by US HoldingAS who is 100% owned by Rune Nystad

3) Björn Larsson departed as CEO at March 28, 2023. Mr. Larsson was entitled to salary during the 6 months' notice period in addition to 6 months' severance pay

4) Salary are paid in SEK and converted to NOK

2021

<i>Amounts in NOK thousand</i>		Salary	benefits	Bonus	Pension	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

Remuneration to the Board of Directors

2022

Amounts in NOK thousand, except number of shares

Function	Name	Board fee	Other fee	Shares	Shares owned by related parties	Loans
Chair	Terje Bakken	295 ⁴⁾			13 876 407 ¹⁾	
Board member	Kathrine G. Andreassen	220 ⁴⁾	150 ⁶⁾	586 668 ²⁾	4 222 727 ³⁾	
Board member	Sanna Rydberg	200	60 ⁶⁾			
Board member	Thomas Grunfeld	230 ⁵⁾	502 ⁷⁾	14 000	8 000 ⁸⁾	
Total		945	712	600 668	18 107 134	

¹⁾ Terje Bakken is partner in Ingerø Reiten Investment Company AS who owns 9,653,680 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

⁶⁾ Fee for work in the due diligence processes in connection with the acquisition of Biim Ultrasound AS

⁷⁾ TNOK 150 in fee for due diligence work and TNOK 352 in fee for acting as chief medical officer to end of March 2022

⁸⁾ All shares owned by Trude Holm, the wife of primary insider Thomas Grunfeld

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				

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 2022 it has been paid NOK 352 thousand in fees to Thomas Grunfeld based on the consultancy agreement.

Note 18 – Share Options

CEO Granted Employee Share Options

As part of a long-term incentive plan, the CEO was on November 11, 2022 Rune Nystad was granted 1 000 000 options.

The options have been granted with an exercise price of NOK 4.5 per option share. The options will be vested in three tranches, whereby each tranche comprising 1/3 of the options will vest on the first, second and third anniversary of the grant date, 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 11 November 2026.

CFO share options

In 2021, Per Arne Nygård was granted 120,000 options and each option, when exercised, will give the right to acquire one share in Observe Medical ASA. The options are granted without consideration..

The options are granted vest over a 2 year period, with 2/3 on the date of signing of the option agreement, 1/6 after 12 months and 1/6 after 24 months. The 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 option agreement regulates the adjustments in strike price in the event that a rights issue or repair issue is conducted by the Company. If such events the exercise price shall be reduced to reflect the dilutive effect of the share issue. 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 and recalculated to NOK 6.63 on basis of the rights issue in first quarter 2022. 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.

Former CEO, share options

Björn Larsson was in January 2020 granted 60 000 options. Each option, when exercised, will give the right to acquire one share in Observe Medical ASA. The options are granted without consideration.

The options are granted 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 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.

When entering the option scheme the strike price for the options was NOK 11.09 and calculated as the average price the last 10 trading days before signing of the option agreement. After the rights issue conducted in 2022 the strike price is recalculated to NOK 8.88.

The option agreement regulates the adjustments in the event that a rights issue or repair issue is conducted by the Company. If such events the option scheme shall be adjusted to reflect the dilutive effect of the share issue.

Total option expenses for the company in 2022 are NOK 287 thousand.

Share options											
Name and position	Specification of plan	Performance period	Award date	Vesting date	End of holding period	Exercise period	Exercise price of the share and date	Share options held at the beginning of the year	Share options awarded	Share options vested	Share options awarded and unvested
Rune Nystad (CEO)	ESOP 2022	11.11.22 – 11.11.23	11.11.2022	11.11.2023	11.11.2023	11.11.23 – 11.11.26	4.5	0	333 333	0	333 333
		11.11.22 – 11.11.24	11.11.2022	11.11.2024	11.11.2024	11.11.24 – 11.11.26	4.5	0	333 333	0	333 333
		11.11.22 – 11.11.25	11.11.2022	11.11.2025	11.11.2025	11.11.25 – 11.11.26	4.5	0	333 334	0	333 334
Total								0	1 000 000	0	1 000 000
Per Arne Nygård (CFO)	ESOP 2021	16.11.21 – 16.11.21	16.11.2021	16.11.2021	16.11.2021	16.11.21 - 01.03.24	6.63	95 971	0	95 971	0
		16.11.21 – 01.03.22	16.11.2021	01.03.2022	01.03.2022	01.03.22 - 01.03.24	6.63	23 992	0	23 992	0
		16.11.21 – 01.03.23	16.11.2021	01.03.2023	01.03.2023	01.03.23 - 01.03.24	6.63	23 992	0	23 992	0
Total								143 955	0	143 955	0
Björn Larsson (CEO)	ESOP 2020	09.01.20 – 09.01.21	09.01.2020	09.01.2021	09.01.2021	09.01.21 - 01.07.23	8.88	23 992	0	23 992	0
		09.01.20 – 09.01.22	09.01.2020	09.01.2022	09.01.2022	09.01.22 - 01.07.23	8.88	23 992	0	23 992	0
		09.01.20 – 09.01.23	09.01.2020	09.01.2023	09.01.2023	09.01.23 - 01.07.23	8.88	20 000	-20 000	0	0
Total								47 984	-20 000	47 984	0
Total for the Company								191 939	980 000	191 939	1 000 000

Note 19 – Earnings per Share

See note 22 for an overview of movements in number of shares, See note 18 for a description of share options. The potential shares due to shareoptions are expected to have no dilutive effects for the OM group as the net result for 2022 and 2021 were negative.

Amounts in NOK thousand

Earnings per share:

	2022	2021
Net result for the year, company's shareholders	-50 801	-26 321
Average number of shares	47 185 178	19 605 457
Basic-/Diluted earnings per share (NOK per share)	-1,08	-1,34

Note 20 – 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 2022 besides remuneration and issue of options explained in Note 18. Members of the board was in 2022 paid a total of TNOK 310 for consultancy services related to DD processes in 2021.

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>	2022	2021
Finance expenses	3 681	3 191
Liabilities	40 615	48 012

Finance expenses are interest on interest bearing loans towards Navamedic ASA and Ingerø Reiten Investment Company.

Note 21 – Research and Development

Observe Medical performs research and development activities as part of the development of the Sippi and Biim 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 4.2 million in 2022 (NOK 4.6 million), of which NOK 2.5 million (NOK 4.2 million) is capitalized and NOK 1.7 million (NOK 0.5 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 22 – Shareholder Information

The following table shows shareholders owning 1% or more of Observe Medical ASA as at December 31, 2022:

No	Name	Number of shares	Ownership %
1	INGERØ REITEN INVESTMENT COMPANY AS	9 653 680	18,05 %
2	NAVAMEDIC ASA	4 222 727	7,89 %
3	RO, LARS	3 238 233	6,05 %
4	JPB AS	2 830 209	5,29 %
5	ELI AS	2 178 078	4,07 %
6	MP PENSJON PK	1 701 188	3,18 %
7	UBS Switzerland AG	1 457 913	2,73 %
8	BJØRNTVEDT, VEGARD	807 538	1,51 %
9	LAPAS AS	805 185	1,51 %
10	SILVERCOIN INDUSTRIES AS	624 464	1,17 %
11	Nordnet Bank AB	608 550	1,14 %
12	NORDNET LIVSFORSIKRING AS	594 902	1,11 %
13	SOLEGLAD INVEST AS	586 668	1,10 %
14	HIMALAYA TANDORI AS	560 000	1,05 %
	Other	23 622 321	44,16 %
Total number of shares		53 491 656	100,00 %

Total number of shares are 53,491,656 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 2022 and 2021.

At the annual General Meeting held on 3 June 2022 the General Meeting resolved to grant the Board of Directors:

- (i) an authorisation to increase the Company's share capital by up to NOK 750,000 (approx. 5.4% 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 2,781,566 (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 2023, but no longer than to and including 30 June 2023.

Movement in number of shares

31 December 2019	15 067 673
January 2020, Share options	275 000
July 2020, Rights issue	4 090 909
August 2020, Share options	171 875
31 December 2020	19 605 457
31 December 2021	19 605 457
March 2022, Rights issue	25 714 286
March 2022, Consideration shares	8 171 913
31 December 2022	53 491 656

During 2022, OM ASA has issued 25,714,286 new shares in connection with the Rights issue for gross proceeds of NOK 180,000 thousand. Expenses related to the capital increase amount to NOK 24,403 thousand.

In addition OM ASA has issued 8,171,913 consideration shares in connection with the settlement of the Biim Ultrasound AS acquisition. The parties agreed on a shares price of NOK 16.52 which gives a total value of the consideration shares of MNOK 135,000 thousand.

Note 23 -Business Combinations

Acquisitions in 2022

Acquisition of Biim Ultrasound AS

On March 8, 2022, Observe Medical ASA acquired 100 per cent of the shares in Biim Ultrasound AS. The transaction valued Biim Ultrasound at approximately NOK 185 million, representing an enterprise value of approximately NOK 209 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 approximately NOK 54.2 million. Fair value of the 8,171,913 consideration shares at NOK 49.8 million.

External transaction related costs at NOK 5.6 million have been expensed as part of other operating expenses.

Biim Ultrasound is an international medical ultrasound technology company. 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'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 Medical Care, the leading provider of kidney care services in the US, is in place, whereby Biim is intended to be used across Fresenius' dialysis centres in the US.

Biim Ultrasound AS had total revenues at NOK 6.8 million in 2021.

The company has been consolidated as part of Observe Medical Group from 1 March 2022 and has generated operating revenues of NOK 6.5 million and EBIT of negative NOK 7.6 million since the acquisition. If the company had been owned 100 per cent from 1 January 2022 it would have had an additional impact on the operating revenue of NOK 0.1 million and EBIT of negative NOK 5.4 million. Recognised goodwill of NOK 67.1 million.

Assets acquired and liabilities assumed

<i>Amounts in NOK thousand</i>	Carrying amount	Excess value	Fair value
Fixed assets	2 707	0	2 707
Inventories	810	0	810
Other receivables	208	0	208
Cash	0	0	0
Long term liabilities	-15 141	0	-15 141
Current liabilities	-19 501	0	-19 501
Total indentifiable net assets	-30 918	0	-30 918
Technology and customer relationships	51 639	16 023	67 662
Goodwill		67 106	67 106
Total recognised	20 722	83 129	103 850
Shares issued, at fair value			49 849
Cash			54 002
Total consideration			103 850
Paid in cash			54 002
Cash received			0
Net decrease/(increase) in cash			54 002

None of the goodwill recognised is deductible for income tax purposes.

Note 24 –Subsequent event

On March 23, 2023, the Company entered into loan agreements where the lenders have committed to an amount of NOK 10 million. The Company immediately received payment of NOK 5 million and, subject to agreement between the parties, an additional increase of NOK 5 million in May(the "Loans"). The Loans have been granted by shareholders of the Company.

The terms of each Loan is 12 months and the interest has been set to 20% per annum, which shall be paid in full for the entire terms of the Loans also if the Loans are prepaid by the Company.

During the terms of the Loans, the interest shall be capitalized and added to the principal amount of the Loans on a quarterly basis. The Loans are unsecured and the lenders will be entitled to utilize the Loans (including accrued interest and unaccrued interest calculated until maturity) fully or partly to set off against the subscription amount payable by the lenders for any new shares subscribed by them if the Company issues new shares during the term of the Loans.



Parent Company
Observe Medical ASA

Annual Financial Statements 2022



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Observe Medical ASA

Income statement

<i>Amounts in NOK thousand</i>	Note	2022	2021
Operating revenues	11	1,470	1,493
Other operating revenues		4	0
Total operating revenues		1,474	1,493
Personnel expenses	2	10,374	8,725
Other operating expenses	2,9	9,761	10,082
Operating expenses		20,135	18,807
Operating result before depreciation and amortization (EBITDA)		-18,661	-17,314
Depreciation and amortization	12	289	107
Operating result (EBIT)		-18,950	-17,421
Financial income and expenses			
Interest income from group companies	8,11	1,651	337
Financial income	8	11,676	15,053
Interest expense to group companies	8,11	4,051	5,537
Interest expenses	8	3,400	3,203
Financial expenses	8	531	1,472
Net financial items		5,345	5,178
Result before tax		-13,604	-12,243
Income tax expense	13	0	0
Result for the period		-13,604	-12,243
Brought forward			
Transferred to other equity		13,604	12,243
Net brought forward		-13,604	-12,243

Observe Medical ASA

Balance Sheet

<i>Amounts in NOK thousand</i>	Note	31.12.2022	31.12.2021
ASSETS			
Property, Plant and Equipment			
Equipment and other movables	12	2,488	376
Non-current assets			
Investments in subsidiaries	10	400,988	211,986
Loans to subsidiaries	7	34,653	0
Total non-current financial assets		435,641	211,986
Total non-current assets		438,129	212,362
Current assets			
Receivables from group companies	6	86	974
Other receivables and prepaid expenses	6	1,993	2,843
Bank deposits	3	8,822	507
Total current assets		10,900	4,325
Total assets		449,029	216,686

Observe Medical ASA

Balance Sheet

Amounts in NOK thousand

EQUITY AND LIABILITIES

Share capital		13,908	5,097
Share premium		380,650	86,278
Other paid-in equity		0	13,652
Total paid-in equity		394,558	105,028
Other equity		-42,092	-29,841
Total equity		352,466	75,187
Non-current liabilities			
Liabilities to financial institutions	9,10,11	946	0
Contingent consideration	4	3,365	13,031
Non-current liabilities to group companies	11	45,631	66,240
Total non-current liabilities		49,942	79,271
Current liabilities			
Liabilities to financial institutions		0	6,509
Trade payables	11	2,917	2,020
Public duties payable	5	457	668
Interest-bearing current liabilities	5	40,615	48,012
Other current liabilities	5	2,651	5,019
Total current liabilities		46,639	62,228
Total liabilities		96,564	141,499
Total equity and liabilities		449,029	216,686

The Board of Directors and CEO of Observe Medical ASA
Oslo, April 27, 2023



Terje Bakken
Chair of the Board



Kathrine Gamborg Andreassen
Board member



Sanna Rydberg
Board member



Line Tønnessen
Board member



Eskild Endrerud
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, 2022	5,097	86,278	13,652	105,028	-29,841	75,187
Uncovered loss to be covered by Share premium						0
Other paid in equity capital to be covered by Share premium		12,586	-13,652	-1,066	1,066	0
Registered capital	8,810	307,189		316,000		316,000
Registered capital cost		-25,403		-25,403		-25,403
Cost of employee options					287	287
Net result for the period					-13,604	-13,604
Equity as at December 31, 2022	13,908	380,650	0	394,558	-42,092	352,466

Share capital:	NOK thousand	Shares	Par price
Share capital January 1, 2022	5,097	19,605,457	0.26
Changes	8,810	33,886,279	0.26
Share capital December 31, 2022	13,908	53,491,656	0.26

Refer to Note 23 in the Observe Medical group's consolidated financial statement 2022 for shareholders' information.

Observe Medical ASA

Cash Flow Statement

<i>Amounts in NOK thousand</i>	Note	2022	2021
Cash flow from operating activities			
Result before tax		-13,604	-12,244
Depreciation		289	107
Interest expenses and change in contingent consideration not paid	8,11	-6,657	-9,337
Interest income from group companies not paid	8,11	0	0
Change in trade receivables and other receivables	6	1,746	-2,865
Change trade payables and other current liabilities		-1,403	7,923
Net cash flow from operating activities		-19,630	-16,416
Cash flow from investment activities			
Payments on the purchase of equipment		-2,401	-483
Payment for shares in subsidiaries		-54,002	0
Net cash flow used in investment activities		-56,403	-483
Cash flow from financing activities			
Net changes liabilities to financial institutions		-6,509	6,509
Paid in new share capital		155,597	913
Repayment share capital		0	0
Change interest bearing loan		-9,459	10,405
Net change interest bearing debt to group companies		-55,280	-14,748
Net cash flow from financing activities		84,348	3,079
Exchange rate fluctuations		0	0
Changes in cash		8,315	-13,820
Bank deposits as at January 1		507	14,327
Bank deposits end of period	3	8,822	507

Explanatory Notes to the Annual Financial Statements 2022

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 AB, Observe Medical Nordic AB, Observe Medical ApS and Biim Ultrasound AS.

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.

Transparency Act

The company will publish a separate report on the company's webpage before 30.06.2023.

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>	2022	2021
Salaries	5,423	2,533
CEO cost invoiced from subsidiary	2,128	3,146
Fees to Board of Directors and Nomination Committee	1,265	895
Employment taxes	710	838
Pension insurance	328	207
Other benefits	520	1,106
Total salary expenses	10,374	8,725

At year end the company had 3 employees. The company has a contribution pension scheme that meets the requirement of the Norwegian Act of Mandatory Occupational Pension.

Former CEO Björn Larsson departed as CEO at March 28, 2023 and was entitled to salary during the 6 months' notice period in addition to 6 months' severance pay. Mr. Larsson was employed by the fully owned subsidiary, Observe Medical AB and hired to Observe Medical ASA. CEO costs including salary and expenses 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 287 for 2022 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 2022 for further information related to the share options.

Auditor

Audit fees expensed for 2022 amounts to NOK 2,071 thousand ex VAT. Fees for other assurance services amounts to NOK 380 thousand

Note 3 – Bank Deposits

Restricted cash (tax withholding account) are NOK 294 thousand.

Note 4 – Non-Current Liabilities

<i>Amounts in NOK thousand</i>	2022	2021
Contingent consideration	3,365	13,030
Interest bearing debt to Observe Medical AB	45,613	66,240
Total non-current liabilities	48,978	79,271

Note 5 –Current Liabilities

<i>Amounts in NOK thousand</i>	2022	2021
Liabilities to financial institutions	0	6,509
Trade payables	2,971	2,020
Public duties payable	457	668
Interest bearing debt to Navamedic ASA ¹⁾	40,614	37,606
Loan Ingerø Reiten Investment Company	0	10,405
Other liabilities	2,651	5,019
Total non-current liabilities	46,639	62,228

¹⁾ Increase in interest bearing debt from Navamedic ASA from 2021 to 2022 is due to accrued interest.

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, 2022.

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 48 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 12% as at December 31, 2022.

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 2022 is due to updated estimate related to when the sales of OM's products will be realized. The revenue and market potential remain unchanged but have been postponed.

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.

Sensitivity as at December 31, 2022: A 1 percentage point reduction in the discount rate would increase the estimated present value by NOK 0.1 million and a 10% reduction in revenue would decrease the estimated present value by NOK 0.4 million.

Note 6 – Current assets

<i>Amounts in NOK thousand</i>	2022	2021
Other short-term receivables	1,993	2,586
Receivables from group companies	86	974
Total receivables	2,078	3,560

Note 7 – Loans to Group Companies

<i>Amounts in NOK thousand</i>	2022	2021
Observe Medical APS	720	0
Biim Ultrasound AS	33,932	0
Total loans to group companies	34,653	0

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.

Note 8 – Financial Income and Expenses

<i>Amounts in NOK thousand</i>	2022	2021
Interest income from group companies	1,651	337
Net currency gain	1,647	4,621
Change in contingent consideration	10,028	10,432
Total financial income	13,327	15,390
Financial expenses	2022	2021
Interest expenses	3,400	3,203
Interest expenses to group companies	4,051	5,537
Net currency loss	0	0
Discounting effect contingent consideration	360	1,095
Other financial cost	170	377
Total financial expenses	7,982	10,212
Net financial income(+)/expenses (-)	-5,345	-5,177

Note 9 – Other Operating Expenses

<i>Amounts in NOK thousand</i>	2022	2021
Audit services	2,071	1,096
Accounting and financial services	505	385
Consultants	894	4,070
IT expenses	579	492
Legal and professional fees	2,242	2,724
Other operating expenses	1,466	912
Stock exchange expenses	805	375
Travel expenses	262	29
Other group services	937	0
Total other operating expenses	9,761	10,082

Observe Medical ASA completed the acquisition of Biim Ultrasound AS at 8 March 2022. Incurred transaction costs related to the acquisition of Biim Ultrasound AS of NOK 666 thousand in 2022 (4 619 thousand in 2021) was expensed as other operating expenses.

Note 10 – Subsidiaries

<i>Amounts in NOK thousand</i>	Business office	Ownership share	Carrying amount December 31, 2022
Observe Medical AB	Gothenburg, Sweden	100%	123,010
Observe Medical ApS	Herlev, Denmark	100%	80,247
Observe Medical International AB ¹⁾	Gothenburg, Sweden	100%	0
Observe Medical Nordic AB	Gothenburg, Sweden	100%	8,729
Biim Ultrasound AS ²⁾	Oslo, Norway	100%	189,001
Total			400,987

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

²⁾ 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 54 million.

Note 11 – Related Parties

<i>Amounts in NOK thousand</i>	Income	Operating expenses	Financial income	Financial expenses	Receivables	Liabilities
Navamedic ASA ¹⁾	0	0	0	3.009	0	40.615
Ingerø Reiten Investment Company AS ²⁾	0	0	0	276	0	0
Observe Medical AB	1.061	1.014	5.522	7.921	0	45.613
Observe Medical ApS	41	0	22	5	775	0
Observe Medical Nordic AB	367	0	0	0	31	0
Biim Ultrasound AS	0	937	1.638	0	33.933	1.172
Total	1.470	1.952	7.183	11.211	34.739	87.400

¹⁾ Navamedic ASA owned 7.89% of all shares in Observe Medical ASA as of 31 December 2022.

²⁾ Ingerø Reiten Investment Company AS owned 18.05% of all shares in Observe Medical ASA as of 31 December 2022.

Note 12 – Non-current assets

	Intangible assets	Plant and machinery	Fixtures and fittings	Total
Purchase cost as of 01.01.22			483	483
Inflow purchased fixed assets	1,153	1,225	23	2,401
Acquisition cost 31.12.22	1,153	1,225	505	2,889
Accumulated depreciation 31.12.22		122	273	396
Book value 31.12.22	1,153	1,102	232	2,488
This year's ordinary depreciations		122	166	289

Economic life

5 year

3 year

Note 13 – Taxes

<i>Amounts in NOK thousand</i>	2022	2021
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>	2022	2021
Result before income tax	-13,604	-12,244
Non-deductible expenses	-14,729	-8,423
Changes in temporary differences	-124	-37
Total taxable income	-28,458	-20,704
Expected income tax expenses, 22%	-2,992	-2,252

Specification of Tax Effect to Temporary Differences

Non-current assets	161	37
Current assets	0	0
Liabilities and provisions	0	0
Non-recognized tax asset	0	0
Tax losses carried forward	-61,607	-33,149
Not included in the deferred tax calculation	61,446	33,112
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.

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

A photograph of a hospital bed with a patient lying in it, covered by a white blanket. Medical equipment, including a ventilator and various tubes, is visible above the head of the bed. The image is overlaid with a dark blue gradient.

Auditor's report



Statsautoriserte revisorer
Ernst & Young AS

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INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Observe Medical ASA

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Observe Medical ASA (the Company) which comprise the financial statements of the Company and the consolidated financial statements of the Company and its subsidiaries (the Group). The financial statements of the Company comprise the balance sheet as at 31 December 2022, the income statement, statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements of the Group comprise the statement of financial position as at 31 December 2022, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion

- the financial statements comply with applicable legal requirements,
- the financial statements give a true and fair view of the financial position of the Company as at 31 December 2022 and its financial performance and cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway,
- the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2022 and its financial performance and 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 in accordance with the requirements of the relevant laws and regulations in Norway 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 were elected as auditor by the general meeting of the shareholders on 3 June 2022.



Material uncertainty related to going concern

We draw attention to note 1 and note 3 in the financial statements and the Board of Director's report, which describes that the Company will need to raise more equity, issue debt instruments or divest assets to fund further development on ongoing business. This indicates that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other matters

The financial statements for the year ended 31 December 2021, were audited by another auditor who expressed an unmodified opinion on those statements on 28 April 2022.

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 for 2022. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Business Combinations

Basis for the key audit matter

In March 2022, the Company finalized the acquisition of all the shares in Biim Ultrasound AS and subsidiaries. The final purchase price was agreed to NOK 185 million. The purchase price was paid by 27% cash and 73% shares in Observe Medical ASA.

The company carried out a purchase price allocation, with the assistance of third-party valuation specialists allocating the consideration based on the estimated fair value of identifiable assets acquired and liabilities assumed in the acquired company. The valuation and identification of net identifiable assets and liabilities and the assumptions used in the allocation of the purchase price require significant judgement and assumptions by management.

Our audit response

As part of our audit procedures, we obtained an understanding of the acquisition, including reading the Share Purchase Agreement and board minutes. We had meetings with management and third-party valuation specialists to understand their process for identification of acquired assets and liabilities and the valuation methods including understanding of their model used. We assessed management's assumptions and judgements used in the calculations of fair values, including discount rate which we compared to benchmark rates and predicted cash flows to approved company forecasts. We recalculated the model used. We evaluated the competences and independence of the external valuation specialists engaged by management. Our audit procedures included an assessment of when control was deemed to have passed.



Due to the significant judgment in the assessment by management, we considered the purchase price allocation and the initial consolidation as a key audit matter in our audit.

We refer to note 23 in the consolidated financial statement.

Impairment of goodwill and intangible assets

Basis for the key audit matter

Goodwill and intangible assets in the consolidated financial statement amounts to MNOK 183 in 2022, which is 85% of total assets. The impairment assessment of the goodwill is considered a risk due to the size of the balances and the inherent uncertainties related to successful commercialization of the Sippi and Biim Products.

Management performed, with assistance from a third-party valuation specialist an impairment assessment based on a value in use calculation which required significant judgement concerning future cash flows, associated discounts rates and growth rates based on management view of business prospects and weighted scenarios related to successful commercialization of the Sippi and Biim Products.

The impairment assessment and the estimates used required considerable judgement from management and uncertainty exist with respect to technological development market conditions and successful commercialization. Due to the significant judgements, we consider impairment as a key audit matter in our audit.

Our audit response

We evaluated the impairment model used and tested the calculation for mathematical accuracy. We assessed management's assumptions used in the calculations, including comparing discount rates to benchmarks and predicted cash flows to approved forecasts and other internal documentation. We discussed the different weighted scenarios of successful commercialization of Sippi and Biim with the management and the third-party valuation specialists. We evaluated management's sensitivity analysis. We evaluated the competences and independence of the external valuation specialists engaged by management.

We refer to note 4 and note 7 in the consolidated financial statement.

Other information

Other information consists of the information included in the annual report other than the financial statements and our auditor's report thereon. Management (the board of directors and CEO) is responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the board of directors' report, the statement on corporate governance and the statement on corporate social responsibility contain the information required by applicable legal requirements and whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that the other information is materially inconsistent with the



financial statements, there is a material misstatement in this other information or that the information required by applicable legal requirements is not included in the board of directors' report, the statement on corporate governance or the statement on corporate social responsibility, we are required to report that fact.

We have nothing to report in this regard, and in our opinion, the board of directors' report, the statement on corporate governance and the statement on corporate social responsibility are consistent with the financial statements and contain the information required by applicable legal requirements.

Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway and 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 and using the going concern basis of accounting unless management either intends to liquidate the Company or 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 the 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 scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, 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 and 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's and the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit



evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the 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

As part of the audit of the financial statements of Observe Medical ASA we have performed an assurance engagement to obtain reasonable assurance about whether the financial statements included in the annual report, with the file name Observe_Medical_ASA-2022-12-31-en.zip, have been prepared, in all material respects, in compliance with the requirements of the Commission Delegated Regulation (EU) 2019/815 on the European Single Electronic Format (ESEF Regulation) and regulation pursuant to Section 5-5 of the Norwegian Securities Trading Act, which includes requirements related to the preparation of the annual report in XHTML format and iXBRL tagging of the consolidated financial statements.

In our opinion, the financial statements, included in the annual report, have been prepared, in all material respects, in compliance with the ESEF Regulation.

Management's responsibilities

Management is responsible for the preparation of the annual report in compliance with the ESEF Regulation. This responsibility comprises an adequate process and such internal control as management determines is necessary.

Auditor's responsibilities

Our responsibility, based on audit evidence obtained, is to express an opinion on whether, in all material respects, the financial statements included in the annual report have been prepared in accordance with the ESEF Regulation. We conduct 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 about whether the financial statements included in the annual report have been prepared in accordance with the ESEF Regulation.

As part of our work, we perform procedures to obtain an understanding of the company's processes for preparing the financial statements in accordance with the ESEF Regulation. We test whether the financial statements are presented in XHTML-format. We evaluate the completeness and accuracy of the iXBRL tagging of the consolidated financial statements and assess management's use of judgement. Our procedures include reconciliation of the iXBRL tagged data 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 2023
ERNST & YOUNG AS

The auditor's report is signed electronically

Anja Maan
State Authorised Public Accountant (Norway)

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.
Sick leave per cent:	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 2022	At 31 December 2021
Total shareholders equity	138,306	14,122
Total assets	215,812	71,738
Equity ratio	64.1%	-19.7%

MEDTECH THAT MATTERS

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