



Mauna Kea Technologies

A Public Limited Company (Société anonyme) with share capital of 766,273.52 euros
Registered office: 9 rue d'Enghien
75010 Paris, France
431 268 028 R.C.S. Paris

Consolidated financial statements as of December 31, 2016

Mauna Kea Technologies
December 31, 2016

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

	Note	12/31/2016	12/31/2015
ASSETS			
Non-current Assets			
Intangible assets	3	2 565	3 135
Property, plant, and equipment	4	898	625
Non-current financial assets	5	162	133
Total of non-current assets		3 625	3 893
Current assets			
Inventories & Work in progress	6	2 331	2 644
Trade receivables	7	2 116	3 458
Other current assets	7	2 756	1 823
Current financial assets	8	94	65
Cash and cash equivalents	9	9 053	10 620
Total of current assets		16 349	18 610
TOTAL OF ASSETS		19 974	22 503
EQUITY AND LIABILITIES			
Equity			
Issued capital	10	800	647
Share premium	10	72 382	66 050
Reserves		(52 394)	(40 069)
Foreign currency translation on reserve		113	106
Profit / (loss)		(9 744)	(12 643)
Total of equity		11 157	14 091
Non-current Liabilities			
Long-term loans and borrowings	11	2 640	2 182
Non-current provisions	12	261	246
Total of non-current liabilities		2 900	2 428
Current liabilities			
Short-term loans and borrowings	11	404	719
Trade payables	13	3 131	2 453
Other current liabilities	13	2 382	2 812
Total of current liabilities		5 917	5 984
TOTAL OF EQUITY AND LIABILITIES		19 974	22 503

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COMPREHENSIVE INCOME STATEMENT
(Amounts in thousands of euros)

	Note	12/31/2016	12/31/2015
Operating Revenue			
Sales	15	8 787	8 547
Other income	15	883	1 434
Total of revenue		9 670	9 981
Operating Expenses			
Cost of sales		(2 720)	(2 534)
<i>Gross margin</i>		69%	70%
Research & Development	18	(4 445)	(4 648)
Sales & Marketing	18	(8 366)	(11 665)
Administrative expenses	18	(3 843)	(3 642)
Share-based payments	17	(285)	(450)
Total of expenses		(19 660)	(22 939)
Current operating profit		(9 990)	(12 958)
Other operating profit/expense			232
Operating profit		(9 990)	(12 726)
Financial revenue	19	412	383
Financial expenses	19	(166)	(299)
Profit before tax		(9 744)	(12 643)
Income tax expense	20		
Profit / (loss)		(9 744)	(12 643)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial differences on defined benefit plans	12	18	117
Total of items that will not be reclassified to profit or loss		18	117
<i>Items that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		8	84
Total of items that will be reclassified subsequently to profit or loss		8	84
Other comprehensive income for the year, net of tax		26	200
Comprehensive income		(9 718)	(12 443)
Weighted average number of shares outstanding (in thousands)		17 587	15 031
Basic earnings per share (EUR/share)	23	(0,55)	(0,84)
Weighted average number of potential shares (in thousands)		19 057	16 814

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STATEMENT OF CHANGES IN EQUITY
(Amounts in thousands of euros)

		Issued capital	Share premium	Treasury shares	Reserves	Foreign currency translation on reserve	Profit / (loss)	Total of equity
Equity as of	12/31/2014	560	58 162	(105)	(26 499)	23	(13 973)	18 168
Allocation of the profit / (loss)					(13 973)		13 973	
Allocation of carry forward								
Capital transactions		87	7 888					7 975
Share-based payment transactions					450			450
Treasury shares transactions				(11)	(48)			(59)
Comprehensive income as of *	12/31/2015				117	84	(12 643)	(12 442)
Equity as of *	12/31/2015	647	66 050	(117)	(39 953)	106	(12 643)	14 091
Allocation of the profit / (loss)					(12 643)		12 643	
Allocation of carry forward								
Capital transactions		153	6 332		(20)			6 466
Share-based payment transactions (1)					285			285
Treasury shares transactions				45	(11)			34
Comprehensive income as of	12/31/2016				18	8	(9 744)	(9 718)
Equity as of	12/31/2016	800	72 382	(72)	(52 322)	113	(9 744)	11 157

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CASH-FLOW STATEMENT
(Amounts in thousands of euros)

	Note	12/31/2016	12/31/2015
Cash flows from operating activities			
Profit / (loss)		(9 744)	(12 643)
Elimination of amortisations, depreciations and provisions		929	773
Share-based payment transaction expense and revenue	17	285	450
Other items excluded from the auto-financing capacity		(105)	135
<i>Revenue and expenses related to the discounting of repayable advances</i>	11/19	(174)	(43)
<i>Net financial interest paid</i>	19	(11)	(2)
<i>Other non-cash items</i>		80	180
Capital gain or loss from asset sales		(1)	0
Auto-financing capacity		(8 635)	(11 284)
Change in WCR related to business activities (1)		799	(446)
<i>Inventories & Work in progress</i>		232	(585)
<i>Trade receivables</i>		1 378	483
<i>Other current assets</i>		(990)	179
<i>Trade payables</i>		673	208
<i>Other current liabilities</i>		(493)	(731)
Net cash flows from operating activities (A)		(7 836)	(11 729)
Cash flows from investing activities			
Purchase of property, plant and equipment and intangible assets	3/4	(516)	(363)
Proceeds from sale of property, plant and equipment and intangible assets		1	0
Proceeds from sale of current financial assets			
Change in loans and advances granted		(58)	36
Other cash flows from investing operations			
Net cash flows from investing activities (B)		(573)	(326)
Cash flows from financing activities			
Proceeds from exercise of share options	10	2 026	3 485
Proceeds from issue of shares	10	4 440	4 490
Repurchases and resales of treasury shares		34	(59)
Net financial interests paid	19	11	2
Other cash flows from financing operations	11	315	(300)
Net cash flows from financing activities (C)		6 826	7 618
Net foreign exchange difference (D)		15	41
Change in cash (A) + (B) + (C) + (D)		(1 567)	(4 398)
Cash at the beginning of the period	9	10 620	15 018
Cash at the end of the period	9	9 053	10 620
Change in cash		(1 567)	(4 398)

(1) Change in WCR are presented in the notes of the current assets and liabilities

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Mauna Kea Technologies is a global medical device company focused on eliminating uncertainties related to the diagnosis and treatment of cancer thanks to real-time in vivo microscopic visualization. The Company's flagship product, Cellvizio, has received clearance to sell a wide range of applications in more than 40 countries including the United States, Europe, Japan, China, Canada, Brazil and Mexico.

Note 1: Accounting policies and principles

1.1 Accounting principles applied by the Group

The financial statements are presented in thousands of euros. Rounding may in some cases cause insignificant variances in totals.

They were approved by the Board of Directors at its meeting of March 21, 2017. These financial statements will be definitive only after their approval by the Annual General Meeting.

The financial statements are prepared on the basis of historical cost with the exception of financial assets, which are measured at their fair value. The preparation of the financial statements according to IFRS principles requires that estimates be made and assumptions formulated which impact the amounts and information provided therein with respect to measuring the cost of share-based payments, measuring the value of the research tax credit, and measuring value in use with regard to impairment testing. These assumptions and estimates were made on the basis of information or positions at the date the financial statements were prepared and may differ from actual results. As applicable, a sensitivity analysis may be implemented if this variation is significant.

The Board of Directors worked on the assumption of a going concern, taking into account the cash position at the end of December 2016, sales prospects (including from partnership agreements), receipt of the 2015 research tax credit, the bond issue in February 2017, and provisional cash flows. Following a specific review of its liquidity risk, the Company considers that it is able to meet its scheduled repayments until December 31, 2017.

This financial information was prepared on the basis of the principles underlying all the mandatory standards and interpretations adopted by the European Union and applied by the Company at December 31, 2016. The standards and interpretations in question are available on the website of the European Commission at http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm.

New standards, amendments, revisions and interpretations adopted by the European Union with mandatory application for accounting periods beginning on or after January 1, 2016 and applied for the first time by the Company this fiscal year are:

- amendments to IAS 19 "Defined Benefit Plans: Employee Contributions";
- annual improvements to IFRS: 2010-2012 cycle;
- annual improvements to IFRS: 2012-2014 cycle;
- amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations";
- amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization";
- amendments to IAS 1 "Disclosure Initiative";
- amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exemption".

These standards have no impacts on the consolidated financial statements.

Furthermore, the Company did not apply ahead of time other standards, amendments, revisions or interpretations that will become compulsory for fiscal years beginning after January 1, 2016. The standards, amendments, revisions and interpretations in question are:

- amendments to IFRS 9 "Financial instruments";
- IFRS 15 "Revenue from Contracts with Customers".

The company began its analysis of the impacts of implementing IFRS 15. The main expected impacts in terms of revenue recognition methodology will relate to system sales.

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The Company did not apply ahead of time any standards, amendments, revisions or interpretations not yet adopted by the European Union:

- IFRS 16 “Leases”;
- amendments to IAS 12 “Income Taxes”;
- amendments to IAS 7 “Statement of Cash Flows”;
- amendments to IFRS 2 “Share-based Payment”;
- annual improvements to IFRS: 2014-2016 cycle;
- IFRIC 22 “Foreign Currency Transactions and Advance Consideration”;
- amendments to IAS 40 “Transfers of Investment Property”.

The impacts of the application of these standards on the consolidated financial statements are currently being analyzed.

1.2. Consolidation methods

Subsidiaries are all the entities over which the Company exercises control with regard to financial and operating policy and of which it generally holds more than half of the voting rights. The subsidiaries are consolidated by the full consolidation method beginning on the date on which the Company acquires the control of them. They are deconsolidated from the date on which control cease to be exercised.

The intra-group transactions and balances are eliminated. The accounting methods of the subsidiaries have been aligned with those of the Company.

1.3 Net investments abroad

In accordance with IAS 21.15, foreign exchange gains and losses on long-term receivables in US dollars owed by a subsidiary to the Company are recognized in equity. Indeed, these accounts receivables are considered as net investments in currencies within consolidated foreign subsidiaries, considering the unforeseeable nature of the payment of these receivables.

1.4 Intangible assets

In accordance with IAS 38, intangible assets acquired are recognized as assets in the balance sheet at their acquisition or production cost. The subsidies received and related the capitalized expenses are recognized as a reduction of cost.

Research and development expenses

The research expenses are consistently recognized as expenses.

In accordance with IAS 38, development costs are recognized as intangible assets only if all the following criteria are met:

- (a) The Company has established the technical feasibility of the asset for sale or use;
 - (b) The Company intends to complete the asset and use it;
 - (c) The Company is able to complete the asset and use it;
 - (d) The Company is able to demonstrate how the asset will generate future economic benefits;
 - (e) The Company has the technical, financial and other resources necessary to complete the asset;
- and
- (f) The Company is able to measure the costs of developing the asset.

In application of this standard, the Company recognized all its R&D costs as expenses, until the first prototypes of Cellvizio were refined.

Development expenses related to finalizing new products were recognized as assets. Expenses related to research and the improvements of existing products remain as expenses for the fiscal year.

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Development costs carried as assets are amortized on a straight-line basis over seven years for Cellvizio's second generation development costs, i.e. their useful life. Useful life is incorporated into the current period until the asset becomes obsolete.

No development costs were capitalized for the 2016 fiscal year.

Patents

Patent filing costs incurred by Mauna Kea Technologies until the patents are obtained are recognized as intangible assets in line with the criteria for capitalizing development costs stipulated by IAS 38.

They are amortized on the basis of the straight line method over the term of protection granted.

Software packages

Costs relating to the acquisition of licenses for software packages are recognized as assets on the basis of the costs incurred to acquire and implement them.

They are amortized using the straight-line method over a period of one to three years.

1.5 Property, plant, and equipment

Property, plant, and equipment is recognized at acquisition or production cost. The renovations and major improvements are capitalized, and the repair and maintenance expenses and the costs of the other renovation work are expensed as incurred. The subsidies received and related the capitalized expenses are recognized as a reduction of cost.

Property, plant, and equipment are depreciated on the basis of the straight-line method over the estimated lifetime of the property. The fixtures of property rented are depreciated over the term of their own lifetime or over the term of the rental agreement, whichever is shorter.

Cellvizio's entrusted to hospitals under partnership agreements (reference centers) and Cellvizio's lent out under consignment contract are recorded under capital assets.

Depreciation and amortization periods are as follows:

Fixtures and fittings	7 years;
Research and development	2 to 5 years;
Production tools	3 to 7 years;
Cellvizio's entrusted to reference centers and lent out	5 years;
Research equipment and technical facilities	7 years;
Office equipment and furniture	5 years;
Computer equipment	3 years.

1.6 Recoverable amount of non-current tangible and intangible assets

Intangible assets and property, plant, and equipment are tested for impairment if the recovery of their book value is uncertain. With respect to intangible assets in progress, even in the absence of indicators of impairment, an impairment test is conducted annually.

An impairment loss is recognized to the extent that the carrying amount exceeds the recoverable value of the asset. The recoverable value of an asset corresponds to its fair value minus the costs of sale or its value in use, if the latter is higher.

With respect to the Company's intangible assets, there are no market data that allow the net fair value of the costs of sale to be determined other than by an estimation of future cash flows. Consequently, the recoverable amount is essentially equal to the value in use.

Value in use is determined each year in accordance with IAS 36 and corresponds to the discounted value of estimated future cash flows expected from the continuous use of the assets and their derecognition at the end of the use expected by the Company. It does not take into account the impact of the financial structure, tax effects, or restructuring efforts not undertaken.

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1.7 Financial assets

The Company's financial assets include loans and receivables, and the cash and cash equivalents.

The valuation and accounting treatment of financial assets and liabilities are defined by IAS 39 "Financial Instruments: Recognition and Measurement".

Loans and receivables

This category includes trade receivables, the other loans and receivables, and deposits and guarantees, which are classified under non-current financial assets on the balance sheet.

These instruments are initially recognized at their fair value and then at amortized cost using the effective interest rate (EIR) method. Short-term receivables without a nominal interest rate are measured at the amount of the original invoice unless the application of an implicit interest rate has a material impact. For variable-rate loans and receivables, a periodic reestimation of cash flow variations, in order to translate changes in market interest rates, modifies the effective interest rate and consequently the valuation of the loan or receivable.

The Company analyzes each of its trade receivables past due to determine whether an impairment loss should be recognized.

Loans and receivables are monitored to pick up any objective indication of impairment. A financial asset is impaired if its book value is greater than its recoverable amount as estimated during impairment tests. The impairment is recognized in the income statement.

Assets at fair value through profit or loss

Assets considered to be held for sale include assets that the Company intends to resell in the near future in order to realize a capital gain and that are part of a portfolio of financial instruments managed together for which there exists a practice of selling in the short term.

1.8 Inventories & work in progress

The inventories are valued at their cost or at their net realizable value (NRV), if the latter is lower. In the latter case, the impairment loss is recognized in expenses.

Inventories of raw materials are valued according to the weighted average cost method. Inventories of semi-finished and finished products are valued at the standard cost taking into account the cost of materials used, labor costs and a share of overheads.

The demonstration equipment intended for sale in the short term is recognized in inventories.

1.9 Cash and cash equivalents

Cash equivalents are held to meet short-term cash commitments rather than for investment or other purposes. They are readily convertible, into a known amount of cash, and are subject to a negligible risk of change in value. The cash and cash equivalents are constituted by liquid assets that are available immediately, long-term investments that can be liquidated immediately, and short-term investment securities. They are evaluated on the basis of the IAS 39 according to the categories they belong to.

The short-term investment securities are readily convertible into a known amount of cash and are subject to a negligible risk of change in value. They are measured at fair value, and changes in value are recorded in the financial gains or losses.

1.10 Issued capital

Costs of share capital transactions that are directly attributable to the issue of new shares or options are recognized in equity as a deduction from the proceeds of the issue, net of tax.

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1.11 Liquidity contract

Following its listing on the NYSE Euronext Paris regulated market, the Company signed a liquidity contract with a specialized institution in order to limit the intraday volatility of the Mauna Kea Technologies stock.

The portion of the contract that is invested in own shares of the Company by this service provider is posted to the accounts as a deduction from the consolidated shareholders' equity of the Company at the end of each fiscal year. The balance of "liquidity" is recorded as current financial assets.

1.12 Share-based payments

Since its formation, the Company has established several plans for compensation paid in equity instruments in the form of BSPCEs (special stock warrants with tax benefits) granted to employees and/or executives, stock warrants granted to non-employee members of the Board of Directors or the Supervisory Board, stock options granted to employees of the subsidiary Mauna Kea Technologies Inc., and bonus preference shares awarded to employees and/or executives.

In accordance with IFRS 2, the cost of transactions settled in equity instruments is recorded as an expense with a counterpart increase in equity over the vesting period.

The Company has applied IFRS 2 to all equity instruments granted since 2002 to employees, members of the Board of Directors or the Supervisory Board, natural persons, or entities.

The fair value of stock options granted to employees is determined using the Black-Scholes option valuation model. The same applies to options granted to other natural persons who provide similar services, the market value of the latter not being ascertainable.

The determination of the fair value of options includes the vesting conditions described in Note 17: Share-based payments. The other factors taken into consideration are also presented in Note 17: Share-based payments.

1.13 Measurement and recognition of financial liabilities

Financial liabilities at the amortized cost

Borrowings and other financial liabilities are valued initially at their fair value and then at amortized cost using the EIR method.

Transaction costs that are directly attributable to the acquisition or issue of a financial liability are deducted from that financial liability. These expenses are then amortized actuarially over the lifetime of the liability, on the basis of the EIR.

The EIR is the rate at which expected future cash outflows are equal to the net present carrying amount of the financial liability from which their amortized cost is deducted.

Liabilities at fair value through profit and loss

The liabilities at fair value through profit and loss are measured at their fair value.

1.14 Conditional government loans

The Company receives government assistance in the form of subsidies or conditional loans. The details concerning this assistance are provided in Note 11: Borrowings and financial debts.

A conditional non-repayable loan is treated as a public subsidy if there is reasonable assurance that the Company will fulfill the conditions under which the loan need not be repaid. If the contrary is the case, it is classified under debts.

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The unpaid interest benefit resulting from an interest-free repayable loan is considered a subsidy. It is calculated by applying a discount rate equal to the contractual rate, if known, or to 10-year OAT yields (French Treasury bonds).

1.15 Provisions

Provisions for risks and expenses

Provisions for risks and liabilities correspond to obligations resulting from lawsuits and miscellaneous risks, the due dates and amounts of which are uncertain, with which the Company may be faced during its business activities.

A provision is recognized when the Company has a legal or implicit obligation to a third party resulting from a past event which is likely or certain to cause an outflow of resources to that third party, without the expectation of at least equal compensation from it, and for which the future outflows of liquid assets can be estimated reliably.

An amount recognized as a provision is the best estimate of the expenditure necessary to settle the obligation, which is discounted if necessary on the closing date.

Retirement pension and post-employment benefits

The employees of the Company receive the retirement benefits stipulated by law in France:

- Retirement benefits paid by the Company to employees upon their retirement (defined benefit plans);
- Payment of pension benefits paid by Social Security agencies and financed by contributions made by employers and employees (defined contribution plans).

For the defined benefit plans, the costs of the retirement benefits are estimated by using the projected credit unit method. According to this method, the cost of the retirement pensions is recognized in the income statement in such a manner as to distribute it uniformly over the term of the services of the employees. The retirement benefits commitments are valued at the current value of the future payments estimated using the market rate based on the long-term obligations of the first-category companies with a term that corresponds to that estimated for the plan.

The Company relies on actuaries qualified to conduct an annual review of the valuation of these plans.

In accordance with amendments to IAS 19 "Defined Benefit Plans: Employee Contributions", service costs and net interest are recorded under operating profit (loss) and other remeasurements are recorded under other comprehensive income.

The Company's payments for the defined contribution plans are recognized as expenses on the income statement of the period with which they are associated.

1.16 Revenue from ordinary activities

Sales primarily comprise the sale of innovative medical imaging devices for medical diagnostics, research and related services.

Revenue from ordinary activities is measured as the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Company's business. Revenue from ordinary activities is presented net of value-added tax, product returns, rebates and discounts, and intragroup sales.

Revenue is recorded when the amount can be valued reliably and it is likely that the future economic benefits will go to the Company. Revenue from the sale of products is recognized when they are either made available or delivered to the customer depending on the terms and conditions of the order. The sales revenue related to the warranty is posted on the basis of the straight-line method over the lifetime of the warranty. When Cellvizio is made available to a customer, it remains an asset of the Company and the revenue is recognized under sales of consumables or services performed by health care professionals.

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1.17 Other income

Subsidies

Since it was created, and because of its innovative nature, the Company has received financial assistance or subsidies from the French government or local public authorities intended to fund its operations or recruit specific personnel.

Subsidies are recorded when there is a reasonable assurance that:

- The Company will comply with the conditions attached to the subsidies; and
- The subsidies will be received.

A public subsidy to be received as compensation for either costs or losses already incurred, or as immediate financial support without associated future costs, is recorded under "Other income" for the year in which the loan is granted. Otherwise, it is recorded under "Other income" for the year in which the corresponding charges or expenses are recorded.

Research Tax Credit

Research tax credits are granted to companies by the French government in order to encourage them to conduct technical and scientific research. Companies with proven expenditures that meet the criteria (research expenditures located in France or, since January 1, 2005, within the European Community or in another state that is a party to the Agreement on the European Economic Area and that has concluded a tax treaty with France containing an administrative assistance clause) receive a tax credit that can be offset against the corporate tax due for the fiscal year in which the expenditures were incurred and the next three fiscal years, or, as applicable, reimbursed for the excess portion.

The part of the tax credit used to finance research costs is recognized under "Other income" for the year in which the costs are incurred. The part used to finance eligible development costs is deducted from costs recorded under assets.

1.18 Other operating income and expenses

This concerns unusual income or expenses of a significant amount and limited in number and frequency that the Company presents as a separate item on its income statement in order to facilitate understanding of its recurring operational performance and provide useful information for a forward-looking analysis of results.

1.19 Cost of sales

Cost of sales is made up of raw material consumption, labor costs, depreciation and amortization, inventory allowances, and overheads relating to production.

1.20 Leases

The Group does not have any finance leases pursuant to the IAS 17 standard.

Leases under which the lessor retains a significant portion of the risks and benefits are classified as operating leases. Payments made under operating leases, net of any incentives, are recognized as expenses on the income statement on a straight-line basis over the duration of the lease.

1.21 Taxes

Income tax

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The deferred income taxes are recognized on the basis of the broad conception and on the basis of the liability method, for all the temporary differences between the value for tax purposes and the stated book value of the assets and liabilities that appear within the financial statements. The primary temporary differences are related to the tax losses that can be carried forward or backward. The tax rates stipulated by law at the closing date are used to determine deferred taxes.

Deferred tax assets are only recognized to the extent that probable future profits will be sufficient to absorb the losses carried forward. In view of its stage of development, the Company does not recognize net deferred tax assets.

1.22 Segment information

The Company has not at this date identified separate operating segments. It conducts its business in a single operating segment: endomicroscopy.

1.23 Other comprehensive income

The revenue and expense items for the period recognized directly in equity are presented, as applicable, under the rubric "Other comprehensive income". These are principally:

- EUR/USD exchange differences relating to the subsidiary Mauna Kea Technologies, Inc.;
- Changes in pension plan provisions arising from changes in actuarial assumptions.

1.24 Decisive accounting estimates and judgments

Estimates and judgments made by management when applying the accounting policies described above are based on historical information and other factors, notably the anticipation of future events judged to be reasonable in light of circumstances. These estimates and judgments are primarily the following:

Valuation of stock warrants and stock options

The fair value of stock warrants and stock options granted to employees or service providers is measured on the basis of actuarial models. These models rest on certain calculation assumptions such as the expected volatility of the security.

Valuation of the Research Tax Credit

Income relating to the research tax credit is measured on the basis of methods detailed in Note 1.17 "Other income - Research Tax Credits".

Valuation of the long-term intangible assets

The value in use of intangible assets is measured on the basis of assumed sales growth and a discount rate that reflect the best estimates of management.

1.25 Subsequent events

The balance sheet and the income statement of the Company are adjusted to reflect the subsequent events that alter the amounts related to the situations that exist as of the closing date. Adjustments are made until the date on which the financial statements are approved by the Board of Directors.

Events subsequent to the closing date that did not result in adjustments are presented in Note 25 "Subsequent events".

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Note 2: Company and scope

Founded in May 2000, Mauna Kea Technologies SA ("the Company") develops and markets medical devices, particularly optical instruments for medical imaging.

As part of its development in the United States, the Company created Mauna Kea Technologies Inc. on January 3, 2005.

Sociétés	12/31/2016		12/31/2015		Consolidation method
	% of interests	% of control	% of interests	% of control	
Mauna Kea Technologies SA (1)	100%	100%	100%	100%	Full consolidation
Mauna Kea Technologies Inc	100%	100%	100%	100%	Full consolidation

(1) Parent company

No change in scope took place during the period.

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Note 3: Intangible assets

The changes in intangible assets break down as follows:

INTANGIBLE ASSETS					
(Montants en milliers d'euros)					
	<u>12/31/2014</u>	<u>Increase</u>	<u>Decrease</u>	<u>Reclassification</u>	<u>12/31/2015</u>
Development costs	3 623				3 623
Patents, licenses and trademarks	1 340	64		130	1 534
Software packages	413	131			545
Development costs in progress					0
Patents, licenses and trademarks in progress	596	60		(130)	526
Total gross of intangible assets	5 972	255			6 228
Amort. / dép. of development costs	(1 741)	(481)			(2 222)
Amort. / dép. of patents, licenses and trademarks	(454)	(105)			(559)
Amort. / dép. of software packages	(236)	(76)			(313)
Total amort. / dép. of intangible assets	(2 431)	(662)			(3 093)
Total net of intangible assets	3 542	(407)			3 135

INTANGIBLE ASSETS					
(Amounts in thousands of euros)					
	<u>12/31/2015</u>	<u>Increase</u>	<u>Decrease</u>	<u>Reclassification</u>	<u>12/31/2016</u>
Development costs	3 623				3 623
Patents, licenses and trademarks	1 534	6		18	1 559
Software packages	545	15		6	566
Patents, licenses and trademarks in progress	526	67		(18)	575
Total gross of intangible assets	6 228	89		6	6 324
Amort. / dép. of development costs	(2 222)	(466)			(2 688)
Amort. / dép. of patents, licenses and trademarks	(559)	(112)			(671)
Amort. / dép. of software packages	(313)	(87)			(400)
Total amort. / dép. of intangible assets	(3 093)	(665)			(3 759)
Total net of intangible assets	3 135	(576)		6	2 565

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ANNUAL CHANGE IN DEVELOPMENT COSTS (CAPITALISED PORTION)

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
External costs	0	0
Wages and salaries, social security costs	0	0
Research Tax Credit	0	0
Share-based payment transaction expense	0	0
Gross change in development costs	0	0
Amortization of development costs	(466)	(481)
Net change in development costs	(466)	(481)

Patents pending are subject to an annual impairment test to determine their value in use calculated using the discounted cash flow method as follows:

- Cash flow projections are determined for the years 2017 to 2021 on the basis of future sales forecasts, which correspond to the best estimates, made by management. For the tests conducted on patents pending, a final value calculated by taking into account a normalized flow discounted by an infinite growth rate of 2% is integrated to the extent that the residual period of protection is greater than five years;
- The discount rate used is the weighted average cost of the share capital of the Group of 15%. This is the rate used by financial analysts in the business sector who cover value.

These tests did not reveal any impairment of the assets tested.

The effect of a change in the discount rate, the growth rate of sale and the infinite growth rate of +/- 10% have also no impact on the impairment of the assets tested.

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Note 4: Property, plant, and equipment

The changes in property, plant and equipment break down as follows:

PROPRETY, PLANT AND EQUIPMENT						
(Amounts in thousands of euros)						
	12/31/2014	Increase	Decrease / Scrapping	Exchange differences	Reclassements	12/31/2015
Industrial equipment	1 293	33	0	25	(27)	1 324
Fixture in buildings	51					51
Other tangible assets	914	75	(3)	11		998
Total gross of property, plant and equipment	2 259	107	(3)	36	(27)	2 373
Amort. / dép. of industrial equipment	(864)	(152)	6	(8)	1	(1 017)
Amort. / dép. of fixture in buildings	(31)	(7)				(37)
Dep other tang assets	(570)	(117)	2	(9)		(693)
Total amort. / dép. of property, plant and equipment	(1 465)	(275)	8	(17)	1	(1 748)
Total net of property, plant and equipment	794	(167)	5	19	(26)	625

PROPRETY, PLANT AND EQUIPMENT						
(Amounts in thousands of euros)						
	12/31/2015	Increase	Decrease / Scrapping	Exchange differences	Reclass.	12/31/2016
Industrial equipment	1 324	47	(70)	7	127	1 436
Fixture in buildings	51					51
Other tangible assets	998	380	(4)	4	(29)	1 348
Total gross of property, plant and equipment	2 373	427	(74)	11	98	2 835
Amort. / dép. of industrial equipment	(1 017)	(132)	47	(6)		(1 107)
Amort. / dép. of fixture in buildings	(37)	(7)				(44)
Dep other tang assets	(693)	(92)	4	(4)		(785)
Total amort. / dép. of property, plant and equipment	(1 748)	(230)	51	(9)		(1 937)
Total net of property, plant and equipment	625	197	(23)	2	98	898

Reclassifications in the year concerned transfers of systems in stock to inventory for €127 thousand.

In the absence of impairment indicators, no impairment tests were conducted on property, plant, and equipment.

Note 5: Non-current financial assets

Non-current financial assets only comprised security deposits paid under operating leases.

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Note 6: Inventories and work in progress

Inventories and work in progress break down as follows:

INVENTORIES & WORK IN PROGRESS

(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Inventories of raw materials	769	819
Inventories & work in progress of finished goods	1 668	1 925
Total gross of inventories & work in progress	2 437	2 744
Dep. of inventories of raw materials	(58)	(51)
Dep. of inventories & work in progress of finished goods	(48)	(49)
Total dep. of inventories & work in progress	(107)	(99)
Total net of inventories & work in progress	2 331	2 644

At the end of each period, inventories and work in progress of finished goods include certain assets related to goods that no longer appear in our catalogue. These assets are kept by the Company for use by the after-sales customer service. They are impaired by 80%.

Note 7: Trade receivables and other current assets

7.1. Trade and other receivables

TRADE RECEIVABLES

(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Trade receivables	3 127	3 885
Dep. of trade receivables	(1 011)	(427)
Total net of trade receivables	2 116	3 458

Trade receivables past due and not impaired at December 31, 2016 amounted to €961 thousand compared with €1,921 thousand at December 31, 2015. The €960 thousand decrease was largely due to an additional provision of €584 thousand and the payment in early 2016 of trade receivables due in 2015.

The provision for doubtful accounts represented 32% of total receivables. The increase in this provision was mainly due to the impairment of certain receivables due for more than one year.

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7.2 Other current assets

The other current assets break down as follows:

OTHER CURRENT ASSETS

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Personnel and related accounts	10	39
Research Tax Credit	2 030	1 201
Other tax receivables	268	184
Other receivables	240	289
Prepaid expenses	209	109
Total gross of other current assets	2 756	1 823
Dep. of other current assets		
Total net of other current assets	2 756	1 823

Other tax receivables related to deductible VAT and reimbursement of VAT requested for a total of €251 thousand compared to €136 thousand at December 31, 2015.

Other receivables mainly included advances to suppliers amounting to €140 thousand compared to €128 thousand at December 31, 2015.

Prepaid expenses in 2016 mostly corresponded to insurance, survey costs and communication expenses.

Changes in the Research Tax Credit were as follows:

**CHANGES IN THE RESEARCH TAX CREDIT
RECEIVABLE**

(Amounts in thousands of euros)

	31/12/2014	Operating revenue	Payment received	Capitalised portion	12/31/2015
Research Tax Credit	1 251	1 201	(1 251)		1 201

**CHANGES IN THE RESEARCH TAX CREDIT
RECEIVABLE**

(Amounts in thousands of euros)

	12/31/2015	Operating revenue	Payment received	Capitalised portion	12/31/2016
Research Tax Credit	1 201	828			2 029

The Company had requested the reimbursement of the research tax credit for 2015 under the regime for EU SMEs in accordance with the legislation in force. This reimbursement was made in January 2017 in full.

The company also claimed the research tax credit for fiscal year 2016.

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Note 8: **Current financial assets**

Current financial assets correspond to the cash balance of the securities account opened under the Company's liquidity contract domiciled with Gilbert Dupont, i.e. €94 thousand at December 31, 2016 versus €65 thousand at December 31, 2015.

Note 9: Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

CASH AND CASH EQUIVALENTS

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Short-term bank deposits	9 053	9 983
Money market funds	0	637
Total of cash and cash equivalents	9 053	10 620

Note 10: Share capital

10.1 Issued capital

The share capital is set at eight hundred thousand and seventy-three euros, fifty-two cents (€800,073.52). It is divided into 20,001,838 ordinary shares, fully subscribed and paid up, each with a par value of €0.04.

This figure does not include stock warrants, BSPCEs or stock options granted to certain investors and natural persons who may or may not be employees of the Company.

The table below shows the history of the Company's share capital since December 31, 2016:

Date	Type of transaction	Issued capital (en K€)	Share premium (en K€)	Nombre d'actions créées	Number of shares comprising the issued capital (in thousand)
12/31/15	Total	647	66 050		16 177
02/02/16	New SO plan	0			0
07/15/16	Capital increase	119	3 907		2 980
07/26/16	Withdrawal for BP reserves	0			0
07/26/16	New BSA	0	18		0
07/26/16	New SO	0			0
11/18/16	PACEO	0	-50		0
11/21/16	BSA	10	766		250
11/29/16	BSA	2	147		50
12/01/16	BSA	3	215		75
12/02/16	BSA	5	353		120
12/06/16	BSA	4	282		100
12/08/16	BSA	4	282		100
12/16/16	BSA	2	137		50
12/21/16	BSA	2	133		50
12/22/16	BSA	2	141		50
12/31/16	Total	800	72 382		20 002

In 2016, the Company completed a capital increase of €4.4 million at an issue price of 1.49 euros per share for 2,980,131 new shares.

The Company opened also, in November 2016, an equity financing facility with Kepler Cheuvreux for a maximum number of 1,850,000 shares open for subscription over a maximum period of 24 months. At December 31, 2016, 845,000 shares were subscribed via the financing line with Kepler.

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10.2 Share purchase warrants, stock options and preferred stock

The Company issued various types of stock warrants, including BSPCEs, for its employees, as well as stock options. The Company has issued a new free share plan, the terms of which have been approved by the shareholders at the general meeting of May 4, 2016.

The changes since December 31, 2016 are represented below:

Type	Date of granting	Exercise price	Outstanding as of				Outstanding as of 31.12.2016	Potential number of shares
			31.12.2015	Granted	Exercised	Cancelled		
Options granted before January 1, 2015			3 513 156			1 126 750	2 386 406	889 400
SO	02/02/16			96 000		15 000	81 000	81 000
SO	07/26/16			80 000		0	80 000	80 000
BSA	07/26/16			115 000		0	115 000	115 000
PS	07/26/16			7 765		205	7 560	614 000
PS	11/15/16			570		0	570	57 000
BSA	11/18/16			1 850 000	845 000	0	1 005 000	1 005 000
			3 513 156	2 149 335	845 000	1 141 955	3 675 536	2 841 400

Following the consolidation of shares (4 old shares for 1 new one) on May 25, 2011, four stock warrants, BSPCEs or stock options granted before that date are needed to subscribe for one new share. For warrants and options granted after that date, the ratio is one to one.

Starting from July 2014, the Company could no longer issue any new BSPCE plans, because it had exceeded the threshold of €150 million in market capitalization more than three years ago.

The BSAs granted on 18 November 2016 relate to the equity financing line set up with Kepler. At December 31, 2016, 845,000 warrants were exercised.

10.3 Share buybacks

The Combined General Meeting of May 27, 2015 authorized the Board of Directors, for a period of thirty-eight months from the date of the meeting, to implement a share buyback program, on one or more occasions, in accordance with Article L.225-209 et seq. of the French Commercial Code and the General Regulation of the AMF under the conditions described below:

Objectives of the share buyback program:

- To ensure the liquidity of the Company's shares under the terms of a liquidity contract to be concluded with an investment services provider in accordance with a Code of Conduct approved by the AMF;
- To meet obligations related to stock option plans, bonus share awards, employee savings plans, or other share awards to employees and executives of the Company or its related entities;
- To tender shares on exercise of the rights attached to securities giving access to the share capital;
- To purchase shares to hold for their subsequent exchange or use as consideration in potential acquisitions; or
- To cancel some or all of the shares thereby bought back.

Maximum purchase price: €30 per share excluding fees and commissions, with a total limit of €5,000,000.

Maximum number of shares that may be purchased: 10% of the total number of shares as of the share buyback date. When shares are purchased for market-making purposes and to ensure the liquidity of the Company's share, the number of shares included in the calculation of the 10% ceiling is equal to the number of shares purchased less the number resold during the term of the authorization.

It is specified that the number of shares acquired by the Company to be retained and subsequently

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delivered in payment or in an exchange for the purpose of any merger, de-merger, or capital contribution may not exceed 5% of its share capital.

Summary of shares purchased and sold over the year:

	2016				
	1st quarter	2nd quarter	3rd quarter	4th quarter	Total
Securities purchased	142 752	188 258	261 821	379 671	972 502
Price	3,22	2,10	2,52	3,23	
Total amount	459	395	659	1 227	2 739
Securities sold	143 227	193 864	264 678	383 415	985 184
Price	3,12	2,10	2,47	3,24	
Total amount	447	407	655	1 243	2 752

At December 31, 2016, the Company held 23,681 Mauna Kea Technologies shares purchased at an average price of €2.99 and valued at €3.02. No impairment was recorded in the financial statements.

Note 11: Borrowings and debt

11.1 Loans from BPI (formerly OSEO)

Conditional loans from public authorities were made subject to a contract with OSEO Innovation.

At December 31, 2016, the Company had entered into three loan contracts of this type, changes in which are summarized below. These advances are 100% repayable (at their nominal value) in the event of technical and/or commercial success.

The portion of loans repayable in more than one year is posted as "Long-term loans and borrowings" while the portion repayable in less than one year is posted as "short-term loans and borrowings".

First advance

On August 5, 2004, OSEO gave Mauna Kea Technologies an interest-free loan of €400 thousand to develop an industrial prototype of a multi-wavelength fiber confocal microscopy system for in vivo molecular imaging. This first advance was totally repaid as from December 31, 2013.

Second advance

On October 10, 2006, Mauna Kea Technologies obtained an interest-free innovation loan in the amount of €620 thousand from OSEO to develop a multimodal endoscopic device for medical diagnostics. Payments by OSEO were made in installments between the date the agreement was signed and the end of the project as follows:

- First payment of €300 thousand after the agreement was signed (on October 30, 2006);
- Second payment of €180 thousand on May 14, 2010;
- Last payment of €140 thousand on June 10, 2013.

Repayment of the innovation loan began once the project achieved technical and commercial success, as follows:

- September 30, 2012 €150 thousand;
- September 20, 2013 €170 thousand;
- No later than September 30, 2015 €300 thousand ;

As of December 31, 2015, this advance had been fully repaid.

Third advance

On May 31, 2010, Mauna Kea Technologies obtained an innovation loan in the amount of €3,416 thousand from OSEO as part of the PERSEE project. The PERSEE project aims to develop, validate

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and then market a device capable of improving diagnostic and preoperative assessment techniques for cancer patients. The first payments of the loan were as follows:

- First payment of €454 thousand on May 31, 2010;
- Second payment of €1,138 thousand on December 21, 2011;
- Third payment of €685 thousand on May 29, 2013 ;
- Fourth payment of €626 thousand on December 22, 2016.

The loan maturity was renegotiated in late 2016: the end of Key Stage 4 was put back to 2018. The agreement with OSEO stipulates one final payment of €512 thousand which should be made in 2018 once Key Stage 4 is reached.

This offsetting reimbursement resulted in a discounting effect (profit) on advances received in key stages 1 to 3 (see table of change below)

Based on the initial contract, the Company must repay OSEO a total of €3,996 thousand, including 2.45% interest, once total sales of €2,500 thousand is reached. This amount will be updated according to the amounts actually received.

Article 2.13 of the Framework agreement governing the PERSEE project (OSEO / BPI), provides for two types of advance repayments:

1 / Immediate reimbursement in case of judicial liquidation / cessation of activity / dissolution / liquidation amicable.

2 / A reimbursement by right and at the sole initiative of Oseo in case of:

- Failure by the Company to comply with any of its obligations (*) [..],
- Non-regular situation regarding its tax and social obligations,
- Any inaccurate or untrue declarations.

11.2 COFACE loans

The Company received interest-free repayable loans from COFACE for its development activities in the USA and Canada, as follows:

- First payment of €212 thousand on February 29, 2008;
- Second payment of €652 thousand on December 23, 2008;
- Third payment of €560 thousand on January 26, 2010;
- Fourth payment of €280 thousand on December 27, 2010.

Repayments are determined and made on the basis of sales projections in the USA and Canada from the use of products and services generated by the project up to the following limits:

- 14% of sales related to services provided;
- 7% of sales related to goods sold.

In the event that sales are inadequate for the expected repayments, no additional repayments are made to COFACE.

From 2011 to 2016, the Company made repayments to COFACE amounting in all to €986 thousand. In January 2016, on the basis of the most recent sales forecasts, the Company repaid €311 thousand of the €719 thousand outstanding from the loan granted for canvassing in the United States. The balance should be repaid no later than year-end 2017.

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**CHANGES IN REPAYABLE
ADVANCES**

(Amounts in thousands of euros)

	<u>31/12/2014</u>	<u>Receipt</u>	<u>Repayment</u>	<u>Others</u>	<u>12/31/2015</u>
OSEO Funding (1st advance)					
OSEO Funding (2nd advance)	300		(300)		
OSEO Funding (3rd advance)	2 224			(47)	2 177
COFACE	715			4	719
Total des avances remboursables	3 239		(300)	(43)	2 896

	<u>12/31/2015</u>	<u>Receipt</u>	<u>Repayment</u>	<u>Others</u>	<u>12/31/2016</u>
OSEO Funding (1st advance)					
OSEO Funding (2nd advance)					
OSEO Funding (3rd advance)	2 177	626		(169)	2 635
COFACE	719		(311)	(5)	403
Total des avances remboursables	2 896	626	(311)	(174)	3 038

11.3 Long-term loans and borrowings

Long-term loans and borrowings break down as follows:

**LONG-TERM LOANS
AND BORROWINGS**

(Amounts in thousands of
euros)

	<u>31/12/2014</u>	<u>Receipt</u>	<u>Repayment</u>	<u>Reclassification</u>	<u>Others</u>	<u>12/31/2015</u>
Shareholders' accounts	5					5
Repayable advances OSEO Funding	2 224				(47)	2 177
Repayable advances COFACE	377			(377)		
Total of long-term loans and borrowings	2 606			(377)	(47)	2 182

	<u>12/31/2015</u>	<u>Receipt</u>	<u>Repayment</u>	<u>Reclassification</u>	<u>Others</u>	<u>12/31/2016</u>
Shareholders' accounts	5					5
Repayable advances OSEO Funding	2 177	626			(169)	2 635
Repayable advances COFACE						
Total of long-term loans and borrowings	2 182	626			(169)	2 640

Changes listed under "Others" involve the discounting of long-term conditional loans.

11.4 Cash flow hedges

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In order to cover the exchange rate risk exposure of part of its foreign currency operating flows, the Group had set up a yen hedging policy in 2013. The group has no longer held any derivative financial instrument as from December 31, 2014.

11.5 Repayment terms of financial liabilities

The repayment terms of financial liabilities as of December 31, 2016 break down as follows:

REPAYMENT TERMS OF FINANCIAL LIABILITIES

(Amounts in thousands of euros)

	<u>Gross amount</u>	<u>Less than one year</u>	<u>One to three years</u>	<u>Three to five years</u>
Long-term loans and borrowings	2 640			2 640
Short-term loans and borrowings	404	404		
Trade payables	3 131	3 131		
Other current liabilities	2 382	2 382		
Total of financial liabilities	8 557	5 917		2 640

The repayment terms of long-term and short-term loans and borrowings relating to repayable loans are determined on the basis of planned repayment estimates at December 31, 2016.

Note 12: Non-current provisions

Non-current provisions break down as follows:

**NON-CURRENT
PROVISIONS**

(Amounts in thousands of euros)

	<u>31/12/2014</u>	<u>Dotations</u>	<u>Reprises non utilisées</u>	<u>Reprises utilisées</u>	<u>Autres</u>	<u>12/31/2015</u>
Pension plan provision	287	3	(34)		(117)	140
Provisions for personnel disputes	91					91
Provision for software update	15					15
Others provisions for expenses	125		(48)	(85)	8	
Total of non-current provisions	518	3	(82)	(85)	(109)	246

**NON-CURRENT
PROVISIONS**

(Amounts in thousands of euros)

	<u>12/31/2015</u>	<u>Allowance</u>	<u>Unused reversals</u>	<u>Used reversals</u>	<u>Others</u>	<u>12/31/2016</u>
Pension plan provision	140	61	(27)		(18)	155
Provisions for personnel disputes	91					91
Provision for software update	15					15
Others provisions for expenses						
Total of non-current provisions	246	61	(27)		(18)	261

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Changes listed under "Others" related to actuarial differences in the valuation of pension obligations of €(18) thousand in 2016 versus €(117) thousand in 2015.

12.1 Commitments related to lump-sum compensation paid upon retirement

For estimated retirement commitments, the following assumptions were used for all categories of employees (employees, ETAM [Employees, Technicians, and Supervisors], and managers):

PENSION PLAN PROVISION

	<u>12/31/2016</u>	<u>12/31/2015</u>
% social security expenses	48%	48%
Salary increases	2%	2%
Discount rate	1,71%	2,43%

- Retirement age: 65;
- Terms of retirement: voluntary retirement;
- Mortality table: INSEE 2015 in 2016 and INSEE 2015 in 2015;
- Collective agreement: metal industries;
- Digressive employee turnover based on age;
- Turnover: high.

The Company does not finance its pension plan provision. No retirements took place over the last two fiscal years.

The discount rate comes from iBoxx Corporate AA10+ references adjusted for the term of the Company's plan estimated at 23 years.

12.2 Provision for labor disputes

As of December 31, 2016, no new labor dispute was reported. The provision in the balance sheet for €91 thousand concerns disputes which arose in 2014. There was no change in the assessment of these provisions during the course of the 2016 fiscal year.

12.3 Other provisions for risks and liabilities

Provisions for updating software packages were recognized to cover the costs of updating Cellvizio products from version 1.0 to version 1.5.

The provision for electronic equipment waste is no longer relevant and was reversed in full. The Company subcontracts directly with a service provider for the recycling of electronic equipment waste.

Note 13: Trade payables and other current liabilities

No discounts were made on trade payables and other current liabilities because they matured within one year at the end of each fiscal year in question.

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13.1 Trade payables

Trade payables break down as follows:

TRADE PAYABLES
(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Trade payables	3 131	2 453

13.2 Other current liabilities

Other current liabilities break down as follows:

OTHER CURRENT LIABILITIES
(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Taxes payable	93	80
Staff and social security payable	1 559	2 122
Other payable	47	45
Deferred revenue	683	564
Total of other current liabilities	<u>2 382</u>	<u>2 812</u>

The tax liabilities mainly concern payroll taxes, sales tax and value added tax.

Payroll-related liabilities represent provisions for paid leave, provisions for bonuses and commissions and social security contributions.

A decrease of €563 thousand, due to employee departures in France and the United States, which were not replaced due to the Company's new distribution strategy.

Deferred income essentially comprises maintenance contracts on systems sold (maintenance periods of one to three years), as well as a one-year warranty on Cellvizio.

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Note 14: Financial instruments on balance sheet

FINANCIAL INSTRUMENTS ON BALANCE SHEET AND THEIR IMPACT ON THE PROFIT (OR LOSS)

(Amounts in thousands of euros)

As of 31 December 2015	Value on the balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortised cost
Assets					
Non-current financial assets	133			133	
Trade receivables	3 458			3 458	
Other current assets (2)	1 585			1 585	
Current financial assets (1)	65			65	
Cash equivalents	637	637			
Cash	9 983	9 983			
Total of assets	15 861	10 620		5 241	
Liabilities					
Long-term loans and borrowings	2 182				2 182
Short-term loans and borrowings	719				719
Trade payables	2 453				2 453
Other current liabilities (2)	2 253				2 253
Total of liabilities	7 608				7 608

FINANCIAL INSTRUMENTS ON BALANCE SHEET AND THEIR IMPACT ON THE PROFIT (OR LOSS)

(Amounts in thousands of euros)

As of 31 December 2016	Value on the balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortised cost
Assets					
Non-current financial assets	162			162	
Trade receivables	2 116			2 116	
Other current assets (2)	2 407			2 407	
Current financial assets (1)	94			94	
Cash equivalents	0	0			
Cash	9 053	9 053			
Total of assets	13 832	9 053		4 779	
Liabilities					
Long-term loans and borrowings	2 640				2 640
Short-term loans and borrowings	404				404
Trade payables	3 131				3 131
Other current liabilities (2)	1 699				1 699
Total of liabilities	7 874				7 874

(1) The assessment of the fair value of these financial assets on profit refers to an active market (Level 1 category according to IFRS 7).

(2) Advances paid and received that are not repaid in cash, and deferred income and prepaid expenses that are not defined as financial liabilities, are not included.

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Note 15: Sales and operating revenue

Sales and operating revenue consist of the following:

SALES AND OPERATING REVENUE

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Sales	8 787	8 547
Subsidies		145
Research Tax Credit and other tax credits	864	1 265
Autres produits	19	24
Total of revenue	9 670	9 981

The Group's sales comprise sales of Cellvizio® products and accessories (e.g. probes, software) together with services.

The competitiveness and employment tax credit is accounted under Research tax credit and other tax credits.

SALES BY TYPE

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Total sales of "equipements"	4 217	5 190
Total sales of "consumables" (probes)	2 941	2 473
Total sales of "services"	1 629	884
Total sales by type	8 787	8 547

Sales by region as of December 31, 2016 can be broken down as follows:

SALES BY GEOGRAPHICAL AREA

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
EMEA (Europe, Middle-east, Africa)	2 124	2 453
<i>including France</i>	<i>464</i>	<i>974</i>
America	3 811	3 603
<i>including USA</i>	<i>3 621</i>	<i>3 230</i>
Asia	2 852	2 491
<i>including China</i>	<i>962</i>	<i>189</i>
<i>including Japan</i>	<i>1 014</i>	<i>1 182</i>
Total sales by geographical area	8 787	8 547

For the purposes of geographical analysis, the management of the Group allocates the sales revenue according to the place of delivery, or, in the case of services, according to the location of the customer's registered office.

At December 31, 2016 one distributor (APAC area) accounted for more than 10.38% of sales.

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Note 16: Staff costs

The Group employed 76 persons as of December 31, 2016 compared with 91 persons as of December 31, 2015.

Employee benefits expense breaks down as follows:

EMPLOYEE BENEFITS EXPENSE

(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Wages and salaries, social security costs	8 744	11 515
Net pension costs	34	(30)
Share-based payment transaction expenses	135	450
Total of employee benefits expense	<u>8 913</u>	<u>11 935</u>

Note 17: Share-based payments

Share-based payments concern all stock warrants, stock options and preference shares awarded to employees or service providers.

They are recorded under expenses from the year in which they are awarded, the exercise conditions of BSPCEs and stock options being as follows:

- 25% of the BSPCEs/stock options may be exercised starting on the first anniversary of their allocation;
- 25% of the BSPCEs/stock options may be exercised starting on the second anniversary of their allocation;
- 25% of the BSPCEs/stock options may be exercised starting on the third anniversary of their allocation;
- the remaining balance, i.e., 25% of the BSPCEs/stock options, may be exercised starting on the fourth anniversary of their award;
- within ten years of their issue, or seven years for stock options granted before 2011, it being specified that BSPCEs/stock options not yet exercised by the end of this 10-year period automatically become null and void.

The terms and conditions governing the exercise of stock warrants awarded in 2011 and 2014 are as follows:

- 33.3% of the warrants may be exercised starting on the first anniversary of their award;
- 33.3% of the warrants may be exercised starting on the second anniversary of their award;
- the remaining balance, i.e., 33.3% of the warrants, may be exercised starting on the third anniversary of their award;
- warrants not yet exercised, within 10 years of their issue, automatically become null and void.

The terms for exercising preference shares are set out in the minutes of the Combined General Meeting of May 4, 2016 in Resolutions 19 and 20 which can be accessed via the following link: http://www.maunakeatech.com/sites/default/files/investors/documentation/eui_1200483797_1_mkt_-_pv_agm_4_mai_2016.pdf.

The main characteristics and terms are as follows:

The Preferred shares permanently vested in their beneficiaries on the Acquisition Date will be convertible into ordinary new or existing shares at the choice of the Company (the "Ordinary Shares") at any time as from the third anniversary of the Acquisition Date (the "Retention Period") according to the following terms:

- a. In the event of Departure between the Acquisition Date (inclusive) and the first anniversary of the Acquisition Date (exclusive), each Preferred share will be convertible into twenty Ordinary Shares

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- b. In the event of Departure between the first anniversary of the Acquisition Date (inclusive) and the second anniversary of the Acquisition Date (exclusive), each Preferred share will be convertible into thirty-three Ordinary Shares
- c. In the event of Departure between the second anniversary (inclusive) and the third anniversary (exclusive) of the Acquisition Date, the conversion ratio will be calculated as follows:
- (i) if the Reference Price 1 is strictly lower than the Floor Price, each Preferred share will be convertible into thirty-three Ordinary Shares;
 - (ii) if the Reference Price 1 is strictly higher than the Intermediate Price, each Preferred share will be convertible into sixty-six Ordinary Shares;
 - (iii) if the Reference Price 1 is between the Floor Price (inclusive) the Intermediate Price (inclusive), the number of Ordinary shares to which each Preferred share gives the right will be equal to;

$$33 + 33 \times [(Reference\ Price\ 1 / Floor\ Price) - 1]$$

Where:

- the term “Acquisition Price” means the average closing price recorded on Euronext or any other place of primary listing of Mauna Kea Technologies shares during the last 60 trading days preceding the Acquisition Date;
 - the term “Floor Price” means the Acquisition Price increased by 2 euros;
 - the term “Intermediate Price” means double the Floor Price; and
 - the term “Reference Price 1” means the average closing price recorded on Euronext or any other place of primary listing of Mauna Kea Technologies shares during the last 120 trading days preceding the second anniversary of the Acquisition Date;
- d. In the event of Departure following the expiry of the Retention Period, the number of Ordinary Shares to which each Preferred share gives right will be equal to the sum:
- (x) of the number of Ordinary Shares calculated in accordance with the provisions of paragraph 3.c) above as if the Departure of the beneficiary had occurred between the second and the third anniversary of the Acquisition Date, and;
- (y) of the following number of Ordinary Shares:
- (i) if the Reference Price 2 is strictly lower than the Floor Price: none;
 - (ii) if the Reference Price 2 is strictly higher than the Ceiling Price: the difference between one hundred Ordinary Shares and the number of Ordinary Shares calculated in (x) (so that the sum of (x) and (y) is equal to 100);
 - (iii) if the Reference Price 2 is between the Floor Price (inclusive) and the Ceiling Price (inclusive): the difference, if this is positive, between:
 - $33 + 67 \times [(Reference\ Price\ 2 / Floor\ Price) - 1] / 2$;
 - the number of Ordinary Shares calculated in (x).

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Where:

- the term “Floor Price” has the meaning given to it in 3.c). above;
- the term “Ceiling Price” means three times the Floor Price; and
- the term “Reference Price 2” means the average closing price recorded on Euronext or any other place of primary listing of Mauna Kea Technologies shares during the last 120 trading days preceding the third anniversary of the Acquisition Date.

Is stipulated that this ratio will be adjusted to take account of shares to be issued to conserve the rights of holders of securities giving access to the Company’s capital and beneficiaries of Preferred shares, in accordance with applicable legal and regulatory provisions.

The Preferred shares may only be converted during a period of five years and six months from the date of the end of the Retention Period the “Conversion Period”).

They break down as follows:

SHARE-BASED PAYMENTS

Type	Date of granting	Exercise price	Maturity	Number of shares	Cancelled	Exercised	Oustanding bond at 12/31/2016	Vestable bond at 12/31/2016	Exercisable bond at 31/12/2016
BSPCE 5	03/10/06	0,916	03/10/16	310 950	17 500	178 450	115 000	28 750	28 750
BSPCE 5	08/10/06	0,916	08/10/16	100 000	40 000	45 000	35 000	3 750	3 750
BSPCE 5	09/13/06	0,916	09/13/16	20 000	10 000	0	10 000	2 500	2 500
BSPCE 5	10/09/06	0,916	10/09/16	25 000	0	0	25 000	6 250	6 250
SO 2008	06/02/08	1	06/02/18	670 000	270 000	188 592	211 408	52 852	52 852
BCE-A	08/04/08	1	08/04/18	500 000	0	4	499 996	124 999	124 999
BSPCE 6	08/04/08	1	08/04/18	1 225 000	590 008	382 492	272 500	63 125	63 125
BSPCE 6	12/08/08	1	12/08/18	35 000	10 000	0	35 000	6 250	6 250
BSPCE 6	11/24/09	1	11/24/19	637 500	323 756	192 492	171 252	30 313	30 313
SO 2008	03/01/10	1	03/01/17	250 000	100 000	10 000	140 000	35 000	35 000
SO 2010	01/31/11	1	01/31/21	245 000	173 750	56 250	100 000	3 750	3 750
BSPCE 2010	02/15/11	1	02/15/21	915 000	268 748	278 252	458 000	92 000	92 000
SO 2010	02/15/11	1	02/15/21	50 000	50 000	0	0	0	0
BSPCE 2010	03/01/11	1	03/01/21	200 000	0	150 000	50 000	12 500	12 500
BSA	07/05/11	13	07/05/21	80 000	0	0	80 000	80 000	80 000
BSPCE 2011	12/05/11	13	12/05/21	129 500	117 000	0	50 000	12 500	12 500
SO 2011	12/05/11	11,44	12/05/21	288 153	288 153	0	20 000	0	0
BSPCE 2012	12/04/12	10,79	12/04/22	239 500	154 625	625	163 000	84 250	84 250
SO 2012	12/04/12	10,79	12/04/22	161 000	143 000	0	22 000	18 000	18 000
BSPCE 2013	05/07/13	10,28	05/07/23	63 000	27 000	0	45 000	36 000	27 000
SO 2013	12/09/13	10,05	12/09/23	101 000	101 000	0	81 000	0	0
SO 2014	02/12/14	10,56	02/12/24	10 000	8 000	0	8 000	2 000	1 000
BSPCE 2014	02/12/14	10,56	02/12/24	181 000	87 000	0	146 000	94 000	47 000
BSPCE 2014	02/12/14	10,56	02/12/24	100 000	0	0	100 000	100 000	50 000
BSA 2014	09/01/14	6,12	09/01/24	100 000	0	0	100 000	100 000	50 000
SO 2015	09/08/15	2,94	09/08/25	57 500	10 000	0	47 500	47 500	11 875
SO 02.2016	02/02/16	2,54	02/02/26	96 000	15 000	0	81 000	81 000	0
SO 07.2016	07/26/16	1,6	07/26/26	80 000	0	0	80 000	80 000	0
BSA 07.2016	07/26/16	1,68	07/26/26	115 000	0	0	115 000	115 000	0
PS 07.2016	07/26/16	*	NA	7 765	205	0	7 560	7 560	0
PS 11.2016	11/15/16	*	NA	570	0	0	570	570	0
				6 993 438	2 804 745	1 558 157	2 706 536	1 320 419	843 664

The other main assumptions used to determine share-based payment expenses using the Black-Scholes options valuation model were as follows:

- Risk-free interest rate: rate of government borrowing (GFRN index);
- Dividend: none;
- Turnover: 15%;
- Volatility: 60% for BSAs, BSPCEs and stock options granted before December 31, 2011, 35% for BSPCEs and stock options granted in 2012, 34% for BSPCEs and stock options granted in 2013, 32% and 33% for plans granted in 2014, and 33% for plans granted in 2015.

As of 2012, the volatility applied corresponds to the average historic volatility of a basket of stocks of listed companies in the sector of industry in which the Company operates and/or has a market capitalization and traded share volume comparable with those of the Company. Listed companies whose shares were traded for less than €1 were excluded from the panel.

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The exercise price, estimated lifespan and fair value of underlying shares at the award date of the warrants were used to value each category of share-based compensation.

Share-based payment expenses during the period break down as follows:

**DETAILS OF THE RESTATEMENT OF
SHARE-BASED PAYMENTS**

(Amounts in thousands of euros)

	Au 31 décembre	
	2016	2015
Share-based payments (share activated)	0	0
Share-based payments (expense)	285	450
	285	450

Note 18: External expenses

18.1 Research & Development Department

RESEARCH & DEVELOPMENT

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Purchases consumed	169	26
Employee benefits expenses	2 415	2 692
External expenses	1 142	1 294
Impôts et taxes	44	
Net change in amortisation and depreciation	675	636
Total of Research & Development	4 445	4 648

18.2 Sales & Marketing Department

SALES & MARKETING

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Purchases consumed	84	91
Employee benefits expenses	4 642	6 496
External expenses	2 948	4 702
Net change in amortization and depreciation	692	375
Total of Sales & Marketing	8 366	11 665

This decrease reflects the Company's partnership strategy as well as workforce adjustments associated with a targeted reduction in direct sales and marketing costs.

18.3 Administrative Expenses

ADMINISTRATIVE EXPENSES

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Purchases consumed	45	58
Employee benefits expenses	1 208	1 826
External expenses	2 353	1 522
Taxes	84	75
Net change in amortisation and depreciation	154	161
Total of Administrative expenses	3 843	3 642

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Note 19: Financial income and expenses

Financial income and expenses break down as follows:

FINANCIAL REVENUE AND EXPENSES

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Foreign exchange gains	227	327
Gains on cash equivalents	11	13
Other financial incomes	174	43
Total of financial revenue	412	383
Foreign exchange losses	(166)	(288)
Losses on cash equivalents	0	(11)
Discounting expenses	0	(0)
Total of financial expenses	(166)	(299)
Total of financial revenue and expenses	246	83

Note 20: Income tax

Under current tax laws, the Group has total tax losses of €67,930 thousand that may be carried forward indefinitely in France and total tax losses of €36,482 thousand that may be carried forward for 20 years in the United States, that is, a total of €104,412 thousand at December 31, 2016. Out of caution the deferred tax asset base net of temporary passive differences was not capitalized in accordance with the principles set out in Note 1 "Accounting principles".

The tax rate applicable to the Company is the rate in effect in France (33.33%). By convention, the deferred income tax rate used is 34.43%.

TAX RECONCILIATION

(Amounts in thousands of euros)

	12/31/2016	12/31/2015
Profit / (loss)	(9 744)	(12 643)
Income tax expense		
Profit before tax	(9 744)	(12 643)
Theoretical tax expense - 34,43%	(3 355)	(4 353)
Other non-deductible expenses and tax-exempt income	34	62
Effect of tax rate differences	(13)	(26)
Deferred tax assets not recognised	3 334	4 317
Actual income tax expense		

Note 21: Commitments

Obligations pursuant to ordinary rental agreements

The Group uses the following premises:

- registered office in Paris: located at 9, rue d'Enghien (75010) on 6 floors of the building, the surface area of which is approximately 1,133 sq. meters (including the basement). The Company has six separate leases contracted with SCI Enghien 9, which is the owner thereof.
- premises in the United States: commercial lease between Capkey Gates at Sugarloaf Partners LLC and Mauna Kea Technologies Inc. signed on January 15, 2013 and renewed until February 28, 2017 for the rental of the offices located at 1325 Satellite Boulevard, Unit 108, Suwanee, GA, 30024, United States, terminated at end-2016.

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A new lease was signed on 12/16/2016 with Geros LLC for the rental of offices at 29 DENBY RD, ALLSTON, MA 02134. This lease takes effect on January 1, 2017 for a term of three years.

In addition, the Company has entered into leases on vehicles and office equipment.

Firm and unconditional commitments under operating leases break down as follows at December 31, 2016:

**OBLIGATIONS PURSUANT TO
ORDINARY RENTAL AGREEMENTS**

(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Portion with terms of less than 1 year	352	257
Portion with terms of between 1 and 5 years	976	862
Portion with terms of more than 5 years	341	208
Total of commitments pursuant to ordinary rental agreements	<u>1 669</u>	<u>1 328</u>

Commitments under other contracts

The Company subcontracts the manufacturing of some of the sub-assemblies necessary for the manufacturing of its products with suppliers. In order to secure these operations, it has made commitments to purchase a certain quantity of sub-assemblies from those suppliers as described in the table below:

**OBLIGATIONS PURSUANT TO
OTHER AGREEMENTS**

(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Portion with terms of less than 1 year	1 760	1 832
Portion with terms of between 1 and 5 years	1 248	1 977
Total of supplier commitments	<u>3 008</u>	<u>3 809</u>

The Company undertook to make donations to the Fondation San T Dige for a total amount of €20 thousand in yearly payments of €5 thousand from 2014 to 2017. At December 31, 2016, a provision of €5 thousand was recorded. This foundation has as its mission the development of research in the area of hepato-gastroenterology.

There were no material changes to the Company's other commitments over the year.

Note 22: Transactions with related parties

The compensation presented below, which was granted to members of the Company's general management and other related parties, was recognized under expenses during the periods presented:

RELATED PARTY TRANSACTIONS

(Amounts in thousands of euros)

	<u>12/31/2016</u>	<u>12/31/2015</u>
Wages and salaries - General direction	244	219
Share-based payments - General direction	70	

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Note 23: Earnings per share

Basic earnings per share

Basic earnings per share are calculated by dividing the net earnings to which Company shareholders are entitled by the weighted average number of ordinary and preference shares outstanding during the fiscal year.

EARNINGS PER SHARE

	<u>12/31/2016</u>	<u>12/31/2015</u>
Profit / (loss) (in K€)	(9 744)	(12 643)
Weighted average number of shares outstanding (in thousands)	17 587	15 031
Earnings per share (in €)	(0,55)	(0,84)
Weighted average number of potential shares (in thousands)	19 057	16 814

Note 24: Management of financial risk

The main financial instruments used by the Group are financial assets, cash, and investment securities. The purpose of managing these instruments is to finance the Company's business activity. It is the Group's policy not to subscribe to financial instruments for speculative purposes. In 2013, the Company acquired for the first time a derivative financial instrument for hedging future cash flow, which expired in 2014.

Since December 31, 2014, the Company has no longer derivatives.

The primary risks to which the Group is exposed are interest rate risk and credit risk.

Exchange rate risk

The main currencies for which the Group is exposed to a significant exchange rate risk are the US dollar and the yen.

The purpose of the Mauna Kea Technologies Inc. subsidiary established in the State of Massachusetts is to distribute and market the Group's products in the United States. To this end, it is fully financed by the parent company, with which it has established three agreements:

- A cash management agreement for a current account in USD;
- A distribution agreement;
- A service agreement (Management fees).

The Group's major exchange rate risk is linked to the EUR/USD parity fluctuation. In fact, the Group markets the product and services in the United States through its subsidiary Mauna Kea Technologies Inc. Its revenues and expenses - including the purchases of Cellvizio and probes to Mauna Kea Technologies SA - are expressed in US dollars the operational currency of the subsidiary. As a result, the Group is exposed to changes in the EUR/USD exchange rate through that subsidiary.

A change in exchange rates has an impact on Group earnings and shareholders' equity in the same manner, as follows:

- A +10% change in the EUR/USD exchange rate would result in a rise in earnings of €267 thousand at December 31, 2016;
- A -10% change in the EUR/USD exchange rate would result in a drop in earnings of €(326) thousand at December 31, 2016.

In 2013, the Company entered into a yen forward contract to reduce its exposure to exchange rate risk on future purchases. It expired in 2014. There are no other contracts on this risk.

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Liquidity risk

See Note 1.9: Cash and cash equivalents

Interest Rate Risk

The Company's exposure to interest rate risk primarily involves cash equivalents and investment securities. These are comprised of money market funds and term deposit accounts. Changes in interest rates have a direct impact on the rate of return for these investments and the cash flows generated.

At December 31, 2016, the Company's debt was not subject to interest rate risk because it primarily involved interest-free repayable loans for a total nondiscounted amount of €3,038 thousand as described in Note 11 "Borrowings and debt".

To date, the Company has secured a non-dilutive, €7.0 million senior debt financing with IPF Partners, a leading provider of alternative financing solutions for emerging, commercial-stage European healthcare companies.

This debt financing is comprised of two bond tranches of bonds: the first tranche of €4.0 million issued to date; the second for the remaining €3.0 million available in the next 12 months, subject to preset closing conditions.

This financing consists of 7,000,000 secured bonds with a total value of €7 million. The interest on the bonds will bear interest at an annual rate equal to the 3-month EURIBOR +8.5%. The term of the first portion is set at five years (of which eighteen months without repayment of capital) and the second at four years (of which twelve months without repayment of capital).

Credit Risk

In the Company's experience, the payment of certain public financing of research expenditures is subject to credit risk.

The Company manages its available cash in a prudent manner. Cash and cash equivalents include cash on hand only.

Credit risk related to cash, cash equivalents, and current financial instruments is insignificant in light of the quality of the co-contracting financial institutions.

With regard to its customers, the Company has no significant concentration of credit risk. The Group has established policies that insure that its customers have an appropriate credit risk history.

Fair value

The fair value of financial instruments traded on an active market is based on the market price at the balance sheet date. The market prices used for financial assets held by the Company are the purchase prices in effect on the market at the valuation date.

The nominal value, minus provisions for impairment, of other payables and receivables is assumed to approach the fair value of those items.

Note 25: Subsequent events

On February 9, 2017, the Company has secured a non-dilutive, €7.0 million senior debt financing with IPF Partners, a leading provider of alternative financing solutions for emerging, commercial-stage European healthcare companies.

This debt financing is comprised of two tranches of bonds: the first tranche of €4.0 million issued to date, the second for the remaining €3.0 million available in the next 12 months, subject to preset closing conditions. The terms of the obligations contain certain financial commitments.

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This financing consists of 7,000,000 secured bonds with a total value of €7.0 million. The interest on the bonds will bear interest at an annual rate equal to the 3-month EURIBOR +8.5%. The first tranche of bonds has a 5-year maturity, with interest-only payments for the first 18 months, and the second tranche of bonds has a 4-year maturity, with interest-only payments for 12 months. The terms of the bonds contain certain financial covenants.