A Public Limited Company (*Société anonyme*) with capital of €1,222,869.60
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Management Report on the Consolidated Financial Statements - 2019

1. FOREWORD

At its meeting on April 27, 2020 the Board of Directors reviewed the consolidated financial statements for the financial year ended December 31, 2019 and approved said financial statements. These consolidated financial statements were produced using the IFRS guidelines.

2. FINANCIAL POSITION OF THE GROUP DURING THE PAST FINANCIAL YEAR

2.1 Report on significant activity and events during the 2019 financial year

Mauna Kea Technologies is a medical device design and sales company whose mission is to eliminate uncertainties in diagnosis and treatment and to improve patient care for a number of clinical indications. In becoming a global player in real-time cellular diagnostics, the Company's prime objectives are to constantly improve the quality of care provided to patients and efficiency of healthcare professionals and systems. The Company's flagship product, Cellvizio, has received marketauthorizations for a wide range of applications in more than 40 countries, including the United States, Europe, Japan and China.

As of December 31, 2019, the Mauna Kea Technologies Group is made up of a multidisciplinary team of 101 employees, has an installed base of almost 670 systems in over 40 countries and has achieved around €91 million in sales since its founding, including €7.4 million in the 2019 financial year.

The going concern assumption was adopted by the Board of Directors taking into account the following elements:

- Cash available at December 31, 2019 stood at €10 million;
- The drawdown of the second tranche of €6 million provided for under the contract signed with the EIB in 2019, following the amendmentby the EIB of the sales covenants associated with that drawdown;
- The payment on April 20 of a U.S. paycheck protection loan (PPP) of approximately €0.6 million to MKT Inc.;
- The granting of a repayable advance and a grant for PERSEE project of €0.5 million in 2020;
- The receipt of the balance of the research tax credit for 2019 and the pre-financing of the research tax credit for 2020 for an amount of €0.8 million;
- Sales outlook taking into account the impact of the Covid-19 crisis.

Highlights of the financial year.

Obtained the first FDA authorization for the use of Cellvizio enabling the targeting and imaging of peripheral pulmonary nodules
In February 2019, the Group obtained a new FDA 510(k) authorization in the United States for the use of the AQ-Flex 19 confocal miniprobe through the use of transbronchial needles with existing bronchoscopes and bronchoscopic accessories. This is the 16th 510(k) authorization received from the U.S. FDA for the Cellvizio® platform.

Clinical results and conferences: the medical value of optical biopsy

Gastroenterology

May 2019
Held 17 presentations supporting Cellvizio® during the Digestive Disease Week® (DDW) Conference in San Diego in the United States. These presentations address Barrett's esophagus, inflammatory bowel disease

(IBD), food allergies, pancreatic cysts and other gastrointestinal diseases. The studies focused on the potential impact from the use of Cellvizio® in patient treatment and improvement of results.

June 2019
Reimbursement coverage of confocal laser endomicroscopy in France for Barrett's esophagus, through the creation of a new specific procedural code to be added to the Common Classification of Medical Procedures (CCAM). The French National Association of Health Insurance Funds (UNCAM) created the following procedure, in sub-paragraph "07.01.09.01 - Endoscopy of the salivary glands and digestive tract" of Book II of the Social Security Code: "Esophageal endoscopy with biopsy guided by confocal laser endomicroscopy - Pre-therapeutic esophageal mapping with biopsy guided by confocal laser endomicroscopy". Decision on April 18, 2019 of the French National Association of Health Insurance Funds related to the list of procedures and services covered by health insurance, published in the Official Journal of the French Republic. Accessible on https://www.legifrance.gouv.fr.

October 2019
Mauna Kea Technologies announces positive findings on needle-based endomicroscopy in the diagnosis and management of pancreatic cystic lesions. Three recent clinical publications have shown that Cellvizio®'s AQ-Flex™ 19 significantly improves the accuracy of diagnosis compared with the standard methods, with a positive impact on the treatment of patients suffering from pancreatic cystic lesions.

Pneumonology

February 2019
Publication of a new FDA 510(k) authorization in the United States for the use of the AQ-FlexTM 19 confocal miniprobe through trans-bronchial needles with existing bronchoscopes and bronchoscopy accessories. This is the 16th 510(k) authorization received from the U.S. FDA for the Cellvizio® platform.

May 2019
Publication of a prospective study (ClinicalTrials.gov Identifier: NCT02689050) demonstrating Cellvizio's potential as a diagnostic and evaluation aid in lung cancers. The results of a clinical study published in the European Respiratory Journal demonstrated that lung cancer characteristics may be recognized with precision using Cellvizio®'s AQ-Flex™ 19 confocal miniprobe through thin needles.

November 2019
Mauna Kea Technologies joined a Dutch consortium of molecular imaging which was awarded a grant of €5.4 million. The purpose of the MEDPHOT consortium is to develop an optical molecular imaging solution for pulmonary diseases.

Financing

Financial debt was restructured during the financial year:

- The IPF Partners financing, issued in February 2017 and again in May 2019 totaling €9 million, was fully repaid on June 28, 2019 for €10.7 million including early repayment fees.
- Financing of €22.5 million was contracted on June 20, 2019 with the European Investment Bank (EIB). The first tranche of this financing, for €11.5 million, repayable in full after 5 years, was received on July 3, 2019. This loan, together with 1,450,000 warrants (BSA) repayable in shares or cash, is intended to finance 50% of future research expenses.

A €7.5 million capital increase reserved for Johnson & Johnson Innovation Inc. through the issue of 5,357,142 new ordinary shares for a unit subscription price of €1.40, raises this company's stake in Mauna Kea Technologies to 17.5% at the end of 2019.
This capital increase is intended to finance current operations, in particular in the fields of clinical studies, development activities, and sales and marketing efforts in the United States.

Furthermore, Research Tax Credit receivables in respect of the 2017 and 2018 and part of the 2019 financial years were assigned in May and October 2019 for €2 million and €0.5 million respectively.

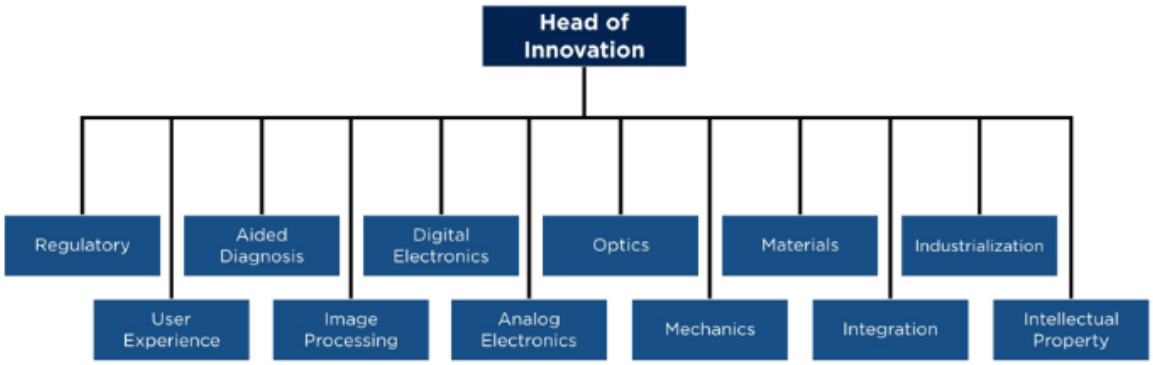
2.2 Research and development, innovation and new products

Research and Development

At the end of December 2019, the Research and Development team had 29 employees (doctors, engineers or technicians) covering the fields of expertise necessary for the development of the Group's products and technologies, namely:

- optics and optotronics;
- mathematics applied to image processing;
- digital and analog electronics;
- software development;
- micro-mechanical engineering, materials and processes for precision assembly.

The R&D team shares biological and medical knowledge regarding applications and product use with the specialists of the Clinical Affairs team and the Product Managers.



Upstream R&D

The Company is organized to draw on the necessary resources to directly inspire technological innovations that will enable it to expand in its market, and win new markets, by exploring solutions likely to encourage the development of innovative solutions to improve the care given to patients.
The Innovation Department provides ongoing scientific and technological oversight. Its objective is to identify and validate the ability of the technologies or components to remain at the leading edge of technology while limiting any risk of obsolescence relative to key components by identifying technical alternatives upstream.

The upstream studies arising from this monitoring are conducted by R&D department teams, either internally or through external collaborative efforts. They may constitute the preliminary phase of feasibility assessment that helps to decide whether to begin a product development project.

On the clinical level, the Company collaborates with various hospitals to assess the potential relevance and usability of the Cellvizio technology in new indications.

The upstream studies carried out in collaboration with academic laboratories are often co-funded to optimize the costs of research through grants or doctoral thesis scholarships.

Molecular imaging provides insight into molecular and cellular processes in the body, and has the potential to transform healthcare by offering earlier detection and enabling more precise treatment of diseases. For

over a decade, the Netherlands has been striving to be a leader in unifying, advancing and optimizing molecular imaging, with an ultimate goal of improving human health. In a continuing effort to promote molecular imaging, the international Photonics Translational Research - Medical Photonics (MEDPHOT) consortium, led by professor of Biophotonics Johannes de Boer of Vrije Universiteit Amsterdam has been awarded a 5.4 million euro grant from the NWO for the program "Light for a better view on diseases." This consortium will include four Dutch Universities (VU Amsterdam, UvA, UU, TU Delft) well-recognized and established in the field of molecular imaging and the Dutch Applied Natural Science Research Organization, three academic Dutch hospitals (Amsterdam UMC, UMC Groningen, Leiden UMC) and several international companies including Mauna Kea Technologies. The objective of this 5-year research program is to develop and validate new optical biomarkers that will enable earlier diagnosis, improved treatment and better quality of life. A total of 75 scientists will be working on this research program focusing on technological innovations and clinical assessment, involving a total budget of 18 million euros. Through to this program, we will assess new molecular imaging markers with probe and needle-based Confocal Laser Endomicroscopy that may allow physicians to make decisions with greater insight, precision and confidence, bringing healthcare one step closer to personalized care, in pulmonary diseases." said J. T. Annema, M.D. Ph.D., professor of Pulmonary Endoscopy, Amsterdam University Medical Center.

R&D applied to improving current products and optimizing their production (product support)

The mission of the Research and Development teams is to encourage the development of existing solutions in a continual improvement approach, while listening to internal and external clients, and carrying out the following:

- to ensure and improve product manufacturing as part of a "lean" approach. To this end, monthly meetings between the R&D department, the production team and the support team are organized;

- to develop new functions or improve the performance of existing products. The improvements are implemented after analysis of the improvement needs expressed by clients and the heads of product marketing and their technical feasibility by the R&D teams.

A particular effort is being made relative to the approval of new methods for disinfecting or sterilizing Confocal Miniprobes so that they can be used in accordance with current hygiene regulations in healthcare facilities in the different countries in which they are marketed.

Technical product development

Within this mission, the Research and Development teams are working with product managers and clinical affairs managers to develop new products as part of the company's project management.

Current major projects include the new generation Cellvizio: this program which is in the process of being finalized is aimed at overhauling Mauna Kea Technologies's offering. The new Cellvizio platform incorporates innovative modular design solutions to facilitate and better incorporate endomicroscopy in operating theaters as well as in the platforms of other manufacturers. The hardware and software for the new platform has been completely redesigned to make it future-proof in particular to allow the integration of artificial intelligence functionalities (deep learning) to assist in the interpretation of endomicroscopic images. The new ergonomy and considerably reduced size of the new Cellvizio allows it to be easily integrated in advanced navigation, robot-assisted and laparoscopic surgery systems. This new system is also capable of integrating other proprietary endomicroscopic architectures, enabling imaging on other wavelengths intended for fluorescence image-guided surgery and molecular imaging.
With a redesigned user interface, Cellvizio offers smart navigation with greater efficiency and improved ergonomy. The brand new touch screen and one-handed connection to the probe make it easy to install and use. Developed to bring precision imaging to a greater number of patients with 9 dedicated Confocal Miniprobes™, the new Cellvizio offers high quality imaging capability and provides clinicians with a highly effective imaging solution for endoscopies, minimally invasive procedures and surgeries.

Development is also an opportunity for the R&D Division to rethink the solutions offered by the Company to continue to reduce manufacturing costs while improving durability. This is cross-functional work that relates as much to the system (capital equipment) as the miniprobes themselves (the consumables).

2.3 Clinical Research Activity

Endomicroscopy was the subject of 73 clinical publications in 2019 versus 88 in 2018 and 129 in 2017, reflecting the growing interest in optical biopsy on the part of physicians.
In the period between 2007 and 2019 over 1,000 publications were published, all indications combined.

In 2019, many scientific articles confirmed with a high degree of evidence the benefits of endomicroscopy in a broad spectrum of indications such as recognizing the different types of pancreatic cysts, detecting the early stages of gastric cancer and short-term prognosis for chronic inflammatory bowel disease. Feasibility tests published in peer-reviewed journals have also confirmed that the prospect of using the technology in vivo during surgical procedures and interventional pulmonology is a real possibility. The Company has also continued clinical trials as part of robot-assisted surgery and has sponsored an interventional pulmonology clinical trial for the detection and characterization of lung cancers.

Clinical activities related to pancreatic cysts
In 2019, 17 presentations focusing on Cellvizio's clinical value were given at the DDW conference. These presentations covered Barrett's esophagus, inflammatory bowel disease (IBD), food allergies, pancreatic cysts and other gastrointestinal diseases.
The studies focused on the potential impact from the use of Cellvizio® in patient treatment and improvement of results. In 2019 three publications from two prospective trials (ClinicalTrials.gov trial identifiers: NCT02516488 and CONTACTII: NCT01563133) were also published and demonstrated the positive impact of Cellvizio on the diagnosis and treatment of pancreatic cystic lesions. The articles entitled, "Diagnostic Accuracy of EUS-guided Confocal Laser Endomicroscopy for Differentiating Mucinous Mucinous from Non-Mucinous Pancreatic Cystic lesions", "EUS-guided confocal laser endomicroscopy: prediction of dysplasia in intraductal papillary mucinous neoplasms" and "Impact of needle-based confocal laser endomicroscopy on the therapeutic management of single pancreatic cystic lesions", were published in three scientific journals: Clinical Gastroenterology and Hepatology (2019, DOI: 10.1016/j.cgh.2019.06.010), Gastrointestinal Endoscopy (2019, DOI: 10.1016/j.gie.2019.09.014) and Surgical Endoscopy (2019, DOI: 10.1007/s00464-019-07062-9).
Currently, pancreatic cysts are diagnosed by testing the carcinoembryonic antigen (CEA) in the intra-cystic liquid and/or cytology, which may be subjective or difficult to interpret with over 50% of cysts unconfirmed through cytology after fine-needle aspiration. Treatment of patients with a pancreatic cyst using the standard methods also represents a challenge given the absence of optimal diagnostics and conflicting recommendations on patient treatment. These recent publications show the very high diagnostic yield of needle-based confocal endomicroscopy (84% to 91%) whilst confirming the accuracy of differentiation between mucinous and non-mucinous cysts (97% in both studies). These high diagnostic yields influenced 28% of therapeutic decisions of patients with a pancreatic cyst, allowing monitoring to be stopped in the case of 35% of patients with benign cysts and reversing the choice between monitoring and surgery in 15% of pre-cancerous lesions, thus preventing unnecessary surgery.

Development of new surgical indications
In terms of robotic surgery, the Company has continued to expand its clinical activities as part of the BPI-funded PERSEE project. Surgery, and in particular minimally invasive surgery, is a medical field in which real-time microscopic imaging technology may have multiple applications. The PERSEE project, launched in 2010, is a collaborative project aimed at developing a flexible, miniature and robot-assisted endomiscroscope designed for minimally invasive exploration of the abdominal cavity in order to detect possible contraindications to excision surgery. The aim is to offer cancer patients the best therapeutic strategy between surgery, chemotherapy and radiotherapy. Multiple trials were undertaken, at the conclusion of which physicians shared their enthusiasm for and interest in the potential of these solutions which they were able to test in this first study.

The second pilot phase of the PERSEE II project launched in 2017 with the objective of confirming the findings of the initial phases of the project with other physicians at other investigational sites. These

objectives will be met through a multi-center trial, using specific tools developed using the Cellvizio technology.

In 2018 researchers finalized the protocols for the two pilot multi-center trials. The protocol for the urology trial involving IMM, the Diaconesses Hospital and the Tenon Hospital was approved and the first patient was included in early 2019. The gastroenterology pilot trial was finalized and researchers obtained final approval from the French Medicines Agency, ANSM, in January 2019.

In 2019 the urology trial and the gastroenterology pilot trial were launched and continuing as planned. The objective of the trial is to reproduce the technical feasibility and safety of endomicroscopic imaging (Cellvizio® system and Persée system) in a multi-center trial and to increase the number of indications:

- Approving instrument improvements (VizioBot-P including probes, remote diagnosis, markers), image processing and the feasibility of sharing communications (voice, video) across operating theaters and anatomical pathology laboratories in a duplex or multiplex layout within the network of the various investigational sites;
- Developing interactions between investigational sites through the sharing of data/images/videos on the Cloud;
- Confirming the absence of risk associated with the procedure by comparing the learning curves of the investigational sites;
- Expanding and confirming the atlas of videos and images.

We have set target indicators and associated clinical procedures that we want to assess as part of the trial:

- Exploratory and/or resection surgery for abdomino-pelvic cancers through manual or robot-assisted laparoscopy,
    - With a particular focus on pancreas and liver cancer,
    - Intended recruitment: at least 35 patients for each specific indication,
    - Using indocyanine green (ICG) as the sole contrast agent, since the other marker used during the single-center trial, Patent Blue, did not give better results. As such these trials use our F800 system at 785 nm;
- Prostatectomy and/or urology surgery
    - Nerve protection using real-time microscopic imaging,
    - Checking of resection margins in real time at microscopic level,
    - Intended recruitment: at least 100 patients, and at least 10 per participating site.

Trial protocols were written and prototypes developed in 2018. Recruitment began in early 2019 as approval for two clinical trials by the ethics committees (CPPs) and French Medicines Agency (ANSM) and the signing of single contracts with the various investigatory sites took a lot longer than expected.

In 2019 an initial article, entitled “Atlas of Ex Vivo Prostate Tissue and Cancer Images Using Confocal Laser Endomicroscopy: A Project for Intraoperative Positive Surgical Margin Detection During Radical Prostatectomy” was published in the journal European Urology Focus, by both teams at the Diaconesses Hospital (urology team under Professor Guillonneau) and the Tenon Hospital (team from the anatomical pathology department under Professor Compérat). This article presents an endomicroscopic imaging atlas of prostate tissue and compares them with histological images of the corresponding tissues (see images below). This preliminary study of ex-vivo tissues confirmed that images of structures similar to the conventional histology can be produced using Cellvizio and can be used to identify the structures viewed in vivo during radical prostatectomies to ensure that resection margins are cancer-free and that nerves are not resected.

Investigations in interventional pulmonology

In the field of endoscopy, the only parts of the respiratory system that can be viewed are the central bronchi and the first peripheral divisions. Indeed, the very small diameter of the terminal bronchi as well as the very small size of the alveoli mean that existing endoscopes cannot be used successfully. This major limitation prevents clinicians from gaining a greater understanding of the lung and certain pathologies (for

example interstitial pathologies, and from characterizing peripheral nodules). As such, high-resolution imaging tools used to observe the peripheral pulmonary system (terminal bronchi and alveoli) can be used to meet very high clinical demand. In the case of the branch on pulmonary nodules, new analysis was conducted in 2017 combining CT and CLE data, and showed improved diagnostic accuracy compared with CT alone.

A multi-center prospective study was published in June 2018, demonstrating Cellvizio®'s potential in diagnosing acute cell rejection in patients with lung transplantation. Cellvizio's optical biopsy could become a safe and effective alternative to invasive biopsies in transplanted patients.

Moreover, the team under Pr. J. T. Annema, M.D. Ph.D., head of pulmonology department at Amsterdam University Medical Centers, has demonstrated, for the first time, that imaging and identifying benign and malignant cellular structures within pulmonary nodules and lymph nodes using needle-based confocal laser endomicroscopy, was not only possible but could also be reproduced in a presentation at the ERS (European Respiratory Society) Congress held in Paris in September 2018. The availability of nCLE for lungs clearly has the potential to have a major accuracy impact on the diagnosis of peripheral nodules, one of the biggest challenges in the fight against lung cancer. An article "Needle-based confocal laser endomicroscopy for real-time diagnosing and staging of lung cancer" was published in the European Respiratory Journal (2019, DOI: 10.1183/13993003.01520-2018) in 2019. The use of needle-based endomicroscopic imaging produces accurate results on the nature of pulmonary lesions and metastatic lymph nodes according to the team of Pr. J. T. Annema, professor of pulmonary endoscopy, Amsterdam University Medical Center. In a well-designed pilot clinical trial, it was shown that nCLE can be used to detect pulmonary tumors and metastatic lymph nodes with an 89% accuracy rate with significant intra- and inter-observer reliability. These promising findings confirm the fact that nCLE could be significant in complementing navigational bronchoscopy for the purposes of targeting and identifying pulmonary tumors in real time. It is a major publication which further supports new market opportunities in interventional pulmonology for Mauna Kea. Indeed, it shows that the use of our needle-based endomicroscopy platform is opening up a new era in interventional pulmonology, allowing more accurate navigation in the optimal sampling area with potential for the diagnosis, evaluation and treatment of pulmonary lesions in real time. Indeed, existing navigation systems offer advanced and minimally invasive access to peripheral nodules but have limited means of viewing directly outside the respiratory tract. Cellvizio, with the AQ-Flex™ 19 confocal miniprobe, can now be used through the operating channel of existing navigation systems to offer a direct "needle-based" view of the inside of peripheral lesions. Cellvizio is the leading endomicroscopic device on the market and can be integrated into robot-assisted bronchoscopic navigation platforms. As such, the approval of needle-based probes for bronchial applications is a critical milestone in continuing the exploration of possible indications for the Cellvizio technology in a field at the cutting edge of medical research.

In February 2019, Mauna Kea obtained a new FDA 510(k) authorization in the United States for the use of the AQ-Flex 19 confocal miniprobe through transbronchial needles with existing bronchoscopes and bronchoscopic accessories. This is the 16th 510(k) authorization received from the U.S. FDA for the Cellvizio® platform. Obtaining this authorization is a major regulatory milestone for Mauna Kea, particularly as it supports our market development strategy: evaluating the commercial potential of our Cellvizio technology on the interventional pulmonology market. The AQ-Flex™ 19 confocal miniprobe is opening up a new era in interventional pulmonology, allowing more accurate navigation in the optimal sampling area with potential for the diagnosis, evaluation and treatment of pulmonary lesions in real time.

In 2019, the company also sponsored a pilot clinical trial with the team of Professor Pr. J. T. Annema, M.D. Ph.D., head of the pulmonology department at Amsterdam University Medical Centers, aimed at evaluating the use of needle-based endomicroscopic imaging for peripheral pulmonary lesions. This trial will be completed in 2020 and will include between 20 and 30 patients.

Other pulmonology trials were also published in 2019 in the field of interventional pulmonology:

- Confocal laser endomicroscopy (CLE) as a guidance tool for pleural biopsies in malignant pleural mesothelioma published in the journal CHEST (Wijmans L. et al., CHEST, 2019) shows that endomicroscopy can be used to view pleural anomalies in of epithelial and sarcomatoid MPM in real time and distinguish them from pleural fibrosis. Endomicroscopy can be used as a navigational

tool for biopsies in order to significantly reduce the current biopsy recurrence rate though the in-vivo identification of areas presenting with malignant cells;

- Endomicroscopy in interstitial pulmonary diseases: Descriptors and correlation with thoracic scans. A second study, published in the journal Respirology (Salaün M. et al. In vivo probe-based confocal laser endomicroscopy in chronic interstitial lung diseases (ILD): Specific descriptors and correlation with chest CT: pCLE in interstitial lung diseases. Respirology, 2019), showed that endomicroscopy can be used in-vivo for imaging the microstructure of the tissue of the distal lung during bronchoscopy. Endomicroscopic conditions for the cellular infiltration of bronchiolar and alveolar areas and the alteration of the elastic acinar network can be reproduced across different observers.

2.4 Sales and marketing

In marketing, at year-end 2019 the Group had a team of 9 people covering Operational Marketing (France, Rest of Europe, USA and Asia), Systems and Probes product development, and marketing communication.

Sales are made directly in France, Germany and the United States, and through distributors in the rest of Europe and in Asia.

At the end of 2019, the sales team for the EMEA region comprised 6 people.

At the end of December 2019, the U.S. sales team was comprised of 18 people.

In all, the Group had a sales force of 24 people at the end of 2019. versus 26 as of December 31, 2018.

2.5 Human Resources

The Group had a workforce of 101 (excluding apprentices) at the end of 2019, versus 99 (excluding apprentices) at the end of 2018.

The company's aim is to promote the continuous development of employees' skills with consistently high standards: balancing the individual requirements of employees with the objectives and requirements identified by the business.

The training policy is directly based on performance and development reviews of employees and the corporate strategy.

The company's main areas of training are as follows:

- Investing in skills development directly related to the job profile where discrepancies are observed;
- Preparing for career progression in the current and future duties of employees and thus support employability and mobility;
- Supporting or anticipating changes, particularly in the technology or organizational sectors.

The number of training hours fell slightly in 2019 with an average 0.78 hours per employee spent in training each month. Focus has been on the technical and job-related skills (82.8% of training) required for the progression of Mauna Kea Technologies and the personal and career progression of employees. Regulatory training required for the Company's activity accounted for 9.8% of training delivered.

In terms of health and safety and due to the Covid-19 pandemic which began in early 2020, a number of preventive measures were taken within the Company in early 2020 in the form of regular communications on the prevention measures recommended by the World Health Organization, the provision of hydroalcoholic gel in offices, the introduction of specific instructions for teams travelling to hospitals,

remote working for the majority of teams since March 17, 2020, and a reduced presence for other teams, the introduction of regular management video conferences and regular communications to the Social and Economic Committee (CSE) and ordering masks.

2.6 Financing and capital structure

The going concern assumption was adopted by the Board of Directors taking into account the following elements:

- Cash available at December 31, 2019 stood at €10 million;
- The drawdown of the second tranche of €6 million provided for under the contract signed with the EIB in 2019, following the amendmentby the EIB of the sales covenants associated with that drawdown;
- The payment on April 20 of a U.S. paycheck protection loan (PPP) of approximately €0.6 million to MKT Inc.;
- The granting of a repayable advance and a grant for PERSEE project of €0.5 million in 2020;
- The receipt of the balance of the research tax credit for 2019 and the pre-financing of the research tax credit for 2020 for an amount of €0.8 million;
- Sales outlook taking into account the impact of the Covid-19 crisis.

In this context, the Company considers that it is in a position to meet its commitments until December 31, 2020.

2.7 Progress achieved and difficulties encountered

Full-year 2019 sales amounted to €7.4 million, a 10% increase on the previous year. Increased sales for full-year 2019 were driven by a 47% increase in sales of consumables, partially offset by a 14% reduction in income from systems and a 20% reduction in sales of services throughout the period. Total sales of consumables were driven by an 89% increase in "pay-per-use" sales in the United States following an increase in the installed base successfully implemented in 2018. Sales of consumables relating to the "pay-per-use" program accounted for 41% of total sales of consumables in 2019, versus 32% in the previous year.

This increase in clinical sales for the whole of 2019 illustrates the strategic priorities put in place in 2019 aimed at increasing the use of Cellvizio® across our installed base"

The company has also made progress towards achieving its third strategic priority for 2019, the evaluation of a new clinical indication which may be Mauna Kea's next target market. The work accomplished to date in the field of interventional pulmonology is very encouraging, particularly the confirmation of the commercial potential in this field and the beginnings of a collaboration with Johnson & Johnson's Lung Cancer Initiative (CLI) last December.

3. Financial situation of the Group during the past financial year

3.1 Operations of the Group

Income statement

(in € thousands) – IFRS	FY 2019	FY 2018	Change
Sales	7,431	6,760	10%
Other income	1,077	1,141	(6%)
Total of revenue	**8,509**	**7,901**	**8%**
Production costs	(2,260)	(2,058)	10%
Gross margin	**5,171**	**4,702**	**10%**
Gross margin (%)	*69.6%*	*69.6%*	
Research & Development	(3,160)	(4,653)	(32%)
Sales & Marketing	(8,978)	(9,097)	(1%)
Administrative expenses	(6,187)	(3,953)	57%
Share-based payments	(952)	(138)	588%
Total operating expenses	(19,277)	(17,841)	8%
Current operating profit	(13,028)	(11,997)	9%
Financial interests	(2,244)	(836)	185%
Profit/(loss)	**(15,272)**	**(12,785)**	**19%**

3.1.1 Sales:

Full Year 2019 Sales

(in € thousands) – IFRS	2019	2018	Change %
1st quarter	1,716	1,042	65%
2nd quarter	2,221	1,665	33%
3rd quarter	1,803	1,933	(7%)
4th quarter	1,691	2,120	(20%)
Total Sales	**7,431**	**6,760**	**10%**

Full Year 2019 sales by category

(in € thousands) – IFRS	2019	2018	Change %
Systems	2,301	2,683	(14%)
Consumables	4,122	2,812	47%
Services	1,007	1,265	(20%)
Total Sales	**7,431**	**6,760**	**10%**

Total sales for the full year 2019 period were €7.4 million, up 10% year-over-year. Full year 2019 sales growth was driven by a 47% increase in consumables sales, offset partially by a 14% decrease in systems revenue and a 20% decrease in services sales in the period.

Full Year 2019 sales by geography with split by activity (Clinical/Preclinical)

(in € thousands) – IFRS	FY 2019	FY 2018	Change
United States & Canada	3,434	3,582	(4%)
Clinical	3,399	3,181	7%
Preclinical	35	400	(91%)
Asia-Pacific	2,562	1,599	60%
Clinical	2,509	1,407	78%
Preclinical	53	191	(72%)
EMEA	1,153	1,544	(25%)
Clinical	967	1,001	(3%)
Preclinical	186	543	(65%)
Latin America	282	36	683%
Clinical	282	36	683%
Preclinical	0	0	n/m
Total Clinical sales	7,157	5,626	27%
Total Pre-clinical sales	273	1,135	(76%)
Total sales	**7,431**	**6,760**	**10%**

Clinical sales

Total clinical sales for the full year 2019 period were €7.2 million, up 27% year-over-year, driven by a 78% increase in sales in the Asia-Pacific region, a 7% increase in sales in the U.S. and a 20% increase in sales in the EMEA and Rest of World regions. Sales to clinical customers represented approximately 96% of total Company sales in 2019, compared to 83% of total Company sales in the prior year period.

Pre-clinical sales

Total pre-clinical sales declined €0.9 million, or 76% year-over-year, to €273 thousand in the full year 2019 period, representing 4% of total sales, compared to 17% of total sales in the prior period.

3.1.2 Other income

Other income of €1,077 is mainly from the non-capitalized portion of the Research Tax Credit.

3.1.3 Cost of production and gross margin

The cost of goods sold came to €2,260 thousand for 2019 versus €2,058 thousand for 2018, representing 30% of sales for each year. Gross margin was 70% in 2019 and 2018.

3.1.4 Research and development expenses

Throughout financial year 2019, the Research and Development team continued its work on the next generation of systems.

In 2019, Research and Development expenses amounted to €3,160 thousand, versus €4,653 thousand for 2018.

In 2019, the annual portion of capitalized development expenses was €838 thousand. The Company maintains a high level of R&D expenses mainly attributed to research and development in the fulfillment of projects led from several years.

3.1.5 Marketing and sales costs

Marketing and Sales expenses are currently the largest overhead. They reached €8,978 thousand in 2019 versus €9,097 thousand in the 2018 financial year.

This item includes the sales and marketing expenses, but also clinical research expenses, logistic and supply chain expenses directly linked to sales.

3.1.6 Administrative Expenses

Administrative expenses were up by 57% on 2018, from €3,953 thousand in 2018 to €6,187 thousand in 2019. This increase is driven by the impact of investments made in the second half of 2018 to strengthen the management team on the full year.

3.1.7 Share-based payments

As with previous financial years, the Group continued to issue stock options to its US employees, and also warrants (BSA) to its independent board directors. As the Group is no longer allowed to issue founders' warrants (BSPCE), in 2016 the Group implemented a free preferred share plan whose terms and conditions were voted on and approved by the shareholders at the Annual General Meeting of October 5, 2018. The share-based payments in 2019 amounted to €952 thousand, compared with €138 thousand in 2018.

3.1.8 Operating Profit (Loss)

Operating expenses amounted to €21,537 thousand for the year, compared with €19,899 thousand in 2018, representing an increase of 8%. The main contributing factor was the increase in administrative expenses by 57%. As a result of this increase and the 10% increase in sales, the operating loss for 2019 was € (13,028) thousand, compared with €(11,998) thousand in 2018.

3.1.9 Profit/(loss)

After taking into account a financial loss of €(2,244) thousand for the year to December 31, 2019, compared with a loss of €(786) thousand at December 31, 2018, the Company's net loss comes to €(15,272) thousand, compared with a net loss of €(12,785) thousand for the financial year ended December 31, 2018.

3.1.10 Cash and cash equivalents

At December 31, 2019 cash and cash equivalents totaled €9,982 thousand compared with €8,623 thousand at December 31, 2018.

3.2 RISKS AND UNCERTAINTIES - TRANSACTIONS WITH RELATED PARTIES

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

Exchange rate risk

The main currencies for which the Company is exposed to 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 services 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 USA 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 €499 thousand at December 31, 2019;
- A -10% change in the EUR/USD exchange rate would result in a drop in earnings of €(610) thousand at December 31, 2019.

Interest rate risk

At December 31, 2019, the Company did not hold any investment securities, whose interest rate changes have a direct impact on the rate of return for these investments and the cash flows generated.

The loan with EIB is at a fixed rate and is therefore not subject to interest rate risk.

The repayable BPI/OSEO advances at a 2.45% interest rate for an overall amount of €2,904 thousand are not subject to interest rate risk.

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.

Relationships with related parties are covered in Note 22 to the consolidated financial statements.

3.3 Foreseeable developments and future prospects

In 2020, the Company will focus on building on the substantial increase in sales of Cellvizio consumables in the American gastroenterology market whilst continuing to introduce the Cellvizio system to new clinicians in around 3,000 American hospitals with high levels of activity in this field. Mauna Kea has a major opportunity to penetrate the American gastroenterology market and is also evaluating its next clinical indication for commercial use. In 2019 we began the process of evaluating the commercial potential of our Cellvizio system in the interventional pulmonology market. The work accomplished to date in the field of interventional pulmonology is very encouraging, particularly the confirmation of the commercial potential in this field and the beginnings of a collaboration with Johnson & Johnson's Lung Cancer Initiative (CLI) last December. This work will continue in 2020.

3.4 Significant events having occurred between the end of the financial year and the drafting of this report

- New authorizations

On April 3, 2020, Mauna Kea Technologies has obtained 510(k) clearance (K193416) from the U.S. Food and Drug Administration (FDA) and CE marking of the next-generation Cellvizio® endomicroscopy platform, built with the company's new proprietary system architecture. This marks the 18th U.S. FDA 510(k) clearance of the Cellvizio® pCLE/nCLE platform.

The new Cellvizio incorporates breakthrough modular design solutions to facilitate and better integrate endomicroscopy within procedure suites as well as within third-party platforms. The new platform's hardware and software design was built from the ground up to facilitate future developments, including integration of deep learning (artificial intelligence) capabilities for assisted image interpretation. The ergonomic and significantly reduced footprint, integrates easily with laparoscopic, advanced navigation, and robotic systems. This new platform is also capable of hosting other proprietary endomicroscopic architectures with imaging capabilities at other wavelengths supporting fluorescence-guided surgery and molecular imaging.

- New funding

On April 17, 2020, the company obtained confirmation for the EIB of the possibility of drawing the second tranche of €6 million provided for in the contract.

On April 20, 2020, the company obtained through its subsidiary Mauna Kea Inc the payment of a loan convertible under conditions into a grant in the amount of €0,6 million under the Paycheck Protection Program in the US.

- Covid-19 pandemic

Due to the Covid-19 pandemic and the absolute necessity to safeguard the health of employees, a set of preventative measures has been implemented within the company. As of the date of the meeting of the Board of Directors, the majority of employees are working remotely.

From a financial perspective, all measures proposed by the French Government are reviewed and steps are currently being taken to obtain additional funding in the near future.

Equivalent steps have been taken in the United States for our subsidiary MKT Inc. and have resulted in the granting and payment of a loan convertible into a grant of $701,510 subject to maintaining employment.

As of the reporting date, the financial impacts of the COVID-19 epidemic in the 2020 financial year cannot be reliably assessed. As such, some expenditure planned for 2020 has been frozen subject to how the situation evolves.

Mauna Kea Technologies

A Public Limited Company (Société anonyme) with share capital of €1,222,869.60
Registered office: 9 rue d'Enghien
75010 Paris, France
431 268 028 in the Paris Trade and Companies Register

Consolidated financial statements prepared in accordance with IFRS as of December 31, 2019

STATEMENT OF FINANCIAL POSITION

(Amounts in thousands of euros)

	Note	12/31/2019	12/31/2018 (*)
ASSETS			
Non-current Assets			
Intangible assets	**3**	2 343	1 838
Property, plant and equipment	**4**	1 956	1 985
Right of use	**4**	1 370	n/a
Non-current financial assets	**5**	173	133
Total of non-current assets		**5 842**	**3 956**
Current assets			
Inventories & Work in progress	**6**	2 592	2 456
Trade receivables	**7**	2 444	1 643
Other current assets	**7**	2 701	3 019
Current financial assets	**8**	59	64
Cash and cash equivalents	**9**	9 982	8 623
Total of current assets		**17 778**	**15 806**
TOTAL OF ASSETS		**23 621**	**19 762**

		12/31/2019	12/31/2018
EQUITY AND LIABILITIES			
Equity			
Issued capital	**10**	1 223	1 008
Share premium	**10**	98 257	91 753
Reserves		(84 130)	(72 072)
Foreign currency translation on reserve		176	74
Profit / (Loss)		(15 272)	(12 785)
Total of equity		**253**	**7 979**
Non-current Liabilities			
Long-term loans	**11**	15 499	6 457
Non-current provisions	**12**	299	422
Total of non-current liabilities		**15 799**	**6 879**
Current liabilities			
Short-term loans and borrowings	**11**	1 916	600
Trade payables	**13**	2 275	2 087
Other current liabilities	**13**	3 380	2 216
Total of current liabilities		**7 570**	**4 904**
TOTAL OF EQUITY AND LIABILITIES		**23 621**	**19 762**

(*) IFRS 16 has been applied using the simplified retrospective method, therefore the comparative period at December 31, 2018 has not been modified (see Note 1.1)

COMPREHENSIVE INCOME
(Amounts in thousands of euros)

	Note	12/31/2019	12/31/2018 (*)
Operating Revenue			
Sales	**15**	7 431	6 760
Other income	**15**	1 077	1 141
Total of revenue		**8 509**	**7 901**
Operating expenses			
Cost of sales		(2 260)	(2 058)
Gross margin		*70%*	*70%*
Research & Development	**18**	(3 160)	(4 653)
Sales & Marketing	**18**	(8 978)	(9 097)
Administrative expenses	**18**	(6 187)	(3 953)
Share-based payments	**17**	(952)	(138)
Total of expenses		**(21 537)**	**(19 899)**
Current operating profit		**(13 028)**	**(11 997)**
Financial revenue	**19**	520	116
Financial expenses	**19**	(2 764)	(902)
Profit before tax		**(15 272)**	**(12 785)**
Income tax expense	**20**		
Profit / (Loss)		**(15 272)**	**(12 785)**
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial differences on defined benefit plans	**12**	(26)	(7)
Total of items that will not be reclassified to profit or loss		**(26)**	**(7)**
Items that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		101	135
Total of items that will be reclassified to profit or loss		**101**	**135**
Other comprehensive income for the year, net of tax		**75**	**127**
Comprehensive income		**(15 197)**	**(12 657)**
Weighted average number of shares outstanding (in thousands)		25 201	25 201
Basic earnings per share (EUR / share)	**23**	**(0,60)**	**(0,51)**
Weighted average number of potential shares (in thousands)		29 524	27 222

(*) IFRS 16 has been applied using the simplified retrospective method, therefore the comparative period at December 31, 2018 has not been modified (see Note 1.1)

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	**12/31/2017**	**974**	**87 973**	**(84)**	**(61 812)**	**(61)**	**(10 245)**	**16 744**
Allocation of the profit / (loss)					(10 245)		10 245	
Capital transactions		34	3 780					3 815
Share-based payment transactions					138			138
Treasury shares transactions				(135)	74			(61)
Comprehensie income as of	12/31/2018				(7)	135	(12 785)	(12 657)
Equity as of	**12/31/2018**	**1 008**	**91 753**	**(219)**	**(71 853)**	**74**	**(12 785)**	**7 979**
Restatements related to IFRS 16 1st application					(81)			(81)
Restated equity as of	**01/01/2019**	**1 008**	**91 753**	**(219)**	**(71 934)**	**74**	**(12 785)**	**7 898**
Allocation of the profit / (loss)					(12 785)		12 785	
Capital transactions		214	6 503		74			6 792
Share-based payment transactions					952			952
Treasury shares transactions		1		32	(224)			(192)
Comprehensie income as of	12/31/2019				(26)	101	(15 272)	(15 197)
Equity as of	**12/31/2019**	**1 223**	**98 257**	**(188)**	**(83 943)**	**176**	**(15 272)**	**253**

CASH-FLOW STATEMENTS
(Amounts in thousands of euros)

	Note	12/31/2019	12/31/2018 (*)
Cash flow from operating activities			
Profit / (Loss)		(15 272)	(12 785)
Elimination of amortization, depreciation and provisions		1 178	1 130
Share-based payment transaction expense and revenue	**10**	952	138
Other items excluded from the auto-financing capacity		1 028	643
Revenue and expenses related to the discounting of repayable advances	**11**	*657*	*67*
Revenue and expenses related to the bonds	**11**	*(268)*	*71*
Net financial interests	**11**	*601*	*481*
Other non-cash items		*39*	*24*
Capital gain or loss from asset sales		8	(0)
Auto-financing capacity		**(12 105)**	**(10 874)**
Change in WCR related to business activities		1 834	(26)
Inventories & work in progress	**6**	*(238)*	*(313)*
Trade receivables	**7**	*(783)*	*433*
Other current assets	**7**	*350*	*(557)*
Trade payables	**13**	*155*	*419*
Other current liabilities	**13**	*2 351*	*(8)*
Net cash flows from operating activities (A)		**(10 272)**	**(10 900)**
Cash flow from investing activities			
Purchase of property, plant and equipment and intangible assets	**3/4**	(1 381)	(1 254)
Proceeds from sale of property, plant and equipment and intangible assets		0	1
Change in loans and advances granted		(40)	7
Other cash flows from investing operations		5	
Net cash flows from investing activities (B)		**(1 416)**	**(1 246)**
Cash flow from financing activities			
Proceeds from exercise of share options	**10**		3 804
Proceeds from issue of shares	**10**	6 792	10
Cash received from new loans issuance	**11**	11 500	
Net reimbursments - IPF loan	**11**	(4 264)	
Fees on issuance and reimbursment of loans	**11**	(1 733)	
Reimbursment of debt on leases (IFRS 16)	**11**	(491)	
Other financial interests paid	**11**	(39)	(357)
Financing of Tax Research Credit	**11**	1 442	
Other cash flows from financing operations	**11**	(170)	(158)
Net cash flows from financing activities (C)		**13 036**	**3 299**
Net foreign exchange difference (D)		10	16
Change in cash (A) + (B) + (C) + (D)		**1 358**	**(8 830)**
Cash at the beginning of the period	**9**	8 623	17 453
Cash at the end of the period	**9**	9 982	8 623
Change in cash		**1 359**	**(8 830)**

(*) IFRS 16 has been applied using the simplified retrospective method, therefore the comparative period at December 31, 2018 has not been modified (see Note 1.1)

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Mauna Kea Technologies, inventor of Cellvizio, a multidisciplinary confocal laser endomicroscopy platform using microprobes and needles, designs and sells medical devices specializing in endomicroscopy to eliminate diagnostic uncertainties in biopsy. Applications relate to the fields of gastroenterology, pulmonology and urology.
A global player in real-time cellular diagnostics, the Company's prime objectives are to constantly improve the quality of care provided to patients and efficiency of healthcare professionals and systems.
The Company's flagship product, Cellvizio, has received clearance to sell for a wide range of applications in more than 40 countries, including the United States, Europe, Japan, China, Canada, Brazil and Mexico.
A decision in France in 2019 by UNICAM provided for a procedural code for reimbursement of esophageal endoscopy with confocal laser-guided endomicroscopy biopsy.

Highlights of the financial year

Financial debt was restructured during the financial year.

The IPF Partners financing, issued in February 2017 and again in May 2019 totaling €9 million, was fully repaid on June 28, 2019 for €10.7 million including early repayment fees.

Financing of €22.5 million was contracted on June 20, 2019 with the European Investment Bank (EIB). The first tranche of this financing, for €11.5 million, repayable in full after 5 years, was received on July 3, 2019. This loan, together with 1,450,000 warrants (BSA) repayable in shares or cash, is intended to finance 50% of future research expenses.

A €7.5 million capital increase reserved for Johnson & Johnson Innovation Inc. through the issue of 5,357,142 new ordinary shares for a unit subscription price of €1.40, raises this company's stake in Mauna Kea Technologies to 17.5% at the end of 2019.
This capital increase is intended to finance current operations, in particular in the fields of clinical studies, development activities, and sales and marketing efforts in the United States.

Furthermore, Research Tax Credit receivables in respect of the 2017 and 2018 and part of the 2019 financial years were sold in May and October 2019 for €2 million and €0.5 million respectively.

Note 1 : Accounting 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 April 27, 2020. 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 going concern assumption was adopted by the Board of Directors taking into account the following elements:

- the cash position at December 31, 2019 of €10 million
- the drawing of the second tranche provided for in the contract signed with the EIB in 2019 for an amount of €6 million, after the EIB waived on April 17 the condition on turnover associated with this drawing
- the payment on April 20 of a loan convertible into a grant to MKT Inc. in the amount of €0,6 million
- the granting of a repayable advance and a grant for PERSEE project of €0.5 million
- the payment of the remaining amount of the 2019 Research Tax Credit and the financing of the 2020 Research Tax Credit of €0.8 million
- the sales prospects, taking into account the impact of the Covid-19 crisis

In this context, the Group considers that it is in a position to meet its commitments until December 31, 2020.

This financial information was prepared on the basis of the principles underlying all the standards and interpretations adopted by the European Union whose application is mandatory at December 31, 2019. These standards and interpretations are available on the European Commission website: https://ec.europa.eu/info/law/international-accounting-standards-regulation-ec-no-1606-2002/amending-and-supplementary-acts/acts-adopted-basis-regulatory-procedure-scrutiny-rps_fr.

The Group applied IFRS 16 for the first time as of the financial year beginning on 1 January 2019, which relates to operating leases with a term of more than twelve months and whose assets have a unit value of more than USD 5,000.
This standard, which is mandatory from 2019, has led to an increase in debt and assets (right of use of assets) of €1.4 million and mainly concerns real estate leases in France and the USA as well as motor vehicle leases.

The impact of the first-time application of this standard on the financial statements is shown in the following tables:

Impact of 1st application of IFRS 16 on the consolidated statement of financial position

	January 1st, 2019		
(in thousands of euros)	**Without IFRS 16**	**Impact of IFRS 16**	**With IFRS 16**
ASSETS			
Tangible assets	1 985	1 432	3 416
Total non-current assets	**3 956**	**1 432**	**5 388**
TOTAL ASSETS	**19 762**	**1 432**	**21 193**
LIABILITIES			
Long-term debt	6 457	1 022	7 479
Total non-current liabilities	**6 879**	**1 022**	**7 901**
Short-term debt	600	491	1 091
Total current liabilities	**4 904**	**491**	**5 395**
Reserves	-72 073	-81	-72 153
Total Equity	**7 979**	**-81**	**7 898**
TOTAL LIABILITIES AND EQUITY	**19 762**	**1 432**	**21 193**

Impact on profit/(loss)

	As of December 31st, 2019		
(in thousands of euros)	**Without IFRS 16**	**Impact of IFRS 16**	**With IFRS 16**
Current operating profit	**-13 309**	**74**	**-13 235**
Financial expenses	-3 569	-49	-3 618
Net result	**-15 970**	**25**	**-15 945**

Impact on the cash flow statement

(in thousands of euros)	As of December 31st, 2019		
	Without IFRS 16	**Impact of IFRS 16**	**With IFRS 16**
Net result of consolidated companies	**-15 970**	**25**	**-15 945**
Amortization and depreciation	956	430	1 385
Financial expenses	552	49	601
Change in WCR	-514	31	-483
Net cash flows from operating activities	**-12 275**	**535**	**-11 740**
Rent paid on the period	0,00	-491	-491
Net cash flows from financing activities	**13 554**	**-491**	**13 063**
(Decrease)/Increase of treasury	**-127**	**44**	**-83**

Reconciliation between rental commitments at December 31, 2018 and IFRS 16 rental liabilities at January 1, 2019

(in thousands of euros)

Commitments given for operating leases as of December 31st, 2018	811
Commitment discounted using the incremental borrowing rate as of 1st application date	747
(-) Contracts with term below 12 months and/or low value	-29
(+) On-going contracts identified under IFRS 16 (1)	795
(+) Adjustment related to variation of index or rate	
(+) Modification of contracts with effect as of January 1st, 2019	
Lease liability as of January 1st, 2019	1 513
Including :	
Current asset	491
Non-current asset	1 022

(1) This amount is composed of 767 K€ for difference of treatment for the renewal options between IFRS 16 and commitment as of December 31st, 2018 and of 28 K€ for commitments not recognized at the same date and considered as non material.

The other standards adopted by the European Union, whose adoption is mandatory as of January 1, 2019 and which had no impact on the financial statements at the end of 2019, are:

- IFRIC 23 - "Uncertainties regarding tax treatment"
- Amendments to IFRS 9: "Early redemption characteristics with negative remuneration".
- Amendments to IAS 19 "Employee benefits": amendment, reduction or liquidation of a plan
- Annual improvements (2015-2017) to IFRS

Furthermore, the Group has not opted for the early application of the standards and interpretations published by IASB but not yet adopted by the European Union as of December 31, 2019, in particular:

- Amendment to IAS 1 "Presentation of financial statements"
- Amendment to IAS 8 "Accounting policies, changes in accounting estimates and errors"
- Amendments to IFRS 10 and IAS 28 "Sale or contribution of assets between an investor and its associate or joint venture"
- Amendments to IAS 40 “Transfers of investment property”
- IFRS 17 “Insurance contracts”

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.

As at December 31, 2019, the group owns a single US subsidiary Mauna Kea Technologies Inc.

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 necessary for the completion of the development project,
(b) the Company intends to complete the project and use it,
(c) the Company is able to use the intangible asset,
(d) the Company is able to demonstrate the likelihood of future economic benefits from the asset,
(e) the Company has the technical, financial and other resources necessary to complete the project,
(f) the Company is able to reliably 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 as long as they met the criteria of IAS 38. Expenses related to research and the improvements of existing products remain as expenses for the financial year.

Development costs carried as assets are amortized on a straight-line basis over seven years or five 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.

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 and rights of use

Property, plant and equipment subject to a lease of more than twelve months and covering assets whose individual replacement value as new is more than USD 5,000 have, since January 1, 2019, been recognized as an asset representing the right of use of the leased asset. The initial valuation of the asset is estimated using the amortized cost model and depreciated over the shorter of the lease term or the term of the right of use, in accordance with the requirements of IFRS 16.

Acquired 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.

Cellvizios entrusted to hospitals under partnership agreements (reference centers) and Cellvizios made available under a consignment contract are recorded under capital assets.

Depreciation and amortization periods are as follows:

Fixtures and fittings	7 years
Research and development tools	2 to 5 years
Production tools	3 to 7 years
Cellvizio granted to reference centers, lent or consigned	5 years
Research equipment and technical facilities	7 years
Office and computer equipment, furniture	5 years
Computer equipment	3 years

1.6. Recoverable amount of non-current property, plant and equipment 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.

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

The recoverable amount must be estimated for each individual asset. If this is not possible, IAS 36 requires a company to determine the recoverable amount of the cash-generating unit (CGU) to which the asset belongs. Only one cash-generating unit has been defined at Group level. It is therefore at Group level that this impairment test was performed.

This value is based on the discounted cash flow method over a period of 5 years and using a terminal value calculated on the basis of an updated standard flow with a growth of 2%.

The future cash flows over the period 2020 to 2024 are based on the following assumptions:
- An average sales growth rate broken down by geographic area and by distribution model (pay-per-use, direct sales of systems, sales to distributors);
- A constant margin rate taking into account the cost of products sold depending on the type and generation of the products (pay-per-use, direct sales of systems, sales to distributors);
- A constant distribution of expenses by type (R & D, Sales & Marketing and General Expenses);

- Investments (including systems made available through the pay-per-use program in the United States).

1.7 Financial assets

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

The measurement and recognition of financial assets and liabilities are defined by IFRS 9 - Financial Instruments.

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 for 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 customarily sold in the short term.

1.8 Inventories and 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, a corresponding impairment loss is recognized in profit or loss.

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.

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 IFRS 9 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 Share 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.

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 financial 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 preferred 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 or performance shares 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 the converted instruments 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 valuated 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.

As of December 31, 2019, the Group pre-financed the Research Tax Credit receivable for financial years 2018 and 2019 with a financial institution. According to the decision tree of IAS 39 regarding the derecognition of financial assets, it was concluded that the Group had not transferred substantially all of the risks and rewards inherent in the transferred Research Tax Credit receivable. Therefore this receivable has not been derecognized, and the funds received from the receivable sale are recognized in current loans and borrowings.

Liabilities at fair value through profit and loss

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

In accordance with the provisions of IFRS 9 and the clarifications made in autumn 2017 by the IFRS Interpretation Committee on the treatment of debt changes deemed not to be derecognizable, the Group immediately restates in the income statement the effect of changes in contractual borrowing conditions. The effective interest rate is thus maintained on the residual maturity of the debt.

As part of the financing with the European Investment Bank (EIB), the Group issued share warrants (BSA). This issuance has been analyzed according to IFRS 9 criteria. Because of the put option and the variable nature of the number of shares to which the warrants (BSA) will give entitlement, it is recognized as a derivative instrument and measured at fair value on the grant date. It is then remeasured at each reporting date with a corresponding adjustment in profit/(loss).

1.14 Conditional advances

The Company receives a certain number of forms of assistance, in the form of subsidies or conditional advances. 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.

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 expenses correspond to commitments arising from litigation and miscellaneous risks, whose timing and amount are uncertain, and which the Group may face in the course of its business.

A provision is recognized when there is 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 by Social Security agencies and financed by contributions from 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 valuated 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 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

The Group recognizes revenue from ordinary activities according to IFRS 15.
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 transfer of goods or services promised to a customer is completed for the amount that reflects the payment that the entity expects to receive as consideration for those goods or services. Regarding the sale of products, revenue is recognized either at the products availability or delivery according to the order's conditions. In the case of a contract to supply our systems, Cellvizio remains an asset of the Company and the revenue is recognized under sales of consumables or services performed by healthcare professionals.

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 and Innovation 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 that prove that they have expenditures that meet the required 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 that has concluded a tax treaty with France that contains an administrative assistance clause) receive a tax credit that can be used for the payment of the corporate tax due for the financial year in which the expenditures were made and the next three financial years, or, as applicable, be 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 applied IFRS 16 "Leases" from January 1, 2019 by using the simplified retrospective method. Rights of use from operating leases whose term is longer than 12 months and with a replacement value as new of more than USD 5,000 for each of the leased assets have been recognized as assets offset by a lease liability corresponding to the discounted value of the rent to be paid over a reasonably certain lease period. These contracts mainly include the leases for the Company's head office in France and the Boston offices as well as motor vehicle leases.

The discount rate used at the transition date corresponds to the implicit rate of the lease if existing or the incremental borrowing rate that would be obtained for a loan contracted for an almost identical period to the remaining term of the ongoing leases as of January 1, 2019. For future leases, the same method will be used if an implicit rate is not available. The weighted average marginal borrowing rate of the lessee, applied to lease liabilities as of January 1, 2019, has been estimated at 2% for the lease of the Paris offices and for the other leases held by Mauna Kea Technologies SA. A rate of 12% was used for the lease of the American premises corresponding to the implicit interest rate provided for in the contract.

The rights of use were measured as if IFRS 16 had been in force since the lease agreements were signed. The equity at January 1, 2019 was therefore impacted by -€81 thousand, which the Company considers immaterial. The application of IFRS 16 did not have an impact the Group's cash and cash equivalents.

The Group applied the following simplification measures:

- Use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
- Use of previous valuations to determine whether the leases involve a financial outlay;
- Recognition of rental expenses from short-term leases (those with terms less than or equal to 12 months which do not include purchase options and/or leases concerning low value assets);
- Use of knowledge acquired retrospectively to calculate, for example, the term of the lease when it includes extension or termination options.

1.21 Taxes

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 rate differences relating to the subsidiary Mauna Kea Technologies, Inc.
- changes in pension plan provisions arising from changes in actuarial assumptions.

1.24 Significant 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, stock options and preferred stock

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".

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.

	31/12/19		31/12/18		Méthode de consolidation
Sociétés	% d'intérêts	% de contrôle	% d'intérêts	% de contrôle	
Mauna Kea Technologies SA (1)	100%	100%	100%	100%	Intégration globale
Mauna Kea Technologies Inc	100%	100%	100%	100%	Intégration globale

(1) Group's parent company

No change in scope took place during the period.

Note 3 : Intangible assets

The changes in intangible assets break down as follows:

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	12/31/2017	Increase	Decrease	Reclassification	12/31/2018
Development costs	3 623				3 623
Patents, licenses and trademarks	1 674	17		4	1 695
Software packages	664	38		210	913
Patents, licenses and trademarks in progress	546	46		(4)	588
Total gross of intangible assets	**6 508**	**101**		**210**	**6 819**
Amort. / dep. of development costs	(3 135)	(377)			(3 512)
Amort. / dep. of patents, licenses and trademarks	(789)	(122)			(912)
Amort. / dep. of software packages	(483)	(74)			(558)
Total amort. / dep. of Intangible assets	**(4 408)**	**(573)**			**(4 981)**
Total net of Intangible assets	**2 100**	**(472)**		**210**	**1 838**

INTANGIBLE ASSETS
(Amounts in thousands of euros)

	12/31/2018	Increase	Decrease	Reclassification	12/31/2019
Development costs	3 623	838			4 461
Patents, licenses and trademarks	1 695			96	1 791
Software packages	913	12			924
Patents, licenses and trademarks in progress	588	6		(96)	498
Total gross of intangible assets	**6 819**	**855**			**7 675**
Amort. / dep. of development costs	(3 512)	(109)			(3 621)
Amort. / dep. of patents, licenses and trademarks	(912)	(138)			(1 050)
Amort. / dep. of software packages	(558)	(103)			(661)
Total amort. / dep. of Intangible assets	**(4 981)**	**(350)**			**(5 332)**
Total net of Intangible assets	**1 838**	**505**			**2 343**

The development costs of the Gen III system, currently in the prototype phase, were capitalized for the first time in 2019, for €838 thousand at the end of 2019. Since March 2019, these costs have fulfilled the capitalization criteria pursuant to IAS 38:

- the technical feasibility of the intangible asset for use or sale;
- the Group's intention to complete the asset and its ability to use or sell it;
- expected future economic benefits from the asset;
- available resources enabling the development of the system to be completed;
- ability to reliably measure the costs of developing the asset.

Amortization related to development costs for the second generation of Cellvizio amounted to €109 thousand in 2019.

Patents in progress are subject to an annual impairment test as part of the impairment test at the CGU level.

The Company tests the effects of a change in the cost of equity assumptions: the variation of +1 and -1 point respectively varies the valuation of the CGU by -3% and +3%.

The Company tests the effects of a change in the assumptions of the growth rate to infinity: the variation of +0.5 point and -0.5 point respectively varies the valuation of the CGU by +2% and -1%.

The Company tests the effects of a change in the assumptions of the rate of achievement of the turnover: The sensitivity to -10 points and +10 points varies respectively the valuation of the CGU of -4% and + 4%.

In view of these results and summing up all the impacts of negative assumptions, the company did not recognize any impairment.

Note 4: Property, plant and equipment and rights of use

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

PROPERTY, PLANT AND EQUIPMENT
(Amounts in thousands of euros)

	12/31/2017		Increase	Decrease / Scrapping	Exchange differences	Reclassification	12/31/2018
Industrial equipment	2 061		880		10	162	3 113
Fixture in buildings	51						51
Other tangible assets	1 601		273	(1)	8	(382)	1 500
Total gross of Property, plant and equipment	**3 713**		**1 153**	**(1)**	**18**	**(220)**	**4 664**
Amort. / dep. of industrial equipment	(1 325)		(298)		(9)		(1 631)
Amort. / dep. of fixture in buildings	(49)		(1)				(50)
Amort. / dep. of other tangible assets	(873)		(128)		(6)	9	(998)
Total amort. / dep. of Property, plant and equipment	**(2 248)**		**(427)**		**(15)**	**9**	**(2 680)**
Total net of Property, plant and equipment	**1 466**		**727**	**(1)**	**4**	**(210)**	**1 985**

PROPERTY, PLANT AND EQUIPMENT
(Amounts in thousands of euros)

	12/31/2018	IFRS 16 01/01/2019	Increase	Decrease / Scrapping	Exchange differences	Reclassification	12/31/2019
Industrial equipment	3 113		467	(50)	3	60	3 595
Fixture in buildings	51						51
Other tangible assets	1 500		58	(39)	3	(60)	1 461
Total gross of Property, plant and equipment	**4 664**		**525**	**(89)**	**6**		**5 107**
Amort. / dép. du matériel industriel	(1 631)		(240)	42	(3)	(184)	(2 017)
Amort. / dep. of fixture in buildings	(50)		(1)				(51)
Amort. / dep. of other tangible assets	(998)		(306)	39	(2)	184	(1 083)
Total amort. / dep. of Property, plant and equipment	**(2 680)**		**(547)**	**80**	**(5)**		**(3 151)**
Total net of Property, plant and equipment	**1 985**		**(21)**	**(9)**	**1**		**1 956**
Right of use	n/a	4 230	369				4 598
Amort. / dep. of right of use	n/a	(2 798)	(430)				(3 228)
Total net of Right of use	**n/a**	**1 432**	**(61)**				**1 370**

The application of IFRS 16 "Leases" had a net impact of €1,432 thousand on property, plant and equipment as of January 1, 2019. Depreciation recognized with respect to these assets represented €430 thousand for the 2019 financial year.

Note 5: Non-current financial assets

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

Note 6: Inventories and work in progress

The inventories and work in progress break down as follows:

INVENTORIES & WORK IN PROGRESS
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Inventories of raw materials	1 212	1 041
Inventories & work in progress of finished goods	1 547	1 552
Total gross of inventories & work in progress	**2 760**	**2 592**
Dep. of inventories of raw material	(79)	(53)
Dep. of inventories & work in progress of finished goods	(89)	(83)
Total dep. of inventories & work in progress	**(168)**	**(136)**
Total net of inventories & work in progress	**2 592**	**2 456**

Note 7: Trade receivables and other current assets

7.1 Trade receivables

TRADE RECEIVABLES
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Trade receivables	3 185	3 168
Dep. of trade receivables	(740)	(1 525)
Total net of trade receivables	**2 444**	**1 643**

The impairment of bad debts has been reversed up to the amount of the loss recorded, i.e. €936 thousand. The allowance for doubtful receivables represents 23% of receivables in gross value compared to 48% in 2018.

The analysis of receivables as of December 31, 2019 break down as follows:

DATE OF PAYMENT FOR TRADE RECEIVABLES
(Amounts in thousands of euros)

	Gross amount	Less than a year	Over a year
Trade receivables	3 185	2 498	687
Dep. of trade receivables	(740)	(281)	(459)
Total net of trade receivables	**2 444**	**2 217**	**228**

7.2 Other current assets

The other current assets break down as follows:

OTHER CURRENT ASSETS
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Staff and related accounts	18	9
Research Tax Credit	1 894	2 186
Other tax receivables	305	309
Other receivables	355	193
Prepaid expenses	128	323
Total gross of other current assets	**2 701**	**3 019**
Dep. of other current assets		
Total net of other current assets	**2 701**	**3 019**

The change in the Research Tax Credit is as follows:

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE
(Amounts in thousands of euros)

	12/31/2017	Operating revenue	Payment received	Other	12/31/2018
Research Tax Credit	1 917	1 097	(828)		2 186

	12/31/2018	Operating revenue	Payment received	Other	12/31/2019
Research Tax Credit	2 186	997	(1 055)	10	2 138

Receivables at end-2019 represent the Research Tax Credits of 2018 and 2019.

Other tax receivables are related to deductible VAT and a requested VAT reimbursement totaling €236 thousand compared to €214 thousand at December 31, 2018.

Other receivables mainly included advances to suppliers amounting to €194 thousand compared to €122 thousand at December 31, 2018.

Note 8: Current financial assets

Current financial assets correspond to the cash balance of the securities account opened under the Company's liquidity contract held with Gilbert Dupont, which stood at €59 thousand at December 31, 2019 versus €64 thousand at December 31, 2018.

Note 9: Cash and cash equivalents

Cash and cash equivalents break down as follows:

CASH AND CAHS EQUIVALENTS
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Short-term bank deposits	9 982	8 623
Total of cash and cash equivalents	**9 982**	**8 623**

Note 10: Share capital

10.1 Issued capital

The share capital is set at one million two hundred twenty-two thousand eight hundred sixty-nine euros and sixty cents (€1,222,869.60). It is divided into 30,571,740 ordinary shares, fully subscribed and paid up, each with a par value of €0.04.

This figure does not include "Stock Warrants" (BSAs), founders' warrants (BSPCEs) or stock options granted to certain investors and natural persons, who may or may not be employees of the Company and free performance share units (PSUs).

The table below shows the history of the Company's share capital since December 31, 2019:

Type of transaction	Issued Capital (K Eur)	Share premium (K Eur)	Number of shared comprising the issued capital (in thousands of shares)
As of December 31, 2018	1,008	91,753	25,201
Capital increase	214	6,577	5,357
Others (BSA, AGAP, etc.)	1	-74	13
Total as of December 31, 2019	1,223	98,257	30,571

The Company opened, in December 2017, an equity financing facility with Kepler Cheuvreux covering a maximum number of 2,250,000 shares available for subscription over a maximum period of 24 months, i.e. until December 1, 2019. No movement occurred in 2019.

By the decision of the Board of Directors on December 13, 2019 and the delegation granted by the Extraordinary General Meeting of October 5, 2018, the Company carried out a capital increase reserved for an investor through the issue of 5,357,142 shares with a nominal value of €0.04 and an issue price of €1.40. The share premium of €7,286 thousand was charged against the related issuance expenses, i.e. €756 thousand.

10.2 Share purchase warrants, stock options and preferred stock

Since its formation, the Company issued "Stock Warrants" (BSA), stock warrants for its employees ("BSPCE" and others) as well as stock options (SO) and free performance shares (PS), the changes since December 31, 2018 are represented below.

In 2018, the Company issued a new free preference share plan, the terms of which have been approved by the shareholders at the General Meeting of October 5, 2018, and new stock options and stock warrants plans.

The Company also opened, in December 2017, an equity financing facility with Kepler Cheuvreux covering a maximum number of 2,250,000 shares available for subscription over a maximum period of 24 months. The PACEO financing contract with Kepler Cheuvreux matured on December 4, and has not been renewed.

Type	Date of granting	Exercise price	Outstanding at 12/31/2018	Number of shares	Exercised	Cancelled	Outstanding at 12/31/2019	Potential number of shares
Options granted before January 1st, 2019			2 237 059		-	186 250	2 050 809	3 169 563
SO	07/02/2019	2,13 €		40 000			40 000	40 000
SO	19/05/2019	1,63 €		75 000			75 000	75 000
BSA	19/05/2019	1,84 €		170 000			170 000	170 000
BSA BEI	03/07/2019	1,89 €		1 450 000			1 450 000	1 450 000
SO	31/07/2019	1,68 €		127 500			127 500	127 500
SO	21/11/2019	0,86 €		55 000			55 000	55 000
AP	19/09/2019			150		150	-	0
AP	20/11/2019			400			400	40 000
				1 918 050	0	186 400	3 968 709	5 127 063

Following the consolidation of shares (four old shares for a 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 founders' warrants (BSPCE) plans, because it had exceeded the threshold of €150 million in market capitalization more than three years previously.

The terms and conditions for exercising preferred shares are described in the minutes of the Combined General Meetings of May 4, 2016 in resolution 19 and October 5, 2018 in resolutions 14 and 15. (https://www.maunakeatech.com)

10.3 Company's buyback of its own shares

The Extraordinary General Meeting of July 5, 2019, authorized the Board of Directors, for a period of 18 months from the date of the meeting, to implement a share buyback program, on one or more occasions, in accordance with the provisions of Article L. 225-209 et seq. of the French Commercial Code and in accordance with the General Regulation of the Autorité des Marchés Financiers (AMF) under the terms and 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 the obligations related to stock option, free share award, or employee savings plans, or other awards of shares to the employees and executives of the Company or the companies associated with it;
- to tender shares upon 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
- conduct transactions for any purpose that may be authorized by law or any market practice that may be permitted by the market authorities

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 above 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 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 the shares purchased and sold over the year:

	2019				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Securities purchased	188 271	160 904	387 291	359 400	1 095 866
Price	2,02	1,67	1,57	1,02	
Total amount (in K€)	381	268	608	367	1 624
Securities sold	173 316	169 636	366 040	389 907	1 098 899
Price	2,05	1,69	1,58	1,02	
Total amount (in K€)	356	286	579	399	1 620

At December 31, 2019, the Company held 35,786 Mauna Kea Technologies shares acquired at an average price of €1.37 equal to the realizable value on December 31, 2019.

Note 11 : Borrowings and financial debts

CHANGES IN FINANCIAL DEBTS

(Amounts in thousands of euros)

	12/31/2018	Impact IFRS16 as of Jan 1st, 2019	Receipt	Repayment	Capitalized interests	Other	12/31/2019
Repayable advance BPI (ex Oseo)	2 766				657		3 423
Lease liability IFRS 16		1 513		(491)		369	1 390
Loan IPF	4 274		5 000	(9 557)	283		
Loan BEI			11 500		371	(1 255)	10 616
Warrants BEI						522	522
Research Tax Credit financing			1 442				1 442
Other	16					6	22
Total of financial debts	**7 056**	**1 513**	**17 942**	**(10 048)**	**1 311**	**(358)**	**17 415**

11.1 Advances from BPI (formerly OSEO Fi)

On May 31, 2010, Mauna Kea Technologies obtained a repayable innovation loan in the amount of €3,416 thousand from OSEO as part of the PERSEE project. The PERSEE project aims to develop, validate 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 fifth payment of €512 thousand has been delayed and should be received following the last key stage corresponding to the presentation of the clinical trial results. The advances granted carry interest at a rate of 2.45%.

The 2010 contract between Oseo, now BPI France, and the Company stipulates that the first repayment should take place once sales of €2,500 thousand on new products are reached.

The amount to repay, based on the new expected repayment schedule, will be €4,961 thousand, including capitalized expenses.
If no repayment occurs within 10 years of the last aid payment, Mauna Kea will be released from any obligation to pay a financial return.

In addition, if the cumulative sales amount is greater than €50,000 thousand, 2% of the sales generated must be paid over fifteen years.

In addition, the specific contract between BPI France (formerly Oseo) and Mauna Kea stipulates in Article 4.3 that in the event of a failure by the company to comply with any of its obligations as listed in the contract, of any irregular tax and social security situation, of inaccurate or false declarations, of a contribution, merger, demerger, transfer of control or of assets of the Company, Mauna Kea SA must repay in advance the discounted value.

11.2 Loans

The loan contracted with IPF Partners in February 2017 and again in May 2019 totaling €9,000 thousand, was fully repaid on June 28, 2019 for €10,700 thousand including early repayment fees.

Following the €22,500 thousand financing agreement signed with the European Investment Bank (EIB) on June 20, 2019, the Company received the first tranche of €11,494 thousand net on July 3, 2019. The following tranches of €6,000 thousand and €5,000 thousand, respectively, will be available subject to achieving certain milestones.

Tranche 1 is accompanied by the issuance of share subscription warrants (BSAs) entitling the holder, in the event of exercise, to subscribe for a maximum of 1,450,000 shares of the Company (i.e. 5.75% of the share capital on a non-diluted basis) subject to the legal and contractual adjustments provided for in the documentation. These warrants were issued on the basis of the fourth resolution (private placement) adopted by the Extraordinary General Meeting of 5 October 2018. The exercise price of the warrants is equal to the weighted average of the volumes of the last three trading days preceding their issue, less a 5% discount, i.e. €1.8856 per warrant. The warrants (BSA) may be exercised until the twentieth anniversary of their issuance, i.e. July 3, 2039.

This issuance has been analyzed according to IFRS 9 criteria. Because of the put option and the variable nature of the number of shares to which the warrants (BSA) will give entitlement, it is recognized as a derivative instrument and measured at fair value on the grant date (i.e. July 3 on the receipt of the first loan tranche). It is then remeasured at each reporting date with a corresponding adjustment in profit/(loss)

The financial instrument liability relating to the warrants (BSA) attached to the first tranche of the EIB loan was valued at €1,022 thousand on the grant date, using the following valuation assumptions:

- theoretical maturity: 20 years
- probably maturity: 6 years
- volatility: 50% in 6 years and 40% in 20 years
- repo: 2.5% per annum
- reference price: €1.98

This derivative instrument of €1,022 thousand has been recognized as a financial liability.

The derivative has then been valued at €522 thousand at end-2019, using the following assumptions:

- theoretical maturity: 19.5 years
- probably maturity: 5.5 years
- volatility: 50% in 5.5 years and 40% in 19.5 years
- repo: 2.5% per annum
- reference price: €1.30

The change in value between the grant date and December 31, 2019 was recognized in net financial income in the income statement.

The Effective Interest Rate (EIR) of the financial debt recognized in respect of the EIB loan is calculated by restating the value of the warrants at the grant date and the issue costs of the loan from the initial debt. At the grant date, it had been estimated at 7.45%.

11.3 Short-term loans and borrowings

Short-term loans and borrowings of €600 thousand at end-2018 relating to the IPF Partners loan have been fully repaid.

The Research Tax Credit receivables relating to financial years 2018 and part of 2019 were sold in 2019 for a value of €1,442 thousand.

11.5 Derivative financial instruments

As part of the financing with the European Investment Bank (EIB), the Group issued share warrants (BSA). This issuance has been analyzed according to IFRS 9 criteria. Because of the put option and the variable nature of the number of shares to which the warrants (BSA) will give entitlement, it is recognized as a derivative instrument and measured at fair value on the grant date (i.e. July 3 on the receipt of the first loan tranche). It is then remeasured at each reporting date with a corresponding adjustment in profit/(loss)

As of December 31, 2019, the fair value of the EIB warrants was €522 thousand (see Note 11.2 Loans).

11.6 Maturities of financial liabilities

The maturities of financial liabilities as of December 31, 2019 break down as follows:

REPAYMENT TERMS OF FINANCIAL LIABILITIES
(Amounts in thousands of euros)

	Gross amount	Less than one year	One to three years	Three to five years	More than five years
Long-term loans and borrowings	15 499		704	11 602	3 193
Short-term loans and borrowings	1 916	1 916			
Trade payables	2 275	2 275			
Other current liabilities	3 380	3 380			
Total of financial liabilities	**23 070**	**7 571**	**704**	**11 602**	**3 193**

The maturities of long-term loans and borrowings relating to repayable advances are determined on the basis of estimates of expected repayments at December 31, 2019.

Note 12: Non-current provisions

Non-current provisions break down as follows:

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	12/31/2017	Allowance	Unused reversals	Used reversals	Others	12/31/2018
Pension plan provision	183	16	(26)		7	180
Provision for personnel dispute	28	57				85
Provision for software update	15					15
Other provisions for expenses	58	84				142
Total of non-current provisions	**283**	**158**	**(26)**		**7**	**422**

NON-CURRENT PROVISIONS
(Amounts in thousands of euros)

	12/31/2018	Allowance	Unused reversals	Used reversals	Others	12/31/2019
Pension plan provision	180	32	(4)		26	234
Provision for personnel dispute	85			(20)		65
Provision for software update	15		(15)			
Other provisions for expenses	142		(142)			
Total of non-current provisions	**422**	**32**	**(161)**	**(20)**		**299**

12.1 Retirement commitments

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

	12/31/2019	12/31/2018
% social security expenses	47%	48%
Salary increases	2%	2%
Discount rate	1,17%	1,97%

- retirement age: 65;
- terms of retirement: voluntary retirement;
- mortality table: INSEE 2018;
- collective agreement: metal industries;
- turnover: high and digressive based on age (24% in 2019)

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

The discount rate benchmark is the iBoxx Corporate AA10+.

12.2 Provision for personnel disputes

This provision covers personnel disputes at the end of December 2019.

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 financial year in question.

13.1 Trade payables

Trade payables break down as follows:

TRADE PAYABLES
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Trade payables	2 275	2 087

12.2 Other current liabilities

Other current liabilities break down as follows:

OTHER CURRENT LIABILITIES
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Tax payables	113	107
Satff and social security payables	2 514	1 554
Deferred revenue	752	555
Total of other current liabilities	**3 380**	**2 216**

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

Deferred revenues mainly comprise the deferred portion of training and equipment installation under IFRS 15.

Note 14: Financial instruments on the balance sheet

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

(Amounts in thousands of euros)

As of December 31st, 2019	Value on the Balance sheet	Fair value through profit or loss	Fair value through equity	Loans and receivables	Debt at amortized cost
Assets					
Non-current financial assets	173			173	
Trade receivables	2 444			2 444	
Other current assets (1)	2 701			2 701	
Current financial assets	59			59	
Cash	9 982	9 982			
Total of assets	**15 360**	**9 982**		**5 378**	
Liabilities					
Long-term loans and borrowings	15 499	522			14 977
Short-term loans and borrowings	1 916				1 916
Trade payables	2 275				2 275
Other current liabilties (1)	3 380				3 380
Total of liabilties	**23 070**	**522**	**0**	**0**	**22 548**

(1) Advances paid and received that are not repaid in cash, and deferred income and prepaid expenses that do not meet the definition of financial liabilities, are not included.

Note 15: Sales and operating revenue

Sales and operating revenue consists of the following:

SALES AND OPERATING REVENUE

(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Sales	7 431	6 760
Research Tax Credit and other tax credit	1 077	1 141
Total of revenues	**8 509**	**7 901**

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

SALES BY TYPE OF PRODUCT

(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Total sales of "equipements"	2 301	2 683
Total sales of "consumables" (probes)	4 119	2 812
Total sales of "services"	1 011	1 265
Total of sales by type	**7 431**	**6 760**

Sales by geographic region as of December 31, 2019 are broken down as follows:

SALES BY GEOGRAPHICAL AREA
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
EMEA (Europe, Middle-east, Africa)	1 151	1 544
including France	*268*	*335*
America	3 717	3 618
including USA	*3 434*	*3 263*
including Latin America	*283*	*355*
Asie	2 562	1 599
including China	*2 359*	*1 290*
including Japan	*41*	*62*
Total sales by geographical area	**7 431**	**6 760**

For the purposes of geographical analysis, the management of the Group allocates 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, 2019, one distributor from the APAC region accounted for more than 31.7% of sales.

Note 16: Charges de personnel

The Group employed 101 persons as of December 31, 2019 compared with 100 persons as of December 31, 2018.

The employee benefits expense breaks down as follows:

EMPLOYEE BENEFITS EXPENSE
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Wages and salaries, social security costs	11 922	10 345
Net pension costs	27	(10)
Share-based payment transaction expenses	952	138
Total of employee benefits expense	**12 902**	**10 474**

Note 17: Share-based payments

Share-based payments concern all warrants (BSA/BSPCE), stock options (SO) and preferred shares (PS) awarded to employees, service providers and members of the Board of Directors.

They have been recorded as expenses since the award knowing that the terms for exercising BSPCEs and SOs are as follows for the plans awarded before 2017:
- 25% of the founders' warrants/stock options may be exercised starting on the first anniversary of their award;
- 25% of the founders' warrants/stock options may be exercised starting on the second anniversary of their award;
- 25% of the founders' warrants/stock options may be exercised starting on the third anniversary of their award;
- the remaining balance, i.e., 25% of the founders' warrants/stock options, may be exercised starting on the fourth anniversary of their award;

- no later than ten years from their issue, or seven years for stock options granted before 2011, it being specified that founders' warrants/stock options not yet exercised by the end of this ten-year period automatically become null and void.

The terms and conditions for exercising stock options are the following for plans awarded starting in 2017:
- 20% of the options at the end of the first year from the first anniversary date of their award; and
- 40% of the options at the end of the second year from the second anniversary date of their award; and
- 20% of the options at the end of the third and fourth years from the date of their award, and
- no later than ten (10) years from their award, it being specified that the options that have not yet been exercised at the end of this 10-year period automatically become null and void,

The terms and conditions for exercising warrants 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 ten years of their issue automatically become null and void.

Regarding preference shares, the terms and conditions for exercise are described in the minutes of the Extraordinary General Meetings of May 4, 2016 in resolution 19 and October 5, 2018 in resolutions 14 and 15.
(https://www.maunakeatech.com/uploads/media/media_pdf/0001/03/PV%20AGM%205%20octobre%202018%20Rev.pdf)

The main characteristics are as follows:

The 2018 Preference Shares vested to their beneficiaries at the Acquisition Date will be convertible into new or existing ordinary shares at the Company's choice (the "Ordinary Shares"), at the request of each beneficiary concerned, at any time after the second anniversary of the Acquisition Date and no later than the fifth anniversary of the Acquisition Date (the "Conversion Period"), unless otherwise specified in the 2018 Preference Shares award plan or otherwise decided by the Board of Directors and notified to each holder of 2018 Preference Shares according to the following terms and conditions:

a. In the event of the Beneficiary's 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.

b. in the event of the Beneficiary's 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 the Beneficiary's Departure between the second anniversary (inclusive) and the third anniversary (exclusive) of the Acquisition Date, the conversion ratio will be determined as follows:

(i) if the Benchmark Price 1 is strictly less than the Floor Price, each Preference Share shall be convertible into thirty-three Ordinary Shares;

(ii) if the Benchmark Price 1 is strictly higher than the Intermediate Price, each Preference Share shall be convertible into sixty-six Ordinary Shares;

(iii) if the Benchmark Price 1 is between the Floor Price (inclusive) and the Intermediate Price (inclusive), each Preferred Share shall carry entitlement to the following number of Ordinary Shares:

$$33 + 33 \times \frac{\text{Reference Price 1} - \text{Floor Price}}{\text{Intermediate Price - Floor Price}}$$

where:
- the term 'Floor Price' means 1.75 times the Allocation Price;
- the term 'Allocation Price' means the average of closure prices recorded on Euronext or any other main listing location for the Mauna Kea Technologies share over the 60 trading sessions prior to the allocation date of the relevant 2018 Preference Shares ('Allocation Date');
- the term 'Intermediate Price' means 2.5 times the Allocation Price; and
- the term 'Reference Price 1' means the highest average of closure prices for the share on Euronext or any other main listing location for the Mauna Kea Technologies share over a period of 60 consecutive trading sessions, calculated at any time from the Acquisition Date and until the second anniversary of the Acquisition Date;

d. in the event of the Beneficiary's Departure after the Holding Period, each Preference Share shall carry entitlement to the following number of Ordinary Shares:

(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 greater than the Ceiling Price: the difference between one hundred Ordinary Shares and the number of Ordinary Shares determined in (x) (such that the sum of (x) and (y) equals 100);

(iii) if the Reference Price 2 is between the Floor Price (included) and the Ceiling Price (included): the difference, if positive, between:

- $33 + 67 \times \frac{\text{Reference Price 2} - \text{Floor Price}}{\text{Ceiling Price - Floor Price}}$; and
- the number of Ordinary Shares determined under (x).

where:
- the term “Floor Price” means 2.45 times the Allocation Price;
- the term “Ceiling Price” means 3.5 times the Allocation Price; and
- the term “Reference Price 2” means the highest average of closure prices for the share on Euronext or any other main listing location for the Mauna Kea Technologies share over a period of 60 consecutive trading sessions, calculated at any time from the date of the first anniversary of the Acquisition Date and until the third anniversary of the Acquisition Date.

It should be noted that this conversion rate may be adjusted to take account of shares to be issued to protect the rights of holders of securities giving access to the Company's share capital, and the beneficiaries of Preference Shares, in accordance with applicable legal and regulatory provisions.

The Preference Shares may be converted only during the period of five years and six months following the expiration of the Holding Period (the “Holding Period”).

The detail of the share-based payments is presented in the table below:

Type	Date of granting	Exercise price	Outstanding at 12/31/2017	Number of shares	Exercised	Cancelled	Outstanding at 12/31/2018	Potential number of shares
Options granted before January 1st, 2018			3 491 426		854 000	1 487 442	1 149 984	2 275 813
SO	28/02/2018	3,12 €		300 000		70 000	230 000	230 000
SO	24/07/2018	2,54 €		80 000			80 000	80 000
SO	19/09/2018	2,86 €		40 000			40 000	40 000
SO	12/11/2018	2,59 €		600 000			600 000	600 000
SO	28/11/2018	2,52 €		35 000			35 000	35 000
BSA	28/02/2018	3,12 €		55 000			55 000	55 000
BSA	22/03/2018	2,92 €		50 000		50 000	0	0
BSA	12/11/2018	2,76 €		40 000			40 000	40 000
AP	10/10/2018			5 700			5 700	570 000
AP	12/11/2018			1 375			1 375	137 500
				1 207 075	854 000	1 607 442	2 237 059	4 063 313

Type	Date of granting	Exercise price	Outstanding at 12/31/2018	Number of shares	Exercised	Cancelled	Outstanding at 12/31/2019	Potential number of shares
Options granted before January 1st, 2019			2 237 059		-	186 250	2 050 809	3 169 563
SO	07/02/2019	2,13 €		40 000			40 000	40 000
SO	19/05/2019	1,63 €		75 000			75 000	75 000
BSA	19/05/2019	1,84 €		170 000			170 000	170 000
BSA BEI	03/07/2019	1,89 €		1 450 000			1 450 000	1 450 000
SO	31/07/2019	1,68 €		127 500			127 500	127 500
SO	21/11/2019	0,86 €		55 000			55 000	55 000
AP	19/09/2019			150		150	-	0
AP	20/11/2019			400			400	40 000
				1 918 050	0	186 400	3 968 709	5 127 063

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

- Risk-free interest rate: Government borrowing rate (GFRN index),
- Dividend: none,
- Turnover: 15%,
- Volatility: 60% for warrants, founders' warrants and stock options granted before December 31, 2011, 35% for founders' warrants and stock options granted in 2012, 34% for founders' warrants and stock options granted in 2013, 32% and 33% for plans granted in 2014, 33% for plans granted in 2015, 29.99% for plans granted in 2016, 55% for plans granted in 2017, 59% for plans granted in 2018 and 50% for plans granted in 2019.

As of 2012, the volatility applied corresponds to the average historic volatility of a panel 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.

The exercise price, estimated life 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)

	12/31/2019	12/31/2018
Share-based payments (expense of the period)	952	138
	952	**138**

Note 18: External expenses

18.1 Research & Development Department

RESEARCH & DEVELOPMENT

(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Purchases consumed	68	59
Employee benefits expenses	2 205	2 525
External expenses	558	1 417
Taxes	26	36
Net change in amortization and depreciation	341	612
Other	(38)	3
Total of Research & Development	**3 160**	**4 653**

18.2 Sales & Marketing Department

SALES & MARKETING
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Purchases consumed	10	(24)
Employee benefits expenses	6 076	5 416
External expenses	2 521	2 839
Net change in amortization and depreciation	423	814
Other	(52)	52
Total of Sales & Marketing	**8 978**	**9 097**

As of December 31, 2019, the line item "Others" includes impairments of bad debts for €958 thousand and an impairment reversal of €1,057 thousand.

18.3 Administrative expenses

ADMINISTRATIVE EXPENSES
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Purchases consumed	64	52
Employee benefits expenses	3 013	1 828
External expenses	2 446	1 819
Taxes	111	108
Net change in amortization and depreciation	589	136
Other	(37)	7
Total of administrative expenses	**6 187**	**3 953**

Administrative expenses were up by 57% on 2018, from €3,953 thousand in 2018 to €6,187 thousand in 2019. This increase results from the full-year impact of investments made in the second half of 2018 to strengthen the management team.

Note 19: Financial income and expenses

Financial income and expenses break down as follows:

FINANCIAL REVENUE AND EXPENSES
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Foreign exchange gains	23	112
Gains on cash equivalents	(3)	3
Gains on fair value reassessment	500	2
Total of financial revenue	**520**	**116**
Foreign exchange losses	(75)	(281)
Interest expenses	(597)	(481)
Other financial expenses	(1 485)	(3)
Loss on cah equivalents	(3)	(3)
Disount expenses	(606)	(138)
Total of financial expenses	**(2 765)**	**(903)**
Total of financial revenue and expenses	**(2 245)**	**(786)**

Interest expenses mainly correspond to the interest on the IPF loans (repaid in full over the year) and EIB loan, as well as interest on lease liabilities according to IFRS 16.

Other financial expenses are related to the full repayment of the IPF loan for €1,391 thousand and the pre-financing of the Research Tax Credit for €94 thousand.

The gains on fair value adjustment correspond in full to the valuation difference of the EIB warrants (BSA) between the grant date and the revaluation at the closing date.

Discounting expenses correspond mainly to interest relating to the Oseo conditional advance.

Note 20 : Income tax

Under current tax laws, the Group has total tax losses of €87,744 thousand that may be carried forward indefinitely in France and total tax losses of €43,299 thousand that may be carried forward for 20 years in the United States, i.e. a total of €131,043 thousand at December 31, 2019. The deferred tax asset base net of temporary passive differences was not capitalized as a precautionary measure, 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 (28%). By convention, the deferred income tax rate used is 31%.

TAX PROOF
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Profit / (loss)	(15 272)	(12 785)
Income tax expense		
Profit before tax	**(15 272)**	**(12 785)**
Theoritical tax expense 32,02%	**(4 890)**	**(4 402)**
Other non-deductible expenses and tax-exempt income	10	24
Effect of tax rate differences	(114)	(18)
Deferred tax assets not recognised	4 993	4 396
Actual income tax expense		

Note 21: Commitments

Contractual obligations excluding operating leases and finance leases

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

OBLIGATIONS PURSUANT TO OTHER AGREEMENTS
(Amounts in thousands of euros)

	12/31/2019	12/31/2018
Portion with terms of less than 1 year	1 776	1 133
Portion with terms of between 1 and 5 years	2 744	172
Total of supplier commitments	**4 520**	**1 305**

Obligations related to the EIB loan

Following the financing agreement with the European Investment Bank (EIB) signed on June 20, 2019 for €22.5 million, the Company received the first tranche of €11.5 million on July 3, 2019.

The following tranches of €6 million and €5 million, respectively, will be available subject to achieving certain milestones, particularly related to commercial progress and the improvement of shareholders' equity:

- The second tranche of €6 million is subject to additional equity capital financing of €7.5 million and the achievement, over a rolling 12-month period, of €14 million of cumulative revenues. This second tranche will include 300,000 warrants (BSA). Repayment of the principal and capitalized interest will be made in full after the fifth year from the date of drawdown.
- The third tranche of €5 million is subject to additional equity capital financing of €15 million and the achievement, over a rolling 12-month period, of €24 million of cumulative revenues. The fixed interest rate includes a portion at 3% annually and a portion at 3% capitalized. Repayment of the principal and capitalized interest will be made in full after the fifth year from the date of drawdown.

Financial covenants are attached to this debt.

The limited guarantees, taken by the European Investment Bank, cover the Company's trade receivables and inventories. No guarantee was given over Intellectual Property rights.

As part of the discussions that led to the EIB's agreement to draw the second tranche, the guarantees linked to this tranche were modified.

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)

	12/31/2019	12/31/2018
Wages and salaries - General direction	571	281
Share-based payments - General direction	54	97
Pension plan - General direction	3	2
Attendance fees - Executive officers	241	233
Share-base payments - Executive officers	88	29

Note 23 : 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 preferred shares outstanding during the financial year.

EARNINGS PER SHARE

	12/31/2019	12/31/2018
Profit / (loss) (in K€)	**(15 272)**	**(12 785)**
Weighted average number of shares outstanding (in thousands)	30 571	25 201
Earnings per share (in €)	**(0,50)**	**(0,51)**
Weighted average number of potential shares (in thousands)	29 524	27 222

Instruments that grant rights to the share capital on a deferred basis (BSAs, BSPCEs or stock options) are considered antidilutive because they cause an increase in earnings per share. Thus, diluted earnings per share are identical to basic earnings per share.

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.

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

Exchange rate risk

The main currency for which the Group is exposed to significant exchange rate risk is the US dollar.

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 services 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 USA 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 €499 thousand at December 31, 2019;
- A -10% change in the EUR/USD exchange rate would result in a drop in earnings of €(610) thousand at December 31, 2019.

Liquidity risk

See Note 1.9: Cash and cash equivalents

Interest Rate Risk

At December 31, 2019, the Company did not hold any investment securities, whose interest rate changes have a direct impact on the rate of return for these investments and the cash flows generated.

The loan with EIB is at a fixed rate and is therefore not subject to interest rate risk.

The repayable BPI/OSEO advances at a 2.45% interest rate for an overall, non-discounted amount of €2,904 thousand are detailed in Note 11: Borrowings and financial debts. They are not subject to interest rate risk.

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

New authorizations

On April 3, 2020, Mauna Kea Technologies has obtained 510(k) clearance (K193416) from the U.S. Food and Drug Administration (FDA) and CE marking of the next-generation Cellvizio® endomicroscopy platform, built with the company's new proprietary system architecture. This marks the 18th U.S. FDA 510(k) clearance of the Cellvizio® pCLE/nCLE platform.

The new Cellvizio incorporates breakthrough modular design solutions to facilitate and better integrate endomicroscopy within procedure suites as well as within third-party platforms.

The new platform's hardware and software design was built from the ground up to facilitate future developments, including integration of deep learning (artificial intelligence) capabilities for assisted image interpretation. The ergonomic and significantly reduced footprint, integrates easily with laparoscopic, advanced navigation, and robotic systems. This novel platform is also capable of hosting other proprietary endomicroscopic architectures with imaging capabilities at other wavelengths supporting fluorescence-guided surgery and molecular imaging.

New financing

On April 17, 2020, the company obtained confirmation for the EIB of the possibility of drawing the second tranche of €6 million provided for in the contract.

On April 20, 2020, the company obtained through its subsidiary Mauna Kea Inc the payment of a loan convertible under conditions into a grant in the amount of €0,6 million under the Paycheck Protection Program in the US.

Pandemic Covid-19

Due to the Covid-19 pandemic, a set of preventive measures has been put in place within the company, and this, by absolute necessity to preserve the health of its employees. On the date of the meeting of the Board, the majority of employees are working from home.

From a financial point of view, all the measures proposed by the French Government have been reviewed and steps have been taken in France and in the US to obtain additional financing (cf. Paragraph related to going concern).

At the closing date of the financial statements, the financial impacts of the COVID-19 epidemic on the 2020 financial year cannot be reliably estimated. As a result, some expenses planned in 2020 have been frozen.

This is a translation into English of the statutory auditors' report on the consolidated financial statements of the Company issued in French and it is provided solely for the convenience of English- speaking users.
This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the information concerning the Group presented in the management report and other documents provided to the shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Mauna Kea Technologies

Year ended December 31, 2019

Statutory auditors' report on the consolidated financial statements

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400 726 048 R.C.S. Dijon

Commissaire aux Comptes
Membre de la compagnie
régionale de Dijon

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Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Mauna Kea Technologies

Year ended December 31, 2019

Statutory auditors' report on the consolidated financial statements

To the Annual General Meeting of Mauna Kea Technologies,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meetings, we have audited the accompanying consolidated financial statements of Mauna Kea Technologies for the year ended December 31, 2019. These consolidated financial statements were approved by the Board of Directors, on April 27, 2020, on the basis of the elements available at that date, in the evolving context of the health crisis related to Covid-19.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2019 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for Opinion

- **Audit Framework**

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics *(Code de déontologie)* for statutory auditors.

Emphasis of Matter

We draw attention to the following matter described in Note 1.1 to the consolidated financial statements relating to the application of IFRS16 "Lease contracts". Our opinion is not modified in respect of this matter.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code *(Code de commerce)* relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, as approved in the above-mentioned context, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Revenue recognition

Risk identified	Our responses
Sales of the group's products and services are under the terms described in Note 15 to the consolidated financial statements. The Company's revenue is mainly the result of the sale of systems, the sale of consumables (soundings) and maintenance services and repair. For product sales, sales are found as soon as the transfer of ownership is carried out. We considered that the recognition of the revenue is a key audit matter considered the weight given to the turnover as a financial indicator of the group and the importance of transactions unwind as year-end approaches.	We analyzed the methods of the revenue recognition and controls set up by the Company. Our work included: ► examining contractual clauses on a sample contracts, including the most significant contract of the financial year, in order to analyze the applicable accountant treatment; ► examining the most significant transactions of the financial year, by getting the orders, invoices, delivery notes or availability vouchers, as well as significant transactions with new customers or in countries where the Company has a reduced business; ► performing sampling tests in order to confirm the correct application of the principle of separation of financial years on a selection of significant transactions accounted before and after the closing date to determine whether these products are related to the appropriate period.

Specific verifications

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by laws and regulations of the information relating to the Group given in the Board of Directors' management report, as approved on April 27, 2020. Regarding the events that occurred and the elements known after the date of approval of the consolidated financial statements relating to the effects of the Covid-19 crisis, Management has informed us that such events and elements will be communicated to the Annual General Meeting called to decide on these financial statements.

We have no matters to report as to their fair presentation and their consistency with the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

- **Appointment of the Statutory Auditors**

We were appointed as statutory auditors of Mauna Kea Technologies by your Annual General Meeting held on June 13, 2018 for EXCO SOCODEC and on May 25, 2011 for ERNST & YOUNG et Autres.

As at December 31, 2019, EXCO SOCODEC was in the second-year and ERNST & YOUNG et Autres in the ninth year of uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, Management is responsible for assessing the Company'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 it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

■ Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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 consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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.

- Obtains 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 internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management in the consolidated financial statements.

- Assesses 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 ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtains 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. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit to the Audit Committee a report which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code *(Code de commerce)* and in the French Code of Ethics *(code de déontologie)* for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Dijon and Paris-La Défense, April 29, 2020

The Statutory Auditors
French original signed by

EXCO SOCODEC	ERNST & YOUNG et Autres
Olivier Gallezot	Cédric Garcia