



Mauna Kea Technologies

Public Limited Company (Société anonyme) with share capital of 766,273.52 euros
Registered office: 9 rue d'Enghien
75010 Paris, France
431 268 028 in the Paris Trade and Companies Register Paris

Annual Financial Report 2016

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MANAGEMENT REPORT OF THE BOARD OF DIRECTORS ON THE CONSOLIDATED FINANCIAL STATEMENT

1. PREAMBLE

The Board of Directors in its meeting of March 21, 2017 examined and approved the consolidated financial statements for the year ended December 31, 2016. These consolidated statements were prepared in accordance with the IFRS framework.

2. POSITION OF THE GROUP AT THE END OF THE LAST FISCAL YEAR

2.1 Report on activity and significant events during financial year 2016

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

As of December 31, 2016, the Mauna Kea Technologies group Technologies is composed of a multidisciplinary team of 76 employees, an installed base of 500 facilities in over 40 countries, and since its inception, it has generated cumulative revenues of approximately €70.3 million, €8.8 million of which in fiscal year 2016.

Obtaining new reimbursement rates and regulatory approvals in the United States

FDA authorization for the marketing of miniprobos

In May 2016 the Company obtained U.S FDA clearance for its near-infrared surgical miniprobos. FDA 510(k) clearance covers Confocal Miniprobos used with the near-infrared Cellvizio platform for urological and surgical applications.

Image-guided surgery with intra-operative macroscopic fluorescence systems provides surgeons with more accurate anatomical guidance. The addition of microscopic fluorescence in pathological tissue assessments should provide immediate, actionable information that may be used to improve diagnostic potential and further guide surgical treatments. These new probes will be compatible and complementary to the systems currently in place and used by all major parties involved in laparoscopic surgery;

Increase in reimbursement rates at hospitals and ambulatory surgical centers in the United States

In November 2016, Centers for Medicare and Medicaid Services (CMS), the body that sets the reimbursement of medical care in the United States, published the definitive reimbursement terms applicable in 2017 for surgical procedures performed in hospitals and ambulatory surgical centers. These new reimbursement rates have been increased for gastroesophageal reflux and Barrett's esophagus indications, as recently recommended by the ASGS (American Society of General Surgeons), the AGA (American gastroenterological Association) and the CAP (College of American Pathologists), and for the imaging of pancreatic cysts, as supported by recently presented high-caliber clinical data. An increase of 131% in the reimbursement rate for procedures carried out in hospitals, and 86% for procedures carried out in ambulatory surgical centers;

Clinical results and conferences - the medical value of optical biopsy

In February 2016, completion of the recruitment of 200 patients for the Contact II study on the diagnosis of pancreatic cysts using needle-based confocal laser endoscopy (nCLE). New clinical evidence on the effectiveness of nCLE in the diagnosis of pancreatic cysts. Publication of two new clinical reviews of nCLE;

In April 2016, clinical research collaboration to study the potential of combining EM Imaging's in vivo optical imaging agents and Mauna Kea's confocal laser endomicroscopy platform to diagnose cancer. The combination of novel molecular imaging agents and advanced visualization such as endomicroscopy is a promising avenue for advancing personalized cancer diagnosis;

In May 2016, Cook Medical introduced Cellvizio at the American Urological Association (AUA)'s Annual Meeting, one of the largest gatherings of urologists in the world, offering them unparalleled access to groundbreaking research, new guidelines and other major advances in urologic medicine;

In May 2016, at the World Congress for Bronchology and Interventional Pulmonology, the Cellvizio platform was presented at a key symposium on probe-based confocal laser endomicroscopy (pCLE), in addition to many other presentations by leading international teams;

In May 2016, strong presence of Cellvizio® platform at major medical meetings focused on gastroenterology.

The first meeting highlighting Cellvizio is Digestive Disease Week (DDW) 2016, which is the world's largest gathering of physicians and researchers in the fields of gastroenterology, hepatology, endoscopy, and gastrointestinal surgery.

The second meeting highlighting Cellvizio is the 91st Congress of the Japan Gastroenterological Endoscopy Society (JGES), which was held in Tokyo;

In September 2016, the American Society of General Surgeons (ASGS) endorsed Cellvizio® as integral to the comprehensive assessment of and therapeutic decisions for the treatment of Barrett's esophagus and Gastroesophageal Reflux Disease (GERD);

In October 2016, the first study on the contribution of Cellvizio to pediatric heart surgery is launched. The project, led by the University of Utah School of Medicine and Harvard Medical School, is funded by a subsidy from the National Institutes of Health (NIH). This study of cardiac surgery will explore, for the first time, a key new indication in pediatric heart surgery, and will complement the research carried out on the use of Cellvizio in an ever-increasing number of surgical procedures;

In October 2016, the CONTACT clinical study confirms the clinical effectiveness of Cellvizio needle-based endomicroscopy in the diagnosis of pancreatic cysts at the 2016 United European Gastroenterology Week (UEGW). 217 patients were recruited from 5 French hospitals and clinics. The results confirm and reinforce the results previously published (CONTACT I pilot study, DETECT, INSPECT) on the contribution of nCLE technology to the diagnosis of pancreatic cystic lesions;

November 2016: publication of the results of the PERSEE study in "Surgical Endoscopy" and the "European Journal of Gastroenterology & Hepatology". The PERSEE study demonstrates the applicability of Cellvizio in digestive cancer surgeries;

Partnership

Extension of the strategic partnership with Fujifilm China

In February 2016, following the recent Chinese FDA clearance for the Cellvizio 100 series, Fujifilm China is now in the ideal position from which to launch Cellvizio for bilio-pancreatic applications within its leading range of echo-endoscopic products. Fujifilm China will commercialize Cellvizio for gastroenterological and pulmonary applications in China and will increasingly integrate the Cellvizio platform into its commercial offers for advanced endoscopy systems.

Exclusive urology partnership with Cook Medical

In May 2016, Cook Medical presented the Cellvizio system at the AUA's (American Urological Association) Annual Meeting.

2.2 Research and Development, Innovations, and New Products

Research and Development

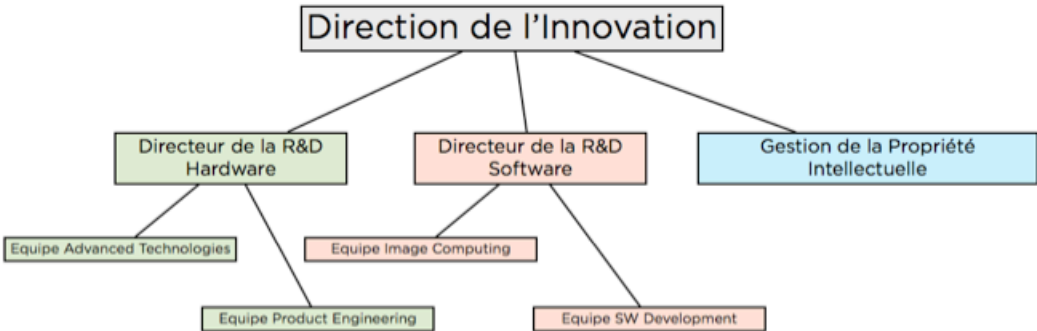
At the end of December 2016, the Research and Development team had 27 employees (doctors, engineers or technicians) covering the fields of expertise necessary for the development of the Group's products and technologies, namely:

- optics and optoelectronics;
- 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.

A structured Research & Development Division

The Research & Development Division is comprised of two departments under the responsibility of the Innovation Director, as shown in the diagram below :



Each R&D department acts within the Company as a center of expertise and, throughout the life cycle of each product, oversees any work that may fall within its remit, from initial concept to final production.

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. It works to identify and verify the usefulness of emerging components and technologies so as to remain at the forefront of technology, while limiting any risk of obsolescence of key components by identifying alternative technical solutions 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. One example is the "Smart Atlas" project, which allows users to search for similarities between images based on their content. This "Smart Atlas" would integrate an observation sequence history under Cellvizio and conduct an immediate comparison of reference images with images in an ongoing procedure. This study was the subject of a thesis started in 2008 in close collaboration and under the direction of Nicholas Ayache, head of the INRIA Asclepios laboratory in Sophia Antipolis. Since 2012, it has existed in the form of an i-Lab contract between INRIA and the Company, in which two INRIA engineers who are experts in image processing are involved, in addition to the Group's engineers. This "Smart Atlas" project will have an innovative commercial use: to offer CAD features (Computer Aided Diagnosis) to Cellvizio users. In other words, assist them in their interpretation of the images produced.

R&D Applied To Improving Current Products And Optimizing Their Manufacture (Product Support)

The mission of the Research and Development teams is to cause existing solutions to develop in a continual improvement approach, while listening to their internal and external clients, and more precisely with the missions:

- ensuring and improving product manufacturing as part of a "lean" approach. To this end, monthly meetings between each R&D department, the production team and the support team are organized;
- developing new functions or improving the performance of existing products. The improvements are implemented after analysis of the improvement needs expressed by clients and their technical feasibility by product marketing managers.

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

Technical product development

With regard to this mission, the Research and Development teams, and all members of the Operations Department in general, work together with the product managers and clinical affairs managers to develop new products as part of the business's project management.

Some of the major projects currently under way are:

The new-generation Cellvizio, or "GEN3": the aim of this project is to update the range of Mauna Kea Technologies, via the launch of new products, developed using revamped technological building blocks that include more powerful, smaller and less costly components. By using increased levels of modularity, the GEN3 product line will integrate far more easily within the various existing configurations of any hospital facility, thereby optimizing product use and the service provided, while still producing high-quality images and diagnostics.

The development of GEN3 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).

The "PERSEE" project: a genuine technological showcase for the Company, this project obtained €7.6 million in innovation funding from OSEO in April 2018. This funding will stop in August 2018. "PERSEE" is an industrial research and development project to develop a flexible, miniature and robotic endomicroscope designed for minimally invasive exploration of the abdominal cavity. The aim is to offer cancer patients the opportunity to select the best treatment strategy for them, whether that be surgery, chemotherapy or radiotherapy. Partners on the "PERSEE" project are working on a combination of Cellvizio and robotic technology, enabling the exploration of the abdominal cavity via one incision, so as to provide surgeons with information essential to their decision making. The Company is the leader of this collaborative project, on which it works alongside EndoControl, a developer of robotic solutions to help in surgical and medical procedures; ISIR (Institute for Intelligent Systems and Robotics) at the Université Pierre et Marie Curie; the Digestive Diseases Department at the Institut Mutualiste Montsouris (IMM); and the Cellular Imaging, Gastroenterology and Biopathology departments at the cancer-research center Institut Gustave Roussy (IGR). The PERSEE project is structured into four successive phases, the last of which is expected to be completed in August 2018. The third phase was completed in July 2015, and the end of stage 3 report was sent to BPI France in May 2016. Since July 2015, BPI France and the project partners have been working together to prepare for the launch of the fourth phase, which began in 2016 and will run for a period of two years. When this phase is over, the PERSEE project will have been completed.

2.3 Clinical Research Activity

Reflecting doctors' growing interest in optical biopsy, Cellvizio and endomicroscopy were the subject of 176 clinical publications over the course of 2016, compared with 145 in 2015.

From 2007 to 2016 there were 719 publications, counting all indications together.

From among the most notable publications of 2016 we would highlight the following:

In 2016, several publications released in review of reading committees, have confirmed the needle confocal lazer endomicroscopy (nCLE) 's benefits for the recognition of several types of pancreatic kysts or else the perspectives of the in vivo technology usage in the course of surgical procedures. Some research studies, where Mauna Kea Technologies is a strong stakeholder (PERSEE, IR) have been presented to different congress such as DDW, SAGES and UEGW.

2.4 Sales and marketing

In marketing, at year-end 2016 the Group had a team of 10 persons covering the activities of Operational Marketing (France, Rest of Europe, USA and Asia), the Systems and Probes product development activity, Clinical Affairs and marketing communication.

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

In sales, in the EMEA region at year-end 2016, the team was comprised of three people.

At the end of December 2016, the US sales team was comprised of six people.

The Asian General Manager has been transferred to Boston to insure the management of global sales with a strong focus on the US Market.

In total, at the end of 2016, the Group had a sales force of 11 people managed by the Global Sales Director, compared with 14 as of December 31, 2015.

This change is explained mainly by direct marketing in Germany, and also by the departure of employees in France and in the United States who have not been replaced in view of the Company's new distribution strategy. However, new sales people were in the process of recruitment at the end of the 2016 year in the United States.

2.5 Human Resources

The Group's workforce stood at 76 persons at year-end 2016, as against 91 at the end of 2015.

The Company's objective is to encourage the continuous development of employee competencies, with the ongoing requirement to: match individual employee demands with the objectives and needs identified by the Company.

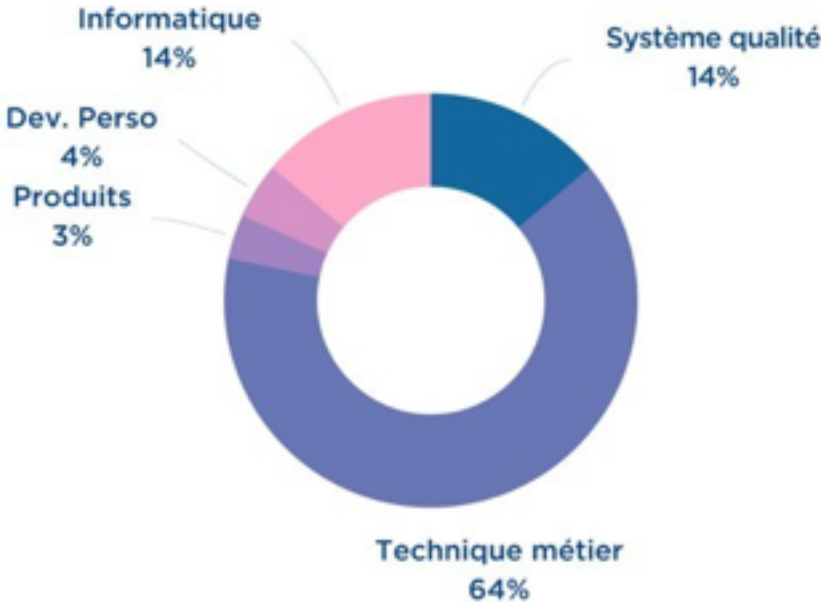
The training policy derives directly from the employee performance and development reviews and the Company's strategy.

The principal training focuses defined by the Company are the following:

- to invest in increasing the competency directly connected to the job description, against which gaps are identified;
- to prepare employees' development for their current and future assignments, and to thus encourage their employability and their mobility;
- to support or anticipate changes, particularly in the areas of technology and company organization.

The number of training sessions remained stable in 2016, with 0.86 hours on average per month per employee. The emphasis was on technical competence necessary to the development of Mauna Kea Technologies but also on the professional and personal development of employees.

Distribution of training hours:



It is worth noting that 58% of training hours are provided in-house (mainly quality assurance training, technical/clinical/product training on Cellvizio, and IT training).

2.6 Financing and capital structure

Au 31 décembre 2016, la société dispose d'une trésorerie et équivalents de trésorerie 9,1 millions d'Euros.

The assumption of a going concern has been relied upon by the Board of Directors, taking into account the level of cash at the end of December 2016, sales prospects (including therein those of signed partnership agreements), receipt of its 2015 research tax credit, of the funding through a bond the Company has contracted in February 2017, and with respect to its forecast cash-flows. Following a specific review of its liquidity risk, the Company considers that it is able to meet its scheduled repayments until December 31, 2017.

2.7 Advances made and problems encountered

2016 was a critical year in the implementation of the Company updated strategic plan and this affected the sales performance. Even so, the Company successfully delivered a significant improvement in our gross margin and operating performance by streamlining our cost structure to reduce fixed operating costs. Increased financial flexibility is expected to support the continued growth of our global user base. The gross margin, however, remained unchanged.

The year 2016 was marked by some important steps in the areas of regulation, reimbursement and clinical studies, but especially notable were the recommendations issued by medical scientific societies in the United States and the increase in reimbursement rates by Medicare.

2016 was also marked by the extension of the strategic partnership with Fujifilm China for the launch of Cellvizio for bilio-pancreatic applications within its leading range of echo-endoscopic products. Fujifilm China will commercialize Cellvizio for gastroenterological and pulmonary applications in China and will increasingly integrate the Cellvizio platform into its commercial offers for advanced endoscopy systems. The extension of the Fujifilm partnership through 2016 and 2017 will significantly boost the visibility and accessibility of Cellvizio in the Asia-Pacific region.

The commercialization with Cook Medical, our exclusive urology partner, has known a great start during the first half of the year. Nevertheless, the activity with this partner has met some difficulties during year end due to due to regulatory and administrative issues. The Group, in collaboration with the partner, are currently working on finding solutions.

3. Position of the Group during the last fiscal year

3.1.1. Revenue and sales:

Full Year 2016 Revenue

(in € thousands) - IFRS	2016	2015	Change %
1 st Quarter	1,954	1,855	5%
2 nd Quarter	2,511	2,170	16%
3 rd Quarter	2,108	1,867	13%
4 th Quarter	2,213	2,655	(17%)
Total Sales	8,787	8,547	3%

Full Year 2016 Revenue by Category

(in € thousands) - IFRS	2016	2015	Change %
Systems	4,217	5,190	(19%)
Consumables	2,941	2,474	19%
Services	1,629	884	84%
Total Sales	8,787	8,547	3%

The Company shipped 54 Cellvizio systems in the full year 2016, including 6 systems placed under the Company's recently launched consignment program, compared to 51 systems in the full year 2015. The Company shipped 43 clinical systems and 11 pre-clinical systems in the full year 2016, compared to 38 clinical systems and 13 pre-clinical systems in the full year 2015. Consumable probes unit volume increased 7% to 716 units, compared to 669 probes in the full year 2015. The number of

probe reorders (probes sold to existing customers) increased from 492 in the full year 2015 to 541 in the full year 2016, representing 10% growth year-over-year. Consumable probe reorder sales grew 34% for the full year 2016. The year-over-year increases in consumable probe sales, and particularly the reorder rate and sales, reflect increased utilization of the Cellvizio systems, particularly in the U.S., along with growth of the installed base.

Full Year 2016 Revenue by Geography with Split by activity Clinical / Pre-clinical sales

(in € thousands) – IFRS	2016	2015	Change %
Americas	3,811	3,603	6%
Clinical	3,350	2,875	16%
Pre-clinical	461	728	(37%)
Asia-Pacific	2,853	2,491	15%
Clinical	1,890	1,573	20%
Pre-clinical	962	918	5%
EMEA	2,124	2,453	(13%)
Clinical	2,022	1,634	24%
Pre-clinical	102	820	(88%)
Total Clinical Sales	7,261	6,082	19%
Total Pre-clinical Sales	1,526	2,465	(38%)
Total Sales	8,787	8,547	3%

3.1.2 Other revenues

Other income, which came to €828 thousand in 2016 (vs. €1,434 thousand in the same period last year), reflecting a decrease in research tax credit related income.

3.1.3 Production costs and gross margin

The cost of goods sold came to €2,720 thousand for 2016 versus €2,534 thousand for 2015, representing 31% and 30% of sales, respectively. Gross margin was 69% in 2016, versus 70% in 2015. This point in reduction reflects the significant efforts made by the Company to optimize its procurement in 2015 and that are pursued in 2016, as well as the rebound in the United States, which supported higher average selling prices.

3.1.4 Research and Development Costs

Throughout fiscal year 2016, the Research and Development team continued its work on the next generation of systems. The development costs of this product have not been capitalized in the accounts, the research still very upstream in the development process.

In 2016, Research and Development expenses amounted to €4,445 thousand, versus €4,648 thousand for 2015.

In 2016, the annual portion of capitalized development expenses was zero. 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. These expenses were down by 28%, from €11,665 thousand in 2015 to €8,366 thousand in 2016.

This item remains the largest overhead for the Company, representing 43% of all operating expenses in 2016.

This items include the sales and marketing expenses, but also clinical research expenses, logistic and supply expenses directly linked to sales.

3.1.6 Administrative expenses

Administrative expenses were up by 5% on 2015, going from €3,642 thousand in 2015 to €3,843 thousand in 2016.

3.1.7 Share-based payments

As with previous fiscal years, the Group continued to issue stock options to its US employees, and also warrants to its board directors. As the Group is not allowed anymore to issue BSPCE, the Group has issued a preferred share plan which conditions have been voted and approved by the shareholders in its meeting on the 4th of May 2016.

Share-based payments in 2016 amounted to €285 thousand, compared with €450 thousand in 2015.

3.1.8 Operating Result

Operating expenses amounted to €19,660 thousand for the year, compared with €22,939 thousand in 2015, representing a decline of 14%, the main contributing factor being the decrease in sales and marketing expenses. As a result of this decrease and of the moderate increase of 3% in sales, the operating result for 2016 was a €(9,990) thousand, compared with a €(12,726) thousand in 2015 including €232 thousand of other operational revenues and expenses.

3.1.9 Net Result

After taking into account a financial profit of €246 thousand for the year to December 31, 2016, compared with -€84 thousand at December 31, 2015, the Company's net loss comes to -€9,744 thousand, compared with a net loss of -€12,643 thousand for the year ended December 31, 2015.

3.1.10 Cash and cash equivalents

Cash and cash equivalents as of December 31, 2016 stood at €9,053 thousand versus €10,620 thousand as of December 31, 2015.

3.2 RISKS AND UNCERTAINTIES - TRANSACTIONS WITH RELATED PARTIES

Company is exposed - Company's use of financial instruments

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

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

Exchange rate risk

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

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

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

The Group's major exchange rate risk is linked to the Euro/USD parity fluctuation. In fact, the Group markets the product and services in the United States through its subsidiary Mauna Kea Technologies Inc. Its revenues and expenses - including the purchases of Cellvizio and probes to

Mauna Kea Technologies SA - are expressed in US dollars the operational currency of the subsidiary. As a result, the Group is exposed to changes in the EUR/USD exchange rate through that subsidiary.

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

- a variation in the EUR/USD exchange rate of +10% would have generated an improvement in earnings of €267 thousand as of December 31, 2016;
- a variation in the EUR/USD exchange rate of -10% would have generated a drop in earnings of €(326) thousand as of December 31, 2016.

Interest Rate Risk

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

As of December 31, 2016, the Company's financial debt was not subject to interest rate risk because it primarily involved interest-free repayable advances in a total non-discounted amount of €3,038 thousand as described in Note 11: Borrowings and financial debt.

To date, the Company has contracted non-dilutive funding of €7 million with IPF Partners, a fund specialized in alternative financing for European growth companies in the healthcare sector.

This funding is made up of two bond portions: the first, which amounts to €4.0 million, has been issued to date; the second, for the remaining €3.0 million, will be available over the coming 12 months, subject to the achievement of pre-determined targets.

This funding is made up of 7,000,000 secured bonds for a total value of €7 million. The annual interest rate on these bonds is set at 3-month EURIBOR + 8.5%. The term of the first portion is set at five years (of which 18 months without repayment of principal) and the second at four years (of which 12 months without repayment of principal).

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 it that its customers have an appropriate credit risk history.

Note 22 to the consolidated financial statements covers relations with the related parties.

3.3 Predictable developments and future perspectives

Outside of the U.S., we will continue to leverage our existing sales channels and expanding clinical data to drive Cellvizio adoption. In addition, we believe that Cook Medical will begin shipping Cellvizio into its global urology customer base under our partnership during the year, providing entry into an attractive new market. As we advance the Cook Medical program, we will continue evaluating potential opportunities to enter commercial partnerships aimed at further expanding Cellvizio into additional applications, while also bringing new innovation to the platform to enable future applications.

3.5 Important events that occurred between the end of the last fiscal year and the drafting of this report

Provision of funding through a bond issue of €7 million

On February 8, 2017, the Company announced that it had contracted non-dilutive funding of €7.0 million with IPF Partners, a fund specialized in alternative financing for European growth companies in the Healthcare sector. This funding is made up of 7,000,000 bonds in two portions: the first, amounting to €4.0 million, was issued on February 8, 2017; the second, for the remaining €3.0 million, will be available over the coming 12 months, subject to the achievement of pre-determined targets. The annual interest rate on these bonds is set at 3-month EURIBOR + 8.5%;

Advantage of endomicroscopy in the in vivo diagnosis of stomach cancer

On March 2, 2017, the Company announced the publication of a general overview by the Singapore Gastric Cancer Consortium¹ team in a peer-reviewed journal highlighting the superior performance of endomicroscopy in terms of improving the diagnosis of gastric cancer. The use of endomicroscopy may also reduce the number of biopsies required to confirm this diagnosis by two thirds.

MANAGEMENT REPORT ON STATUTORY FINANCIAL STATEMENTS

To the Shareholders,

We present to you the management report on the Company's activities during the financial year starting January 1, 2016, and ended December 31, 2016, and submit the financial statements for that year for your approval.

We further propose that you approve the allocation of results for the year ended December 31, 2016, and the agreements referred to in Articles L. 225-38 et seq. of the French Commercial Code and entered into over the course of the past financial year.

During the General Meeting you will also have the reports of the Statutory Auditors read to you.

We remind you that the reports of the Statutory Auditors, the reports of the Board of Directors and the financial statements have been made available to you at the Company's registered office in accordance with the legal and regulatory requirements so that you may take due note of them.

The financial statements for the year ended December 31, 2016, comprising the balance sheet, the income statement and the notes to the financial statements have been prepared in accordance with the standards, principles and methods of the accounting plan.

MANAGEMENT REPORT

1. Presentation of the Mauna Kea group (the "Group")

1.1 Presentation of the operations of the Group

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

As of December 31, 2016, Mauna Kea Technologies is composed of a multidisciplinary team of 76 employees and benefits from an installed base of 500 facilities in 40 countries. Since its inception, Mauna Kea Technologies has generated cumulative revenues of approximately €70.3 million, €8.8 million of which in financial year 2016.

The Company's registered office is at 9, Rue d'Enghien, 75010 Paris. The commercial headquarters of its U.S. subsidiary, Mauna Kea Technologies Inc., is in Boston, Massachusetts (USA).

1.2 Highlights of the past financial year

1.2.1 Obtaining new reimbursement codes and regulatory approvals

FDA authorization for the marketing of miniprobes

May 2016: U.S FDA clearance for its near-infrared surgical miniprobes. FDA 510(k) clearance covers Confocal Miniprobes used with the near-infrared Cellvizio platform for urological and surgical applications.

Image-guided surgery with intra-operative macroscopic fluorescence systems provides surgeons with more accurate anatomical guidance. The addition of microscopic fluorescence in pathological tissue assessments should provide immediate, actionable information that may be used to improve diagnostic potential and further guide surgical treatments. These new probes will be compatible and complementary to the systems currently in place and used by all major parties involved in laparoscopic surgery;

Increase in reimbursement rates at hospitals and ambulatory surgical centers in the United States

November 2016: Centers for Medicare and Medicaid Services (CMS), the body that sets the reimbursement of medical care in the United States, published the definitive reimbursement terms applicable in 2017 for surgical procedures performed in hospitals and ambulatory surgical centers. These new reimbursement rates have been increased for gastroesophageal reflux and Barrett's esophagus indications, as recently recommended by the ASGS (American Society of General Surgeons), the AGA (American gastroenterological Association) and the CAP (College of American Pathologists), and for the imaging of pancreatic cysts, as supported by recently presented high-caliber clinical data. An increase of 131% in the reimbursement rate for procedures carried out in hospitals, and 86% for procedures carried out in ambulatory surgical centers;

1.2.2 Clinical results and conferences - the value of optical biopsy

February 2016: completion of the recruitment of 200 patients for the Contact II study on the diagnosis of pancreatic cysts using needle-based confocal laser endoscopy (nCLE). New clinical evidence on the effectiveness of nCLE in the diagnosis of pancreatic cysts. Publication of two new clinical reviews of nCLE;

April 2016: clinical research collaboration to study the potential of combining EM Imaging's in vivo optical imaging agents and Mauna Kea's confocal laser endomicroscopy platform to diagnose cancer. The combination of novel molecular imaging agents and advanced visualization such as endomicroscopy is a promising avenue for advancing personalized cancer diagnosis;

May 2016: Cook Medical introduced Cellvizio at the American Urological Association (AUA)'s Annual Meeting, one of the largest gatherings of urologists in the world, offering them unparalleled access to groundbreaking research, new guidelines and other major advances in urologic medicine;

May 2016: at the World Congress for Bronchology and Interventional Pulmonology, the Cellvizio platform was presented at a key symposium on probe-based confocal laser endomicroscopy (pCLE), in addition to many other presentations by leading international teams;

May 2016: strong presence of Cellvizio® platform at major medical meetings focused on gastroenterology.

The first meeting highlighting Cellvizio is Digestive Disease Week (DDW) 2016, which is the world's largest gathering of physicians and researchers in the fields of gastroenterology, hepatology, endoscopy, and gastrointestinal surgery.

The second meeting highlighting Cellvizio is the 91st Congress of the Japan Gastroenterological Endoscopy Society (JGES), which was held in Tokyo;

September 2016: the American Society of General Surgeons (ASGS) endorsed Cellvizio® as integral to the comprehensive assessment of and therapeutic decisions for the treatment of Barrett's esophagus and Gastroesophageal Reflux Disease (GERD);

October 2016: the first study on the contribution of Cellvizio to pediatric heart surgery is launched. The project, led by the University of Utah School of Medicine and Harvard Medical School, is funded by a subsidy from the National Institutes of Health (NIH). This study of cardiac surgery will explore, for the first time, a key new indication in pediatric heart surgery, and will complement the research carried out on the use of Cellvizio in an ever-increasing number of surgical procedures;

October 2016: the CONTACT clinical study confirms the clinical effectiveness of Cellvizio needle-based endomicroscopy in the diagnosis of pancreatic cysts at the 2016 United European Gastroenterology Week (UEGW). 217 patients were recruited from 5 French hospitals and clinics. The results confirm and reinforce the results previously published (CONTACT I pilot study, DETECT,

INSPECT) on the contribution of nCLE technology to the diagnosis of pancreatic cystic lesions;

November 2016: publication of the results of the PERSEE study in "Surgical Endoscopy" and the "European Journal of Gastroenterology & Hepatology". The PERSEE study demonstrates the applicability of Cellvizio in digestive cancer surgeries;

1.2.3 Partnerships and collaboration agreements

Extension of the strategic partnership with Fujifilm China

In February 2016, following the recent Chinese FDA clearance for the Cellvizio 100 series, Fujifilm China is now in the ideal position from which to launch Cellvizio for bilio-pancreatic applications within its leading range of echo-endoscopic products. Fujifilm China will commercialize Cellvizio for gastroenterological and pulmonary applications in China and will increasingly integrate the Cellvizio platform into its commercial offers for advanced endoscopy systems.

Exclusive urology partnership with Cook Medical

In May 2016, Cook Medical presented the Cellvizio system at the AUA's (American Urological Association) Annual Meeting.

2. Examination of the financial statements and results

2.1 Financial statements of Mauna Kea Technologies

The financial statements for the year ended December 31, 2016, which we submit for your approval have been drawn up in accordance with the rules of presentation and valuation methods set out in current legislation.

Income statement

Net revenues amounted to €7,331,438 compared with €7,368,575 for the previous year, representing a decline of 0.50%.

From this, the sum of -€55,378 should be subtracted, to correspond to the variation in finished products of -€105,846 and in auxiliary products of -€50,468.

Consequently, operating revenues amounted to a total of €7,276,060 versus €8,770,810 for the previous year, representing a decline of 17.04%.

Operating expenses amounted to €15,246,511 versus €18,069,083 for the previous year, representing a decline of 15.62%, and consisted of the following items:

- Purchases of merchandise:	€22,341
- Purchases of raw materials and other supplies:	€1,465,966
- Change in inventories:	€56,049
- Other purchases and external charges:	€5,712,622
- Taxes:	€178,529
- Wages and salaries:	€4,664,788
- Social security expenses:	€2,069,015
- Depreciation, amortization and provisions:	€261,653
- Impairment allowances:	€606,478
- Other expenses:	€209,070

The operating result was a negative €7,970,451 compared with a negative €9,298,273 for the previous year.

Our financial revenue and financial expenses amounted to €943,832 and €4,403,481 respectively, representing a negative net financial result of €3,459,648, compared with a negative €7,390,627 for the previous year. This loss is explained mainly by the impairment of the U.S. subsidiary's current account for an amount of €4,206,624.

Consequently the pre-tax result before non-recurring items was a loss of €11,430,099 compared with a loss of €16,688,900 for the previous year.

Non-recurring items came to a loss of €43,655 compared with a loss of €369 for the previous year.

After taking account of the Research Tax Credit of €828,232 and other tax credits amounting to €35,399, the result for the year is a loss of €10,610,123 compared with a loss of €15,424,674 for 2015.

Balance sheet

Assets

Intangible assets amounted to €171,373 net.

Property, plant and equipment amounted to €724,106 net.

Financial assets as of December 31, 2016 stood at the net amount of €1,141,307.

Current assets stood at €15,414,255 net and prepaid expenses came to €191,070.

Liabilities

Share capital stood at €800,074 as of December 31, 2016, as against €647,068 at the end of the previous year, and share premiums in respect of issues and mergers came to a total of €72,381,803 as of December 31, 2016.

Other reserves amounted to €19,560 at December 31, 2016.

Accumulated losses amounted to €60,194,362 as at December 31, 2016.

Company's indebtedness position with regard to the volume and complexity of its business

Liabilities amounted to €4,685,650 (compared with €4,568,104 at the end of the previous year), consisting mainly of:

- trade payables:	€2,951,646
- taxes payable and social liabilities:	€1,498,553
- other liabilities:	€54,486
- deferred revenue:	€180,966

In accordance with Article L. 441-6-1 of the French Commercial Code, we inform you that supplier payables totaling €1,508,094, compared with €1,178,506 for the previous year, break down by due date as follows:

	FY 2016 (in euros)	FY 2015 (in euros)
Less than 60 days	1,010,994	818,714
From 60 to 90 days	91,999	26,734
From 90 to 180 days	92,691	2,249
From 180 days to 9 months	11,478	134
More than 9 months	300,931	330,675

The table of results for the past five years can be found in Appendix A to this report.

3. Progress made and difficulties encountered

2016 was a critical year in the implementation of the Company updated strategic plan and this affected the sales performance. Even so, the Company successfully delivered a significant improvement in our gross margin and operating performance by streamlining our cost structure to reduce fixed operating costs. Increased financial flexibility is expected to support the continued growth of our global user base. The gross margin, however, remained unchanged.

The year 2016 was marked by some important steps in the areas of regulation, reimbursement and clinical studies, but especially notable were the recommendations issued by medical scientific societies in the United States and the increase in reimbursement rates by Medicare.

2016 was also marked by the extension of the strategic partnership with Fujifilm China for the launch of Cellvizio for bilio-pancreatic applications within its leading range of echo-endoscopic products. Fujifilm China will commercialize Cellvizio for gastroenterological and pulmonary applications in China and will increasingly integrate the Cellvizio platform into its commercial offers for advanced endoscopy systems. The extension of the Fujifilm partnership through 2016 and 2017 will significantly boost the visibility and accessibility of Cellvizio in the Asia-Pacific region.

The commercialization with Cook Medical, our exclusive urology partner, has known a great start during the first half of the year. Nevertheless, the activity with this partner has met some difficulties during year end due to due to regulatory and administrative issues. The Group, in collaboration with the partner, are currently working on finding solutions.

4. Main risks and uncertainties to which the Company and the Group are exposed - Use of financial instruments

The risks associated with the Company's activity, the hedging of these risks and the insurance policies covering them are described in Appendix B to this management report.

5. Activity in the field of research and development

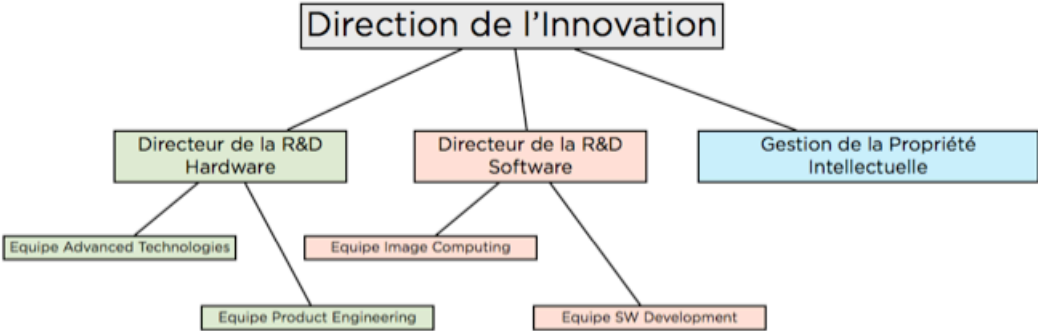
At the end of December 2016, the Research and Development team had 27 employees (doctors, engineers or technicians) covering the fields of expertise necessary for the development of the Group's products and technologies, namely:

- optics and optoelectronics;
- 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.

A structured Research & Development Division

The Research & Development Division comprises two separate departments under the responsibility of the Innovation Director. as shown in the diagram below :



Each R&D department is the interface in the Group for the management of any issue related to its expertise, and it oversees the technical work during the entire life cycle of the product, from initial design to production support.

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. It works to identify and verify the usefulness of emerging components and technologies so as to remain at the forefront of technology, while limiting any risk of obsolescence of key components by identifying alternative technical solutions 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. One example is the "Smart Atlas" project, which allows users to search for similarities between images based on their content. This "Smart Atlas" would integrate an observation sequence history under Cellvizio and conduct an immediate comparison of reference images with images in an ongoing procedure. This study was the subject of a thesis started in 2008 in close collaboration and under the direction of Nicholas Ayache, head of the INRIA Asclepios laboratory in Sophia Antipolis. Since 2012, it has existed in the form of an i-Lab contract between INRIA and the Company, in which two INRIA engineers who are experts in image processing are involved, in addition to the Group's engineers. This "Smart Atlas" project will have an innovative commercial use: to offer CAD features (Computer Aided Diagnosis) to Cellvizio users. In other words, assist them in their interpretation of the images produced.

R&D Applied To Improving Current Products And Optimizing Their Manufacture (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 each R&D department, the production team and the support team are held;
- 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 their technical feasibility by product marketing managers.

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

Technical product development

With regard to this mission, the Research and Development teams, and all members of the Operations Department in general, work together with the product managers and clinical affairs managers to develop new products as part of the business's project management.

Some of the major projects currently under way are:

The new-generation Cellvizio, or "GEN3": the aim of this project is to update the range of Mauna Kea Technologies, via the launch of new products, developed using revamped technological building blocks that include more powerful, smaller and less costly components. By using increased levels of modularity, the GEN3 product line will integrate far more easily within the various existing configurations of any hospital facility, thereby optimizing product use and the service provided, while still producing high-quality images and diagnostics.

The development of GEN3 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).

The "PERSEE" project: a genuine technological showcase for the Company, this project obtained €7.6 million in innovation funding from OSEO in April 2018. This funding will stop in August 2018. "PERSEE" is an industrial research and development project to develop a flexible, miniature and robotic endomicroscope designed for minimally invasive exploration of the abdominal cavity. The aim is to offer cancer patients the opportunity to select the best treatment strategy for them, whether that be surgery, chemotherapy or radiotherapy. Partners on the "PERSEE" project are working on a combination of Cellvizio and robotic technology, enabling the exploration of the abdominal cavity via one incision, so as to provide surgeons with information essential to their decision making. The Company is the leader of this collaborative project, on which it works alongside EndoControl, a developer of robotic solutions to help in surgical and medical procedures; ISIR (Institute for Intelligent Systems and Robotics) at the Université Pierre et Marie Curie; the Digestive Diseases Department at the Institut Mutualiste Montsouris (IMM); and the Cellular Imaging, Gastroenterology and Biopathology departments at the cancer-research center Institut Gustave Roussy (IGR). The PERSEE project is structured into four successive phases, the last of which is expected to be completed in August 2018. The third phase was completed in July 2015, and the end of stage 3 report was sent to BPI France in May 2016. Since July 2015, BPI France and the project partners have been working together to prepare for the launch of the fourth phase, which began in 2016 and will run for a period of two years. When this phase is over, the PERSEE project will have been completed.

6. Predictable developments and future perspectives of the Company

The Company is mainly focusing its efforts on the American market, where conditions have improved significantly.

Furthermore, the implementation of our "Vision 2020" strategic plan, which is set to make Mauna Kea Technologies a leading player in the digital transformation of medicine and surgery, is now well underway. After successfully bringing microscopes into the patient's body, the Company is now on the verge of bringing in vivo the connected laboratory of the future, harnessing the full power of the latest artificial intelligence techniques now available in the Cloud and the advent of next-generation molecular markers.

The assumption of a going concern has been relied upon by the Board of Directors, taking into account the level of cash at the end of December 2016, sales prospects (including therein those of signed partnership agreements), receipt of its 2015 research tax credit, of the funding through a bond the Company has contracted in February 2017, and with respect to its forecast cash-flows. Following a specific review of its liquidity risk, the Company considers that it is able to meet its scheduled repayments until December 31, 2017.

7. Significant events after the reporting period

Provision of funding through a bond issue of €7 million

On February 8, 2017, the Company announced that it had contracted non-dilutive funding of €7.0 million with IPF Partners, a fund specialized in alternative financing for European growth companies in the Healthcare sector. This funding is made up of 7,000,000 bonds in two portions: the first, amounting to €4.0 million, was issued on February 8, 2017; the second, for the remaining €3.0

million, will be available over the coming 12 months, subject to the achievement of pre-determined targets. The annual interest rate on these bonds is set at 3-month EURIBOR + 8.5%;

Advantage of endomicroscopy in the in vivo diagnosis of stomach cancer

On March 2, 2017, the Company announced the publication of a general overview by the Singapore Gastric Cancer Consortium¹ team in a peer-reviewed journal highlighting the superior performance of endomicroscopy in terms of improving the diagnosis of gastric cancer. The use of endomicroscopy may also reduce the number of biopsies required to confirm this diagnosis by two thirds.

8. Employee shareholding

As of December 31, 2016, there was no employee shareholding in place, within the meaning of Article L. 225-102 of the French Commercial Code.

The Board of Directors' reports on the allocation of stock options and free shares have been made available to you.

9. General management of the Company

Mr. Alexandre Loiseau is Chief Executive Officer of the Company. As such, the Company is represented vis-à-vis third parties by Mr. Alexandre Loiseau in his capacity as Chief Executive Officer.

10. Information concerning corporate officers

In accordance with the provisions of Article L. 225-102-1 of the French Commercial Code, we hereby report to you on the total compensation and benefits of any nature whatsoever paid during the financial year to each corporate officer, both by the Company and by companies controlled by the Company within the meaning of Article L. 233-16 of the French Commercial Code:

Compensation of corporate officers

The following information was prepared by referring to the Code on Corporate Governance for small and mid-caps, as amended in September 2016 by MiddleNext.

Summary of compensation, options and free shares granted to each corporate officer

	FY 2016	FY 2015
Alexandre Loiseau - Chief Executive Officer		
Compensation due for the period	€265,357	€244,457

Valuation of options granted during the period	70,240(*)	N/A
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(*) Allocation of 160,000 preference shares.

Summary table of compensation of each corporate officer

The following tables show the compensation due to the executive officers in respect of the financial years ended December 31, 2016, and December 31, 2015, and the compensation received by these persons during those financial years.

	FY 2016		FY 2015	
	Amounts due	Amounts paid	Amounts due	Amounts paid
Alexandre Loiseau - Chief Executive Officer				
Fixed compensation	€205,000	€205,000	€205,000	€205,000
Variable compensation	€45,850	€24,500	€25,113	€0
Exceptional compensation	€0	€0	€0	€0
Directors' fees	€0	€0	€0	€0
Benefits in kind	€14,507	€14,507	€14,344	€14,344
Total	€265,357	€244,007	€244,457	€219,344

(1) Premium due for the previous financial year

Mr Pierre Forest, in position of Chief Operating Officer from the 1st of June 2016 to the 18th of January 2017, received a fixed compensation for €131,250, benefits in kind for €2,512 and a variable compensation for € 15,750 covering the period from the 1st of June 2016 to the 31st of December 2016.

In Appendix C to this report, you will find the Board of Directors' report on the draft resolutions pertaining to the principles and criteria applicable to the determination, distribution and allocation of the fixed, variable and exceptional elements of the total compensation and all benefits awarded to the Chairman and the Chief Executive Officer.

The following table contains details of the conditions of compensation and other benefits granted to corporate officers:

<u>Executive officers</u>	<u>Employment contract</u>		<u>Supplementary pension plan</u>		<u>Compensation or benefits due or likely to be due owing to termination or change of office</u>		<u>Compensation for non-compete clause</u>	
	Yes	No	Yes	No	Yes	No	Yes	No
Alexandre Loiseau, Chief Executive Officer		X		X		X		X
<i>Date on which term of office began:</i>	Ordinary General Meeting of May 25, 2011							
<i>Date on which term of office expired:</i>	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2016							

Lastly, you will find hereunder a list of the offices and functions performed by the corporate officers in all companies:

<u>Name and role held within the Company</u>	<u>Main roles held in all companies</u>	<u>Other appointments held in all companies</u>
Chris McFadden - Chairman of the Board of Directors	Canyon Healthcare Partners, Managing Partner	Foundation Radiology Group, independent director ValueCentric, LLC, independent director The Natural History Museum of the Adirondacks Director and Manager InnovaTel Telepsychiatry, Chairman of the Board of Directors
Alexandre Loiseau - Chief Executive Officer	N/A	Mauna Kea Technologies Inc., Chief Executive Officer
Jean-Luc Boulnois - independent director	Quadrature LLC, Chairman and Chief Executive Officer	FineHeart, Chairman of the Board of Directors Fiberoptic Components, Director
Marie Meynadier - independent director	EOS Imaging, Chief Executive Officer	Stentys, director
Joseph Devivo	Chief Executive Officer of InTouch Health	ALSAC/St. Jude, director

11. Significant equity interests acquired in companies based in France, or control of such companies; disposals of such holdings

In accordance with the provisions of Article L. 233-6 of the French Commercial Code, we inform you that the Company did not acquire or dispose of any equity interests during the year.

12. Activities of subsidiaries and associates

As of December 31, 2016, the Company had the following subsidiary:

Mauna Kea Technologies, Inc.: formerly based in Suwanee, Georgia, and now based in Boston (Massachusetts), Mauna Kea Technologies Inc. was founded in 2005. This entity markets the Group's products on U.S. territory and provides an interface with the regulatory authorities (FDA). As of December 31, 2016, it had 10 employees and had posted sales of US\$2,527 thousand for the year (€2,284 thousand) and a net loss of US\$3,246 thousand (-€2,933 thousand).

13. INFORMATION relating to the distribution of share capital and treasury shares - Share buyback program

In accordance with the provisions of Article L. 233-13 of the French Commercial Code, and taking into account the information received in accordance with Articles L. 233-7 and L. 233-12 of said Code, we indicate hereafter the identity of shareholders with direct or indirect holdings of more than 5%, 10%, 15%, 20%, 25%, 33.33%, 50%, 66.67%, 90% and 95% of the share capital or of the voting rights at the Company's Annual General Meetings as at December 31, 2016:

Shareholders	Situation as at December 31, 2016		
	number of shares	% of the capital	% of voting rights
The Capital Group Companies, Inc	803,599	5.92%	5.92%
Seventure	597,338	4.08%	4.08%
Alexandre Loiseau	549,240	3.40%	6.44%

The Company entered into a contract signed on May 24, 2012, under which it entrusted the management of its liquidity contract to the company GILBERT DUPONT SNC.

By virtue of this contract, as at December 31, 2016, the Company held 23,681 shares representing 0.12% of its share capital.

As at today's date, the value of the portfolio stands at €71,501.62, based on the closing price at December 31, 2016, i.e. €3.02.

During the 2016 financial year under this contract, 972,502 shares were bought at an average price of €2.82 and 985,184 shares were sold at an average price of €2.79.

The Company did not redeem its treasury shares for other reasons.

The Company has not informed any other limited liability company that it holds more than 10% of its capital. The Company has no cross-holdings and has not therefore disposed of any shares.

14. Restrictions imposed by the Board in respect of the exercise of options granted or sale of bonus shares granted to executives.

The executive officer does not hold any options or share warrants.

In accordance with the provisions of Article L. 225-197 of the French Commercial Code, the Chief Executive Officer must hold in registered form, until the end of his term of office, 10% of the shares granted by the Board of Directors, up to a maximum number of shares whose combined value does not exceed one year's total gross compensation.

15. Changes in the composition of the share capital during the year

	Number	Nominal value (euros)	Share capital (euros)
1. <u>Shares comprising the share capital at the beginning of the financial year</u>	16,176,707	0.04	647,068.28
2. <u>Shares issued during the year</u>			
Capital increase (July 2016)	2,980,131	0.04	119,205.24
Exercise of BSAs	845,000	0.04	33,800.00
Shares comprising the share capital at the end of the financial year	20,001,838	0.04	800,073.52

16. Share performance – Risk of price change

During 2016, 64,746,273 shares of the Company were traded on the NYSE Euronext Paris regulated market.

The shares are quoted at €2.99 as of the date of this report, March 23, 2017.

The lowest closing price recorded was €1.52 on August 1st, 2016, and the highest was €4.21 on September 19, 2016.

The Company's market capitalization as at the date of this report was €52 million.

17. Summary statement of transactions carried out during the year by managers and persons referred to in Article L. 621-18-2 of the French Monetary and Financial Code in shares of the Company

N/A

18. Information required by article L. 225-100-3 of the French Commercial Code

18.1. Structure of the Company's issued capital

Shareholders	Number of shares	% of the capital
Alexandre Loiseau	549,240	2.75 %
Subtotal "Board of Directors"(*)	549,240	2.75 %
Other shareholders holding more than 5% of the share capital or having declared a threshold crossing		
Seventure	201,326	1.00 %
The Capital Group Companies Inc.	803,599	4.02 %
Inocap	1,099,560	5.50 %
Subtotal of "Shareholders holding more than 5% of the share capital"	2,104,485	10.52 %
Seventure	396,012	1.98 %
Other registered	702,691	3.51 %
Other free float	16,249,410	81.18 %
TOTAL	20,001,838	100.00 %

(*) Current composition.

18.2. Statutory restrictions on the exercise of voting rights and the transfer of shares or clauses brought to the Company's attention in application of article L. 233-11 of the French Commercial Code

N/A

18.3. Direct or indirect stakes in the Company's share capital of which it is aware by virtue of Articles L. 233-7 and L. 233-12 of the French Commercial Code

See section 13 above.

18.4. List of holders of any securities conferring special rights of control and description of these rights

The Company is not aware of the existence of any special right of control.

18.5. Control mechanisms provided in any employee shareholding scheme where rights of control are not exercised by the employees

The Company has not put in place any employee shareholding scheme containing control mechanisms where rights of control are not exercised by the employees.

18.6. Rules applicable to the appointment and replacement of members of the Board of Directors and amendments to the Articles of Association

The applicable rules are statutory and are in accordance with the law.

18.7. Powers of the Board of Directors, in particular the issuance and buyback of shares

The Company's Combined General Meeting of May 4, 2016, authorized the Board to implement, for a period of 18 months after the Meeting, a share buyback program in the context of the provisions of Articles L. 225-209 *et seq.* of the French Commercial Code and market practices accepted by the *Autorité des Marchés Financiers* (the French financial markets authority). The main terms of this authorization are as follows:

Maximum number of shares that may be bought: 10% of the total number of shares, at any time, with the proviso that when the shares are acquired in order to improve the liquidity of the Company's shares, the number of shares used to calculate this limit will be the number of shares bought less the number of shares resold during the authorization period, and when they are bought with a view to holding them and subsequently using them for payment or exchange as part of a merger, split or contribution transaction, the number of shares acquired may not exceed 5% of the total number of shares; Maximum purchase price: €30 per share, excluding fees and commissions, up to a total maximum of €5,000,000.

Objectives of the share buyback program:

- to ensure the liquidity of the Company's shares under the terms of a liquidity contract to be entered into with an investment services provider, in accordance with an ethics charter recognized by the *Autorité des Marchés Financiers* (AMF);
- to meet the obligations related to stock options, bonus shares, or employee savings plans, or other share grants to the employees and executives of the Company or companies affiliated with it;
- to tender shares on exercise of the rights attached to securities giving access to the share capital;
- to purchase shares to hold for their subsequent exchange or use as consideration in potential acquisitions; or
- to cancel some or all of the shares of stock thereby bought back.

18.8. Agreements entered into by the Company which are amended or terminated in the event of a change of control of the Company

N/A

18.9. Agreements providing for indemnities for executive corporate officers or employees if they resign or are dismissed without due cause or if their employment is terminated as a result of a public takeover bid

See section 10 above.

19. Social and environmental information required by Article R. 225-105-1 of the French Commercial Code

Please refer to the Corporate Social Responsibility Report.

ALLOCATION OF THE PROFIT/(LOSS)

We propose to allocate the loss for the year ended December 31, 2016, of €10,610,123 to "Accumulated Losses", the balance of which will thus be (€70,804,485).

DIVIDENDS PREVIOUSLY DISTRIBUTED

In accordance with the law, we remind you that the Company has not paid a dividend for the past three financial years.

NON TAX-DEDUCTIBLE EXPENSES

In application of Article 223 quater of the French General Tax Code, we ask you to approve the sumptuary expenses and non-deductible expenses referred to in Article 39-4 of this Code, which amount to €10,176.

REGULATED AGREEMENTS

The special report of the Statutory Auditors on the agreements referred to by Articles L. 225-38 et seq. of the French Commercial Code will be read to you.

We can confirm that no new agreements were entered into during the 2016 financial year.

No new regulated agreements have been submitted to the Board of Directors for approval since this report was prepared.

We can also confirm that, during the financial year in question, no agreements were entered into between a director or major shareholder of the Company and a subsidiary of the Company.

CHAIRMAN'S REPORT

Attached to this report as Appendix D is the report of the Chairman of the Board of Directors on how the Board operates and the internal control procedures put in place by the Company.

DELEGATIONS CONCERNING CAPITAL INCREASES

In accordance with the provisions of Article L. 225-100, para. 4 of the French Commercial Code, you will find attached to this report as Appendix E, a summary table of the delegations of authority and powers granted by the General Meeting to the management board regarding capital increases in accordance with the provisions of Articles L. 225-129-1 and L. 225-129-2 of the aforementioned Code. The table shows the use made of these delegations during the year.

The complementary reports drawn up by the Board of Directors and the Statutory Auditors regarding the management board's exercise of the powers delegated to it have been made available to you in application of the legal provisions.

The Board of Directors

APPENDIX A

Table of results for the past five financial years

Type of indication / period	12/31/2016	12/31/2015	12/31/2014	12/31/2013	12/31/2012
Duration of the financial year	12 months	12 months	12 months	12 months	12 months
I - Financial position at year-end					
a) Share capital	800,074	647,068	559,701	552,138	542,470
b) Number of shares issued					
c) Number of bonds convertible into shares					
II - Comprehensive income from operations					
a) Sales excluding taxes	7,331,438	7,368,575	11,655,908	8,756,328	9,338,236
b) Profit (loss) before tax, depreciation, amortization and provisions	(6,335,344)	(8,169,270)	(7,368,551)	(8,197,744)	(6,034,517)
c) Income tax	(863,531)	(1,264,596)	(1,311,400)	(1,078,192)	(1,102,328)
d) Profit (loss) after tax, but before depreciation, amortization and provisions	(5,491,713)	(6,904,674)	(6,057,151)	(7,119,552)	(4,932,189)
e) Profit (loss) after tax, depreciation, amortization and provisions	(10,610,123)	(15,424,674)	(14,741,711)	(11,413,995)	(10,372,281)
f) Amount of profits distributed					
g) Employee shareholding					
III - Earnings per share					
a) Profit (loss) after tax, but before depreciation and amortization					
b) Profit (loss) after tax, depreciation, amortization and provisions					
c) Dividends paid per share					
IV - Employees					
a) Number of employees					
b) Total payroll	4,664,788	5,959,220	6,280,833	5,920,956	5,680,370
c) Total amounts paid in relation to employee benefits	2,069,015	2,546,525	2,746,803	2,529,464	2,390,902

APPENDIX B

Main risks and uncertainties to which the Company is exposed – Company's use of financial instruments

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

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

Exchange rate risk

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

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

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

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

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

- ◆ a variation in the EUR/USD exchange rate of +10% would have generated an improvement in earnings of €267 thousand as of December 31, 2016;
- ◆ a variation in the EUR/USD exchange rate of -10% would have generated a drop in earnings of €(326) thousand as of December 31, 2016.

Interest Rate Risk

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

As of December 31, 2016, the Company's financial debt was not subject to interest rate risk because it primarily involved interest-free repayable advances in a total non-discounted amount of €3,038 thousand as described in Note 11: Borrowings and financial debt.

To date, the Company has contracted non-dilutive funding of €7 million with IPF Partners, a fund specialized in alternative financing for European growth companies in the healthcare sector.

This funding is made up of two bond portions: the first, which amounts to €4.0 million, has been issued to date; the second, for the remaining €3.0 million, will be available over the coming 12 months, subject to the achievement of pre-determined targets.

This funding is made up of 7,000,000 secured bonds for a total value of €7 million. The annual interest rate on these bonds is set at 3-month EURIBOR + 8.5%. The term of the first portion is set at five years (of which 18 months without repayment of principal) and the second at four years (of which 12 months without repayment of principal).

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 it that its customers have an appropriate credit risk history.

APPENDIX C

MAUNA KEA TECHNOLOGIES

A Public Limited Company (Société anonyme) with share capital of 766,273.52 euros

Registered office: 9 rue d'Enghien - 75010 Paris, France

431 268 028 in the Paris Trade and Companies Register Paris

REPORT OF THE BOARD OF DIRECTORS ON DRAFT RESOLUTIONS RELATING TO THE PRINCIPLES AND CRITERIA APPLICABLE TO THE DETERMINATION, ALLOCATION AND ALLOCATION OF FIXED, VARIABLE AND EXCEPTIONAL ITEMS COMPRISING TOTAL REMUNERATION AND BENEFITS OF ANY KIND ATTRIBUTABLE TO THE CHAIRMAN AND TO THE CEO

Pursuant to Article L. 225-37-2 of the French Commercial Code, the Board of Directors submits to the approval of the General Meeting the principles and criteria applicable to the determination, distribution and allocation of variable, and exceptional items that make up the total remuneration and benefits of any kind attributable to the President and Chief Executive Officer resulting from the exercise of their mandate for the fiscal year 2017 and constituting the remuneration policy relating to them.

These principles and criteria, adopted by the Board of Directors on the recommendation of the Remuneration Committee, are set out below:

For Mr. Christopher McFadden, Chairman of the Board of Directors:

Items of remuneration	Principles	Criteria for determination
Fixed remuneration	The Chairman does not receive any remuneration as Chairman of the Board of Directors	N/A
Attendance fees	The Chairman receives attendance fees	As for every director, the Chairman may receive attendance fees, the amount of which is decided by the board, within the limit of the envelope voted in general meeting) and the principles adopted by the Board of Directors. The Board, based on its his attendance and the time devoted to his office, including, where applicable, within the committee or committees set up by the Board.

In addition, the Chairman may be granted the option to subscribe, for valuable consideration to share warrants subject to conditions of attendance.

For Mr. Alexandre Loiseau, CEO:

Items of remuneration	Principles	Criteria for determination
fixed remuneration	The CEO receives a fixed remuneration payable in 12 monthly instalments	The gross annual amount of this fixed remuneration was set at 205,000 euros for the financial year 2017
Variable remuneration	The CEO receives variable remuneration not exceeding 50% of his fixed remuneration	Such variable remuneration is based on corporate objectives set by the remuneration committee
Benefits in kind	Provision of a vehicle GSC Insurance	

In addition, the CEO may be granted share subscription options and bonus shares, subject to conditions of attendance and performance.

We ask you to approve the principles and criteria as set out in this report.

In application of Article L. 225-100 of the Code of Commerce, the amounts resulting from the implementation of such principles and criteria will be submitted to the shareholders for approval at the general meeting called to consider the Company's financial statements for the financial year 2017. The payment of variable remuneration is subject to approval by the general meeting.

The Board of Directors

APPENDIX D

MAUNA KEA TECHNOLOGIES

Société anonyme (French joint-stock company) with share capital of €766,273.52
Registered office: 9, rue d'Enghien - 75010 Paris, France
431,268,028 in the Paris Trade and Companies Register

REPORT BY THE CHAIRMAN OF THE BOARD OF DIRECTORS ON CORPORATE GOVERNANCE, INTERNAL CONTROL AND RISK MANAGEMENT

To the Shareholders,

In accordance with the provisions of Article L. 225-37 of the French Commercial Code, I have the honor as Chairman of the Board of Directors to report to you on the composition of the Board and how its work was prepared and organized in 2016, as well as on the internal control and risk management procedures put in place by the Company.

This report, prepared by the Company's Administration and Finance Department, was approved by the Board of Directors at its meeting on March 21, 2017.

1. Corporate governance

1.1. Corporate governance methods

Until May 25, 2011, the Company was registered as a French simplified joint stock company (société par actions simplifiée). As part of its initial public offering, on May 25, 2011, the Company changed to a public limited company (société anonyme) with a Board of Directors, and adopted new rules of governance. The Company is administered by a Board of Directors and managed by a Chief Executive Officer.

At its meeting of May 25, 2011, the Board of Directors adopted internal rules of procedure that define, among other things, the role and composition of the Board, the rules of conduct and the obligations of the Company's Board of Directors, the ways in which the Board and its committees function, and the rules for determining the compensation of their members.

The Board is subject to the provisions of the French Commercial Code, Articles 11 to 13 of the Company bylaws and the internal rules of procedure that it adopted.

The Board is charged principally with:

- determining the major outlines of the Company's activity and supervising their implementation. Subject to the powers expressly attributed to shareholders' meetings and within the limits of the corporate purpose, the Board deals with any issue that concerns the running of the Company and, in its decisions, settles any matters that concern it;
- appointing a Chairman of the Board, a Chief Executive Officer and Chief Operating Officers and setting their compensation;
- authorizing the agreements and commitments mentioned in Articles L. 225-38 and L. 225-42-1 of the French Commercial Code; and
- proposing the appointment of the statutory auditors at the Annual General Meeting,
- approving the Chairman's report on corporate governance and internal control, and
- preparing the draft resolutions specified in Article L. 225-37-2 of the French Commercial Code and the associated report.

It is responsible for the quality of the information provided to shareholders and the markets.

In accordance with the provisions of Article L. 225-35, para. 4, of the French Commercial Code, the Board must also approve bonds, guarantees and endorsements in advance.

The Company has chosen to model its governance on the corporate governance code for small and medium cap companies published in December 2009 and amended in September 2016 by MiddleNext and approved as a model code by the Autorité des Marchés Financiers (the "MiddleNext Code"). »).

At its meeting of March 21, 2017, the Board of Directors, in accordance with recommendation No. 19 of the MiddleNext Code, took note of the "points of vigilance" listed in this code and committed to the regular review thereof.

The Board launched an initiative intended to gradually bring its compliance in line with the recommendations of the MiddleNext Code as amended in September 2016 and, to this end, modified its internal rules at its Board meeting on March 21, 2017.

1.2. Composition of the Board of Directors

At December 31, 2016, the Company's Board of Directors was composed of 5 directors. No non-voting members have been appointed to date.

Name or company name	Role	Date of appointment	Expiration of term of office	Committee
Chris McFadden	Chairman of the Board of Directors, independent Director	OGM of 06/11/2014	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2016	Audit Committee Compensation Committee - chairman
Alexandre Loiseau	Director and Chief Executive Officer	OGM of 05/25/2011, re-elected at the OGM of 06/11/2014	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2016	N/A
Jean-Luc Boulnois	Independent director	OGM of 06/11/2014	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2016	Audit Committee - Chairman
Joseph Devivo	Independent director	OGM of 05/04/2016	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2018	Audit Committee
Marie Meynadier	Independent director	OGM of 06/11/2014	At the close of the Annual General Meeting held to approve the financial	Compensation Committee

			statements for the year ending December 31, 2016	
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In accordance with recommendation No. 1 of the MiddleNext Code, the executive directors do not hold more than two other appointments.

1.2.1 Balanced gender representation

Of the Board's five members, one is female. The appointment of a new female member to the Board of Directors will be proposed at the Annual General Meeting called to approve the financial statements for the 2016 financial year, due to be held on May 3, 2017. The Company will, subject to the adoption of the resolution relating to this appointment by the Annual General Meeting, comply with the law of January 27, 2011 on balanced gender representation on boards, as the Board of Directors will be composed of less than eight members with neither gender outnumbering the other by more than two.

1.2.2. Independent Directors

Pursuant to its internal rules, the Board of Directors decided to use the definition of independence proposed by the MiddleNext Code under its recommendation No. 3 "Composition of the Board", as characterized by the following five criteria:

- the director must not be, and must not over the past five years have been, an employee or executive officer of the Company or of any company in its group;
- the director must not be, and must not over the past two years have been, in a significant relationship with the Company or its group (as a client, supplier, competitor, service provider, creditor, banker, etc.);
- the director must not be a reference shareholder of the Company or hold a significant portion of its voting rights;
- the director must not have a close relationship or family ties with a corporate officer or reference shareholder of the Company; and
- must not, over the past six years, have been a statutory auditor of the Company.

At its meeting of March 21, 2017, the Board of Directors confirmed that four of its members met all of the above criteria, namely Chris McFadden, Jean-Luc Boulnois, Joseph Devivo and Marie Meynadier. It also confirmed that Ms Jennifer F. Tseng, the appointment of whom will be put to the vote at the next Annual General Meeting, also meets all of the above criteria.

Every year, the Board of Directors will assess, on a case-by-case basis, the status of each member vis-a-vis the aforementioned criteria.

1.2.3 Terms of office

The members of the Board of Directors are appointed by the Ordinary General Meeting for a term of 3 years. This term is tailored to the specific requirements of the Company. The renewal of directors' terms of office is not staggered, as recommended by the MiddleNext Code (recommendation No. 9). In fact, all members' terms of office are scheduled to end at the same time.

1.2.4 Ethics

The internal rules, code of ethics and the financial disclosure charter have been approved by the Board of Directors. These documents outline the rules which must be followed by the members of the Board, in accordance with recommendation No. 1 of the MiddleNext Code.

1.2.5. Director selection

At the time of appointment or renewal of the term of office of each director, details of their experience, expertise and list of appointments held is set out in the Registration Document and shared at the Annual General Meeting. This information is available online on the Company's website, as suggested in the MiddleNext Code, under recommendation No. 8. The appointment and/or renewal of each director shall be the subject of a specific resolution submitted to the shareholders' vote.

1.3 Preparation and Organization of tasks undertaken by the Board

The Company's Board of Directors has a set of internal rules, in accordance with recommendation No. 7 of the MiddleNext Code. This document, approved by the Board of Directors at its meeting of May 25 and amended by the Board of Directors at its meeting of March 21, 2017, is available on the Company's website.

In compliance with recommendation No. 2, these internal rules, in the clause entitled "Disclosure of interest" on the prevention of conflicts of interest, state that a director who finds him or herself in a situation of conflict of interest, is obliged to inform the members of the Board as such and to determine whether he/she should abstain from voting and/or taking part in Board discussions.

In compliance with recommendation No. 4 of the MiddleNext Code, outside of Board meetings and when in the interest of the Company, the directors must regularly be provided with all important information relating to the Company, that is likely to have an impact on the commitments and financial position thereof. They may ask for any further explanations or additional information, and more generally, may request access to any information they deem useful.

To take an effective part in the Board's work and deliberations, each member of the Board is provided with whatever additional documents he or she thinks useful. Such requests are made to the Chairman or, when appropriate, to any senior executive of the Company (Chief Executive Officer or Chief Operating Officer).

Each member of the Board is authorized to meet with the Company's senior executives, so long as he or she first informs the Chairman of the Board and the Chief Executive Officer.

The Board is regularly informed by the Chief Executive Officer of the Company's and the Group's financial position, cash position, financial commitments and significant events.

Finally, any new member of the Board may ask to receive training in particular aspects of the Company or Group, their lines of business and their business segments.

The members of the Board are convened by letter, fax or email at least five (5) days before each meeting.

The Board may also be convened by any other means, even verbally, if all the Board members in office are present or represented at the meeting.

All documents or drafts of documents that could be informative to the members about the meeting agenda and any matters brought before the Board are sent, handed or made available to the members of the Board within a reasonable time before the meeting.

Moreover, whenever it meets, the Board is informed about the Company's financial position, cash position and commitments.

In accordance with Recommendation 11 of the MiddleNext Code, once a year the Board discusses the way it functions and, at least once every three years, undertakes a formal assessment, where appropriate with an outside consultant.

The purpose of this assessment, moreover, is to make sure that the important questions are suitably prepared and debated, and to measure the contribution of each member to the Board's work, chiefly in regard to his or her qualifications and degree of involvement.

1.4. Report on the Board's activities during the 2016 financial year

The minutes of each meeting are prepared by the Chief Executive Officer, then approved by the Chairman, who submits them for approval at the next meeting. They are copied into the minutes register following signature by the Chairman and one Director.

During the financial year 2016, the Board of Directors of the Company, as a public limited company (société anonyme) met ten times, on February 2, March 23, April 8, May 9, May 25, July 12, July 26, September 20, October 20 and November 15, 2016. All meetings were chaired by the Chairman of the Board. The directors' attendance rate was close to 90%.

As set out in recommendation No. 14 of the MiddleNext Code, the majority of issues are addressed at the meetings of the Board. Nevertheless, the issues relating the assumed accident and the sudden unavailability of the director were not addressed during 2016 and will be added to the agenda of the next Board meeting.

Prior to Board meetings, the directors are sent all documents required to enable them to prepare for the issues to be discussed.

In accordance with recommendation No. 11 of the MiddleNext Code, in 2016, the Board performed a self-assessment of its composition, organization and the way it operates. A questionnaire was sent to the members of the Board, the results of which will be presented by the Chairman at the next meeting.

Lastly, in accordance with recommendation No. 12, the directors must offer minority shareholders the opportunity to meet with them and discuss the operation of the Company. In 2016, this took place at the Annual General Meeting, held in Paris on May 4, 2016.

1.5. Organization of the Committees

In accordance with recommendation No. 6 of the MiddleNext Code, the Board of Directors decided to set up two specialized committees: the Audit Committee and the Compensation Committee.

1.5.1. Audit Committee

The Company's Board of Directors at its meeting of May 25, 2011 voted to create an Audit Committee.

This duty of the Audit Committee is to assist the Board of Directors independently of the Company management, in order to ensure the accuracy of the financial statements, the quality of the internal control system, the utility of the information provided and the proper execution by the Statutory Auditors of their assignment.

The Audit Committee is responsible in particular for:

- monitoring the process of preparing the financial information;
- monitoring the efficacy of the internal control and risk management systems;
- monitoring the auditing of the annual financial statements and the consolidated financial statements by the statutory auditors;
- issuing a recommendation on the auditors proposed for appointment by the Annual General Meeting and reviewing the terms of their compensation;
- monitoring the independence of the Statutory Auditors;
- examining the conditions for the use, if any, of derivatives;
- periodically reviewing the status of major litigation; and
- in general, providing any advice and making any appropriate recommendation in the above areas.

The Audit Committee is, if possible, comprised of at least three members appointed by the Board of Directors. The term of service of Audit Committee members is the same as that of their directorships. The members of the Audit Committee are chosen from among the members of the Board of Directors and, to the extent possible, two-thirds of them are independent directors, one of them having particular competence in financial or accounting matters, with the understanding that all the members have minimum competence in financial or accounting matters.

The members of the Audit Committee are as follows:

- Jean-Luc Boulnois, Chairman of the Audit Committee, independent director, appointed by the Board of Directors on June 11, 2014;
- Chris McFadden, Chairman of the Board of Directors, independent director, appointed by the Board of Directors on June 11, 2014;
- Joseph Devivo, member of the Audit Committee, appointed by the Board of Directors on March 23, 2016.

The appointment of three members was deemed sufficient in view of the total number of directors of the Company. The internal rules of procedure of the Audit Committee, adopted on May 25, 2011 after approval by the Board of Directors, outline the legal responsibilities and practices of the Audit Committee, including the minimum number of committee meetings each year. They also state that the Committee may interview any member of the Company's Board of Directors and request any internal or external audit for any matter that it considers within its remit. The chairman of the Audit Committee shall give prior notice of this act to the Board of Directors. In particular, the Audit Committee has the authority to hear persons who participate in the preparation of the financial statements or their review (Vice President of Finance, Director of Administration and Finance). It has the right of direct, independent and confidential consultation with the statutory auditors.

The Audit Committee met twice in the financial year 2016: on March 22 and September 19, 2016.

1.5.2. Compensation Committee

The Compensation Committee is responsible in particular for:

- examining the main objectives proposed by general management with respect to the compensation of executives who are not corporate officers of the Group, including the bonus share and stock option plans;
- examining the compensation of executives who are not corporate officers, including the bonus share and stock option plans, the pension and insurance benefit plans and the benefits in kind;
- making recommendations and proposals to the Board of Directors on:
 - the compensation, the pension and insurance benefit plans, the benefits in kind, the other financial rights, including those in the event of retirement, of the members of the Board of Directors. The committee proposes compensation amounts and structures, in particular, rules for determining the variable portion, taking into account the Company's strategy, objectives and results as well as market practices, and
 - the bonus share and stock option plans and any other similar profit-sharing arrangement, in particular, the personal allocations to the members of the Board of Directors;
- examining the total amount of director's fees and the arrangements for distribution among the members of the Board of Directors, as well as the conditions for reimbursement of expenses that might have been incurred by the members of the Board of Directors;
- preparing and presenting the reports, where applicable, set forth in the Board of Directors' internal rules of procedure; and

- preparing any other recommendation that might be asked of it by the Board of Directors with respect to compensation.

In general, the Committee provides any advice and makes any appropriate recommendation in the above areas.

The Compensation Committee consists if possible of at least two members appointed by the Board of Directors, with the provision that no member of the Board of Directors who serves as an executive in the Company can serve on the Committee. The term of service of Compensation Committee members is the same as that of their directorships.

It is stated to the extent necessary that no member of the Board of Directors who carries out executive duties in the Company may be a member of the Compensation Committee.

The members of the Compensation Committee appointed on May 25, 2011 and June 11, 2014 are:

- Chris McFadden, Chairman of the Compensation Committee, Chairman of the Board of Directors and independent director;
- Madame Marie Meynadier, independent director.

As part of its duties, the Committee may ask the chairman of the Board of Directors to obtain assistance from any Company executive whose expertise might facilitate the handling of any item on the agenda.

The Committee met four times in the financial year 2016: on February 2, March 23, July 25 and September 19, 2016.

1.6. Principles and rules determining the compensation of corporate officers

The Company applies all of the recommendations of the MiddleNext Code on executive and non-executive pay.

For the financial year 2016, the variable compensation targets for the Chief Executive Officer were set and approved by the Board of Directors on the recommendation of the Compensation Committee on February 2, 2016. These objectives took into account, inter alia, the Company's sales growth.

At its meeting on March 21, 2017, the Board of Directors, acting on the proposal from the Compensation Committee dated March 14, 2017, examined the level of achievement of these targets and resolved to pay the Chief Executive Officer the variable compensation corresponding to those targets, which are contingent on the Company's performance.

Executive directors do not receive directors' fees in respect of their corporate office within the Company. In addition, they are not entitled to any deferred compensation, retirement benefits or pension plans, in accordance with recommendations No. 16 and 17 of the MiddleNext Code.

Within the framework of its executive and employee compensation and incentives policy, the Company granted bonus preference shares to Company employees and stock warrants to employees of its subsidiary, on February 2, July 26 and November 15, 2016.

Contrary to recommendation No. 18 of the MiddleNext Code, the Company has introduced a policy of granting free shares to its Chief Executive Officer. It should be noted that with regard to the granting of free shares, when the plans have benefited the director, they have also benefited all Group employees, who will have received either free shares or stock options.

Executive compensation

The following information was prepared by referring to the Code on Corporate Governance for small- and mid-caps, as amended in September 2016 by MiddleNext.

All members of the Board may receive directors' fees of an amount voted for by the Ordinary General Meeting and distributed as decided by the Board, in accordance with the attendance record and time dedicated by members to their roles including, where applicable, on any committees established by the Board.

The compensation of the Chairman is set by the Board, after consultation with the Compensation Committee.

Board members may also receive compensation for specific duties assigned to them by the Board of Directors over and above their regular duties with the Board.

Every director is entitled to the reimbursement of reasonable transport costs incurred in the exercise of their duties.

Summary table of compensation and options and shares granted to each executive officer		
(Chairman of the Board of Directors) Chris McFadden	Year ended 12/31/2016 (in euros)	Year ended 12/31/2015 (in euros)
Compensation due for the period (detailed in Table 2)	76,000	59,000
Valuation of options granted during the period	12,160(1)	N/A
Valuation of performance shares granted during the period	N/A	N/A
(Chief Executive Officer) Alexandre Loiseau	Year ended 12/31/2016 (in euros)	Year ended 12/31/2015 (in euros)
Compensation due for the period (detailed in Table 2)	267,357	244,457
Valuation of options granted during the period	N/A	N/A
Valuation of performance shares granted during the period	70,240	N/A

(1) 0.16 EUR per stock warrant

Summary of compensation for each executive officer				
(Chairman of the Board of Directors) Chris McFadden	Amounts due for the year ended 12/31/2016 (in euros)		Amounts due for the year ended 12/31/2015 (in euros)	
	Amounts due	Amounts paid	Amounts due	Amounts paid
- fixed compensation	0	0	0	0
- variable compensation	0	0	0	0
- exceptional compensation	0	0	0	0
- directors' fees	76,000	76,000	59,000	59,000
- benefits in kind	0	0	0	0
TOTAL	76,000	76,000	59,000	59,000
(Chief Executive Officer) Alexandre Loiseau	Amounts due for the year ended 12/31/2016 (in euros)		Amounts due for the year ended 12/31/2015 (in euros)	
	Amounts due	Amounts paid	Amounts due	Amounts paid
- fixed compensation	205,000	205,000	205,000	205,000
- variable compensation	45,850	24,500	25,113	0
- exceptional compensation	0	0	0	0
- directors' fees	0	0	0	0
- benefits in kind(2)	14,507	14,507	14,344	14,344
TOTAL	265,357	244,007	244,457	219,344

(1) Premium due for the previous financial year.

(2) Benefits in kind consist of a lease and unemployment insurance for company managers and executives.

Mr Pierre Forest, in position of Chief Operating Officer from the 1st of June 2016 to the 18th of January 2017, received a fixed compensation for €131,250, benefits in kind for €2,512 and a variable compensation for € 15,750 covering the period from the 1st of June 2016 to the 31st of December 2016.

Stock options granted during the financial year to each executive officer by the issuer and by any Group company						
Name of the executive officer	Plan No. and date	Type of options (purchase or subscription)	Valuation of the options according to the method used for the consolidated financial statements	Number of options granted during the period	Exercise price	Exercise period
Chris McFadden	7/26/2016	BSA	12,160(1)	40,000	1.68	7/26/2017 7/26/2026
TOTAL						

(1) 0.16 EUR per stock warrant

Stock options exercised during the financial year by each executive officer				
Number of options exercised during the period	Plan No. and date	Number of options exercised during the period	Exercise price	Year of grant
N/A				
Number of options exercised during the period	Plan No. and date	Number of options exercised during the period	Exercise price	Year of grant
N/A				

Bonus shares granted to each executive officer						
Performance shares granted during the period by the issuer and by each Group company	Plan No. and date	Number of shares granted during the period	Valuation of the shares according to the method used for the consolidated financial statements	Acquisition date	Vesting date	Performance conditions
Alexandre Loiseau	July 26, 2016	160,000	70,240	July 26, 2017	July 26, 2020	(1)

(1) Performance conditions are listed in the minutes of the Combined General Meeting of May 4, 2016, in resolutions 19 and 20, which can be accessed via the following link:

http://www.maunakeatech.com/sites/default/files/investors/documentation/eui_1200483797_1_mkt_-_pv_agm_4_mai_2016.pdf

Bonus shares vesting during the period for each executive officer				
Performance shares vesting for each executive officer	Plan No. and date	Number of shares vesting during the period	Vesting condition	Year of grant
N/A				

The following table contains details of the conditions of compensation and other benefits granted to corporate officers:

Executive officers	Employment contract		Supplementary pension plan		Compensation or benefits due or likely to be due owing to termination or change of office		Compensation for non-compete clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Chris McFadden, Chairman of the Board of Directors		X		X		X		X
Date on which term of office began:	Ordinary General Meeting of June 11, 2014							
Date on which term of office expired:	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2016							
	Yes	No	Yes	No	Yes	No	Yes	No
Alexandre Loiseau, Chief Executive Officer		X		X		X		X
Date on which term of office began:	Ordinary General Meeting of May 25, 2011							
Date on which term of office expired:	At the close of the Annual General Meeting held to approve the financial statements for the year ending December 31, 2016							

1.1.1 Directors' fees and other compensation received by non-executive directors

Table of directors' fees and other compensation received by non-executive officers		
Members of the Board of Directors	Directors' fees paid for the year ended 12/31/2016 (in euros)	Directors' fees paid for the year ended 12/31/2015 (in euros)
André-Michel Ballester		
- directors' fees	0	17,000
- other compensation	0	0
TOTAL	0	17,000
Jean-Luc Boulnois		
- directors' fees	34,000	25,000
- other compensation	0	0
TOTAL	34,000	25,000
Marie Meynadier		
- directors' fees	31,000	25,000
- other compensation	0	0
TOTAL	31,000	25,000
Joseph DeVivo		
- directors' fees	40,000	N/A
- other compensation	0	N/A
TOTAL	40,000	-

At its meeting on May 25, 2016, the Board of Directors set its members' compensation as follows, in accordance with the budget set by the Annual General Meeting on May 4, 2016:

- the Board of Directors allocates directors' fees on a yearly basis and pays them on a quarterly basis;
- the Chairman of the Board of Directors is allocated €55,000 per year, prorata temporis;
- the independent directors, with the exception of the Chairman of the Board of Directors, are each allocated €25,000 pro rated to their attendance rate at Board meetings;
- the Chairmen of the Audit and Compensation Committees are allocated €9,000 per year for this office;
- the members of the Audit and Compensation Committees other than the Chairmen are allocated €6,000 per year for this office.

Directors receive no special pension, termination benefit or non-compete compensation.

2. Risk management and internal control procedures introduced by the Company

To prepare this part of its report, the Company relied on the implementation guide of the model framework for internal control as adapted for small and medium enterprises, updated and published by the AMF on July 22, 2010.

2.1. General principles of risk management

A) Definition

Mauna Kea Technologies continues to formalize its risk management process.

This process aims to identify all the risks and risk factors that can impact the Company's business activities and operations and to define the means of managing such risks and of containing them or bringing them down a level the Company can accept. The aim is to encompass every type of risk and apply the process to every activity of the Company and the Group.

B) Objectives of risk management

Mauna Kea Technologies has adopted the definition of risk management proposed by the Autorité des Marchés Financiers¹ (the French Financial Markets Authority), whereby risk management is one of the Company's management tools that helps to:

- create and preserve the Company's value, assets and reputation;
- add security to the Company's decision making and processes so as to make the attainment of its objectives more likely;
- ensure the Company's actions are consistent with its values;
- enlist the employees in a common vision of the Company's principal risks.

C) Components of the risk management system

The risk factors identified to date by the Company are presented in Section IV of the Registration Document filed with the AMF on June 13, 2016, which will be updated in 2017.

To date, the Company has identified the following major families of risk:

- the competitive environment;
- commercialization, related in particular to the adoption rate by healthcare professionals, the reimbursement terms for endoscopic procedures, and the recruitment of a loyal sales force;
- intellectual property;
- manufacturing processes;
- risks relating to potential product liability;
- financial risks;
- legal risks, relating in particular to regulations governing medical devices and to authorizations already obtained or in progress and the regulatory environment;
- organizational structure of the Company.

2.2. Congruence between risk management and internal control

The point of risk management is to identify the major risks and risk factors that might impact the activities, processes or objectives of the business and to define the means of containing these risks at an acceptable level, including by adopting preventive measures and controls that fall within the scope of the internal control system.

¹ Guide to the implementation of the reference framework for internal control adapted to small- and mid-caps (updated on July 22, 2010).

At the same time, the internal control system relies primarily on the risk management system to identify the major risks that need to be controlled. The Company devised and developed an internal control system from its initial founding, while the formalization of a risk management process has been more recent. The Company is now engaged in a process of co-ordinating the two systems, with the primary goal of identifying the control procedures that must apply to the business's key activities which might be affected by risks that analysis shows to be "major".

2.3. General principles of internal control

A) Definition

Mauna Kea Technologies adopts the definition of internal control proposed by the Autorité des Marchés Financiers² (the French Financial Markets Authority), whereby internal control is a system implemented by the Company to ensure:

- compliance with laws and regulations;
- the enforcement of instructions and guidelines set by general management;
- the satisfactory functioning of the Company's internal processes;
- the reliability of financial disclosures; and

in general contributes to the management of its activities, the efficacy of its operations and the efficient utilization of its resources.

During the financial year, Mauna Kea Technologies continued to apply an internal control process designed to "guarantee internally the relevance and reliability of the information used and disseminated in the Company's activities".

B) Components of internal control

Organization of the validation system

The internal control system is based on a clear organization of responsibilities, guidelines, resources and procedures. The Company has always had a quality assurance system. The processes applied in all areas of the business are defined in written procedures, operating methods, forms and notices. These documents outline the workflow, define the resources and responsibilities of participants, specify the know-how of the Company and give precise instructions on how to perform a given operation.

In 2013, to enhance its quality system and internal control, the Company opted to introduce SAP integrated management software with a pre-configured package designed for small and medium-sized enterprises.

The roles that use this software package are Procurement/Suppliers, Sales/Clients, the role of Accounting, and Management Control.

Every year, the Company is the subject of a systems-information audit. In 2015, this audit did not find any significant anomalies. The weaknesses of the system, if applicable, are covered by compensatory means of control.

Everyone in the Company is affected by the internal control system.

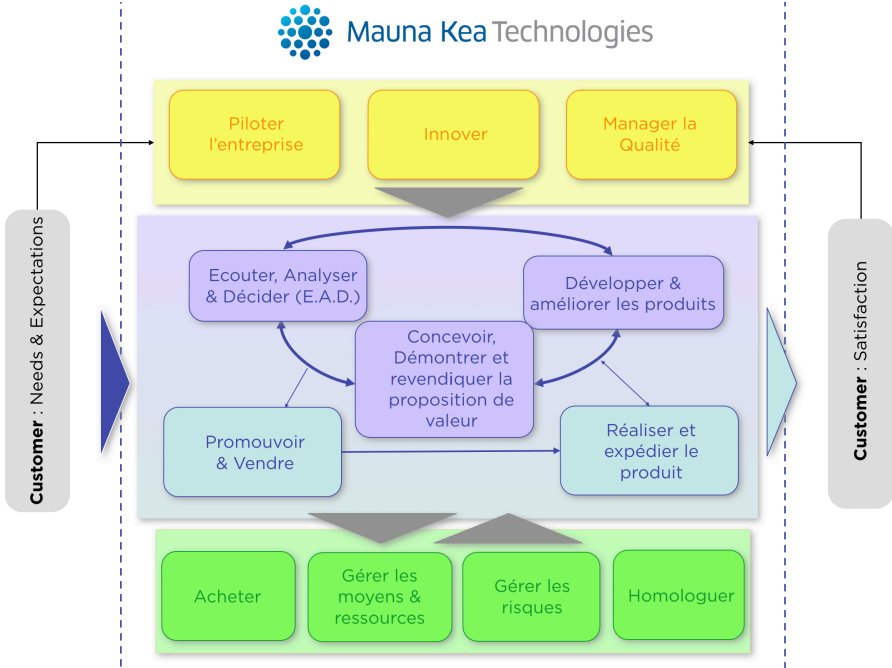
Procedures relating to operational processes

² Guide to the implementation of the reference framework for internal control adapted to small- and mid-caps (updated on July 22, 2010).

All documentation relating to the quality management system (QMS) is stored on a dedicated intranet which optimizes access to the documents and their ongoing adaptation to business developments (document life cycle management). The aim is to foster a continuous improvement in the quality and functional processes of the Company and the Group, be they operational, management or support processes.

Each one of these processes is placed under the responsibility of a steering person, who manages, along with responsibility for quality, all of the quality-control procedures and forms describing the activities covered by the process, as well as the performance indicators connected to the process. The various processes are reviewed on a regular basis by the corporate management, at the time of the management's review.

The quality assurance system covers the following areas:



The system of quality management is audited once yearly by the certifying entity LNE GMED within the framework of the CE certification. In November 2015, following Recommendation No. 2013/473/UE of the European Commission, which makes it obligatory at least once during a three-year certification cycle, the Company was the subject of an unscheduled one-day audit. The results were positive, and if any nonconformities were found, the corrective actions were rapidly defined, and this audit did not cause the Company's CE certification to be called into question.

Financial reporting procedures

The Company has set up the following organization to limit financial management risks:

- the Company's General Management, and more specifically staff from the Finance Department, are responsible for improving internal control and adopting the recommendations of the external auditors and Audit Committee;
- the Company maintains an internal separation between the production and supervision of its financial statements and relies on independent experts to examine complex accounting entries such as the research Tax Credit and valuation of stock options or founders' warrants;
- a certified public accountant is in charge of preparing the consolidated financial statements under IFRS;
- the financial and accounting management of the U.S. subsidiary, Mauna Kea Technologies Inc., undergoes a regular internal review by the head office accounting team;

- Payroll management in France and the review of U.S. payroll is outsourced to a specialized independent firm.

In general, all of the Company's accounting options are defined by the Finance Department following a discussion with the General Management and Statutory Auditors, before being presented to and examined jointly with the Audit Committee. This ensures that the Company's practices are fully compliant with French and international standards (IFRS), as well as maintaining consistency in the presentation of the financial statements.

At year-end, a detailed budget is prepared for the following financial year by the Finance Department and signed off by the General Management. This budget is presented to the Board of Directors. At the end of each half-year, the accounting teams close the consolidated accounts of Group companies.

The analytical validation of entries and a comprehensive spending review are carried out during periodic budget reviews organized with all operational managers. The Finance Department reports to the General Management and directors at each Board meeting. The reports are presented and discussed periodically at Board meetings.

2.4. Risk management and internal control actors

Since the Company's inception, the General Management has always played a key role in defining and driving the internal control and risk management system.

2.5. Risk management and internal control limits and opportunities for improvement

The Company seeks to adapt its risk management system to its information system (ERP) and to improve the monitoring of the action plans identified.

In the medium term, the Company could extend the functional coverage of its ERP system with additional functions such as production and after-sales service.

Chairman of the Board of Directors

APPENDIX E

Summary table of current delegations of authority and powers granted by the Annual General Meeting to the Board of Directors regarding capital increases in accordance with Articles L. 225-129-1 and L. 225-129-2 of the French Commercial Code and the use made of these delegations during the 2016 financial year

<u>Date of the Annual General Meeting</u>	<u>Purpose of the authorization</u>	<u>Expiration date</u>	<u>Use made by the Board of Directors</u>
Combined General Meeting of May 27, 2015			
May 27, 2015 (12th resolution)	Delegation of authority granted to the Board of Directors to issue and allocate share warrants to (i) members and non-voting members of the Board of Directors of the Company in office at the warrant allocation date and who are not employees or executives of the Company or of one of its subsidiaries, (ii) a service provider or consultant under contract to the Company or to one of its subsidiaries, or (iii) members of any committee that the Board of Directors should establish who are not employees or executives of the Company or of one of its subsidiaries - Maximum number of share warrants: 400,000	November 27, 2016 (18 months) This delegation was replaced by the delegation with the same purpose granted by the Meeting of May 4, 2016	The Board made no use of this delegation during 2016
May 27, 2015 (14th resolution)	Delegation of authority granted to the Board of Directors to increase the share capital by issuing ordinary shares or any securities giving access to the share capital without preferential subscription rights for shareholders, for the benefit of a certain category of persons under an equity financing facility - Maximum nominal amount: €84,000	November 27, 2016 (18 months)	The Board made no use of this delegation during 2016
Combined General Meeting of May 4, 2016			
May 4, 2016 (9 th resolution)	Delegation of authority granted to the Board to increase the share capital by issuing ordinary shares and/or any equity securities giving access to other equity securities or to the allocation of debt securities, and/or securities giving access to future equity securities with preferential subscription rights for	July 4, 2018 (26 months)	The Board made no use of this delegation during 2016

<u>Date of the Annual General Meeting</u>	<u>Purpose of the authorization</u>	<u>Expiration date</u>	<u>Use made by the Board of Directors</u>
	shareholders - Maximum nominal amount: €194,000* (Articles L. 225-129 to L. 225-129-6, L. 228-91, L. 228-92 and L. 228-93 of the French Commercial Code)		
May 4, 2016 (10 th resolution)	Delegation of authority granted to the Board to increase the share capital by issuing ordinary shares and/or any securities giving access to other equity securities or to the allocation of debt securities, and/or securities giving access to future equity securities, without preferential subscription rights for shareholders and a public offering - Maximum nominal amount: €194,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting (Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-135-1, L. 225-136, L. 228-91, L. 228-92 and L. 228-93 of the French Commercial Code)	July 4, 2018 (26 months)	The Board of Directors made no use of this delegation during 2016
May 4, 2016 (11 th resolution)	Delegation of authority granted to the Board to increase the share capital by issuing ordinary shares and/or any securities giving access to other equity securities or to the allocation of debt securities, and/or securities giving access to future equity securities, without preferential subscription rights for shareholders as part of an offering for qualified investors or a limited group of investors as referred to in Section II of Article L. 411-2 of the French Monetary and Financial Code - Maximum nominal amount: €194,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting (Articles L. 225-129 to L. 225-129-6, L. 225-135, L. 225-135-1, L. 225-136, L. 228-91, L. 228-92 and L. 228-93 of the French Commercial Code)	July 4, 2018 (26 months)	The Board of Directors made no use of this delegation during 2016
May 4, 2016	Delegation of authority granted to the Board of Directors to increase the share	November 4,	

<u>Date of the Annual General Meeting</u>	<u>Purpose of the authorization</u>	<u>Expiration date</u>	<u>Use made by the Board of Directors</u>
(12 th resolution)	<p>capital by issuing ordinary shares or any securities giving access to the share capital without preferential subscription rights for shareholders, for the benefit of a certain category of persons responsible for the underwriting of Company equity securities likely to be issued as part of an equity financing facility - Maximum nominal amount: €97,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting</p> <p>(Articles L. 225-129 et seq. of the French Commercial Code, and in particular, Articles L. 225-129-2, L. 225-129-4, L. 225-135, L. 225-138 and L. 228-91 et seq. of the French Commercial Code)</p>	<p>2017</p> <p>(18 months)</p>	The Chief Executive Officer, as delegated by the Board of Directors on October 20, 2016, made use of this delegation on November 17, 2016 and decided to issue 1,850,000 stock warrants in favor of Kepler.
<p>May 4, 2016</p> <p>(14th resolution)</p>	<p>Delegation of authority for the Board to increase the number of securities to be issued in the event of a capital increase with or without preferential subscription rights in accordance with the authority delegated above</p> <p>(Articles L. 225-129, L. 225-129-2, L. 228-135, L. 225-135-1 et seq., L. 228-91 and L. 228-92 of the French Commercial Code)</p>	<p>July 4, 2018</p> <p>(26 months)</p>	The Board of Directors made no use of this delegation during 2016
<p>May 4, 2016</p> <p>(15th resolution)</p>	<p>Delegation of authority granted to the Board to issue ordinary shares and securities giving access to the share capital of the Company, in the event of a public offering involving an exchange component initiated by the Company - Maximum nominal amount: €194,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting</p> <p>(Articles L. 225-129 to L. 225-129-6, L. 225-148, L. 228-91 and L. 228-92 of the French Commercial Code)</p>	<p>July 4, 2018</p> <p>(26 months)</p>	The Board of Directors made no use of this delegation during 2016
<p>May 4, 2016</p> <p>(16th resolution)</p>	<p>Delegation of authority granted to the Board of Directors to increase the share capital, within a limit of 10% of the share capital, as consideration for contributions in kind of equity securities or securities giving access to the share capital of other</p>	<p>July 4, 2018</p> <p>(26 months)</p>	The Board of Directors made no use of this delegation during 2016

<u>Date of the Annual General Meeting</u>	<u>Purpose of the authorization</u>	<u>Expiration date</u>	<u>Use made by the Board of Directors</u>
	companies and not part of a public exchange offering - Maximum nominal amount: €194,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting (Article L. 225-147 of the French Commercial Code)		
May 4, 2016 (18 th resolution)	Delegation of authority granted to the Board of Directors to increase the share capital by the incorporation of premiums, reserves, profits or other items - Maximum nominal amount: €16,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting (Articles L. 225-129, L. 225-129-2 and L. 225-130 of the French Commercial Code)	July 4, 2018 (26 months)	The Board of Directors made no use of this authorization during 2016
May 4, 2016 (21 st resolution)	Delegation of authority granted to the Board of Directors to issue and allocate share warrants (BSA) to (i) members and non-voting members of the Company's Board of Directors in office at the warrant allocation date and who are not employees or executives of the Company or of one of its subsidiaries, (ii) a service provider or consultant under contract to the Company or to one of its subsidiaries, or (iii) members of any committee that the Board of Directors should establish who are not employees or executives of the Company or of one of its subsidiaries - Maximum nominal amount: €16,000	November 4, 2017 (18 months)	The Board made use of this delegation on July 26, 2016, and issued, at the price of €0.17 each, a total of 115,000 BSAs in favor of 4 non-executive directors, each carrying entitlement to subscribe to one ordinary share with a nominal value of €0.04 at the price of €1.68 each (share premium included) (see the additional reports by the Board of Directors and the Statutory Auditors)
May 4, 2016 (22 nd resolution)	Delegation of authority granted to the Board of Directors to increase the share capital by issuing ordinary shares and/or any securities giving access to other equity securities or to the allocation of debt securities, and/or securities giving access to future equity securities, without preferential subscription rights for shareholders, for the benefit of a certain	November 4, 2017 (18 months)	The Board made use of this delegation on July 12, 2016, and decided to increase the share capital by a nominal amount of

<u>Date of the Annual General Meeting</u>	<u>Purpose of the authorization</u>	<u>Expiration date</u>	<u>Use made by the Board of Directors</u>
	<p>category of persons meeting pre-determined criteria - Maximum nominal amount: €194,000, included in the overall maximum amount of €194,000 set by the Annual General Meeting</p> <p>(Articles L. 225-129 et seq. and in particular, Articles L. 225-129-2, L. 225-129-4, L. 225-135, L. 225-138 and L. 228-91 et seq. of the French Commercial Code)</p>		<p>€119,205.24 by issuing 2,980,131 shares at the price of €1.49 each (share premium included) (see the additional reports by the Board of Directors and the Statutory Auditors).</p>

CORPORATE AND ENVIRONMENTAL RESPONSIBILITY OF THE MAUNA KEA TECHNOLOGIES GROUP

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INTRODUCTION

Vision

Mauna Kea Technologies was founded on one simple but ambitious vision: that diagnostic and processing errors can be eradicated if physicians are given the means to conduct patient health checks on a cellular scale in real time.

Mission

Since its inception, the Company has devoted all its resources to developing an imaging procedure the confocal laser endomicroscopy using miniprobes. Its mission is to make this new technology a new standard for the widest possible variety of medical 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.

History

Accessing the inaccessible is the aim of current instrumental research in astrophysics, where the founders of Mauna Kea Technologies started out: exploring the regions where stars form, probing active galactic nuclei and exo-planetary systems, and understanding the physical processes governing these, most often from legendary observation sites such as the summit of the volcano of Mauna Kea, the highest point of the Hawaii archipelago, in the Pacific Ocean.



Accessing the inaccessible is also the ambition of the Company's research teams, which, for the last sixteen years, have been developing innovative devices for their physician colleagues that can investigate cells right inside our organs, detecting the early stages of pathologies in real time and describing the biological processes behind them.

SECTION 1

CREATOR OF MEDICAL INNOVATIONS

1.1 From ideas to products

Most pathologies, particularly cancers, are the result of disruption in the functions of organisms at cellular level. Cancer is doubly invisible in the earliest stages of evolution: there is no observable macroscopic manifestation, either using conventional medical imaging resources (X-rays, scanners, MRIs, ultrasound – due to lack of resolution, and the impossibility of observing the finest details), or through endoscopic examination in situ, because it is not possible to access the depths of the mucosa, where 90% of cancers develop.

For this, only a tissue sample – a biopsy – will do, but this is invasive, destroys tissues, is random, time-consuming (in terms of both sampling and analysis), costly, and ultimately the accuracy is limited.

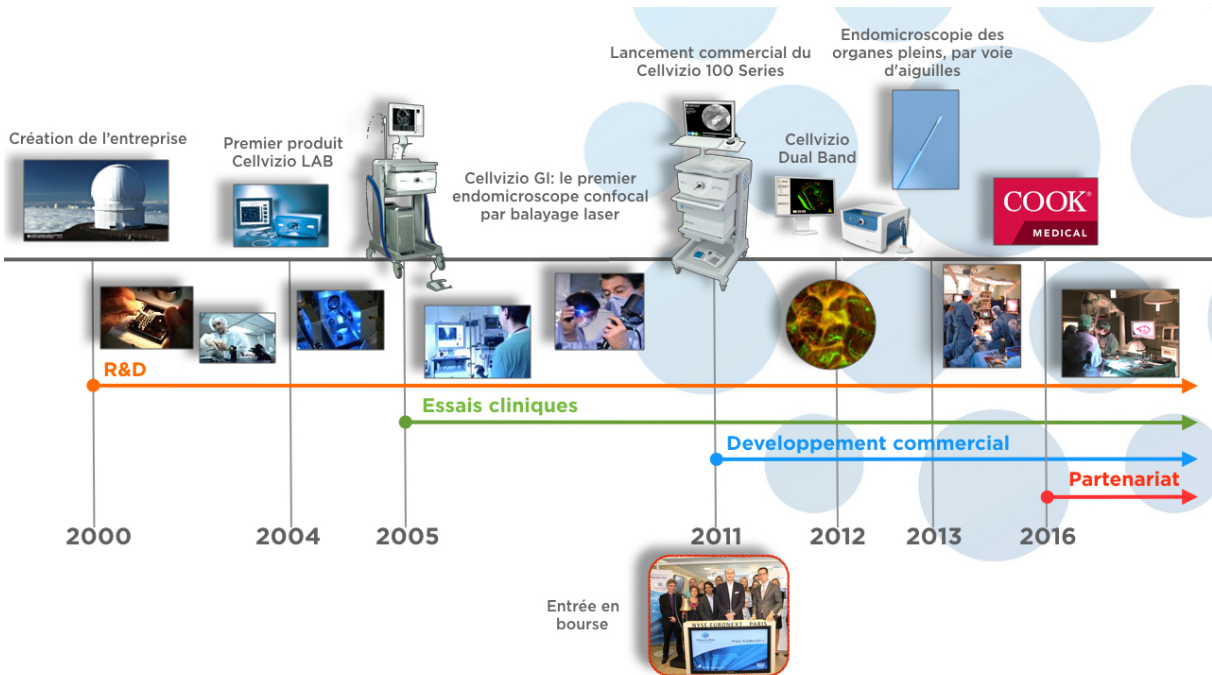
The founding idea of Mauna Kea Technologies was to design a device to perform microscopic imaging in real time and in situ, in vivo, and capable of observing the internal layers of tissues during an endoscopic examination. The combination of confocal microscopy, fiber optics and fluorescent imaging techniques, along with a strong image processing component, was the solution.

In 2004, 4 years after being founded, the Company launched its first product, Cellvizio LAB, aimed at medical research. Its first users were biologists, cancer specialists, and neuroscientists.

1.2 From startup to listed company

Mauna Kea Technologies received initial regulatory approval in the USA and Europe, and, in 2005, it launched a second product (Cellvizio-GI, aimed at medical applications), followed by a third product, Cellvizio-LUNG, starting on the (very) long process of clinical validation. Its users are now gastroenterologists and pulmonary specialists.

In late 2010, it properly initiated its business development in gastroenterology, pulmonology and lastly in urology, signing a global partnership agreement in 2016 with COOK MEDICAL.



In July 2011, the Company changed its legal form and its environment by joining the ranks of newly listed companies. Its ecosystem expanded to include financiers, investors and shareholders in addition to the world of research, medicine, and healthcare systems.

To date, the Company has installed over 500 of its products in over 40 countries. It has more than 200 patents in 15 countries and the number of publications on this new imaging procedure introduced just 10 years ago is approaching one thousand.



1.3 Research, Innovation and Development

As with any innovative company, the Company's very function – its metabolism – is to transform new ideas into high added value products for its customers.

Peer-reviewed publications

This function can be understood – and hence managed – in three different activities, operating in different fields of competence, with different actors, on different time scales but that remain inseparable.

The first area is Research, which involves creating or gathering the knowledge required for this value creation. In Mauna Kea Technologies, this involves a range of activities conducted in the technological, scientific, and clinical fields, alone or in partnership with the academic world. This research is often supported and financed by public funds (ANR, BPI, CIR).

The second is Innovation itself, which involves researching, imagining, and designing solutions to meet market requirements: physicians, researchers, or healthcare systems. It is based on knowledge that is gathered, collated, and shared by technical, sales, clinical, and financial teams in the Company. It can potentially generate new approaches, collaborations, and patents.

The third area is Development, which involves transforming imagined solutions retained upstream into products. It is necessarily based on the Company's technical skill, but also on its regulatory teams, its production capacities, and operations. This development may also receive public funding (BPI, CIR) and industrial collaboration proposals.

Of the three, Innovation is the most cross-disciplinary: it is the point of convergence for the Company's strategy, clinical studies conducted with our employees, technological oversight, and market research carried out by the marketing department. This is the place where value is truly created. Many complementary innovation techniques are implemented within the Company, including the Idea Booster, which aims to gather, monitor, and develop "non-standard" proposals, not always connected to any particular current development project; and Hackfests, totally free competitions with proof of concept, along the lines of "show don't tell", and with no limitation as to subject, but strictly limited in time: 48 hours.

Historically, Mauna Kea Technologies has always devoted a very substantial share of its financial and human resources to these 3 activities. Its patent portfolio, clinical studies, and publications are proof of this, as is the number of its regulatory approvals.

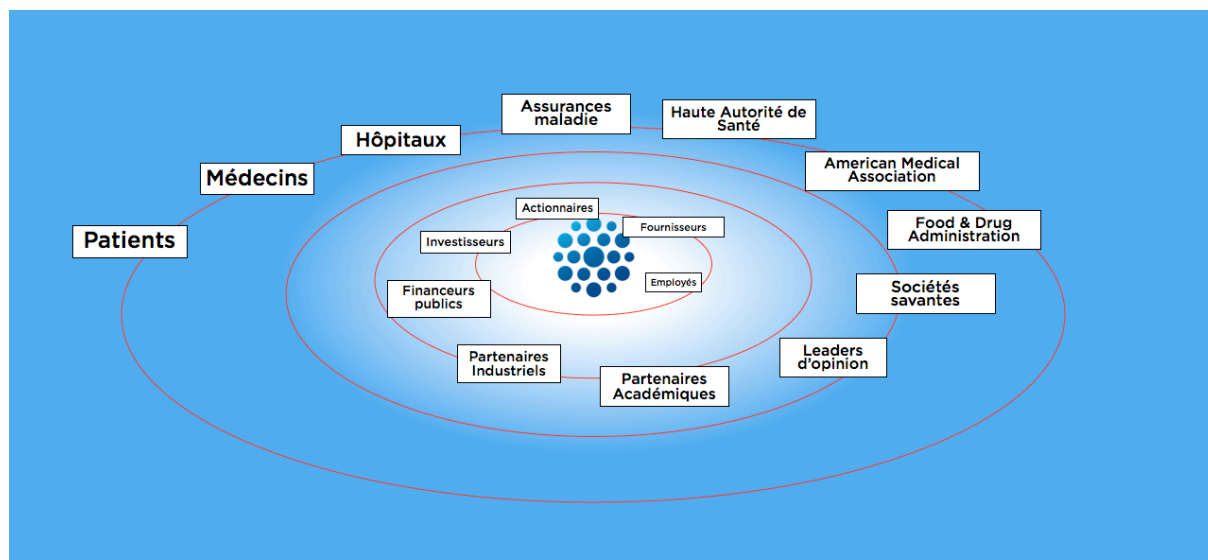
This year again, the Company has maintained a high level of investment, with €4445 thousand spent on research and development, on multi-annual projects (€4648 thousand in 2015, €4583 thousand in 2014).

SECTION 2 RESOURCES AND SYNERGY

2.1 Relationships with related parties

2.1.1 Related parties

Mauna Kea Technologies is evolving at the heart of a complex ecosystem that includes many players.



- the final beneficiaries of its products are the patients; its customers are physicians, care institutions, and research centers. Over 500 sites currently have the Cellvizio® technology. The Company has thus developed strong relationships with the medical community, and in particular with opinion leaders, who have experience with our medical devices, and the scientific authority necessary for the adoption of a new medical technology by their colleagues;
- scholarly societies and professional medical associations have an important influence in obtaining reimbursement codes, or in implementing sound medical practices based on national or international recommendations;
- healthcare authorities and health insurance organizations issue marketing approvals and reimbursement codes. Mauna Kea Technologies currently markets its products in over 50 countries;
- academic partners with which Mauna Kea Technologies conducts research work;
- industrial partners, whether customers or suppliers, with which Mauna Kea Technologies has built up strong, lasting partnerships;
- outside of the medical field, the Company maintains close relationships with both the European and the U.S. financial community. It has a shareholder base of several thousand individual French shareholders, which is the vast majority, and individual European and U.S. institutional investors, general fund managers or healthcare specialists. The Company's shares are also now listed on the OTCQX market in the United States, making it possible for U.S. investors to buy shares in dollars by means of American Depositary Receipts (ADRs);
- lastly, the Company's employees share, maintain, and develop the values of Mauna Kea Technologies.

2.2 Focus on employees

2.2.1 Presentation of employees



Total workforce

Permanent contract

Total executives

The vast majority of the workforce is on a permanent contract. The headcount is highly qualified, and consists mostly of executives. The Company mainly hires people with high-level studies and skills, and also invests significantly in training new employees, with a view to retaining them.

Distribution of workforce by geographical region:

	12/31/2016	12/31/2015	Change
France	64.8	83.9	-22.73%
Europe excluding France	0	0.9	-100%
America	11.5	19.5	-41.03%
Asia-Pacific	3.8	3.1	+23.66%
Total workforce	80.2	107.4	-25.36%

Entries and departures:

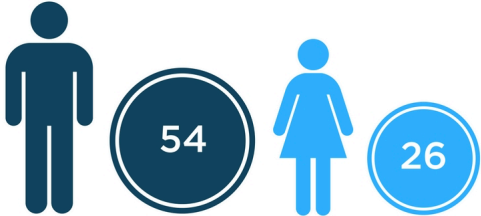
Number of new hires	2016	2015
Permanent contracts	16	10
Fixed-term contracts	0	1
Apprentice/intern	2	1
Total	18	12

Departures by reason	2016	2015
Redundancies/dismissals	3	9
Voluntary departure	23	23
End of fixed-term contract	0	3
Others	5	8
Total	31	43

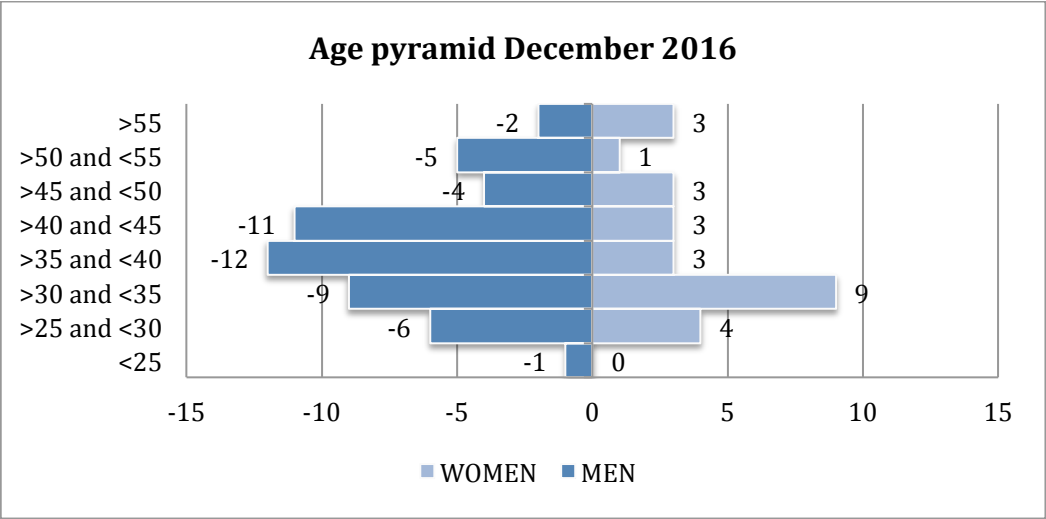
In 2016, Mauna Kea Technologies continued its targeted recruitment strategy, which partly explains the general drop in headcount.

However, this is more marked in the Americas region, where the relocation of our subsidiary led to the departure of several employees. Our recruitment drive – particularly for sales profiles – is especially focused in this region, given its strategic role in the Company’s expansion.

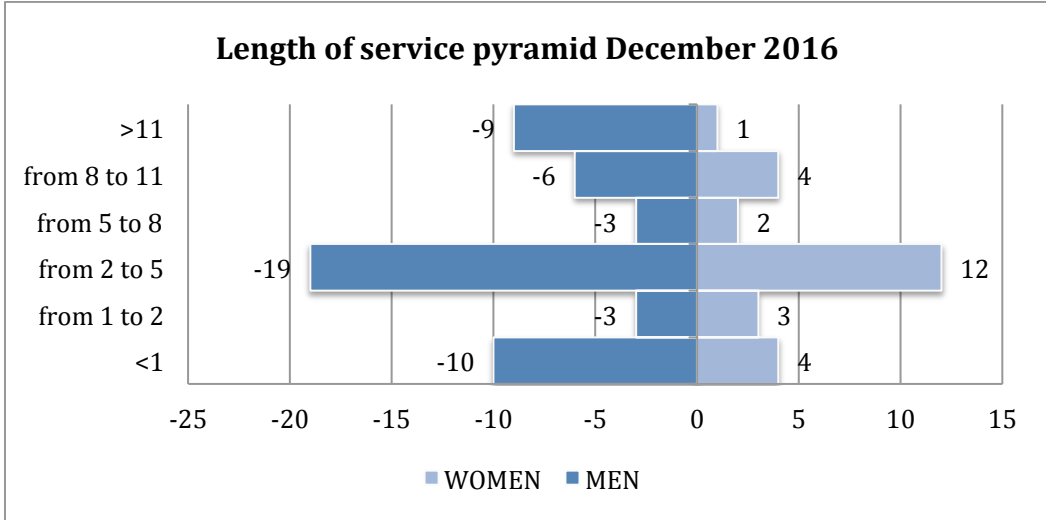
In France, the Company is also faced with the difficulty of hiring certain specific profiles.



Mauna Kea Technologies employees mainly have technical profiles and therefore we have a preponderance of male employees.



20% of the employees are over the age of 45, and 20% also are under the age of 30, reflecting a very great diversity of age in the Company.



Compared to 2015, the length of service pyramid for 2016 shows a certain weakness in integrating new entrants. There is a higher number of departures among those with less than 2 years of service. In contrast, the number of employees with more than 8 years of service rose significantly, a sign of greater commitment and employee adherence to Company values. Integrating new entrants and supporting them in their long-term career paths is a priority for the Company.

2.2.2 Organization of work hours

The majority of employees work on a daily contract basis, pursuant to the contractual framework, which allows them a contractual number of rest days (10 in 2016). Other employees work on a basis of 36 hours and 50 minutes per week, thus benefiting from a contractual number of days of rest pursuant to French working time legislation (RTT).

The majority of employees work full time: only 2 employees are part-time.

Absenteeism (excluding paternity and maternity leave)

Scope - France only	2016	2015
Number of sick days / total number of hours theoretically worked	1.35%	0.95%

There has been a slight rise in absenteeism but this remains well below the average observed by specialist firms (Alma Consulting Group reported an average absenteeism rate of 4.55% in France in 2015). Increased access to teleworking, paid paternal leave and the allocation of rest days in 2014 has helped boost this indicator.

2.2.3 Values shared by employees

Working at Mauna Kea Technologies is much more than the simple performance of assigned tasks. The Company expects from each employee a faultless work ethic: honesty, openness, good humor and respect are the key values shared by all on a daily basis. Motivation, initiative, and creativity are also expected, at the cost, if necessary, of risk-taking, mistakes, or actions being called into question, but always attentive to new proposals. Innovation does not follow a straight and well-trodden path. To innovate, it is essential to know how to take risks, explore, make mistakes, question oneself, listen, and change.

Employees have now jointly defined and share a system of values, which make for a strong business. This system relies upon four pillars:

- passion for performance
- thinking outside of the box
- the willingness to grow with the business
- team solidarity

These four values structure and provide direction to the work and daily exchanges between employees, as does the quality-control policy, of which they form an integral part.

2.3 Subcontracting and suppliers

Mauna Kea Technologies maintains privileged relationships with its suppliers. It worked during this year with 135 suppliers for its production and research and development purchases, particularly in the optical, electronic and mechanical categories. 68% of the suppliers used for production were French.

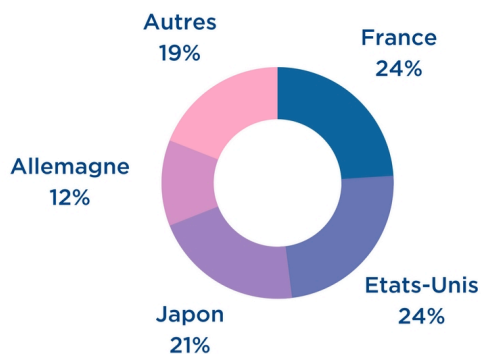


135 fournisseurs



**68% fournisseurs
français**

The Company subcontracts the manufacture of electronic cards, the integration of Cellvizio® electromechanical casings and the manufacture of certain probes to the same French and Japanese subcontractors for about ten years.



The main countries with which it works are France, the United States, Japan, and Germany, the first two each accounting for 24%, and the latter two making up 21% and 12%, respectively, of the purchasing volume. These countries are not deemed to be at risk with respect to work conditions.

Its principal supplier, which represents 22% of production and R&D purchases, is a shareholder of the Company; a contract was entered into with it for the transfer of probe production.

Suppliers are monitored throughout their relationship with Mauna Kea Technologies: from the sourcing phase, where strategic suppliers are selected using objective criteria shared by all, to monitoring their services via annual reviews on the most critical 50 suppliers and a supplier audit program conducted by auditors specially trained in the practice and in compliance with standards and regulations. In 2016, 8 supplier audits were carried out.

Finally, Mauna Kea Technologies has been monitoring supplier payment indicators for the last 2 years. In 2016, the average payment time was 43 days, up on the 2015 figure thanks to new agreements with suppliers. In contrast, 76% of invoices are paid late, although average lateness has fallen 10%.

Because Mauna Kea Technologies is constantly seeking to make improvements, it will be supported in 2017 by ADEME in its CSR approach relating to purchases and supplier relationships. Moreover, a supplier satisfaction questionnaire will be sent to the most critical suppliers and is intended to form a new basis for communicating with them.

SECTION 3

SOCIETAL IMPACT

3.1 Medical environment

Patients are at the heart of its business activity and its aim is to give users the means to reduce or eliminate uncertainties regarding medical diagnosis when tracking tissue, cellular and even molecular organization.

With this approach, Mauna Kea Technologies is developing a range of medical and clinical evidence using various resources, including an exhaustive review of the scientific literature on the technology and its clinical applications.

3.1.1 Carrying out clinical investigations

These are aimed at providing sufficient proof to demonstrate the safety, efficiency, and benefits of medical devices for the health economy. Mauna Kea Technologies is the sponsor of several clinical trials in line with the international standard ISO 14155. A rigorous process is followed: for each trial, a clinical study plan (protocol) is submitted to Ethics Committees and National Competent Authorities upon which the participating study centers depend, and according to their local legislation.

The protocol describes in detail the nature of the trials carried out, and is committed to demonstrating the pertinence of the study, by giving priority to the potential benefit for the patient and the associated risks.

The patients who participate in the trial receive an information notice, which specifies the nature of the trial in which the physician proposes to include them, the risks involved, and the benefits of the clinical evidence, which may be concluded from this trial.

They thus co-sign an "informed" consent with their investigator-physician, and keep a copy.

Only the data that is pertinent to the clinical demonstration is gathered during the clinical trials. All personal and/or sensitive patient data is processed in compliance with the laws and regulations in force pertaining to data protection, management, and processing. Identifying information is removed from all data gathered for a specific patient, and is sometimes coded, in order to guarantee respect of their privacy.



Mauna Kea Technologies makes regular visits to the study sites in order to ensure compliance with the protocol, and each year sends an analysis to the ethics committees, pursuant to local legislation and requirements.

All investigators and/or their institutions draw up a specific agreement for each trial with the Company, in order to reiterate their independence, the respective duties of the parties, and the terms of compensation, in compliance with local legislation and the principle of transparency. They thus maintain their full freedom of expression regarding the technology and its performances.

Mauna Kea Technologies has also identified experts in various specialties to support it in its decision-making processes and the validation of clinical assessments of its products: the Medical Advisory Board, consisting of physician experts (opinion leaders) who assist in the definition of the Company's clinical development strategy.

3.1.2 Monitoring the use of medical devices after they are placed on the market

In order to manage such activities, Mauna Kea Technologies remains attentive to its clients and to their feedback on the use of its products, by providing input to the continuous process of improvement.

As part of its monitoring of activities connected to the Quality Management System (QMS), internal audits are regularly performed, in order to check the conformity and effectiveness of the key activities of the Company, such as Post-Market Surveillance (PMS) or materials vigilance. These audits are performed by auditors who are independent from the activity being audited.

Within the context of product use in a medical environment, a specific process of Post-Market Surveillance and of materials vigilance has been put into place. This makes it possible to gather data on incidents presenting a potential risk to patient or user health connected to the use of our products. The incidents are analyzed, in liaison with the physician-users, in order to decide whether the incident should be reported to the national health authorities. In 2016, the percentage of incidents reported to the competent authorities according to the applicable European directive and national legislation was less than 0.2% of procedures carried out with Cellvizio®, much lower than the published data for such studies, when they are carried out without it.

3.1.3 Maintaining information for healthcare professionals

The Company has set up an e-learning site for healthcare professionals, and regularly sends out newsletters. It also encourages its users to undertake continuous training in the form of workshops and support for symposia, on-site training when equipment is installed, supporting users in their initial procedures and providing tutoring by expert users.

3.1.4 Providing information to patients

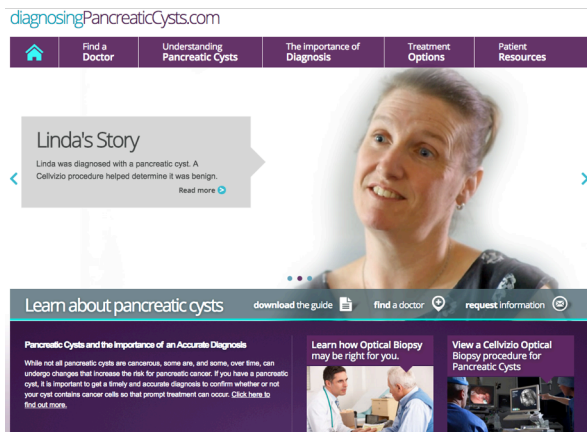
In 2013, Mauna Kea Technologies launched two websites dedicated to the following indications:

Pancreatic Cysts

<http://diagnosingpancreaticcysts.com>

Barrett's esophagus

<http://diagnosingbarretts.com>



The objective of these American and British patient use websites is to provide information on these illnesses, their diagnostic method, and the potential contribution of optical biopsy.

There one can find patient testimonials, specialist search engines by country, as well as treatment options for these pathologies.

Endomicroscopy with Cellvizio® has the benefit of being able to reassure the patient in the numerous cases where the cells are healthy, because it eliminates an anxiety-provoking wait of several days to several weeks for the pathology examination results.

The sites are therefore an aid for the patients and their family, but also very useful for general practitioners and specialists.

3.2 Regulatory environment

The national competent authorities and notified bodies develop, validate, and check that the standards and regulations are applied by manufacturers of medical devices according to their classification.

Within the European Union and partner countries, Mauna Kea Technologies works with G-Med on the CE marking of its class IIa devices.

The Food and Drug Administration (FDA) in the USA, the CFDA in China, Anvisa in Brazil, Health Canada in Canada, and MHLW in Japan are the main authorities that validate the compliance of its devices.



510(k) regulatory authorizations

In April 2014, Mauna Kea Technologies obtained a double authorization: a Class 1 authorization for the use of Cellvizio® technology, and a Class 2 (NINSHO) authorization for the endoscopic use of Cellvizio® Confocal Miniprobes. Both of these cover all of Cellvizio®'s current clinical indications: gastroenterology, urology, and pneumology.

Each time it significantly modifies its devices, whether in technical terms or in terms of their potential use, including any new application, Mauna Kea Technologies files an application with the competent authority. For example, in the United States, the Company has obtained 12 510(k) regulatory authorizations from the Food & Drug Administration, the last of which in 2016 extended its marketing options with our urology partner.

3.3 Market access environment

Once it has registered its technology with the competent authorities in countries where its devices are to be marketed, the Company must ascertain the reimbursement codes in most countries so that patients or users can be covered or reimbursed once the medical treatment has taken place.

In March 2012, the Company obtained the creation of 3 so-called CPT® codes of Category I in the United States, specifically granted by the American Medical Association (AMA) for endomicroscopy in the upper digestive tract. The creation of these codes is a strong recognition of the interest of doctors and the healthcare system in optical biopsy and in the products of Mauna Kea Technologies in the United States. In spring of 2015, a CPT of Category III was obtained, for the use of endomicroscopy in bile ducts.

The Cellvizio® procedures can now be reimbursed by public and private insurance companies in the United States thanks to the CPT codes obtained. The inclusion of the procedure by Medicare and a number of payers relates to some 100 million American citizens. In November 2016, Medicare published the 2017 reimbursement rates, and the rates for the Optical Endomicroscopy code rose 131% for hospitals and 86% for ambulatory surgical centers, a major event for the Company. In this context, the Company launched new initiatives in the United States to accelerate the adoption of Cellvizio technology®.



At the same time, initiatives were taken in order to obtain reimbursement codes for the use of Cellvizio® in other European countries (France, Germany, Italy, and the United Kingdom).

Data from clinical trials is analyzed for medico-economic evaluation of the product taking into account current practices and the impact of the introduction of Cellvizio® in patient management. These analyses will help us expand into other countries. Studies conducted by the Company have enabled the development of economic models demonstrating the clinical and economic benefits of the technology.

In comparison with standards, including conventional biopsy, some models and publications have concluded that it offers the advantage of avoiding taking physical biopsies on areas identified as healthy using digital optical biopsy; taking into account for example that 90% of physical biopsies are negative in screening for Barrett's Esophagus, that corresponds to several million tissue removals which could be avoided, and potential savings for healthcare systems of several hundreds of millions of euros, as presented during the Symposium organized by Mauna Kea Technologies with approximately one hundred experts in digestive pathology, which can be found in the book, "Endomicroscopy in digestive pathology", coordinated by Drs. Coron and Rahmi.

Applied to pancreatic cysts as a diagnosis tool, endomicroscopy allows practitioners to avoid operating on patients who do not require it but who would have undergone it for conservation purposes. As this figure could exceed 40%, the use of endomicroscopy also means a reduction in the overall costs of treating pancreatic cysts by avoiding difficult and costly surgery. (Presentation JFHOD 2016 by B. Napoleon, Article with C. LePen pending)

3.4 Economic environment

Convinced that, in France it must encourage the emergence from start-up to success to generate economic value and jobs, the French government created the Initiative French Tech at the end of 2013. The "French Tech" refers to all those who work in or for French start-ups in France or abroad: firstly, the entrepreneurs, but also investors, engineers, large groups, organizations, the media, public operators, and research institutes which become involved in the growth of start-ups, on the one hand, and in their international growth, on the other hand.

The philosophy of French Tech is: to rely on initiatives of the members of French Tech to develop what is already existing, and to create a snowball effect. It is a shared ambition, driven by the State, but supported and built with all of the players.

In the vocabulary of French Tech, a "start-up" is a young enterprise with a worldwide ambition, seeking an economic model, which will ensure its strong and rapid growth, or an enterprise, which has grown with such a model. Because they take risks through exploring new products or services, those which succeed become very rapidly international enterprises, with several hundred, even thousands, of employees.

It was thus completely natural that since 2014, Mauna Kea Technologies has been an active player in French Tech, with its Founder and CEO Sacha Loiseau regularly participating in conferences, open days, and other initiatives.

3.5 Educational environment

The Company has a partnership policy with certain schools. Thus, every year it welcomes into its offices students from the École Polytechnique de Paris, in order to present to them the Company's activities. This day of exchanges also makes it possible for the Company to present open internships, but also for the students to present their projects and their professional aspirations.

In the same way, the Company works very closely with the Université Technologique de Compiègne, in the context of exchanges with former students.

Mauna Kea Technologies also contributes to the professionalization program offered by business schools, engineering schools and universities (Specialized Masters), providing internships or work-study placements to students who are integrated into Company functions (regulatory affairs, clinical affairs, research and development, business development).

3.6 Industrial and academic environment

Mauna Kea Technologies is growing in a competitive sector; it therefore emphasizes protection of its confidential and proprietary information, in order to ensure its technological advancement. The Company does, however, promote interactions with its technological environment, in the framework of partnerships and collaborative projects, but also with players in the market in which it operates, in the framework of its strategic development.

Confidential information thus communicated by the Company can be of various types: scientific, technical, financial, or clinical data. Such exchanges are systematically covered by confidentiality agreements.

Models, specifically developed in accordance with the needs of Mauna Kea Technologies, are utilized in order to maintain the confidentiality of information exchanged with the various partners. They are mainly utilized outside of any contractual partnership.

3.7 Ethical environment

Fairness and ethical business conduct are part of the basic principles of Mauna Kea Technologies' activities. Clinical affairs comply with the rules of ethical business conduct through the anonymity of patient data used during clinical trials, and the software incorporated into the products is developed in conformity with ISO Standard 62304.

Pursuant to the transparency laws (Sunshine Act) that govern relations between industry and healthcare professionals, Mauna Kea Technologies has set up internal processes for gathering the necessary information and raising awareness among its personnel who are in contact with healthcare professionals.

In France, for example, within the framework of the Bertrand Act of May 29, 2011 as amended in 2016 relating to the transparency of benefits granted by businesses producing or marketing products which have a healthcare-related or cosmetic end use for humans, the following information must be made public:

- the existence of agreements entered into with health professionals and other similar persons (with the exception of agreements governed by Articles L.441-3 and L.441-7 of the French Commercial Code);

- the total benefits granted for which the amount is equal to or greater than €10. Such information is centralized on a single website which is managed by the Ministry of Health.

Lastly, the Company has organized every year since 2009 the ICCU event (International Conference of Cellvizio® Users). 2015 saw the 7th edition of this event. In response to the success of this event, an independent scientific committee was created for the selection and revision of the scientific works submitted for public presentation.

Thus, the different presentations or posters were selected in full independence, under the aegis of a Scientific Secretariat comprised of 18 experts representing the various specialties, which may be found during this event.

An education committee was also set up to coordinate the specialized or "Post-Graduate Course", intended for physicians wishing to improve their skills, particularly in the interpretation of confocal endomicroscopic images.

Changes to the Code of Ethics of the medical devices industry mean that Mauna Kea Technologies can no longer organize this event. However, the setting up in the USA in October 2016 of a Learned Society: "International Society for Endomicroscopy - IS4E" by a group of practitioners to defend the technology and its benefits for patients will mean that fruitful exchanges within the scientific community and with users can continue.

Finally, the Company scrupulously complies with the rules of independence with respect to health professionals, in order to guarantee that their product-purchasing decisions will always be made in the interest of the patient, thanks in particular to a code of conduct signed by all U.S. sellers (over 2/3 of its sales force) defining the conduct to be adopted vis-à-vis healthcare professionals, based upon the latest versions of the Advamed and MEDTECH codes of ethics published in 2016 with effect from January 1, 2017 as regards relations between industry and healthcare professionals. The finalization of a single, international code is scheduled for all personnel in 2017.

3.8 Working environment at Mauna Kea Technologies

3.8.1 Job creation

In addition to the jobs created directly by Mauna Kea Technologies, which had 62 employees at its head office in France at end-2016 and 14 in its subsidiary and representation office, the Company has forged a network of privileged relations with certain French and European but also Japanese suppliers, with which it develops, designs, and manufactures its products.

3.8.2 Employment and integration of disabled workers

The Company instituted a partnership with an ESAT (a French organization for the assisted employment of disabled persons); it thus regularly employs disabled persons in logistical assignments (receiving, deliveries) and in printing.

Expenses incurred stood at €4347 in 2016 as compared to €4580 in 2015.

3.8.3 Anti-discrimination and gender policy

The Company does not discriminate in hiring, whether in terms of origin, religion, age, or gender: it is the profile which is best suited to the competencies being sought which is always considered.

Policy of gender parity and gender distribution.

Scope - France	12/31/2016	12/31/2015	Change
Women executives	31.0%	36.2%	-14.36%

The proportion of women in the Company has remained constant for several years. The mostly male workforce is explained by the technical and mechanical precision of the Company's core business.

Gross wage increases for Men/Women.

In €, Scope - France	1/1/2016	1/1/2015	Change
Average	5804.33	5452.63	+6.45 %
Men, Average	6501.40	5827.79	+11.56 %
Women, Average	4501.13	4949.36	-9.06 %

Wage increases for Male Executives/Female Executives

In €, Scope - France	1/1/2016	1/1/2016	Change
Executive, Average	5686.20	5497.37	+3.43 %
Average, Male executives	6382.00	5823.07	+9.60 %
Average, Female executives	4579.24	5094.52	-10.11 %

Average wages rose 6.45% in 2016.

The gap between average male and female wages widened in 2016 due to the departure of higher-earning female executives and the arrival of male executives in the management team. Average wages for female executives is also down on 2015 due to more departures for maternity or parental leave.

3.8.4 Employee training

The Company's objective is to encourage the continuous development of employee competencies, with the ongoing requirement to: match individual employee demands with the objectives and needs identified by the Company.

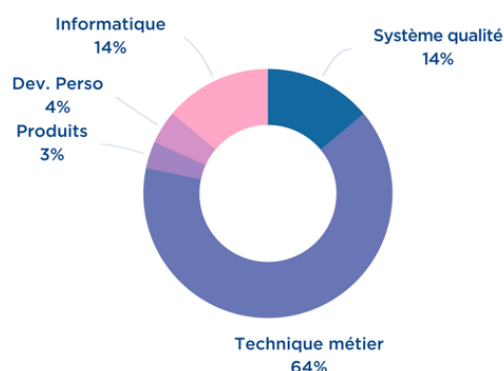
The training policy derives directly from the employee performance and development reviews and the Company's strategy.

The principal training focuses defined by the Company are the following:

- to invest in increasing the competency directly connected to the job description, against which gaps are identified;
- to prepare employees' development for their current and future assignments, and to thus encourage their employability and their mobility;
- to support or anticipate changes, particularly in the areas of technology and company organization.

The number of training sessions remained stable in 2016, with 0.86 hours on average per month per employee. The emphasis was on technical competence necessary to the development of Mauna Kea Technologies but also on the professional and personal development of employees.

Distribution of training hours:



3.8.5 Employee assessment: The Performance and Development review

More than a simple performance evaluation, the Performance and Development review aims to create a true dialog between the employee and the manager on development goals in the Company. It begins by an employee balance sheet, prepared by the employee, who can broadly express what he or she likes about his/her position, his or her professional aspirations, and his or her development goals. It contains a paragraph, "Growing with the business", one of the 4 Company values, with the employee being given free rein to express him or herself.

The employee is then asked to express him or herself on his or her performance, its adequacy with respect to Company values, and a self-evaluation of competencies required for the position. He or she then proposes objectives for the following year.

The manager then holds an interview on the basis of this employee balance sheet, and analyzes the progress observed on the development areas set the preceding year. The manager also sets, in agreement with the employee, developmental actions for the following year, based on the gaps noted.

These actions are the basis for the Company's training plan.

3.8.6 Compensation policy and its evolution

Compensation is reviewed annually, in line with the employees' performance, assessed during Performance and Development reviews.

Taking into account the financial position of the Company, no profit sharing or incentive agreement has been put into place. Target-based bonuses are paid to all employees, with a portion linked to the Company's results, and the other on the basis of individual objectives.

Other compensation components:

- since its founding, the Company has implemented a supplemental health and retirement plan; mutual insurance is covered 70% by the employer, and the retirement plan, 100%. It is worth noting that the health insurance plan offers a very good level of coverage;
- employees benefit from restaurant vouchers, with the employer assuming 53% of the cost. The face value is €9.

Lastly, all employees of Mauna Kea Technologies have for many years been connected with its performance through the allocation in France of Founders' warrants (BSPCE), Preference Shares connected with a Bonus Shares Grant or stock options in the United States.

3.8.7 Labor relations

Elections for employee representatives took place in March 2015; taking into account the size of the Company, the elected persons were grouped into a Sole Employee Representative Body.

The new organization of work hours was made on the basis of industry-wide agreements. (National Agreement of March 3, 2006 of the National Convention of Engineers and Executives in Metallurgy, and National Agreement of July 10, 1970, as amended, on Monthly Payment of Wages).

The elections for employee representatives having taken place before the implementation of the Rebsamen Law, an election for the representatives to the Committee for Health, Safety, and Working Conditions (CHSCT) was also put into place. This body meets quarterly, in accordance with the legislation.

3.8.8 Health and safety

The Company prepared a Single Document, in accordance with the legal provisions. This document was totally redefined in 2012, and a detailed action plan was implemented with the Committee for Health, Safety, and Working Conditions. It is monitored at each quarterly meeting of the Committee for Health, Safety, and Working Conditions.

It is worth noting:

- 1 work- or travel-related accident was recorded in 2016;
- the Company owns an external defibrillator: the Company's First Aid workers have been trained in the use of this equipment, as well as 10 or so employee volunteers.

Employees who are exposed to contamination risks (because of frequent presence in hospitals) attend doctor visits, reinforced by blood-work analysis. Some employees also wear a radiation-protective dosimeter, to be worn in the operating room.

3.9 Knowledge of our environment

Intelligence gathering involves the collection of information and the reinforcement of knowledge on the environment outside of the Company, making it possible for the Company to anticipate change and to assist in strategic decision-making. It is therefore a key factor in the survival and evolution of a business, especially in the field of innovation.

Moreover, in a competitive sector, an effective R&D goes beyond the four walls of a business and explores what is developing and being marketed on the outside. The intelligence-gathering activity thus also extends the objective of promoting in-house innovation.

Mauna Kea Technologies has put into place an organized cross-functional system of intelligence, covering the collection, processing, and dissemination of knowledge. An in-house procedure was created in order to provide a framework for this activity.

SECTION 4

ENVIRONMENTAL FOOTPRINT

4.1 To reduce the environmental footprint of products all throughout the life cycle

The Company takes into account starting from product design all European regulations pertaining to the environment (for example, REACH, ROHS, DEEE, etc.) which aim to:

- limit wastes and their hazardousness;
- promote reuse and recycling;
- improve conditions for disposal and control;
- limiting or prohibiting the use of certain hazardous materials.

These regulations and their requirements are completely integrated into the Company's quality-control system. Specific procedures, under the joint responsibility of Quality and R&D engineers, have been established in order to guarantee that no substance, which is hazardous to the environment, is incorporated into its products.

In 2014, an in-depth review of all documentation included in the nomenclature of our products was carried out by a work group consisting of an R&D engineer specialized in materials vigilance, a regulatory authority, and a buyer. The suppliers were questioned in order to prove their compliance with the REACH and RoHS regulations. Mauna Kea Technologies now systematically requires new documentation of the supplier's commitment to comply with these standards. The Company is now compliant with RoHS regulations and has obtained proof of REACH conformity for 92% of product components.

In addition, Mauna Kea Technologies called upon an approved eco-entity (Recylum) for the recycling of its products at the end of their useful life. Products reaching the end of their useful life are collected by the company, sorted and stored with a view to recycling, as required by the regulations in force.

4.2 Decrease the environmental footprint of the Company

4.2.1 Production and marketing activities

The activities of Mauna Kea Technologies do not implement hazardous products or contribute to any significant pollution. Mauna Kea Technologies has "clean" manufacturing, based upon optical and mechanical processes, which use very little chemical product.

With respect to waste management, the soiled residue from production (disinfecting wipes, gloves, adhesive residues, etc.) presenting an infectious risk are stored in a special container. This container is collected by a specialized company (EDC, GC Group), which reduces the infectiousness of the waste to the level of household garbage.

The Company is committed to reusing products at the end of their useful life for trials and tests, for example, destructive tests or durability tests on our probes, or by recovering components for the production of models or prototypes during new product design.

4.2.2 Mauna Kea Technologies is committed to controlling the use of resources

Taking into account the number of employees and of its operations, the Company has little impact on its environment. Nevertheless, daily actions are performed in order to limit this footprint. For example, in 2012, it renewed its pool of printers, and introduced a badge-recognition system, which enabled it to limit unnecessary printing and paper waste.

NOTES

Distribution of average staff numbers by category:

	12/31/2016	12/31/2015	Change
Permanent contract	80.1	105.6	-24.16%
Fixed-term contract	0.1	1.8	-95.37%
Total workforce	80.2	107.4	-25.36%
Executives	70.6	93.8	-24.75%
Non-executives	9.6	11.8	-18.79%
Apprentices	1.8	1.8	0.00%

Distribution of employees by gender:

	12/31/2016	12/31/2015	Change
Men	54.3	68	-20.10%
Women	25.8	39.4	-34.43%
Total workforce	80.2	107.4	-25.36%

Training indicators:

Worldwide Scope	2016	2015
No. of training hours	791	1120
No. of employees trained	66	105
No. of hours / month / employee	0.86	0.87

SCOPE AND EXCLUSIONS

The data presented in this report takes into account all of the Group's companies for the year ended December 31, 2016:

- Mauna Kea Technologies SA, the head office of the Group, based in Paris (10th arr.) which designs, develops, and markets products for the whole world.
- Mauna Kea Technologies Inc., a distribution subsidiary based in Boston, Massachusetts in the United States.

Employees who are seconded in Asia are also part of the scope of this report.

All indicators have been calculated for the entire scope, with the exception of the following indicators:

- absenteeism rate: calculated only for France;
- organization of work hours: For France only, because it is directly tied to French legislation;
- employment and integration of disabled workers: For France only, because it is directly tied to French legislation;
- compensation, other components of compensation, and wage increases: France only.

As of this year, average compensation is calculated on the basis of the overall annual salary (including bonus and commissions) actually paid to the employee during the year.

The following components were excluded from the report, because they were deemed not pertinent with regard to the Company's business. Mauna Kea Technologies is an industrial company, but it has minimal impact on soil and on the environment generally, apart from its direct footprint. Its activity in terms of pollution and environmental impact is closer to that of a services company.

Regarding initiatives in favor of employment rights and human rights, the Company works mainly with partners in countries not considered a risk in terms of respecting fundamental rights.

- the protection of biodiversity;
- the amount of provisions and guarantees for risks in environmental matters;
- the taking into account of noise pollution and any other form of pollution that is specific to an activity;
- water consumption and water supply, in relation to local constraints;
- consumption of raw materials, and measures taken in order to improve the efficiency of their use;
- land use;
- adaptation to the consequences of climate change;
- impact on neighboring or local populations;
- actions in favor of human rights;
- promotion and compliance with the stipulations of the fundamental ILO Conventions.

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Promotion et respect des stipulations des conventions fondamentales de l'OIT	à l'élimination du travail forcé ou obligatoire	NA
Promotion et respect des stipulations des conventions fondamentales de l'OIT	Abolition effective du travail des enfants	NA
Politique générale en matière environnementale	l'organisation de la société pour prendre en compte les questions environnementales et, le cas échéant, les démarches d'évaluation ou de certification en matière d'environnement	19
Politique générale en matière environnementale	les actions de formation et d'information des salariés menées en matière de protection de l'environnement	19
Politique générale en matière environnementale	les moyens consacrés à la prévention des risques environnementaux et des pollutions	NA
Politique générale en matière environnementale	les mesures de prévention, de réduction ou de réparation de rejets dans l'air, l'eau et le sol affectant gravement l'environnement	NA
Politique générale en matière environnementale	le montant des provisions et garanties pour risques en matière d'environnement, sous réserve que cette information ne soit pas de nature à causer un préjudice sérieux à la société dans un	NA
Pollution et gestion des déchets	les mesures de prévention, de recyclage et d'élimination des déchets	19
Pollution et gestion des déchets	la prise en compte des nuisances sonores et de toute autre forme de pollution spécifique à une activité	NA
Utilisation durable des ressources	la consommation d'eau et l'approvisionnement en eau en fonction des contraintes locales ;	NA
Utilisation durable des ressources	la consommation de matières premières et les mesures prises pour améliorer l'efficacité dans leur utilisation	NA
Utilisation durable des ressources	la consommation d'énergie, les mesures prises pour améliorer l'efficacité énergétique et le recours aux énergies renouvelables	NA
Utilisation durable des ressources	l'utilisation des sols	NA
Changement climatique	les rejets de gaz à effet de serre	NA
Changement climatique	l'adaptation aux conséquences du changement climatique	NA
Protection de la biodiversité	les mesures prises pour préserver ou développer la biodiversité	NA
Impact territorial, économique et social de l'activité de la société	en matière d'emploi et de développement régional	14 & 15
Impact territorial, économique et social de l'activité de la société	sur les populations riveraines ou locales	NA
Relations entretenues avec les personnes ou les organisations intéressées par l'activité de la société, notamment les associations d'insertion, les établissements d'enseignement, les associations de défense de l'environnement, les associations de consommateurs et les populations riveraines	les conditions du dialogue avec ces personnes ou organisations	14
Relations entretenues avec les personnes ou les organisations intéressées par l'activité de la société, notamment les associations d'insertion, les établissements d'enseignement, les associations de défense de l'environnement, les associations de consommateurs et les populations riveraines	les actions de partenariat ou de mécénat	14
Sous-traitance et fournisseurs	la prise en compte dans la politique d'achat des enjeux sociaux et environnementaux.	10
Sous-traitance et fournisseurs	l'importance de la sous-traitance et la prise en compte dans les relations avec les fournisseurs et les sous-traitants de leur responsabilité sociale et environnementale	10
Loyauté des pratiques	les actions engagées pour prévenir la corruption	15
Loyauté des pratiques	les mesures prises en faveur de la santé et de la sécurité des consommateurs	11 & 12
Autres actions engagées en faveur des droits de l'homme	Autres actions engagées en faveur des droits de l'homme	NA

INDEPENDENT VERIFIER'S REPORT ON CONSOLIDATED SOCIAL, ENVIRONMENTAL AND SOCIETAL INFORMATION PRESENTED IN THE MANAGEMENT REPORT

This is a free translation into English of the original report issued in the French language and it is provided solely for the convenience of English speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the shareholders,

In our quality as an independent verifier accredited by the COFRAC³, under the number n° 3-1050, and as a member of the network of one of the statutory auditors of the company Mauna Kea Technologies, we present our report on the consolidated social, environmental and societal information established for the year ended on the 31st December 2016, presented in the CSR chapter of the management report, hereafter referred to as the "CSR Information," pursuant to the provisions of the article L.225-102-1 of the French Commercial code (*Code de commerce*).

Responsibility of the company

It is the responsibility of the Board of Directors to establish a management report including CSR Information referred to in the article R. 225-105 of the French Commercial code (*Code de commerce*), in accordance with the protocols used by the company procedures (hereafter referred to as the "Criteria"), and of which a summary is included in introduction to the CSR chapter of the management report.

Independence and quality control

Our independence is defined by regulatory requirements, the Code of Ethics of our profession as well as the provisions in the article L. 822-11 of the French Commercial code (*Code de commerce*). In addition, we have implemented a quality control system, including documented policies and procedures to ensure compliance with ethical standards, professional standards and applicable laws and regulations.

Responsibility of the independent verifier

It is our role, based on our work:

- to attest whether the required CSR Information is present in the management report or, in the case of its omission, that an appropriate explanation has been provided, in accordance with the third paragraph of R. 225-105 of the French Commercial code (*Code de commerce*) (Attestation of presence of CSR Information);
- to express a limited assurance conclusion, that the CSR Information, overall, is fairly presented, in all material aspects, in according with the Criteria;

Our verification work mobilized the skills of for people between February and March 2017 for an estimated duration of two weeks.

³ Scope available at www.cofrac.fr

We conducted the work described below in accordance with the professional standards applicable in France and the Order of 13 May 2013 determining the conditions under which an independent third-party verifier conducts its mission, and in relation to the opinion of fairness and the reasonable assurance report, in accordance with the international standard ISAE 3000⁴.

1. Attestation of presence of CSR Information

Nature and scope of the work

We obtained an understanding of the company's CSR issues, based on interviews with the management of relevant departments, a presentation of the company's strategy on sustainable development based on the social and environmental consequences linked to the activities of the company and its societal commitments, as well as, where appropriate, resulting actions or programmes.

We have compared the information presented in the management report with the list as provided for in the Article R. 225-105-1 of the French Commercial code (*Code de commerce*).

In the absence of certain consolidated information, we have verified that the explanations were provided in accordance with the provisions in Article R. 225-105-1, paragraph 3, of the French Commercial code (*Code de commerce*).

We verified that the information covers the consolidated perimeter, namely the entity and its subsidiaries, as aligned with the meaning of the Article L.233-1 and the entities which it controls, as aligned with the meaning of the Article L.233-3 of the French Commercial code (*Code de commerce*) with the limitations specified in the Methodological Note in the CSR chapter of the management report.

Conclusion

Based on this work, and given the limitations mentioned above, we confirm the presence in the management report of the required CSR information.

2. Limited assurance on CSR Information

Nature and scope of the work

We undertook five interviews with the people responsible for the preparation of the CSR Information in the different departments, in charge of the data collection process and, if applicable, the people responsible for internal control processes and risk management, in order to:

- Assess the suitability of the Criteria for reporting, in relation to their relevance, completeness, reliability, neutrality, and understandability, taking into consideration, if relevant, industry standards;
- Verify the implementation of the process for the collection, compilation, processing and control for completeness and consistency of the CSR Information and identify the procedures for internal control and risk management related to the preparation of the CSR Information.

We determined the nature and extent of our tests and inspections based on the nature and importance of the CSR Information, in relation to the characteristics of the Company, its social and environmental issues, its strategy in relation to sustainable development and industry best practices.

⁴ ISAE 3000 – Assurance engagements other than audits or reviews of historical information

For the CSR Information which we considered the most important⁵ at the level of the consolidated entity, we consulted documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions, etc.), we implemented analytical procedures on the quantitative information and verified, on a test basis, the calculations and the compilation of the information, and also verified their coherence and consistency with the other information presented in the management report.

For the other consolidated CSR information, we assessed their consistency in relation to our knowledge of the company.

Finally, we assessed the relevance of the explanations provided, if appropriate, in the partial or total absence of certain information.

We consider that the sample methods and sizes of the samples that we considered by exercising our professional judgment allow us to express a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work. Due to the necessary use of sampling techniques and other limitations inherent in the functioning of any information and internal control system, the risk of non-detection of a significant anomaly in the CSR Information cannot be entirely eliminated.

Conclusion

Based on our work, we have not identified any significant misstatement that causes us to believe that the CSR Information, taken together, has not been fairly presented, in compliance with the Criteria.

Paris-La Défense, the 30th March 2017

French original signed by:

Independent Verifier
ERNST & YOUNG et Associés

Partner, Sustainable Development

Eric Duvaud

Partner

Bruno Perrin

⁵Environmental and societal information:

- Qualitative information: general environmental policy, pollution and waste management (preventative measures, recycling and waste management), sustainable use of resources and climate change (energy consumption) ; territorial impact, economic and social (employment, regional development, impact on regional and local populations), relation with stakeholders (conditions for dialogue, partnership or sponsorship), importance of subcontracting and the consideration of environmental and social issues in purchasing policies and relations with suppliers and subcontractors, business ethics (actions undertaken to prevent bribery and corruption, measures undertaken in favour of consumers' health and safety).

Social information:

- Indicators (*quantitative information*): total headcount, hiring and terminations, average increase of remunerations, absenteeism rate, work accidents, number of training hours.
- Qualitative information: organisation of working time, labour relations (social dialogue, collective agreements), training policies.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2016

Mauna Kea Technologies
December 31, 2016

STATEMENT OF FINANCIAL POSITION
(Amounts in thousands of euros)

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

Mauna Kea Technologies
December 31, 2016

COMPREHENSIVE INCOME STATEMENT
(Amounts in thousands of euros)

	Note	12/31/2016	12/31/2015
Operating Revenue			
Sales	15	8 787	8 547
Other income	15	883	1 434
Total of revenue		9 670	9 981
Operating Expenses			
Cost of sales		(2 720)	(2 534)
<i>Gross margin</i>		<i>69%</i>	<i>70%</i>
Research & Development	18	(4 445)	(4 648)
Sales & Marketing	18	(8 366)	(11 665)
Administrative expenses	18	(3 843)	(3 642)
Share-based payments	17	(285)	(450)
Total of expenses		(19 660)	(22 939)
Current operating profit		(9 990)	(12 958)
Other operating profit/expense			232
Operating profit		(9 990)	(12 726)
Financial revenue	19	412	383
Financial expenses	19	(166)	(299)
Profit before tax		(9 744)	(12 643)
Income tax expense	20		
Profit / (loss)		(9 744)	(12 643)
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss</i>			
Actuarial differences on defined benefit plans	12	18	117
Total of items that will not be reclassified to profit or loss		18	117
<i>Items that will be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		8	84
Total of items that will be reclassified subsequently to profit or loss		8	84
Other comprehensive income for the year, net of tax		26	200
Comprehensive income		(9 718)	(12 443)
Weighted average number of shares outstanding (in thousands)		17 587	15 031
Basic earnings per share (EUR/share)	23	(0,55)	(0,84)
Weighted average number of potential shares (in thousands)		20 607	16 814

Mauna Kea Technologies
December 31, 2016

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

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

Mauna Kea Technologies

December 31, 2016

CASH-FLOW STATEMENT

(Amounts in thousands of euros)

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

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

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December 31, 2016

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

Note 1: Accounting policies and principles

1.1 Accounting principles applied by the Group

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

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

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

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

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

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

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

These standards have no impacts on the consolidated financial statements.

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

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

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

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

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

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

1.2. Consolidation methods

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

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

1.3 Net investments abroad

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

1.4 Intangible assets

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

Research and development expenses

The research expenses are consistently recognized as expenses.

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

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

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

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

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

No development costs were capitalized for the 2016 fiscal year.

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Patents

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

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

Software packages

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

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

1.5 Property, plant, and equipment

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

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

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

Depreciation and amortization periods are as follows:

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

1.6 Recoverable amount of non-current tangible and intangible assets

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

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

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

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

1.7 Financial assets

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

Mauna Kea Technologies

December 31, 2016

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

Loans and receivables

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

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

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

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

Assets at fair value through profit or loss

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

1.8 Inventories & work in progress

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

Inventories of raw materials are valued according to the weighted average cost method.

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

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

1.9 Cash and cash equivalents

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

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

1.10 Issued capital

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

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.

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December 31, 2016

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

1.12 Share-based payments

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

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

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

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

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

1.13 Measurement and recognition of financial liabilities

Financial liabilities at the amortized cost

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

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

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

Liabilities at fair value through profit and loss

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

1.14 Conditional government loans

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

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

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

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

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

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

Retirement pension and post-employment benefits

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

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

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

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

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

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

1.16 Revenue from ordinary activities

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

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

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

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:

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

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

Research Tax Credit

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

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

1.18 Other operating income and expenses

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

1.19 Cost of sales

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

1.20 Leases

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

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

1.21 Taxes

Income tax

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

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

1.23 Other comprehensive income

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

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

1.24 Decisive accounting estimates and judgments

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

Valuation of stock warrants and stock options

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

Valuation of the Research Tax Credit

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

Valuation of the long-term intangible assets

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

1.25 Subsequent events

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

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

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Note 2: Company and scope

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

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

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

(1) Parent company

No change in scope took place during the period.

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Note 3: Intangible assets

The changes in intangible assets break down as follows:

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

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

ANNUAL CHANGE IN DEVELOPMENT COSTS (CAPITALISED PORTION)

(Amounts in thousands of euros)

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

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

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

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

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

Note 4: Property, plant, and equipment

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

PROPRETY, PLANT AND EQUIPMENT

(Amounts in thousands of euros)

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

PROPRETY, PLANT AND EQUIPMENT

(Amounts in thousands of euros)

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

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

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

Note 5: Non-current financial assets

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

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Note 6: Inventories and work in progress

Inventories and work in progress break down as follows:

INVENTORIES & WORK IN PROGRESS

(Amounts in thousands of euros)

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

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

Note 7: Trade receivables and other current assets

7.1. Trade and other receivables

TRADE RECEIVABLES

(Amounts in thousands of euros)

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

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

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

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7.2 Other current assets

The other current assets break down as follows:

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

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

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

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

Changes in the Research Tax Credit were as follows:

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE					
(Amounts in thousands of euros)					
	31/12/14	Operating revenue	Payment received	Capitalised portion	12/31/2015
Research Tax Credit	1 251	1 201	(1 251)		1 201

CHANGES IN THE RESEARCH TAX CREDIT RECEIVABLE					
(Amounts in thousands of euros)					
	12/31/2015	Operating revenue	Payment received	Capitalised portion	12/31/2016
Research Tax Credit	1 201	828			2 029

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

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

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Note 8: **Current financial assets**

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

Note 9: Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

CASH AND CASH EQUIVALENTS

(Amounts in thousands of euros)

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

Note 10: Share capital

10.1 Issued capital

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

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

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

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

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

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

10.2 Share purchase warrants, stock options and preferred stock

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

The changes since December 31, 2016 are represented below:

Type	Date of granting	Exercise price	Outstanding as of 31.12.2015	Granted	Exercised	Cancelled	Outstanding as of 31.12.2016	Potential number of shares
Options granted before January 1, 2016			3 513 156			1 291 750	2 221 406	925 289
SO	02/02/16			96 000		15 000	81 000	81 000
SO	07/26/16			80 000		0	80 000	80 000
BSA	07/26/16			115 000		0	115 000	115 000
PS	07/26/16			7 765		205	7 560	756 000
PS	11/15/16			570		0	570	57 000
BSA	11/18/16			1 850 000	845 000	0	1 005 000	1 005 000
			3 513 156	2 149 335	845 000	1 306 955	3 510 536	3 019 289

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

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

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

10.3 Share buybacks

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

Objectives of the share buyback program:

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

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

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

It is specified that the number of shares acquired by the Company to be retained and subsequently delivered in payment or in an exchange for the purpose of any merger, de-merger, or capital contribution may not exceed 5% of its share capital.

Summary of shares purchased and sold over the year:

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- Third payment of €685 thousand on May 29, 2013 ;
- Fourth payment of €626 thousand on December 22, 2016.

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

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

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

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

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

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

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

11.2 COFACE loans

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

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

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

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

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

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

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CHANGES IN REPAYABLE ADVANCES

(Amounts in thousands of euros)

	31/12/14	Receipt	Repayment	Others	12/31/2015
OSEO Funding (1st advance)					
OSEO Funding (2nd advance)	300		(300)		
OSEO Funding (3rd advance)	2 224			(47)	2 177
COFACE	715			4	719
Total des avances remboursables	3 239		(300)	(43)	2 896

	12/31/2015	Receipt	Repayment	Others	12/31/2016
OSEO Funding (1st advance)					
OSEO Funding (2nd advance)					
OSEO Funding (3rd advance)	2 177	626		(169)	2 635
COFACE	719		(311)	(5)	404
Total des avances remboursables	2 896	626	(311)	(174)	3 038

11.3 Long-term loans and borrowings

Long-term loans and borrowings break down as follows:

LONG-TERM LOANS AND BORROWINGS

(Amounts in thousands of euros)

	31/12/14	Receipt	Repayment	Reclassification	Others	12/31/2015
Shareholders' accounts	5					5
Repayable advances OSEO Funding	2 224				(47)	2 177
Repayable advances COFACE	377			(377)		
Total of long-term loans and borrowings	2 606			(377)	(47)	2 182

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

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

11.4 Cash flow hedges

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

11.5 Repayment terms of financial liabilities

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

REPAYMENT TERMS OF FINANCIAL LIABILITIES

(Amounts in thousands of euros)

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

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

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Note 12: Non-current provisions

Non-current provisions break down as follows:

NON-CURRENT PROVISIONS

(Amounts in thousands of euros)

	31/12/14	Dotations	Reprises non utilisées	Reprises utilisées	Autres	12/31/2015
Pension plan provision	287	3	(34)		(117)	140
Provisions for personnel disputes	91					91
Provision for software update	15					15
Others provisions for expenses	125		(48)	(85)	8	
Total of non-current provisions	518	3	(82)	(85)	(109)	246

NON-CURRENT PROVISIONS

(Amounts in thousands of euros)

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

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

12.1 Commitments related to lump-sum compensation paid upon retirement

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

PENSION PLAN PROVISION

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

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

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

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

12.2 Provision for labor disputes

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

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12.3 Other provisions for risks and liabilities

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

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

Note 13: Trade payables and other current liabilities

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

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13.1 Trade payables

Trade payables break down as follows:

TRADE PAYABLES
(Amounts in thousands of euros)

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

13.2 Other current liabilities

Other current liabilities break down as follows:

OTHER CURRENT LIABILITIES
(Amounts in thousands of euros)

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

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

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

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

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

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Note 14: Financial instruments on balance sheet

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

(Amounts in thousands of euros)

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

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

(Amounts in thousands of euros)

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

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

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

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Note 15: Sales and operating revenue

Sales and operating revenue consist of the following:

SALES AND OPERATING REVENUE

(Amounts in thousands of euros)

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

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

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

SALES BY TYPE

(Amounts in thousands of euros)

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

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

SALES BY GEOGRAPHICAL AREA

(Amounts in thousands of euros)

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

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

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

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Note 16: Staff costs

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

Employee benefits expense breaks down as follows:

EMPLOYEE BENEFITS EXPENSE

(Amounts in thousands of euros)

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

Note 17: Share-based payments

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

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

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

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

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

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

The main characteristics and terms are as follows:

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

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

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

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

Where:

- the term "Acquisition Price" means the average closing price recorded on Euronext or any other place of primary listing of Mauna Kea Technologies shares during the last 60 trading days preceding the Acquisition Date;
- the term "Floor Price" means the Acquisition Price increased by 2 euros;
- the term "Intermediate Price" means double the Floor Price; and
- the term "Reference Price 1" means the average closing price recorded on Euronext or any other place of primary listing of Mauna Kea Technologies shares during the last 120 trading days preceding the second anniversary of the Acquisition Date;

- d. In the event of Departure following the expiry of the Retention Period, the number of Ordinary Shares to which each Preferred share gives right will be equal to the sum:

(x) of the number of Ordinary Shares calculated in accordance with the provisions of paragraph 3.c) above as if the Departure of the beneficiary had occurred between the second and the third anniversary of the Acquisition Date, and;

(y) of the following number of Ordinary Shares:

- (i) if the Reference Price 2 is strictly lower than the Floor Price: none;
- (ii) if the Reference Price 2 is strictly higher than the Ceiling Price: the difference between one hundred Ordinary Shares and the number of Ordinary Shares calculated in (x) (so that the sum of (x) and (y) is equal to 100);
- (iii) if the Reference Price 2 is between the Floor Price (inclusive) and the Ceiling Price (inclusive): the difference, if this is positive, between:

- $33 + 67 \times [(\text{Reference Price 2} / \text{Floor Price}) - 1] / 2$;
- the number of Ordinary Shares calculated in (x).

Where:

- the term "Floor Price" has the meaning given to it in 3.c). above;
- the term "Ceiling Price" means three times the Floor Price; and

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- the term “Reference Price 2” means the average closing price recorded on Euronext or any other place of primary listing of Mauna Kea Technologies shares during the last 120 trading days preceding the third anniversary of the Acquisition Date.

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

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

They break down as follows:

SHARE-BASED PAYMENTS

Type	Date of granting	Exercise price	Maturity	Number of shares	Cancelled	Exercised	Outstanding bond at 12/31/2016	Vestable bond at 12/31/2016	Exercisable bond at 31/12/2016
BSPCE 5	03/10/06	0,916	03/10/16	310 950	132 500	178 450	0	0	0
BSPCE 5	08/10/06	0,916	08/10/16	100 000	55 000	45 000	0	0	0
BSPCE 5	09/13/06	0,916	09/13/16	20 000	20 000	0	0	0	0
BSPCE 5	10/09/06	0,916	10/09/16	25 000	25 000	0	0	0	0
SO 2008	06/02/08	1	06/02/18	670 000	270 000	188 592	211 408	52 852	52 852
BCE-A	08/04/08	1	08/04/18	500 000	0	4	499 996	124 999	124 999
BSPCE 6	08/04/08	1	08/04/18	1 225 000	590 008	382 492	252 500	63 125	63 125
BSPCE 6	12/08/08	1	12/08/18	35 000	10 000	0	25 000	6 250	6 250
BSPCE 6	11/24/09	1	11/24/19	637 500	323 756	192 492	121 252	30 313	30 313
SO 2008	03/01/10	1	03/01/17	250 000	100 000	10 000	140 000	35 000	35 000
SO 2010	01/31/11	1	01/31/21	245 000	173 750	56 250	60 000	15 000	15 000
BSPCE 2010	02/15/11	1	02/15/21	915 000	268 748	278 252	368 000	92 000	92 000
SO 2010	02/15/11	1	02/15/21	50 000	50 000	0	0	0	0
BSPCE 2010	03/01/11	1	03/01/21	200 000	0	150 000	50 000	12 500	12 500
BSA	07/05/11	13	07/05/21	80 000	80 000	0	0	0	0
BSPCE 2011	12/05/11	13	12/05/21	129 500	117 000	0	12 500	12 500	12 500
SO 2011	12/05/11	11,44	12/05/21	288 153	288 153	0	0	0	0
BSCPCE 2012	12/04/12	10,79	12/04/22	239 500	154 625	625	84 250	84 250	84 250
SO 2012	12/04/12	10,79	12/04/22	161 000	143 000	0	18 000	18 000	18 000
BSPCE 2013	05/07/13	10,28	05/07/23	63 000	27 000	0	36 000	36 000	27 000
SO 2013	12/09/13	10,05	12/09/23	101 000	101 000	0	0	0	0
SO 2014	02/12/14	10,56	02/12/24	10 000	8 000	0	2 000	2 000	1 000
BSPCE 2014	02/12/14	10,56	02/12/24	181 000	88 000	0	93 000	93 000	46 500
BSPCE 2014	02/12/14	10,56	02/12/24	100 000	0	0	100 000	100 000	50 000
BSA 2014	09/01/14	6,12	09/01/24	100 000	0	0	100 000	100 000	66 667
SO 2015	09/08/15	2,94	09/08/25	57 500	10 000	0	47 500	47 500	11 875
SO 02.2016	02/02/16	2,54	02/02/26	96 000	15 000	0	81 000	81 000	0
SO 07.2016	07/26/16	1,6	07/26/26	80 000	0	0	80 000	80 000	0
BSA 07.2016	07/26/16	1,68	07/26/26	115 000	0	0	115 000	115 000	0
PS 07.2016	07/26/16	*	NA	7 765	205	0	7 560	756 000	0
PS 11.2016	11/15/16	*	NA	570	0	0	570	57 000	0
				6 993 438	3 050 745	1 482 157	2 505 536	2 014 289	749 831

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

- Risk-free interest rate: rate of government borrowing (GFRN index);
- Dividend: none;
- Turnover: 15%;
- Volatility: 60% for BSAs, BSPCEs and stock options granted before December 31, 2011, 35% for BSPCEs and stock options granted in 2012, 34% for BSPCEs and stock options granted in 2013, 32% and 33% for plans granted in 2014, 33% for plans granted in 2015 and 29.99% for plans granted in 2016.

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

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

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

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

(Amounts in thousands of euros)

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

Note 18: External expenses

18.1 Research & Development Department

RESEARCH & DEVELOPMENT

(Amounts in thousands of euros)

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

18.2 Sales & Marketing Department

SALES & MARKETING

(Amounts in thousands of euros)

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

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

18.3 Administrative Expenses

ADMINISTRATIVE EXPENSES

(Amounts in thousands of euros)

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

Note 19: Financial income and expenses

Financial income and expenses break down as follows:

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FINANCIAL REVENUE AND EXPENSES

(Amounts in thousands of euros)

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

Note 20: Income tax

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

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

TAX RECONCILIATION

(Amounts in thousands of euros)

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

Note 21: Commitments

Obligations pursuant to ordinary rental agreements

The Group uses the following premises:

- registered office in Paris: located at 9, rue d'Enghien (75010) on 6 floors of the building, the surface area of which is approximately 1,133 sq. meters (including the basement). The Company has six separate leases contracted with SCI Enghien 9, which is the owner thereof.
- premises in the United States: commercial lease between Capkey Gates at Sugarloaf Partners LLC and Mauna Kea Technologies Inc. signed on January 15, 2013 and renewed until February 28, 2017 for the rental of the offices located at 1325 Satellite Boulevard, Unit 108, Suwanee, GA, 30024, United States, terminated at end-2016.
A new lease was signed on 12/16/2016 with Geros LLC for the rental of offices at 29 DENBY RD, ALLSTON, MA 02134. This lease takes effect on January 1, 2017 for a term of three years.

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

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

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**OBLIGATIONS PURSUANT TO
ORDINARY RENTAL AGREEMENTS**

(Amounts in thousands of euros)

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

Commitments under other contracts

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

**OBLIGATIONS PURSUANT TO
OTHER AGREEMENTS**

(Amounts in thousands of euros)

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

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

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

Note 22: Transactions with related parties

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

RELATED PARTY TRANSACTIONS

(Amounts in thousands of euros)

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

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Note 23: Earnings per share

Basic earnings per share

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

EARNINGS PER SHARE

	<u>12/31/2016</u>	<u>12/31/2015</u>
Profit / (loss) (in K€)	(9 744)	(12 643)
Weighted average number of shares outstanding (in thousands)	17 587	15 031
Earnings per share (in €)	<u>(0,55)</u>	<u>(0,84)</u>
Weighted average number of potential shares (in thousands)	20 607	16 814

Note 24: Management of financial risk

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

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

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

Exchange rate risk

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

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

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

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

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

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

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

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Liquidity risk

See Note 1.9: Cash and cash equivalents

Interest Rate Risk

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

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

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

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

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

Credit Risk

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

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

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

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

Fair value

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

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

Note 25: Subsequent events

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

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

Mauna Kea Technologies
December 31, 2016

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

This is a free translation into English of the statutory auditor's report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the group's management report.

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 Decembre 31, 2016

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Mauna Kea Technologies
December 31, 2016

COFIDEC

155, boulevard Haussmann
75008 Paris
S.A.R.L. au capital de € 32.800

Commissaire aux Comptes
Membre de la compagnie
régionale de Paris

ERNST & YOUNG et Autres

1/2, place des Saisons
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S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Mauna Kea Technologies
Year ended December 31, 2016

STATUTORY AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meetings, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of Mauna Kea Technologies;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the board of directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I. Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2016 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.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Mauna Kea Technologies

December 31, 2016

- As part of our assessment of the accounting policies used by your Group, we examined the methods used to capitalize, depreciate and impair intangible assets. We ensured that the information provided in notes “1.4: Intangible assets” and “1.6: Recoverable amount of the non-current tangible and intangible assets” to the consolidated financial statements provide appropriate information on the methods used by your Group.
- Intangible assets have also been subject to an impairment test according to policies described in note “3: Intangible assets” to the consolidated financial statements. As part of our works, we have reviewed the methodology and assumptions used by your Group to determine the recoverable amount of these assets. On this basis, we have assessed the reasonableness of these estimates.
- Since its creation, your Group has set up compensation plans settled in equity instruments whose methods of recognition and measurement are described in notes “1.12: Share-based Payments” and “17: Share-based Payments” to the consolidated financial statements. As part of our works, we assessed the relevance of the valuation model used and reviewed the assumptions used by your Group to measure the fair value of these instruments. On this basis, we have assessed the reasonableness of these estimates.
- The methods used by your Company to recognize the Research Tax Credit are specified in note "1.17: Other - Research Tax Credit" and the income amount for the year under this tax credit is mentioned in note "7.2 Other Current Assets - Research Tax Credit" of the consolidated financial statements. As part of our works, we have reviewed the methodology used by your Group to assess the amount and performed tests on research expenses included in the calculation. On this basis, we concluded on the reasonableness of the revenue recognized.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verification

As required by law we have also verified, in accordance with professional standards applicable in France, the information presented in the group’s management report.

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

Paris and Paris-La Défense, March 31, 2017

The statutory auditors
French original signed by

ERNST & YOUNG et Autres

COFIDEC

Olivier Robinault

Cédric Garcia

STATUTORY FINANCIAL STATEMENTS AS OF 31 DECEMBER 2016

I. **BALANCE SHEET AS AT 12/31/2016**

A. **Balance sheet - Assets**

Rubric	Gross amount	Amort. Prov.	Net 12/31/2016	Net 12/31/2015
Uncalled issued capital				
INTANGIBLE ASSETS				
Start-up costs				
Development costs				
Concessions, patents and similar rights	564,841	393,468	171,373	237,986
Goodwill				
Other intangible assets				
Advances, prepayments on intangible assets				
PROPERTY, PLANT AND EQUIPMENT				
Land				
Buildings	51,090	43,960	7,130	13,700
Technical facilities, machinery and equipment	1,103,222	940,985	162,237	207,625
Other property, plant and equipment	971,080	675,432	295,648	254,119
Assets under construction	259,091		259,091	41,024
Advances and prepayments				
LONG-TERM INVESTMENTS				
Companies accounted for by the equity method				
Other participating interests	23,077	23,077		
Loans related to participating interests	39,303,995	38,470,633	833,362	616,595
Other fixed securities				
Loans				
Other long-term investments	307,945		307,945	301,100
FIXED ASSETS	42,584,341	40,547,556	2,036,786	1,672,148
INVENTORIES & WORK IN PROGRESS				
Raw materials and supplies	769,486	58,110	711,376	768,012
Work in progress - goods				
Work in progress - services				
Semi-finished and finished goods	1,510,628	48,424	1,462,204	1,574,568
Goods				
Advances and prepayments on orders	132,305		132,305	120,434
RECEIVABLES				
Trade receivables	2,789,651	1,010,717	1,778,935	3,658,556
Other receivables	2,507,328		2,507,328	1,675,839
Capital subscribed and called but not paid				
MISCELLANEOUS				
Investment securities				636,256
Cash and cash equivalents	8,631,038		8,631,038	9,673,883
ACCRUALS				
Prepaid expenses	191,070		191,070	97,069
CURRENT ASSETS	16,531,506	1,117,251	15,414,255	18,204,617
Deferred issuance expenses				
Bond redemption premium				
Unrealized foreign exchange losses	9,046		9,046	2,936
TOTAL	59,124,893	41,664,807	17,460,086	19,879,701

B. Balance sheet - Liabilities

Rubrics	FY 2016	FY 2015
Share capital (of which paid up: 800,074)	800,074	647,068
Issue, merger and contribution premiums	72,381,803	66,049,538
Revaluation reserve		
Legal reserve		
Statutory or contractual reserves		
Regulated reserves		
Other reserves	(19,560)	
Retained earnings	(60,194,362)	(44,769,688)
PROFIT/(LOSS) FOR THE YEAR	(10,610,123)	(15,424,674)
Investment subsidies		
Regulated provisions		
SHAREHOLDERS' EQUITY	2,357,832	6,502,244
Proceeds from the issue of participating securities		
Conditional advances	3,311,139	2,995,795
OTHER EQUITY	3,311,139	2,995,795
Provisions for risks	96,053	93,572
Provisions for expenses	14,782	14,782
PROVISIONS	110,835	108,354
FINANCIAL DEBTS		
Convertible bonds		
Other bonds		
Loans and borrowings from credit institutions		
Other loans and borrowings		
Advances and prepayments received on current orders		
OPERATING LIABILITIES		
Trade payables	2,951,646	2,373,984
Tax and employee-related liabilities	1,498,553	2,057,448
OTHER LIABILITIES		
Amount due on fixed assets and related accounts		
Other payable	54,486	27,243
ACCRUALS		
Deferred revenues	180,966	109,429
LIABILITIES	4,685,650	4,568,104
Unrealized foreign exchange gains	6,994,630	5,705,204
TOTAL	17,460,086	19,879,701

II. INCOME AS AT 12/31/2016

Rubrics	FY 2016			FY 2015
	France	Exports	Total	
Sales of goods		1,590	1,590	3,847
Sale of manufactured goods	345,657	5,913,646	6,259,303	6,544,972
Sale of services rendered	60,111	1,010,434	1,070,545	819,756
NET SALES	405,768	6,925,670	7,331,438	7,368,575
Production in stock			(105,846)	777,691
Fixed asset production				
Operating subsidies			(360)	145,000
Write-backs of impairment, provisions (and amortization), cost transfers			50,727	477,986
Other income			101	1,558
OPERATING REVENUE			7,276,060	8,770,810
Purchases of goods (including customs duties)			22,341	31,111
Change in stocks (goods)				31,111
Purchases of raw materials and other supplies			1,465,966	2,032,451
Change in stocks (raw materials and supplies)			56,049	(3,650)
Other purchases and external expenses			5,712,622	6,499,873
Taxes and similar payments			178,529	138,188
Wages and salaries			4,664,788	5,959,220
Social security expenses			2,069,015	2,546,525
Depreciation, amortization and provisions - operating				
Depreciation and amortization on fixed assets			261,653	270,922
Impairment on fixed assets				
Impairment on current assets			606,478	453,120
Provisions				
Other expenses			209,070	141,325
OPERATING EXPENSES			15,246,511	18,069,083
			OPERATING REVENUE	(7,970,451)
				(9,298,273)
JOINT VENTURES				
Profits transferred in and losses transferred out				
Profits transferred out and losses transferred in				
FINANCIAL REVENUE			943,832	676,832
Financial revenue from participating interests				
Revenue from other investments and long-term receivables				
Other interest and similar revenue			783,639	362,892
Write-backs of provisions, cost transfers				8,079
Foreign exchange gains			160,194	305,860
Net proceeds from disposals of investment securities				
FINANCIAL EXPENSES			4,403,481	8,067,459
Depreciation, amortization and provisions - financial items			4,206,624	7,795,588
Interest and similar expenses			55,149	86,401
Foreign exchange losses			141,707	185,470
Net expenses on disposals of investment securities				
			FINANCIAL NET INCOME	(3,459,648)
			PROFIT BEFORE TAX	(11,430,099)
NON-RECURRING REVENUE			882	
Non-recurring revenue from non-capital transactions				
Non-recurring revenue from capital transactions			882	
Write-backs of provisions, cost transfers				
NON-RECURRING EXPENSES			44,537	369
Non-recurring expenses on non-capital transactions			11,337	26
Non-recurring expenses on capital transactions			23,184	343
Depreciation, amortization and provisions - exceptional items			10,016	
			NON-RECURRING INCOME (EXPENSE)	(43,655)
Employee profit-sharing				
Income tax			(863,631)	(1,264,596)
TOTAL INCOME			8,220,774	9,447,642
TOTAL EXPENSES			18,830,897	24,872,315
PROFIT OR LOSS			(10,610,123)	(15,424,674)

III. ANNEX

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1. THE COMPANY'S ACTIVITY AND HIGHLIGHTS OF THE FISCAL YEAR

1.1. The Company's activity

Established in 2000, Mauna Kea Technologies is a global medical device company focused on leading innovation in endomicroscopy and optical biopsy. The Company designs, develops and markets innovative tools to visualize and detect cell abnormalities in real time during standard gastrointestinal and pulmonary endoscopy procedures. Its flagship product, Cellvizio®, is a confocal miniprobe endomicroscopy system which provides physicians and researchers high-resolution images of tissues at the cellular level. Large-scale, international, multi-center clinical trials have demonstrated Cellvizio's ability to help physicians to more accurately detect early forms of diseases and make immediate treatment decisions. Designed to help physicians in their diagnoses, provide patients with better treatment and reduce hospital costs, the Cellvizio system can be used with practically all endoscopes.

1.2. Highlights of the fiscal year

The financial statements for the year given below cover the period from 01/01/2016 to 12/31/2016, a period of 12 months.

There are no significant events leading to a major accounting change, which would impede comparison with the previous fiscal year to report.

2. MAJOR EVENTS SINCE THE REPORTING PERIOD

On February 8, 2017, the Company contracted non-dilutive funding of €7.0 million with IPF Partners, a fund specialized in alternative financing for European growth companies in the Healthcare sector. This financing is made up of 7,000,000 bonds in two portions: the first amounting to €4.0 million was issued on February 8, 2017; the second for the remaining €3.0 million will be available over the following 12 months, subject to achieving pre-determined targets. The annual interest rate on these bonds is set at 3-month Euribor +8.5%.

3. ACCOUNTING RULES AND METHODS

The Company's annual financial statements were prepared according to the standards, principles and methods of the general accounting plan attached to regulation 2014(03) of the French Accounting Standards Authority (Autorité des Normes Comptables) of June 5, 2014, approved by order of September 8, 2014, in accordance with the provisions of French legislation, in line with the principle of prudence and in accordance with the general rules for preparing and presenting the annual financial statements:

- i. continuity of accounting methods from one fiscal year to another;
- ii. independence of fiscal years;
- iii. going concern.

The going concern assumption was applied by the Board of Directors, taking into account the cash available as of December 31, 2016, which amounted to €8.6 million, sales prospects (including those of signed partnership agreements), receipt of its 2015 research tax credit, the set-up of a bond issue contracted in February 2017 and its forecast cash flows. The Company performed a specific review of its liquidity risk and believes that it is able to meet its deadlines until December 31, 2017.

The accounting elements are valued according to the historical cost method.

The most significant accounting principles and methods, used in the preparation of the company financial statements are as follows:

4.1. Fixed assets

3.1.1 Property, plant and equipment and intangible assets

Property, plant and equipment and intangible assets are recorded at the cost of acquisition and their depreciation and amortization is calculated on the basis of their estimated useful lives. The depreciation method and period by category of fixed assets is as follows:

Category	Term	Method
Software packages	1 to 3 years	Straight line method
Patents, licenses and trademarks	10 years	Straight line method
<hr/>		
Other property, plant and equipment:		
- fixtures	7 years	Straight line method
- tools	2 to 7 years	Straight line method
- computer equipment	3 years	Straight line method
- furniture	5 years	Straight line method

Development costs are recorded under expenses.

3.1.2 Long-term investments and investment securities

The elements constituting the fixed assets were valued according to the historical cost method, which is marked by the use of nominal costs expressed in current euros. The gross value comprises the purchase price, excluding transaction costs. Where the inventory value is less than the gross value, a provision for impairment is recorded for the difference.

4.2.Evaluation of stocks

Stocks are valued at their cost of acquisition according to the following methods:

Description	Method
Raw materials	First-in first-out
Work in progress	Cost of work in progress
Finished products	Cost price, except for marketing costs

The cost of acquisition comprises:

- the purchase price, including customs duties and other non-recoverable taxes;
- post-deduction of trade rebates, deductions, cash discounts and other similar elements;
- transport, handling and storage costs (if justified by specific operating conditions);
- and other costs directly attributable to the acquisition.

The cost of production includes consumption of raw materials, direct costs, depreciation of assets used in production.

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

Where applicable, stocks were impaired through provisions to take into account their realizable value on the reporting date.

4.3.Receivables

Receivables are recorded at their nominal value. A provision for impairment is made where the inventory value is less than the book value.

4.4. Provisions

Pursuant to the principle of prudence, provisions for risks and expenses are made to face probable outflows of resources in favor of third parties with no counterparty for the Company. These provisions are estimated by taking into consideration the most probable assumptions on the reporting date.

4.5.Foreign currency transactions

The expenses and revenue in foreign currency are recorded for their corresponding value on the transaction date.

Foreign currency receivables and payables existing at year-end are converted at the exchange rate on this date. The conversion difference is recorded in the balance sheet under "Translation differences."

Unrealized foreign exchange gains that have not been offset are recorded under provision for risks. Foreign currency cash accounts existing at year-end are converted at the exchange rate on this date. The unrealized foreign exchange gains or losses resulting from this conversion are recorded in profit/loss.

4.6. Subsidies and conditional advances

The Company receives a certain number of forms of assistance, in the form of subsidies or conditional advances. Details of these aids are provided in the balance sheet notes 5.3.

Subsidies are recorded:

- where there is reasonable assurance that the Company will comply with the conditions attached to the subsidies;
- and when they are received.

In practice, subsidies are thus recognized when the record justifying the R&D expenses incurred has been accepted by the funding agency.

Conditional advances from public authorities were made subject to a contract with BPI (formerly "OSEO Innovation") and "Coface."

The Company has received two such advance contracts as at December 31, 2016. These advances are 100% repayable (at their nominal value) in the event of technical and/or commercial success.

4.7. Research Tax Credit

Research tax credits are granted to companies by the French government in order to encourage them to conduct technical and scientific research. Companies 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 fiscal year in which the expenditures were made and the next three fiscal years, or, as applicable, be reimbursed for the excess portion.

The Company has been receiving the Research Tax Credit since its establishment.

The Company requested the reimbursement of the 2015 Research Tax Credit under the regime for EU SMEs, in accordance with the regulations in force. The reimbursement was received in January 2017.

4.8. Deviations from general principles

3.8.1 Change in the valuation methods

There was no notable change in the valuation method during the fiscal year.

3.8.2 Changes in the presentation methods

General accounting conventions were applied in line with the principle of prudence and in accordance with the general rules for preparing and presenting annual financial statements. The basic method considered for the valuation of elements is the historical cost method.

4. INFORMATION ON BALANCE SHEET ASSETS

4.4. Property, plant and equipment and intangible assets

4.1.1 Table of acquisitions and disposals during the fiscal year

Figures expressed in euros	As of 12/31/2015	Acquisitions	Transfers between items and corrections +/-	Sales	As of 12/31/2016
Start-up and development costs					
Other intangible fixed asset items (1)	543,449	21,392			564,841
Total Property, plant and equipment	543,449	21,392	0	0	564,841
Land					
Buildings on freehold land					
Buildings on non-freehold land					
Buildings, installations, fixtures, etc.	51,090				51,090
General installations and fixtures (1)	353,173	39,821			392,994
Technical facilities, machinery and equipment (1)	1,105,058	41,787		43,623	1,103,222
Vehicles					
Office and computer equipment, furniture (1)	493,792	84,294			578,086
Recoverable packaging and other items					
Total Property, plant and equipment	899,218	165,902	0	43,623	1023,495
Property, plant and equipment in progress (1)	41,024	218,067			259,091
Total property, plant and equipment outstanding	41,024	218,067	0	0	259,091
Prepayments					
TOTAL	1483,691	405,361	0	43,623	1847,427

(1) These changes in the property, plant and equipment and intangible asset items from one fiscal year to another are due to asset acquisition and sale transactions by the Company for its business.

4.1.2 Depreciation and amortization table

The depreciation and amortization of property, plant and equipment and intangible assets are calculated on a straight line or digressive basis, according to the nature of the goods and based on the estimated useful life.

Technical depreciation and amortization table:

Figures expressed in euros	As of 12/31/2015	All owance	Dec reases or write-backs	As of 12/31/2016
Start-up and development costs				
Other intangible assets	305,462	88,006		393,468
Total Amort. of Property plant, and equipment	305,462	88,006	0	393,468
Land				
Buildings	37,391	6,570		43,960
General installations and fixtures	199,061	41,442		240,503
Technical facilities, machinery and equipment	897,433	80,852	37,300	940,985
Vehicles				
Office and computer equipment, furniture	393,785	44,783	3,639	434,929
Recoverable packaging and other items				
Total Amort. of Property, plant and equipment	1527,67	173,647	40,939	1660,377
TOTAL	1833,132	261,653	40,939	2053,845

4.1.3 Provisions for fixed asset impairment

See Section [5.2 Statement of provisions](#).

4.4. Long-term investments

Table of transactions for the fiscal year:

Figures expressed in euros	Gross amount as at 12/31/2015	Acquisitions and transfers between items	Sales and transfers between items	Gross amount As of 12/31/2016	Provision	Net value As of 12/31/2016
Other participating interests	34,906,161	4,420,910		39,327,072	38,493,710	833,362
Loans and other long-term investments	301,100	51,851	45,006	307,945		307,945
TOTAL	839,167	1294,181	96,006	1038,344	787,696	1450,717

4.3 Stocks of goods and work-in-progress

At the end of each period, inventories and work in progress of finished goods include certain assets related to goods that no longer appear in our catalogue. These identified assets are kept by the Company so that After-Sales Customer Service can use them. They are impaired by 80%.

The stock amount is broken down as follows:

Figures expressed in euros	Gross amount	Impairment	Balance as of 12/31/2016
Raw materials	769,486	58,110	711,376
Finished products	1,510,628	48,424	1,462,204
TOTAL	2,280,114	106,534	2,173,580

4.4. Provisions for impairment of stocks and receivables

See Section [5.2 Statement of provisions](#).

4.5. Maturity of receivables

The gross value of receivables held by the Company amounts to €45,099,990 as at 12/31/2016 and can be broken down as follows:

Figures expressed in euros	Gross amount	At no more than one year	At more than one year
FIXED ASSETS:	39,611,940	39,611,940	0
Loans related to participating interests	39,303,995	39,303,995	
Loans			
Other long-term investments	307,945	307,945	
CURRENT ASSETS:	5,488,049	5,488,049	0
Receivables	2,789,651	2,789,651	
Doubtful receivables			
Personnel and related accounts	22,126	22,126	
Social security bodies			
Statement: various taxes	2,359,133	2,359,133	
Group companies and associates			
Sundry debtors	126,069	126,069	
Prepaid expenses	191,070	191,070	
TOTAL	45,099,989	45,099,989	0

Amounts of loans granted during the

year	
Amounts of repayments received during the year	
Loans and advances granted to partners (natural persons)	

4.6 Trade receivables

RECEIVABLES	Gross amount	Amort. Prov.	Net 12/31/2016	Net 12/31/2015
Trade receivables	2,789,651	1,010,717	1,778,935	3,658,556
Other receivables	2,507,328		2,507,328	1,675,839
Capital subscribed and called but not paid				
TOTAL	5,296,979	1,010,717	4,286,263	5,334,395

Including Group receivables:

Figures expressed in euros	2016	2015
Mauna Kea Inc.	508,523	461,026
TOTAL	508,523	461,026

Provisions are determined per the terms and conditions outlined in [Section 5.2.5](#).

4.7 Accrued revenue

The amount of accrued revenue included in the following balance sheet items is:

Figures expressed in euros	As of 12/31/2016	As of 12/31/2015
Receivables - Invoices to be raised	5,376	285,008
Accrued revenue	118,000	160,692
TOTAL	123,376	445,700

Accrued revenue corresponds to the subsidies from the National Research Agency.

4.8 Investment securities

As of December 31, 2016, the Company held no money market funds.

4.9 Accruals

4.9.1 Prepaid expenses

Prepaid expenses amount to 191,070 €.

Figures expressed in euros	As of 12/31/2016	As of 12/31/2015
Operating expenses	191,070	97,069
Financial expenses		
Non-recurring expenses		
TOTAL	191,070	97,069

4.9.2 Translation differences

DIFFERENCE ON THE ASSET SIDE		DIFFERENCE ON THE LIABILITY SIDE	
	Euros		Euros
Decrease in receivables	7,335	Decrease in liabilities	2,020
Increase in liabilities	1,710	Increase in receivables	6,992,610
TOTAL	9,045	TOTAL	6,994,630

5. INFORMATION ON BALANCE SHEET LIABILITIES

5.1 Shareholders' equity

Share capital

The share capital is set at the sum of six hundred forty-seven thousand sixty-eight euros and twenty-eight cents (€800,073.52). It is divided into 20,001,838 ordinary shares, fully subscribed and paid up, each with a par value of €0.04.

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

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

SHARE-BASED PAYMENTS

Type	Date of granting	Exercise price	Maturity	Number of shares	Cancelled	Exercised	Oustanding bond at 12/31/2016	Vestable bond at 12/31/2016	Exercisable bond at 31/12/2016
BSPCE 5	03/10/06	0,916	03/10/16	310 950	132 500	178 450	0	0	0
BSPCE 5	08/10/06	0,916	08/10/16	100 000	55 000	45 000	0	0	0
BSPCE 5	09/13/06	0,916	09/13/16	20 000	20 000	0	0	0	0
BSPCE 5	10/09/06	0,916	10/09/16	25 000	25 000	0	0	0	0
SO 2008	06/02/08	1	06/02/18	670 000	270 000	188 592	211 408	52 852	52 852
BCE-A	08/04/08	1	08/04/18	500 000	0	4	499 996	124 999	124 999
BSPCE 6	08/04/08	1	08/04/18	1 225 000	590 008	382 492	252 500	63 125	63 125
BSPCE 6	12/08/08	1	12/08/18	35 000	10 000	0	25 000	6 250	6 250
BSPCE 6	11/24/09	1	11/24/19	637 500	323 756	192 492	121 252	30 313	30 313
SO 2008	03/01/10	1	03/01/17	250 000	100 000	10 000	140 000	35 000	35 000
SO 2010	01/31/11	1	01/31/21	245 000	173 750	56 250	60 000	15 000	15 000
BSPCE 2010	02/15/11	1	02/15/21	915 000	268 748	278 252	368 000	92 000	92 000
SO 2010	02/15/11	1	02/15/21	50 000	50 000	0	0	0	0
BSPCE 2010	03/01/11	1	03/01/21	200 000	0	150 000	50 000	12 500	12 500
BSA	07/05/11	13	07/05/21	80 000	80 000	0	0	0	0
BSPCE 2011	12/05/11	13	12/05/21	129 500	117 000	0	12 500	12 500	12 500
SO 2011	12/05/11	11,44	12/05/21	288 153	288 153	0	0	0	0
BSPCE 2012	12/04/12	10,79	12/04/22	239 500	154 625	625	84 250	84 250	84 250
SO 2012	12/04/12	10,79	12/04/22	161 000	143 000	0	18 000	18 000	18 000
BSPCE 2013	05/07/13	10,28	05/07/23	63 000	27 000	0	36 000	36 000	27 000
SO 2013	12/09/13	10,05	12/09/23	101 000	101 000	0	0	0	0
SO 2014	02/12/14	10,56	02/12/24	10 000	8 000	0	2 000	2 000	1 000
BSPCE 2014	02/12/14	10,56	02/12/24	181 000	88 000	0	93 000	93 000	46 500
BSPCE 2014	02/12/14	10,56	02/12/24	100 000	0	0	100 000	100 000	50 000
BSA 2014	09/01/14	6,12	09/01/24	100 000	0	0	100 000	100 000	66 667
SO 2015	09/08/15	2,94	09/08/25	57 500	10 000	0	47 500	47 500	11 875
SO 02.2016	02/02/16	2,54	02/02/26	96 000	15 000	0	81 000	81 000	0
SO 07.2016	07/26/16	1,6	07/26/26	80 000	0	0	80 000	80 000	0
BSA 07.2016	07/26/16	1,68	07/26/26	115 000	0	0	115 000	115 000	0
PS 07.2016	07/26/16	*	NA	7 765	205	0	7 560	756 000	0
PS 11.2016	11/15/16	*	NA	570	0	0	570	57 000	0
				6 993 438	3 050 745	1 482 157	2 505 536	2 014 289	749 831

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

The Company opened also, in November 2016, an equity financing facility with Kepler Cheuvreux for a maximum number of 1,850,000 shares open for subscription over a maximum period of 24 months.

At December 31, 2016, 845,000 shares were subscribed via the financing line with Kepler.

Share purchase warrants, stock options and preferred stock

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

The changes since December 31, 2016 are represented below:

Type	Date of granting	Exercise price	Outstanding as of 31.12.2015	Granted	Exercised	Cancelled	Outstanding as of 31.12.2016	Potential number of shares
Options granted before January 1, 2016			3 513 156			1 291 750	2 221 406	925 289
SO	02/02/16			96 000		15 000	81 000	81 000
SO	07/26/16			80 000		0	80 000	80 000
BSA	07/26/16			115 000		0	115 000	115 000
PS	07/26/16			7 765		205	7 560	756 000
PS	11/15/16			570		0	570	57 000
BSA	11/18/16			1 850 000	845 000	0	1 005 000	1 005 000
			3 513 156	2 149 335	845 000	1 306 955	3 510 536	3 019 289

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

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

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

The terms and conditions for exercising preferred shares are described in the minutes of the Combined General Meeting of May, 4 2016 in resolutions 19 and 20 (http://www.maunakeatech.com/sites/default/files/investors/documentation/Eui_1200483797_1_mkt_-_pv_agm_4_mai_2016.pdf)

Company's buyback of its own shares

The Combined General Meeting of May 4, 2016, 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 Regulations of the Autorité des Marchés Financiers (AMF) under the conditions described below:

Objectives of the share buyback program:

- to ensure the liquidity of the Company's shares under the terms of a liquidity contract to be concluded with an investment services provider, in accordance with a Code of Conduct approved by the AMF;
- to meet 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
- to cancel some or all of the shares of stock thereby bought back.

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

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

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

As of December 31, 2016, the Company held 23,681 Mauna Kea Technologies shares, purchased at an average price of €2.99 and valued at €3.02.

Appropriation of earnings for fiscal year 2015:

The financial statements for 2015 showed a net loss of €15,424,674 euros. Following the decision of the Ordinary Shareholders' Meeting approving the financial statements, this loss was allocated to retained earnings.

5.2 Statement of provisions

Details of the provisions by type are as follows:

5.2.1 Provisions for risks

Figures expressed in euros	As of 12/31/2015	Allowance	Write-backs	As of 12/31/2016
Provisions for foreign exchange losses	2,462	2,480		4,943
TOTAL	2,462	2,480	0	4,943

5.2.2 Provisions for expenses

Figures expressed in euros	As of 12/31/2015	Allowance	Write-backs	As of 12/31/2016
Other provision for risks and expenses	14,782			14,782
TOTAL	14,782	0	0	14,782

5.2.3 Provisions for fixed asset impairment

Figures expressed in euros	As of 12/31/2015	Allowance	Write-backs	As of 12/31/2016
Provisions for other long-term investments	34,289,566	4,204,144		38,493,710
TOTAL	34,289,566	4,204,144	0	38,493,710

In 2016, an advance of €4,420,910 was granted to the subsidiary Mauna Kea Technologies Inc. The total amount of advances stands at €39,303,995. This sum had been provisioned for the negative net asset value of the subsidiary, i.e., €38,470,633.

5.2.4 Provisions for impairment of stocks

Figures expressed in euros	As of 12/31/2015	Allowance	Write-backs	As of 12/31/2016
Raw materials	50,713	7,397		58,110
Finished products	48,716		292	48,424
TOTAL	99,429	7,397	292	106,534

5.2.5 Provisions for impairment of receivables

Figures expressed in euros	As of 12/31/2015	Allowance	Write-backs	As of 12/31/2016
Item: Doubtful receivables	426,916	599,080	15,280	1,010,716
Item: Other receivables				
TOTAL	426,916	599,080	15,280	1,010,716

Trade receivables past due and not impaired amounted to €715 thousand at December 31, 2016, as compared with €1,791 thousand at December 31, 2015. A decrease of €1,076 thousand which is mainly explained by an additional provision of €584 thousand and receivables from customers of 2015 cashed on the beginning of fiscal year 2016.

The provision for collection of doubtful receivables represents 36% of total receivables. The increase of such provision is attributable mainly to the depreciation of some receivables with an age of more than one year.

5.3 Liability repayment schedule

LIABILITIES	Gross amount at end of year	< 1 year	1 to 5 years	> 5 years
Convertible bonds				
Other bonds				
Loans and borrowings from credit institutions:				
repayable within a maximum of 1 year at inception				
repayable after more than 1 year at inception				
Other loans and borrowings				
Trade payables	2,951,646	2,951,646		
Personnel and related accounts	710,861	710,861		
Social security and other welfare agencies	617,956	617,956		
State and other public authorities:				
Income tax				
Value added tax	45,401	45,401		
Guaranteed bonds				
Other taxes and related accounts	124,335	124,335		
Amount due on fixed assets and related accounts				
Group companies and associates	5,000	5,000		
Other payable	49,486	49,486		
Liabilities representing borrowed securities or securities provided as collateral				
Deferred revenues	180,966	180,966		
TOTAL	4,685,651	4,685,651	0	0
Loans taken out during the year				
Loans repaid during the year				

Details of repayable advances in accordance with the agreements mentioned in Section 3.6 are:

- €2,903,563 for the advances from BPI (formerly OSEO), 100% long term
- €407,576 for the advances from Coface, 100% short term

5.4 Trade payables

Figures expressed in euros	As of 12/31/2016	As of 12/31/2015
Group suppliers		
Suppliers in France	935,618	778,679
International suppliers	572,165	399,827
Suppliers whose invoices are not yet received	1,443,492	1,195,477
Net book value	2,951,275	2,373,983

5.5 Accrued expenses

The amount of accrued expenses included in the following balance sheet items is:

Rubrics	FY 2016	FY 2015
OPERATING LIABILITIES		
Trade payables	1,443,492	1,195,477
Tax and employee-related liabilities	1,159,607	1,547,044
FINANCIAL DEBTS		
Convertible bonds		
Other bonds		
Loans and borrowings from credit institutions		
Other loans and borrowings (of which loans to individuals)		
Advances and prepayments received on current orders		
OTHER LIABILITIES		
Amount due on fixed assets and related accounts		
Other payable		
ACCRUALS		
Deferred revenues		
LIABILITIES	2,603,099	2,742,521

5.6 Accruals

5.6.1 Deferred revenues

Deferred revenue breaks down as follows:

Figures expressed in euros	As of 12/31/2016	As of 12/31/2015
----------------------------	------------------	------------------

Operating revenue	180,965	109,429
Financial revenue		
Non-recurring revenue		
TOTAL	180,965	109,429

5.6.2 Translation differences

See [Section 4.9.2.](#)

5.7 Amounts due to related companies

The Company has no liability towards its subsidiary.

6 INFORMATION ON INCOME

6.1. Breakdown of the net sales amount

Sales for fiscal year 2016 break down as follows:

Figures expressed in euros	FY 2016			FY 2015
	France	EEC + Export	Total	Total
Sales of goods		1,590	1,590	3,847
Sales of finished products	345,657	5,913,646	6,259,303	6,544,972
Sale of services rendered	60,111	1,010,434	1,070,545	819,756
Sales	405,768	6,925,670	7,331,438	7,368,575
%	5.56%	94.44%	100 %	

6.2 Other operating revenue

Figures expressed in euros	As of 12/31/2016	As of 12/31/2015
Production in stock	(105,846)	777,691
Fixed asset production		
Other management revenue and operating subsidies	(360)	145,000
Write-backs of depreciation and amortization, provisions, cost transfers and other revenue	50,828	479,544
TOTAL	(55,378)	1,402,235

The cost transfers include re-invoicing of training costs to the OPCAIM, employee benefits in kind, as well as refunds related to health insurance and other insurance companies.

6.3 Compensation of the statutory auditors

Depending on their mission statements, the summary of fees of the Statutory Auditors for the current and previous fiscal years is as follows:

Amount in euros	FY 2016		FY 2015	
	EY	COFIDEC	EY	COFIDEC
Audit				
Statutory auditors, certification and review of the annual financial statements and the consolidated financial statements	65,650	53,500	65,650	53,500
- Mauna Kea Technologies SA	45,450		45,450	
- fully consolidated subsidiaries	77,152	5,000	36,800	5,000
Other diligences and services directly related to the statutory auditors' mission				
Sub-total	188,252	58,500	147,900	58,500
Others services rendered by the network to the fully consolidated subsidiaries				
Legal, fiscal and social	8,000	0	8,000	
Others				
Sub-total	8,000		8,000	
Total	155,900	58,500	155,900	58,500

6.4 Net financial income

The financial net income for the year was (3,459,648) euros and breaks down as follows:

Rubrics	FY 2016	FY 2015
FINANCIAL REVENUE	943,832	676,832
Financial revenue from participating interests		
Revenue from other investments and long-term receivables		
Other interest and similar revenue	783,639	362,892
Write-backs of provisions, cost transfers		8,079
Foreign exchange gains	160,194	305,860
Net proceeds from disposals of investment securities		
FINANCIAL EXPENSES	4,403,481	8,067,459
Depreciation, amortization and provisions - financial items	4,206,624	7,795,588
Interest and similar expenses	55,149	86,401
Foreign exchange losses	141,707	185,470
Net expenses on disposals of investment securities		
FINANCIAL NET INCOME	(3,459,648)	(7,390,627)

The Company has not paid any dividends.

The financial allowances of €4,204,144 relate to the impairment of current account advances to the subsidiary Mauna Kea Technologies Inc.

6.5 Non-recurring income

The non-recurring income of €(43,655) for the fiscal year breaks down as follows:

Rubrics	FY 2016	FY 2015
NON-RECURRING REVENUE	882	
Non-recurring revenue from non-capital transactions		
Non-recurring revenue from capital transactions	882	
Write-backs of provisions, cost transfers		
NON-RECURRING EXPENSES	44,537	369
Non-recurring expenses on non-capital transactions	11,337	26
Non-recurring expenses on capital transactions	23,184	343
Depreciation, amortization and provisions - exceptional items	10,016	
NON-RECURRING INCOME (EXPENSE)	(43,655)	(369)

The non-recurring allowances relate to the non-recurring impairment of deactivated assets.

6.6 Income tax

6.6.1 Tax situation

As of December 31, 2016, the Company has a tax loss carry forward of €67,929,552.

6.6.2 Deferred taxes

BASES	Opening balance (K€)	Change in net income for the fiscal year (K€)	Closing balance (K€)
Differences between the tax regime and the accounting treatment of some revenues and expenses:			
Social security contribution	0	0	0
Other provisions for risks	2,462	2,480	4,943
TOTAL	2,462	2,480	4,943

6.6.3 Tax Credits

The Company benefits from the provisions of Articles 244 quarter B and 49 septies F of the French General Tax Code relating to research tax credits. The Research Tax Credit amount for fiscal year 2016 was €828,232. The amount of other tax credits stood at €33,750 and corresponds mainly to the tax credit for competitiveness and employment and the tax credit for apprenticeship.

In accordance with the information note from the ANC dated February 28, 2013, the tax credit for competitiveness and employment (CICE) is recorded as a decrease in corporate income tax.

During the year ended December 31, 2016, the CICE made it possible to undertake certain expenses allowing the Company to be more competitive. The actions taken by the Company during the year were largely for research and innovation.

7 MISCELLANEOUS INFORMATION

7.1 Average number of salaried and temporary employees

Over the 2016 fiscal year, the average number of employees broke down as follows:

2016 tax year	Workforce
Executives	55
Supervisors, technicians and employees	10
Operators	1
TOTAL	66

7.2 List of subsidiaries and investments

In associated companies	Issued capital	Capital held	Shareholders' equity including profit/loss	Net profit/loss
Mauna Kea Technologies Inc.	30,000	100%	(38,485,376)	(3,094,116)

7.3 Information on related parties

There is no information on transactions between related parties as current transactions are excluded from the list of transactions with related parties.

7.4 Compensation of administrative bodies

The compensation paid to members of management bodies is disclosed annually in the financial report.

7.5 Financial commitments

7.5.1 Commitments given

Commitments given	Total	<1 year	1 to 5 years	> 5 years
Related to leases	1,669,217	351,970	976,055	341,192
Related to supply contracts	3,008,315	1,760,387	1,247,928	
	4,677,532	2,112,357	2,223,983	341,192

In order to cover the exchange rate risk exposure of a part of its foreign currency operating flows, the Group implemented a yen hedging policy in 2013. It expired in 2014. There are no other contracts on this risk.

7.5.2 Commitments received

No commitment was received as at 12/31/2016..

7.6 Commitments towards employees

7.6.1 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

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

- retirement age: 65;
- terms of retirement: voluntary retirement;

- mortality table: INSEE 2015 in 2016 and INSEE 2015 in 2015,
- collective agreement: metal industries;
- digressive employee turnover based on age,
- turnover: high

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

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

7.6.2 Individual right to training (DIF)

In accordance with the provisions of law No. 2004(391) of May 4, 2004, on vocational training, the Group's French companies grant their employees an individual right to training of a minimum of twenty hours per calendar year, which can accrue for a maximum period of six years. At the end of this period, and if the employee fails to make use thereof, all the rights will be limited to a maximum of one hundred and twenty hours.

From January 1, 2015, the Individual Training Account (CPF) will replace the DIF. As of December 31, 2016, the aggregate hours under CPF should be used before December 31, 2022.

This account is no longer managed by the Company but directly by the Caisse des Dépôts et Consignation. To benefit from the aggregate hours under CPF, employees must register on the CPF's website: <http://www.moncompteformation.gouv.fr>

This is a free translation into English of the statutory auditor's report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures. This report also includes information relating to the specific verification of information given in the group's management report. 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, 2016

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

COFIDEC

155, boulevard Haussmann
75008 Paris
S.A.R.L. au capital de € 32.800

Commissaire aux Comptes
Membre de la compagnie
régionale de Paris

ERNST & YOUNG et Autres

1/2, place des Saisons
92400 Courbevoie – Paris – La Défense 1
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Mauna Kea Technologies
Year ended December 31, 2016

STATUTORY AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meetings, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of Mauna Kea Technologies;
- the justification of our assessments;
- the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2016 and of the results of its operations for the year then ended in accordance with French accounting principles.

II. Justification of our assessments

In accordance with the requirements of Article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

- The terms according to which your Company benefits from the research tax credit are specified in note “3.7: Research tax credit” to the financial statements and the income amount for the year under this tax credit is mentioned in note “6.6.3: Tax credits” to the financial statements. As part of our works, we have reviewed the methodology used by your Company to assess this amount and performed tests on research expenses included in the calculation. On this basis, we concluded on the reasonableness of revenue recognized.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III. Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of Article L. 225-102-1 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

In accordance with French law, we have verified that the required information concerning the identity of the shareholders or holders of the voting rights has been properly disclosed in the management report.

Paris and Paris-La-Défense, March 31, 2017

The statutory auditors
French original signed by
COFIDEC ERNST & YOUNG et Autres

Olivier Robinault

Cédric Garcia

This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users.

This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

Mauna Kea Technologies

General Meeting of shareholders to approve the financial statements for the year ended December 31, 2016

**STATUTORY AUDITORS' REPORT ON RELATED
PARTY AGREEMENTS AND COMMITMENTS**

COFIDEC
155, boulevard Haussmann
75008 Paris
S.A.R.L. au capital de € 32.800

Commissaire aux Comptes
Membre de la compagnie
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92400 Courbevoie - Paris-La Défense 1
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Mauna Kea Technologies

General meeting of shareholders to approve the financial statements for the year ended December 31, 2016

Statutory auditors' report on related party agreements and commitments

To the Shareholders,

In our capacity as statutory auditors of your company, we hereby report on certain related party agreements and commitments.

We are required to inform you, on the basis of the information provided to us, of the terms and conditions of those agreements and commitments indicated to us, or that we may have identified in the performance of our engagement, as well as the reasons why they benefit the Company. We are not required to comment as to whether they are beneficial or appropriate or to ascertain the existence of any such agreements and commitments. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code (*Code de commerce*), to evaluate the benefits resulting from these agreements and commitments prior to their approval.

In addition, we are required, where applicable, to inform you in accordance with Article R. 225-31 of the French Commercial Code (*Code de commerce*) concerning the implementation, during the year, of the agreements and commitments already approved by the general meeting of shareholders.

We performed those procedures which we considered necessary to comply with professional guidance issued by the national auditing body (*Compagnie nationale des commissaires aux comptes*) relating to this type of engagement.

Agreements and commitments submitted for approval by the General Meeting of shareholders

We hereby inform you that we have not been advised of any agreements or commitments authorized in the course of the year to be submitted to the General Meeting of shareholders for approval in accordance with Article L. 225-38 of the French Commercial Code (*Code de commerce*).

Agreements and commitments already approved by the General Meeting of shareholders

We hereby inform you that we have not been advised of any agreements or commitments already approved by the General Meeting of shareholders, whose implementation continued during the year.

Paris and Paris-La Défense, March 31, 2017

The statutory auditors
French original signed by

COFIDEC

ERNST & YOUNG et Autres

Olivier Robinault

Cédric Garcia

*This is a free translation into English of a report issued in French and it is provided solely for the convenience of English-speaking users.
This report should be read in conjunction with, and construed in accordance with French law and professional standards applicable in France.*

Mauna Kea Technologies
Year ended December 31, 2016

**STATUTORY AUDITOR'S REPORT PREPARED IN ACCORDANCE WITH
ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE),
ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF
MAUNA KEA TECHNOLOGIES**

COFIDEC
155, boulevard Haussmann
75008 Paris
S.A.R.L. au capital de € 32.800

Commissaire aux Comptes
Membre de la compagnie
régionale de Paris

ERNST & YOUNG et Autres
1/2, place des Saisons
92400 Courbevoie - Paris-La Défense 1
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Mauna Kea Technologies
Year ended December 31, 2016

General meeting of shareholders to approve the financial statements for the year ended December 31, 2016

Statutory auditor's report prepared in accordance with article L. 225-235 of the French Commercial Code (*Code de commerce*), on the report prepared by the Chairman of the Board of Directors of Mauna Kea Technologies

To the Shareholders,

In our capacity as statutory auditors of Mauna Kea Technologies and in accordance with Article L. 225-235 of the French Commercial Code (*Code de commerce*), we hereby report on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*) for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' approval a report on the internal control and risk management procedures implemented by the Company and to provide the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*) relating to matters such as corporate governance.

Our role is to:

- report on any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- confirm that the report also includes the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*). It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information relating to the Company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Other information

We confirm that the report prepared by the Chairman of the Board of Directors also contains the other information required by Article L. 225-37 of the French Commercial Code (*Code de commerce*).

Paris and Paris-La Défense, March 31, 2017

The statutory auditors
French original signed by
COFIDEC ERNST & YOUNG et Autres

Olivier Robinault

Cédric Garcia

ATTESTATION OF THE PERSON RESPONSIBLE FOR THE ANNUAL FINANCIAL REPORT

Article 222-3-4 of the General Regulations of the AMF [*Autorité des Marchés Financiers*/French Financial Markets Authority])

« I attest that, to my knowledge, the financial statements were prepared in accordance with the applicable accounting standards (IFRS standards as adopted by the European Union) and give a fair representation of the company's assets, financial position and results, and all companies including in the scope of consolidation, and that the activity report presents an accurate picture of the significant events occurring during the fiscal year, their impact on the financial statements and the principal transactions between related parties, along with a description of the principal risks and the principal uncertainties. »

Alexandre Loiseau

Directeur Général