

BBS-Bioactive Bone Substitutes Plc

FINANCIAL STATEMENTS

1.1.2020 - 31.12.2020

English version (unaudited)

FINANCIAL YEAR

2020

BBS-Bioactive Bone Substitutes Plc

Kiviharjunlenkki 6

90220 Oulu

Domicile Oulu

Business Identity Code 0866451-4

Financial statement for the financial year	1.1.2020 -	31.12.2020
English version (unaudited)		
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The financial statements must be kept for at least ten years after the end of the financial year (Finnish Accounting Act, chapter 2, section 10). Supporting documentation must be kept for a minimum of six years after the end of the year in which the financial year has ended.

ANNUAL REPORT 1 JANUARY - 31 DECEMBER 2020

Business Review

BBS-Bioactive Bone Substitutes Plc (“BBS”, “the Company”) is a biomedical technology Company that develops, manufactures and commercialises innovative, bioactive medical devices and implants for orthopedic surgery. The Company’s administration and quality control laboratory are in Oulu and production facility in Reisjärvi. The Company has been listed on Nasdaq First North Growth Market marketplaces operated by Helsinki Ltd (BONEH) in Finland and Nasdaq Stockholm in Sweden (BONES).

In early 2020 Company actions focused on quality system and technical file preparations, process validations as well as finalising the clinical study report. Company is close to ending of its product development and is approaching its first product launch to the markets. Company collected new equity from markets to secure the finalisation of its product development and approval of its first commercial product.

To ensure its short-term liquidity the Company decided to take out a working capital loan of EUR 200 thousand in March from Finha Capital Oy, which is one of the Company’s main owners. In June 2020 The Company carried out a share issue in the Nasdaq First North GM marketplace in Helsinki and Stockholm. The issue raised new funds of EUR 5.47 million for the Company. The previously mentioned working capital loan was converted into the Company’s shares in connection with the Rights Issue.

Company released an announcement in February 2020 about the results of the clinical trial that showed ARTEBONE® Paste to function as well as human autograft in fusion of ankle.

First interim results of the animal trial requested by regulatory authorities were announced on August 31st 2020. Based on the results, it was concluded that the final report is likely to fulfil the requirements set by the regulatory authorities. Due to inconsistent interpretations of study samples by the study facility an amendment on analytical method was made to study protocol and the measurements were partly repeated.

Management of the Company has estimated that the Company will receive the CE marking for the ARTEBONE® product designed to heal bone fractures and damages during 2021. The schedule described above requires that Notified Body in Europe can process the Company’s CE marking application within eight months of the submission of the application. The Notified Body does not commit to precise application processing times, which means that the Company can only assess the schedule when the CE marking was granted.

Company objective was earlier to submit the CE-marking application to Notified Body in autumn 2020. Then the Company could have received the CE-marking in spring 2021. However, in autumn 2020 significant causes of delays were observed.

The US market approval submission to FDA has not advanced significantly during the financial period. Company aims to submit the application to FDA after its application for CE-marking has been submitted.

At a general level, the Covid-19 pandemic has caused delays and made the operating environment more difficult. During autumn, the ongoing commissioning of new Medical Device Regulation (MDR) in Europe has highlighted significant number of unfinished documents, quality tests and qualifications of production equipment in the Company. In addition, the Notified Body demands that all documents must be ready for submission at the same time with the CE marking application, whereas according to previous practice, the application could be supplemented during the application process. Furthermore, the further measurements of the animal experiment required by the authority have had to wait longer than expected as the company released in August 2020.

The Company took several corrective actions during end of 2020 to correct the deficiencies due to the above reasons.

FINANCIAL REVIEW

Operating result

BBS Plc had no revenue during the financial year 2020, nor in the corresponding period of the previous year. The consolidated result for the review period was EUR -2,73 million (EUR -1,69 million in 2019) consisting of expenses for research and development, administration and finance.

Investments and Financing

The capital expenditure on machinery and equipment at Reisjärvi production site amounted to EUR 82 thousand (EUR 23 thousand in 2019). All the development expenses were recognised as costs in the Profit and Loss statement.

The Company's cash resources at December 31st 2020 were EUR 3,44 million (EUR 0,52 million in 2019) and increased by EUR 2,92 million during the period (EUR -1,17 million in 2019)

Acquisitions and Share Issues

There were no mergers or acquisitions during the financial year.

However between June 2nd and 18th a rights issue was organised both in the Finnish and Swedish market. The Company offered up to 1 301 205 new shares, representing approximately 25% of the company's shares. A total of 1.059.634 shares were subscribed based on pre-emption rights and the remaining 241.571 shares were allocated in accordance with the terms of the placement. Gross assets worth EUR 5,47 million were raised. However shortly afterwards, it became apparent that the subscription and payment of 65 500 shares by an existing shareholder had not been registered properly on the June 24th allocation. On June 26th, the Board of Directors agreed on an additional private placement of 65.500 shares to the investor at the same price and equal terms as the original issue. Additional EUR 0,27 million was collected.

In total the company received EUR 5,74 million worth gross assets. After the fees, loan conversion and other related costs approximately EUR 4,85 million remained to strengthen the Company's cash position.

Since June 29th after the registration of the issue the total amount of the company shares equal to 6 571 525 .

Balance sheet

The balance sheet total at December 31st 2020 was EUR 12,69 million (EUR 9,83 million in 2019). At the end of the review period the interest-bearing debts to financial institutions amounted to EUR 6,01 million (EUR 6,33 million in 2019), out of which EUR 0,31 million (0,96) were due in 12 months and EUR 2,14 million (0,88) after five years or later. The long-term interest-bearing debts include a subordinated Capital Loan worth EUR 0,176 million (0,176). The financing costs were EUR -0,085 million (- 102,2 million in 2019)

In March 2020 the Company renegotiated repayment plans for development and working capital loans worth EUR 78 520, 1 844 212, 2 732 000 and 578 680. According to the renewed agreements the repayments are scheduled between June 30th 2020 and June 30th 2028. The arrangement has a significant impact on reducing the burden of outbound financial cashflow.

During the review period no further development costs were recognised as investments into the balance sheet.

.. The Capital Loans and Accrued Interest

The company has a Capital Loan of EUR 175 825,46 pursuant to Chapter 12 of the Limited Liabilities Company Act.

The Loan will be paid back in equal instalments in three years starting in year 2009, if conditions are met. The interest on Loan is one percentage unit lower than the basic interest rate currently in force, however at least three percent. If payment conditions are not met, the interest will be postponed for payment to the first annual closing meeting the conditions.

Accrued interest not recognised as expense is EUR 85 802,68 at the end of the financial year

Equity

The Company's equity at December 31st 2020 was EUR 6,09 million. At closing of the financial year December 31st .2019 the equity amounted to EUR 3,08 million. During the review period of 2020 a rights issue and an additional private placement were organised strengthening the equity by EUR 5,74 million. The losses of the financial year were EUR -2,73 million.

Staff, management and administration

At the end of the financial period 2020 the company employed the Managing Director and 16 staff members (12 in 2019) . Five new professionals were recruited. The biomedical quality management resources as well as operational production and development resources were strengthened. Eight members of the staff work in the Reisjärvi production site and another eight are placed in Oulu,

Chairman of the Board Jarmo Halonen, Mr.Pekka Jalovaara and Mr.Tomi Numminen belonged to the BBS Board of Directors for the whole review period. Mr Auvo Kaikkonen, Company's CFO Hannu Säynäjäkangas and the Managing Director Ilkka Kangasniemi left their seats at the Annual Shareholders Meeting on August 17th as Mr.Seppo Nevalainen was appointed as a new member. After the changes there are two independent members in the BBS Board.

The BBS Management consisted of the Managing Director Ilkka Kangasniemi, CFO Hannu

Säynäjäkangas and COO Hanna Tölli The Quality and Assurance Manager Soile Hakala was invited to the Management Team on August 17th.

Ernst&Young Oy, Authorised Public Accountants, acted as the auditor of the company having Mr Jari Karppinen (Auditor certified by the Central Chamber of Commerce) as the auditor with principal responsibility.

2019 Annual General Meeting (AGM)

BBS's AGM was held on August 17th 2020 in Oulu. The AGM approved the financial statements for the financial year 2019 and discharged the members of the board of directors and the CEO from liability. The AGM decided in accordance with the proposal by the Board of Directors, that no dividend is paid for the financial year January 1st 2019 - 31 December 2019, and that the loss for the financial year is recognised in the profit/loss account. The AGM decided that the Board of Directors shall comprise of four(4) members. The AGM approved the remuneration of the Board of Directors as follows: The Chairman will be paid EUR 750 per meeting and the other members EUR 500 each. No compensation on e-meetings will be paid. Additionally the Company will compensate reasonable travel expenses according to the Company's travel policy. Ernst&Young Oy, Authorised Public Accountants, was re-elected as the auditor of the Company having Mr Jari Karppinen (Auditor certified by the Central Chamber of Commerce) as the auditor with principal responsibility.

The Annual General Meeting authorised the Board of Directors on the issuance of up to 1 000 000 (one million) new shares, not excluding the right of the Board of Directors to decide on a directed share issue. The authorisation is in force until the next AGM, however no longer than until the 30th June 2021.

Share-based incentive plan

The company has a valid option program approved by the AGM on July 18th 2012. The Board of Directors decided on options on January 2nd 2013 as authorized by the AGM. Last options were allocated to the key personnel in 2013. Each option entitles its holder to subscribe for one share at the price of one euro., On January 9th 2018 the Board of Directors extended the subscription period until December 31st 2023. As the number of new shares in the option program is limited to 170 000 representing only three percent (3%) of the total, this has no perceptible impact on the earnings or other key figures per share

Valid Authorisations by AGM

The Annual General Meeting authorised the Board of Directors on the issuance of up to 1 000 000 (one million) new shares The total number of authorisations represent to approximately 15% of the company's share capital, The share issue may be carried out by increasing the share capital by a new subscription or by taking out convertible bonds in one or more tranches. The right to a directed share issue is not restricted. The authorisation includes the right to deviate from the shareholders' pre-emptive right under the Companies Act to subscribe for new shares or convertible bonds, as well as the right to decide on subscription prices, those entitled to subscribe and subscription terms. The share subscription price will be recorded in the invested unrestricted equity fund. The authorisation may be used against the shareholders pre-emptive rights if there is a compelling financial reason for the company, such as the expansion of the company's shareholder base or other arrangement related to the development of the company's business, an incentive program or arrangements in the capital management. Pursuant to the authorisation, shares may also be offered to members of the company's related parties, but not for the benefit of the related parties, deviating from the shareholders' pre-emptive subscription right. The Board of Directors has the right to decide that the shares may be given as subscription in kind, using the right of set off, or other specific conditions.

The authorisation is in force until the next Annual General Meeting, however no longer than until the 30th June 2021.

Risks and uncertainties

Significant risks and uncertainties independent of the Company are identified both in the area of the product development and the commercialising activities. Risks can lead to further postponement, as the authorities have the right to require complements and alterations to the documentation presented. The risk in the product classification lies in the interpretation of the authorities. The decision will be based on the results of the animal testing, which are expected to be available shortly.

The FDA registration process has been started. The matters causing delays in the CE application process may also reflect the FDA registration. In the US, there is a fundamental risk in the 510 (k) approval route that allows the use of precedents. But according to the company's current knowledge, no difficulties are expected in these areas.

Operational risks include, among other things, the dependence on the skills of the key personnel and the measures to strengthen their commitment.

On the financial side, the uncertainty in the stock market caused by the Covid19 pandemic is considered a risk. However, as a medical device development and manufacturing company, BBS is more of a long-term investment. The initial R&D phase takes a long time, followed by four to five years of post-launch marketing and growth of sales. Once sales have become profitable, the growth phase with the same product potentially continues for a long period of time.

Shares and shareholders

The market value of BBS at the end of December 2020 was EUR 31,3 million. The closing valuation on December 31st was EUR 4,76. The highest price during the review period was EUR 9,68 and the lowest EUR 1,92.

On December 31st 2020, BBS had 3 391 registered shareholders (1 097 in 2019). All the shares are of the same series. There were and 6 571 525 registered shares (2019: 5 204 820) on December 31st 2020. Each share is entitled to one vote. The Company's Board of Directors and the Managing Director as persons and through entities under their control had a total of 576 219 (543 650) shares representing 8,8% of the total shares .

170 000 options have been allocated to key personnel, each option entitles to subscribe for one share.

The largest shareholders on December 31st 2020 were :

- Finha Capital (1 060.938 s.),
- Reisjärvi municipality (700 721 s.),
- Pekka Jalovaara (550 700 s.),
- EAKR-aloitusrahoitus Oy (380 842 s.),
- Irma Halonen (369 276 s.),
- Paananen Ahti (333 379 s.),
- Panvest Oy (305 177 s.),
- Halonen Jukka (184 013 s.),

Nordea Bank Hallintarekisteri (161 198 s.)
and Innovestor Kasvu-rahasto I Ky (155 326 s.).

Information on the company's insider trading in the company's shares is published on the company's website. The company does not hold any of its own shares.

More detailed information on share issue is available on the Company's website.

The Consolidated Companies and Other Closely Related Parties

BBS Plc owns 100% of the shares of the subsidiary Bio Bones Ltd. Bio Bones Ltd owns and manages the Company's property in Reisjärvi. Bio Bones Ltd had no other business. BBS had no shares in any other companies at the end of the review period.

The related parties of the Company include the members of the Board of Directors and their related parties, as well as the Company's management key personnel and their close associates. In the financial year 2020, there were no related party transactions.

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Events after the balance sheet date

January 11th 2021 the Company announced a new timetable for the CE-marking process, reasons for it and actions taken.

The CFO Hannu Säynäjäkangas retired on February 2nd 2021. At the same occasion Ms Liisa Hukka was appointed as the new CFO and a member of the Management Team. The Quality Control Manager Mikko Viitanen was appointed to the Management Team on February 1st 2021.

Outlook for 2021

Company's target for the current year is to receive the CE-marking approval. The current management has estimated a new timeline for the process. Currently the Company is aiming to submit the application for review during April 2021. Based on the expected length of review, the CE – marking approval may be expected by the end of the year 2021, which is nine months later than expected earlier.

The preparation for commercial activities will be started in autumn 2021. .

The Board of Directors has launched a detailed cash flow model reaching out for the next 24 months. The model includes presumptions that are based on the current expectations of the future development. Based on the model, the Board of Directors estimates adequacy of the cash resources from the point of business continuity and proactive planning the terms and measures. Based on the information available, the cash resources are expected to suffice until summer 2022.

Currency unit EURO	1.1.2020 - 31.12.2020	1.1.2019 - 31.12.2019
NET TURNOVER	0,00	0,00
Other operating income	45 634,39	52 775,85
Raw materials and services		
Raw materials and consumables		
Purchases during the financial year	-83 061,22	-11 047,22
External services	0,00	-94 641,70
Raw materials and services total	-83 061,22	-105 688,92
Personnel expenses		
Wages, salaries and bonuses	-675 231,30	-568 867,89
Social security expenses		
Pension expenses	-90 529,05	-83 042,60
Other personnel expenses	-29 058,87	-13 101,44
Personnel expenses total	-794 819,22	-665 011,93
Depreciation, amortisation and impairment losses		
Planned depreciation and amortisation	-213 994,51	-225 417,46
Planned depreciation and amortisation total	-213 994,51	-225 417,46
Other operating charges	-1 598 825,86	-592 597,71
OPERATING PROFIT (LOSS)	-2 645 066,42	-1 535 940,17
Financial income and expenses		
Other interest and financial income		
From others	2,27	0,27
Interest and other financial expenses		
For others	-85 916,65	-102 210,21
Financial income and expenses total	-85 914,38	-102 209,94
PROFIT (LOSS) BEFORE EXTRAORDINARY ITEMS	-2 730 980,80	-1 638 150,11
PROFIT (LOSS) FOR THE FINANCIAL YEAR	-2 730 980,80	-1 638 150,11

Currency unit EURO	31.12.2020	31.12.2019
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Development expenses	7 532 827,55	7 532 827,55
Other capitalised long-term expenses	307 932,62	359 254,72
Intangible assets total	7 840 760,17	7 892 082,27
Tangible assets		
Land and waters		
Own	83 719,00	83 719,00
Buildings		
Own	479 432,89	515 519,24
Machinery and equipment	640 185,50	684 977,83
Tangible assets total	1 203 337,39	1 284 216,07
NON-CURRENT ASSETS TOTAL	9 044 097,56	9 176 298,34
CURRENT ASSETS		
Debtors		
Short-term		
Other debtors	210 433,63	140 881,37
Prepayments and accrued income	53,33	0,00
Debtors total	210 486,96	140 881,37
Cash and cash equivalents	3 438 153,89	515 633,39
CURRENT ASSETS TOTAL	3 648 640,85	656 514,76
ASSETS TOTAL	12 692 738,41	9 832 813,10

Currency unit EURO	31.12.2020	31.12.2019
LIABILITIES		
CAPITAL AND RESERVES		
Share capital		
Share capital	80 000,00	80 000,00
	80 000,00	80 000,00
Share premium account	1 394 956,56	1 394 956,56
Other funds		
Invested unrestricted equity fund	17 377 537,93	11 638 453,75
Other funds total	17 377 537,93	11 638 453,75
Retained earnings (loss)	-10 034 212,61	-8 396 062,50
Profit (loss) for the financial year	-2 730 980,80	-1 638 150,11
CAPITAL AND RESERVES TOTAL	6 087 301,08	3 079 197,70
CREDITORS		
Long-term		
Capital loans	175 825,46	175 825,46
Loans from financial institutions	5 529 499,00	5 191 297,00
Accruals and deferred income	176 200,00	0,00
Long-term loans total	5 881 524,46	5 367 122,46
Short-term		
Loans from financial institutions	306 728,00	961 473,00
Trade creditors	145 118,76	31 879,90
Other creditors	40 719,43	27 293,22
Accruals and deferred income	231 346,68	365 846,82
Short-term total	723 912,87	1 386 492,94
CREDITORS TOTAL	6 605 437,33	6 753 615,40
LIABILITIES TOTAL	12 692 738,41	9 832 813,10

[1000 euros]	2020	2019
Cash flow from business operations		
<i>Profit (loss) before extraordinary items</i>	-2731	-1638
Adjustments		
Scheduled depreciation and amortisation	214	225
Financial income and expenses	86	102
Other adjustments		
Cash flow before changes in working capital	-2431	-1311
Change in working capital		
Changes in short-term non-interest-bearing (+) (-)	-70	-47
Changes in inventory Increase (-)/ Decrease (+)	0	0
Changes in short-term non-interest-bearing loans Increase (+)/Decrease (-)	-9	18
Changes in long-term non-interest-bearing loans Increase (+)/Decrease (-)	176	0
Cash flow from business operations before financial items and taxes	-2333	-1340
Interest paid and other financial expenses from business operations	-85	-104
Interest received and other financial income from business operations	0	0
Cash flow before extraordinary items and taxes	-2418	-1444
Cash flow from business operations (A)	-2418	-1444
Cash flow from investments		
Investments in tangible and intangible goods	-82	-24
Investments in shares in subsidiaries	0	0
Loans granted		
Cash flow from investments (B)	-82	-24
Cash flow from financing		
Share issue	5739	301
Raised long-term loans	0	0
Repayment of long-term loans	-317	-2
Raised short-term loans	0	0
Repayment of short-term loans	0	0
Cash flow from financing (C)	5423	298
Changes in funds (A+B+C) Increase (+)/Decrease (-)	2923	-1169
Funds at the beginning of the financial period	516	1685
Funds at the end of the financial period	3438	516

	1.1.2020	1.1.2019
Currency unit EURO	- 31.12.2020	- 31.12.2019
NET TURNOVER	0,00	0,00
Other operating income	45 634,39	52 775,85
Raw materials and services		
Raw materials, supplies and goods		
Purchases during the financial year	-83 061,22	-11 047,22
External services	0,00	-94 641,70
Raw materials and services total	-83 061,22	-105 688,92
Personnel expenses		
Wages, salaries and bonuses	-675 231,30	-568 867,89
Social security expenses		
Pension expenses	-90 529,05	-83 042,60
Other personnel expenses	-29 058,87	-13 101,44
Personnel expenses total	-794 819,22	-665 011,93
Depreciation, amortisation and impairment losses		
Planned depreciation and amortisation	-175 173,25	-182 968,36
Planned depreciation and amortisation total	-175 173,25	-182 968,36
Other operating expenses	-1 636 160,41	-620 208,22
OPERATING PROFIT (LOSS)	-2 643 579,71	-1 521 101,58
Financial income and expenses		
Other interest and financial income		
From others	2,27	0,25
Interest and other financial expenses		
To others	-62 438,19	-75 876,95
Financial income and expenses total	-62 435,92	-75 876,70
PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES	-2 706 015,63	-1 596 978,28
PROFIT (LOSS) FOR FINANCIAL YEAR	-2 706 015,63	-1 596 978,28

Currency unit EURO	31.12.2020	31.12.2019
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Development costs	7 532 827,55	7 532 827,55
Other capitalised long-term expenses	307 932,62	359 254,72
Intangible assets total	7 840 760,17	7 892 082,27
Tangible assets		
Machinery and equipment	631 980,75	674 038,17
Tangible assets total	631 980,75	674 038,17
Investments		
Shares of group companies	714 499,55	714 499,55
Investments total	714 499,55	714 499,55
NON-CURRENT ASSETS TOTAL	9 187 240,47	9 280 619,99
CURRENT ASSETS		
Debtors		
Short-term		
Receivables from group companies	1 239,62	0,00
Other receivables	210 433,48	140 881,37
Prepayments and accrued income	53,33	0,00
Debtors total	211 726,43	140 881,37
Cash and cash equivalents	3 360 812,98	487 027,18
CURRENT ASSETS TOTAL	3 572 539,41	627 908,55
TOTAL ASSETS	12 759 779,88	9 908 528,54

Currency unit EURO	31.12.2020	31.12.2019
LIABILITIES		
CAPITAL AND RESERVES		
Share capital		
Share capital	80 000,00	80 000,00
	80 000,00	80 000,00
Share premium account	1 394 956,56	1 394 956,56
Other funds		
Invested unrestricted equity fund	17 377 537,93	11 638 453,75
Other funds total	17 377 537,93	11 638 453,75
Retained earnings (loss)	-9 411 105,10	-7 814 126,82
Net profit (loss) for the financial year	-2 706 015,63	-1 596 978,28
CAPITAL AND RESERVES TOTAL	6 735 373,76	3 702 305,21
CREDITORS		
Long-term		
Capital loans	175 825,46	175 825,46
Loans from financial institutions	5 016 231,00	4 613 829,00
Accrued expenses and deferred income	176 200,00	0,00
Long-term total	5 368 256,46	4 789 654,46
Short-term		
Loans from financial institutions	242 528,00	897 273,00
Trade creditors	142 802,02	127 240,45
Other creditors	39 531,99	26 274,19
Accruals and deferred income	231 287,65	365 781,23
Short-term total	656 149,66	1 416 568,87
CREDITORS TOTAL	6 024 406,12	6 206 223,33
LIABILITIES TOTAL	12 759 779,88	9 908 528,54

[1000 euros]	2020	2019
Cash flow from business operations		
Profit (loss) before extraordinary items	-2706	-1597
Adjustments		
Scheduled depreciation and amortisation	175	183
Financial income and expenses	62	76
Other adjustments		
Cash flow before changes in working capital	-2468	-1338
Change in working capital		
Changes in short-term non-interest-bearing (+) (-)	-71	-47
Changes in inventory Increase (-)/ Decrease (+)	0	0
Changes in short-term non-interest-bearing loans Increase (+)/Decrease (-)	-107	12
Changes in long-term non-interest-bearing loans Increase (+)/Decrease (-)	176	0
Cash flow from business operations before financial items and taxes	-2470	-1374
Interest paid and other financial expenses from business operations	-61	-78
Interest received and other financial income from business operations	0	0
Cash flow before extraordinary items and taxes	-2531	-1452
Cash flow from business operations (A)	-2531	-1452
Cash flow from investments		
Investments in tangible and intangible goods	-82	-24
Investments in shares in subsidiaries	0	0
Loans granted		
Cash flow from investments (B)	-82	-24
Cash flow from financing		
Share issue	5739	301
Raised long-term loans	0	0
Repayment of long-term loans	-252	-2
Raised short-term loans	0	0
Repayment of short-term loans	0	0
Cash flow from financing (C)	5487	298
Changes in funds (A+B+C) Increase (+)/Decrease (-)	2874	-1177
Funds at the beginning of the financial period	487	1664
Funds at the end of the financial period	3361	487

NOTES TO THE FINANCIAL STATEMENTS

The financial statements have been prepared in compliance with the requirements set for small enterprises (Government Decree on the information presented in the financial statements of a small undertaking and micro-undertaking, chapters 2 and 3).

Valuation and accrual principles and methods followed

The financial statements have been prepared in accordance with the assumption principles and methods of valuation and accrual provided for in Chapter 2, Section 2a of the Accounting Regulation, with the exceptions listed below:

Parent company's capitalised development costs

Development costs, including salaries for capitalised projects. Native project product development completion date was Feb 2015, project continued as a clinical project, which was completed in Dec 2017.

Activations have not been depreciated. Depreciation will begin when the sales begins. The estimated depreciation period is 5 years.

Native project	6 369 319,10
Clinical project	1 163 508,45
	<u>7 532 827,55</u>

Parent company: capitalised long-term expenses

Other long-term expenses have been capitalised in accordance with the Accounting Act, Chapter 5, Section 11 in 2017.

Cleanroom native project is depreciated by 10 years straight-line depreciation. Started in January 2017.

	31.12.2020	31.12.2019
Cleanroom native project	307 932,60	359 254,72

The capitalisation of the Reisjärvi production facilities and additional investments in the process were fully depreciated completed during 2019.

Parent company's machinery and equipments

	31.12.2020	31.12.2019
Native project machinery and equipments	520 854,58	607 663,67

NOTES TO THE INCOME STATEMENT**Comparability**

In 2020 the cost of external development services have been transferred to other operating expenses as in the financial year 2019 these were presented in external services.

Parent company: grounds for and changes to the planned depreciations and amortisation

Category	Estimated service life (years)	Depreciation %	Depreciation method
Other tangible assets	10		Straight-lined
Native project machinery and equipments	10		Straight-lined
Machinery and equipment		25 %	Declining balance

Consolidated: grounds for and changes to the planned depreciations and amortisation

Category	Estimated service life (years)	Depreciation %	Depreciation method
Other tangible assets	10		Straight-lined
Buildings		7 %	Declining balance
Native project machinery and equipments	10		Straight-lined
Machinery and equipment		25 %	Declining balance

FINANCIAL STATEMENTS 31.12.2020

NOTES TO BALANCE SHEET ITEMS

Receivables from group companies:

	31.12.2020	31.12.2019
Short-term		
Other concern receivables	1 239,62	0,00
Short-term receivables from group companies in total	1 239,62	0,00
Concern receivables in total	1 239,62	0,00

NOTES TO BALANCE SHEET LIABILITIES

Specification of equity	Parent company 31.12.2020	Parent company 31.12.2019	Consolidated 31.12.2020	Consolidated 31.12.2019
Share capital at the beginning of the financial year	80 000,00	80 000,00	80 000,00	80 000,00
Share capital at the end of the financial year	80 000,00	80 000,00	80 000,00	80 000,00
Share premium account at the beginning of the financial year	1 394 956,56	1 394 956,56	1 394 956,56	1 394 956,56
Share premium account at the end of the financial year	1 394 956,56	1 394 956,56	1 394 956,56	1 394 956,56
Total restricted equity at the end of the financial year	1 474 956,56	1 474 956,56	1 474 956,56	1 474 956,56
Reserve for invested unrestricted equity at the beginning of the financial year	11 638 453,75	11 337 847,26	11 638 453,75	11 337 847,26
Increase	5 739 084,18	300 606,49	5 739 084,18	300 606,49
Reserve for invested unrestricted equity at the end of the financial year	17 377 537,93	11 638 453,75	17 377 537,93	11 638 453,75
Retained earnings/losses at the beginning of the financial year	-7 814 126,82	-8 231 293,58	-8 396 062,50	-8 775 902,31
Retained earnings/losses from the previous financial year	-1 596 978,28	417 166,76	-1 638 150,11	379 839,81
Retained earnings/losses at the end of the financial year	-9 411 105,10	-7 814 126,82	-10 034 212,61	-8 396 062,50
Profit/loss for the financial year	-2 706 015,63	-1 596 978,28	-2 730 980,80	-1 638 150,11
Total unrestricted equity at the end of the financial year	5 260 417,20	2 227 348,65	4 612 344,52	1 604 241,14
Capital loan	175 825,46	175 825,46	175 825,46	175 825,46
Equity, total	6 911 199,22	3 878 130,67	6 263 126,54	3 255 023,16

Unrestricted equity in compliance with the Finnish Act on Limited Liability Companies chapter 13, section 5.

	31.12.2020	31.12.2019
Retained earnings from the previous financial years	-9 411 105,10	-7 814 126,82
Financial result (profit+/loss-)	+ -2 706 015,63	-1 596 978,28
Reserve for invested unrestricted equity	+ 17 377 537,93	11 638 453,75
Accumulated unaccounted capital loan interest	- -85 802,68	-80 527,92
Activated development costs	- -7 532 827,55	-7 532 827,55
Unrestricted equity, total	= -2 358 213,03	-5 386 006,82

Liabilities maturing later than five years:

	Parent company 31.12.2020	Parent company 31.12.2019	Consolidated 31.12.2020	Consolidated 31.12.2019
Loans from financial institutions	1 884 292,00	559 937,00	2 140 760,00	880 605,00
	1 884 292,00	559 937,00	2 140 760,00	880 605,00

In early 2020 a change was made to loans from financial institutions. As a result, short-term debt is reduced and debt maturing later than five years increased.

FINANCIAL STATEMENTS 31.12.2020

Liabilities to group companies:

Short-term:	31.12.2020	31.12.2019
Trade creditors, group companies	0,00	100 755,12
Short-term liabilities to group companies	0,00	100 755,12
Group liabilities in total	0,00	100 755,12

NOTES ON INCOME TAXES**Unrecognized tax liabilities or assets**

The Group has tax loss of approximately EUR 9,6 million, of which a hidden tax claim at the current income tax rate of 20% is approximately EUR 1,9 million.

PLEGGED ASSETS AND OFF-BALANCE SHEET COMMITMENTS AND ARRANGMENTS

	Debts	Corporate mortgages	Value of guarantee placed
<u>Parent company</u>			
Loans from financial institutions	249 890,00	249 890,00	249 890,00
Falling due for payment with in the next 12 months	27 800,00		
<u>Consolidated</u>			
Loans from financial institutions	827 358,00	749 890,00	749 890,00
Falling due for payment with in the next 12 months	92 000,00		

PERSONNEL**Parent company:**

The average number of personnel during the financial year was 13.

Consolidated:

The average number of personnel during the financial year was 13.

NOTES TO THE PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS:

Accounting principles for consolidated financial statements:

The subsidiary is included in the consolidated financial statements. The consolidated financial statements have been prepared as per the acquisition cost method.

The intercompany transactions, receivables and payables have been eliminated.

Consolidated subsidiary and ownership:

Company	domicile	ownership %
Bio Bones Oy	Reisjärvi	100,00

List of accounting records, document types and methods of storage

Daily ledger		Electronic archives (CD)
General ledger		Electronic archives (CD)
Purchases ledger		Electronic archives (CD)
Payroll accounting		Electronic archives (CD)
Financial statements		Electronic archives (CD)
Balance sheet specifications		Electronic archives (CD)

Accounting material 1.11.-31.12.2020

	Receipt type	
Bank entries	01,02	Electronic archives (CD)
VAT receipts	99	Electronic archives (CD)
Accruals	90	Electronic archives (CD)
Purchase invoices	22,45,46	Electronic archives (CD)
Memos	09,13,14	Electronic archives (CD)
Payroll slips	50,55,56	Electronic archives (CD)

Appendices		Electronic archives (CD)
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Accounting material 1.1.-31.10.2020

Bank entries	NO,NO2	as paper documents
VAT receipts	AL	as paper documents
Purchase invoices	OL	as paper documents
Memos	MU	as paper documents
Payroll slips	PL	as paper documents