2016

Business *update*












Bone Therapeutics

Bone Therapeutics

A leading biotechnology company specializing in the development of **cell therapy** products for **orthopaedics and bone diseases**.

Our unique technology allows us to produce biologically active bone cells that are able to regenerate a healthy bone environment and promote bone regeneration. Our product candidates have been developed for the treatment of severe fractures that show impaired healing, spine disorders and osteonecrosis. Our products are administrable through a minimally invasive, percutaneous approach without open surgery or through a simple injection which works as an addition to the current standard-of-care. By contrast, existing treatments for these conditions are often highly invasive, associated with considerable complications and risks, and often show lack of efficacy. Our products have already shown encouraging clinical results.

Unique Bone Cell Technologies targeting unmet needs in orthopaedics and bone diseases

Allogeneic as well as **Autologous** approaches

Minimally Invasive administration and/or **Enhancing** the existing standard-of-care

Strong IP Portfolio composed of 9 patent families

Phase II and Phase III **Clinical Trials** for **5 indications**

Cash position of **€ 20.3 million** at year end 2016

Experienced Management Team & **> 100** employees

Headquarters in **Belgium**, listing on **Euronext Paris & Brussels**

Letter from the CEO and Chairman

2016 was another milestone year for Bone Therapeutics. As we celebrated our ten-year anniversary, we announced a major review of our strategic priorities and made significant strides in our clinical development programs. The Company is now even closer to achieving its goal of bringing effective treatments for orthopedic conditions and bone diseases to patients.

Over the past year, we have decided to focus our efforts on our allogeneic bone cell therapy platform, due to its clear advantages in commercialization potential. We have delivered a series of encouraging preliminary results with our allogeneic product ALLOB® including positive safety and initial efficacy data in the Phase IIA clinical trials for the treatment of delayed-union fractures and spinal fusion procedures, which underscore the benefits of the platform and the potential it offers for patients. We look forward to providing further validation through 2017 and beyond.

We were also pleased to welcome Benoît Champluvier and Miguel Forte to join our company as Chief Technology and Manufacturing Officer and as Chief Medical Officer respectively. Both Benoît and Miguel have decades of experience in their fields of expertise. Their appointments put us in the best possible position to advance our bone cell therapy programs into late-stage clinical trials and to enhance our manufacturing capabilities towards commercialization.

We would like to use this annual report to showcase this team of highly talented individuals. What we have achieved during our first ten years would not have been possible without their enthusiasm and dedication. Throughout this report, you will meet several of these exceptional people who innovate every day to improve lives of patients.

We enter 2017 with a sharpened focus and clinical strategy and look toward important inflection points in the second half of this year from readouts of our delayed-union fractures and spinal fusion clinical studies.

We are grateful for your continued support, which allows us to drive Bone Therapeutics forward towards its goal of becoming a leader in the field of bone cell therapy.

Michel Helbig de Balzac
Chairman

Thomas Lienard
CEO

2016 at a glance

Clinical highlights

- Significant progress in clinical development of ALLOB®, our allogeneic bone cell therapy technology, underpinning the potential of Bone Therapeutics' approach:
    - Positive safety and preliminary efficacy data reported in Phase IIA spinal fusion trial on first 8 patients treated
    - Completion of recruitment of the first 16 patients for the ALLOB® spinal fusion trial allowing for the completion of the interim analysis during third quarter of 2017
    - Positive safety and preliminary efficacy data reported for the first 8 patients treated in the delayed-union fractures Phase I/IIA trial. Seven out of eight patients met the primary endpoint at six months
- Complete data from the proof-of-concept Phase IIB study of PREOB® in osteonecrosis presented at the Annual European Congress for Rheumatology (EULAR) conference, demonstrating superiority of a single administration of PREOB® over standard-of-care in halting or reversing the progression of the disease.

Corporate highlights

- Streamlining of strategic priorities following a review of the portfolio, to intensify focus on the development of the allogeneic pipeline. This strategy offers the most promising commercial opportunities and the greatest potential for partnerships, based on clinical benefits, scalability, cost-effectiveness and large addressable markets with unmet need
- Appointment of Thomas Lienard as Chief Executive Officer
- Appointment of Benoit Champluvier as Chief Technology and Manufacturing Officer, ensuring that the Company has the right expertise to strengthen its commercial manufacturing capabilities

Financial highlights

- Ended 2016 with EUR 20.3 million in cash and cash equivalents, well in line with company expectations
- Operating income of EUR 4.0 million for the full year 2016, compared to EUR 3.8 million in full year 2015
- Operating loss for the period amounted to EUR 12.8 million, compared to EUR 12.2 million in full year 2015

Post-period highlights

- The Company completed the recruitment of the first 16 patients for the ALLOB® delayed union trial
- The Safety Monitoring Committee confirmed the safety of treatment for the 16 delayed-union patients
- ALLOB® has now been safely administered to over 40 patients across multiple programs with no clinical adverse effects
- Miguel Forte appointed as Chief Medical Officer, completing the leadership team to focus on driving the business toward commercialization

Mission and strategy

Bone Therapeutics provides innovative regenerative products addressing high unmet medical need in the fields of orthopaedics and bone diseases. The Company is pursuing the following strategy:

- Enhance the development of its commercially oriented, off-the-shelf, allogeneic platform, to maximize benefits for patients and value creation for investors.
- Finalize the ALLOB® Phase II proof-of concept trials for larger indications better suited to an allogeneic approach, building on encouraging clinical data to date.
- Progress and complete Phase III trials with its autologous product PREOB® to deliver proof of concept of a cell therapy product in the field of orthopaedics and bone diseases to ultimately advance towards market authorization
- Scale-up of manufacturing capabilities
- Advance the preclinical pipeline
- Build development and commercial partnerships

Market opportunity and competitive advantage

Orthopaedics is a large and growing market characterized by limited innovation and high unmet medical need. It is estimated that the overall market will continue to grow in the next few years with a CAGR of approximately 2%[1] , mostly driven by an ageing population.

The Company is operating in an area where most treatments show poor or limited efficacy and/or require invasive surgery with the risk of major complications. In addition, most treatments are associated with long hospitalization and recovery time and a persisting risk of re-intervention. Despite a clear need for innovation, there has so far been an absence of new treatments with a regenerative component and there are few new clinical trials ongoing. In bone cell therapy, despite broad interest, clinical development programs are still limited to a small number of indications and companies. Solutions based on pharmacological treatments have remained unsuccessful so far.

Bone Therapeutics is the only clinical stage company developing bone cell products composed of differentiated bone cells (osteoblasts) for the treatment of orthopedic conditions. In its target indications, the Company competes with the standard-of-care, introducing a breakthrough alternative. Adding living osteoblasts as the active regenerative component is expected to increase the efficiency of existing procedures, allowing physicians to offer a minimally invasive approach or an enhancement to the standard-of-care. Given the numerous advantages in production, logistics and costs compared to an autologous approach, Bone Therapeutics has streamlined its strategic priorities and is intensifying its focus on the development of the allogeneic program.

Competitors known by the Company are at a preclinical or early clinical stage of their development. By contrast, Bone Therapeutics has an advanced clinical pipeline which encompasses Phase IIA clinical trials for delayed union fractures, spinal fusion and revision of failed spinal fusion with its allogeneic product ALLOB® and Phase III clinical studies for osteonecrosis and non-union fractures with its autologous product PREOB®.

Outlook for 2017

Two potential inflection points are expected in the second half of 2017, with clinical efficacy and safety data anticipated from ALLOB® studies in delayed-union fractures and spinal fusion. Bone Therapeutics expects to present the results of the interim analyses of these two ALLOB® studies in the second half of 2017.

Additionally, Bone Therapeutics is expected to provide a recruitment update for the osteonecrosis Phase III clinical trial.

Good cash management will remain a key priority for the Company, with a strong focus on net cash burn. Cash burn for the full year of 2017 is expected to be in the order of EUR 15 million. Based on its new strategic priorities, the Company reiterates its guidance that it has sufficient cash to carry out its strategic objectives into Q2 2018.

Expected clinical news

Safety and efficacy results for the first 16 patients in the Phase I/IIA ALLOB® delayed-union trial.

Safety and efficacy results for the first cohort of 16 patients in the Phase IIA spinal fusion trial with ALLOB®.

Recruitment update for Phase III osteonecrosis trial, now ongoing in five European countries.

[1] *Based on the Orthopedic Industry Annual Report published April 2016 by Orthoworld.*

Operational review

"Changing the treatment paradigm in orthopaedics"

High unmet medical needs

Bone Therapeutics is a biotechnology company with a broad clinical pipeline of cell products for orthopaedics and bone diseases. These areas are characterized by high unmet medical need due to the lack of efficacious, safe and non-invasive treatments.

Allogeneic and autologous approach

Bone Therapeutics has two products in clinical trials, its allogeneic bone cell therapy product, ALLOB®, and its autologous bone cell therapy product, PREOB®.

For both products, the cells originate from the bone marrow of the iliac crest. In the allogeneic approach, the cells are derived from a healthy donor, in the autologous approach the cells are derived from the patient him or herself. Allogeneic technology has the added benefits of being readily available, scalable and cost-effective, making it better suited to commercialisation and to addressing large markets.

Minimally invasive treatment – enhancing the standard-of-care through cell therapy

The current standard-of-care involves heavy surgery and long recovery periods. The Company is creating a new and unique treatment approach that can be administered via a minimally invasive percutaneous procedure and is expected to offer significant benefits over the standard-of-care, but which works with and is complementary to existing procedures.

Pipeline with two products in five indications

Bone Therapeutics has a broad clinical pipeline with two products, ALLOB® and PREOB®, which currently target five indications in three domains and offer the potential for extension towards additional indications.

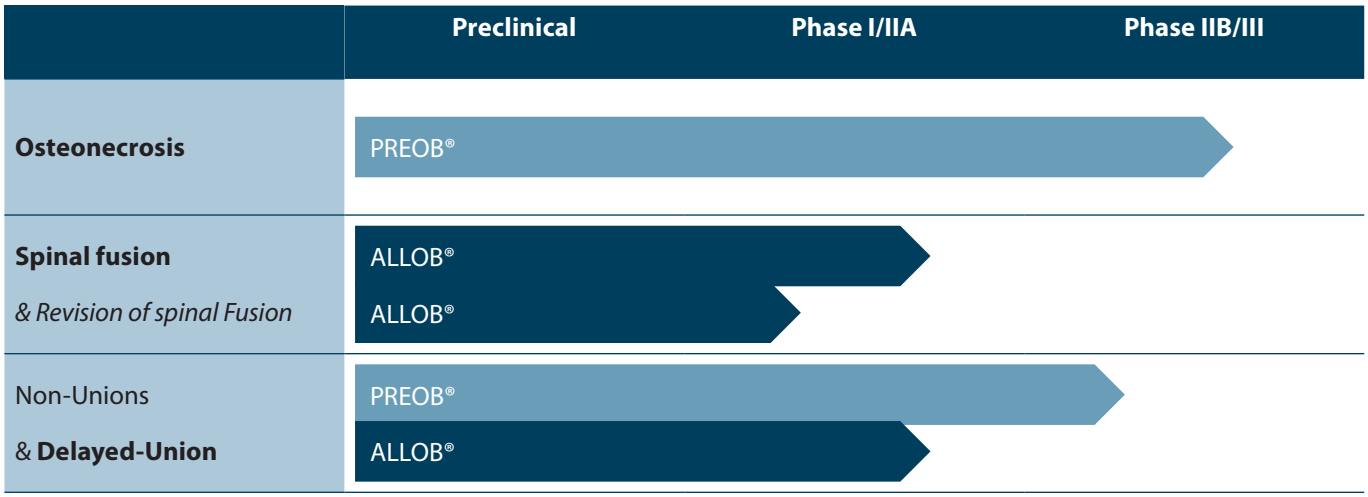


Figure: Clinical pipeline with PREOB®: autologous approach and ALLOB®: allogeneic approach.

Non-union and delayed union fractures

For severed unhealed fractures, the Company's products are currently being evaluated in two clinical trials, one Phase I/IIA trial for delayed-union fractures (ALLOB®) and one Phase IIB/III trial for non-union fractures (PREOB®). These clinical trials are based on the minimally invasive implantation of Bone Therapeutics' allogeneic and autologous osteoblastic cells at the bone defect site.

The delayed-union study is an open-label Phase I/IIA trial that will evaluate the safety and efficacy of a single administration of ALLOB® directly into the fracture zone. In total 32 patients will be evaluated using clinical and radiological scores. An interim analysis evaluating safety and efficacy will be performed at six months following the treatment of the first 16 patients. Reaching the endpoints in 12 out of 16 patients could allow to prematurely terminate the study and advance into the next phase.

The ongoing Phase IIB/III non-union study evaluates the efficacy and safety of PREOB® in non-union fractures. In total, 176 patients will be randomized either to receive a single percutaneous administration of PREOB® or a bone autograft as reference treatment in a non-inferiority design. The evaluation will be based on the global disease evaluation, pain scales, functional scores and radiological improvement over 12 months.

In line with recent priority resetting, the Company is putting more focus on its allogeneic programs. When the Phase IIA interim results for the allogeneic ALLOB® in delayed-union fractures will become available, the Company will evaluate the opportunity and the feasibility of addressing both – closely linked – indications (non-union and delayed union fractures) in a single development program with ALLOB®. This could allow the Company to maximally capitalize on its investment in the allogeneic platform.

Data from a Phase IIA study for the treatment of delayed-union fractures with ALLOB®, published in May, showed that seven out of eight patients treated met the study's primary endpoints, with a 77% improvement in radiological and 68% in clinical parameters demonstrated. In March 2017, the Company announced that it had completed the recruitment of the first 16 patients in this trial, with no significant safety concerns. The Safety Monitoring Committee confirmed these findings and recommended the continuation of the trial as planned. Taking into account the six months' follow-up period, results of the interim analysis for these first 16 patients are expected to be available in third quarter of 2017.

Achievements in 2016

8 patients treated in the ALLOB® Phase I/IIA ALLOB® delayed-union trial

- Positive preliminary safety and efficacy results for these first 8 patients

Post-period, the recruitment of the first 16 patients was completed in early March 2017.

- The patients were treated without safety concern, which was confirmed by the Safety Monitoring Committee

Next step:

- Efficacy results for the first 16 patients

Non-union and delayed-union fractures

- Non-union: failure to achieve bone union within 7-9 months and ceasing of reparative processes
- Delayed-union: failure to achieve bone union within an adequate period of time (3-7 months)
- In total, over 1 million patients per year in the US, Europe and Japan
- Current treatments (i.e., bone graft) are often highly invasive with considerable risks and long hospitalization and recovery times
- Currently a 'wait & see' approach is adopted for delayed-union fractures, delaying the patients' return to a normal life

Sources: Kanakaris et al. Injury 2007 (38S) S77-S84; Company estimates detailed in the prospectus, dated 20 January 2015.

Osteonecrosis

The Company's autologous product, PREOB®, is currently in Phase III clinical trial for osteonecrosis of the hip.

The pivotal Phase III osteonecrosis study was designed according to the EMA/FDA requirements (Scientific Advice/pre-IND) and will enrol 130 patients with early-stage (non-fractural) osteonecrosis of the hip of which 65 patients will receive a single percutaneous administration of PREOB®, while the other 65 patients will receive a placebo via the same procedure.

In June, Bone Therapeutics presented data from the PREOB® Phase IIB osteonecrosis study at the Annual European Congress for Rheumatology (EULAR) in London. These data collected over a 5-year period documented a favourable safety profile and PREOB® efficacy in halting the progression of the disease. PREOB® decreased the risk of hip fracture over 3 years post-treatment, as compared to an active reference (bone marrow concentrate) and was associated with a rapid and clinically relevant hip pain relief and function improvement, which lasted for up to 4 years post-treatment

In the US, priority will be given to the development of ALLOB®. The Company has therefore decided not to initiate the clinical development of its autologous product PREOB® in the US.

Achievements in 2016

Presented data of PREOB® Phase IIB clinical trial for osteonecrosis in the hip at the Annual European Congress for Rheumatology (EULAR) in London.

- Demonstration of safety and superiority of a single administration of PREOB® over standard-of-care in halting or reversing the progression of the disease

Next step:

- Recruitment update for the Phase III clinical study

Osteonecrosis

Painful condition in which the femoral head degenerates, ultimately leading to collapse of the femoral head

- Affecting relatively young people (30-50 years old)
- Nearly 50% will require hip replacement before the age of 40
- The standard-of–care for early-stage osteonecrosis, core decompression, has shown highly variable success rates
- An estimated 175,000 patients per year in the US, Europe and Japan

Sources: Lane Nature Clinical Practice Rheumatology 2006 (2) 562-569; Ciombor et al. Techniques in Orthopaedics 2001 (16) 32-38; Confavreux et al. Joint Bone Spine 2010 (77) 128-132; Company estimates detailed in the prospectus dated 20 January 2015.

Spinal fusion programs

In the proof-of-concept Phase IIA spinal fusion study, the Company combines its ALLOB® cells with osteoconductive ceramic micro-granules to improve the current standard-of-care in which currently an autograft or synthetic bone substitute is used. The combination of ALLOB® with the micro-granules has the potential to enhance bone growth (as demonstrated in preclinical studies by the Company), bringing advantages in stability and structure. A first cohort of 16 patients with symptomatic degenerative lumbar disc disease who require spinal fusion have been enrolled in the proof-of-concept trial. They were treated according to the standard-of-care, with the addition of a single dose of ALLOB® cells combined with bioceramic granules to promote bone formation and fusion. To assess early onset of bone formation and fusion, the Company has decided to further extend the trial with 16 patients. The trial extension was submitted and approved by the Ethics Committee and Competent Authorities. Treatment of this new cohort of 16 patients is currently ongoing

The Company has also initiated a pioneering trial for the minimally invasive treatment of failed spinal fusion. The study is an open, proof-of-concept Phase IIA trial that will evaluate the safety and efficacy of ALLOB® implantation in rescue spinal fusion over 12 months. Sixteen patients suffering from a failed spinal fusion surgery, diagnosed at 15 months or more following the initial surgery, will be treated with a single injection of ALLOB® into the failed fusion area without the need for open surgery.

The Company reported positive safety and preliminary efficacy data from the ALLOB® Phase IIA spinal fusion trial. These data demonstrated important clinical improvements in function, pain and general health as well as initial evidence of fusion as early as six months after treatment. The Company also presented preclinical and early clinical efficacy data from the first patients in the trial at the Clinical Applications of Stem Cells Conference in Singapore in February, showing spinal fusion on CT scans and absence of intervertebral motion on dynamic x-rays.

Achievements in 2016

Completed the recruitment of the first group of 16 patients for the Phase IIA ALLOB® spinal fusion trial

- The 16 patients were treated without safety concerns
- Positive safety and preliminary efficacy results for the first 8 patients, showing clinical improvements in function, pain and general health as early as six months after treatment

Next steps:

- Safety and efficacy results of the first group of 16 patients in the spinal fusion trial

Spinal fusion

- Gold-standard surgery for treating a broad spectrum of degenerative spine disorders
- Aims to relieve pain and improve function
- Consists of bridging two or more vertebrae with the use of a cage and graft material
- Up to 25% of patients not satisfied with surgery
- Each year over 1 million spinal fusion procedures in the US, Europe and Japan of which about 0.5 million at lumbar level

Sources: Park et al. Bulletin of the Hospital for Joint Disease 2013 (71) 39-48; Rajaee et al. The Bone and Joint Journal 2014 (96) 807-816. Company estimates detailed in the prospectus dated 20 January 2015.

Financial review

Highlights

The Company ended 2016 with € 20.3 million in cash, which was well in line with company expectations.

The Company reported an operating income of EUR 4.0 million for the full year 2016, compared to EUR 3.8 million in full year 2015

Operating loss for the period amounted to EUR 12.8 million, compared to EUR 12.2 million in full year 2015

Key financials

(€ million)	FY 2016	FY 2015
Operating income	4.01	3.82
Operating expenses	(16.81)	(16.05)
R&D	(13.65)	(12.91)
G&A	(3.16)	(3.14)[1]
Operating result	(12.80)	(12.22)
Net financial result	(0.28)	(1.80)
Net result	(13.02)	(14.09)
Net cash flow	(13.31)	22.04
Operating activities	(11.37)	(11.77)
Investing activities	(0.58)	(2.98)
Financing activities	(1.36)	36.78
Cash position at 31 December	20.30	33.61

[1] *Including € 1.06 million of IPO costs*

Income statement

In 2016, total (other) operating income amounted to EUR 4.01 million compared to EUR 3.82 million in 2015. Other operating income came from grants from the Walloon Region ("avances récupérables") which totalled EUR 2.45 million in 2016. In addition, the Company benefited from a special regime of employing scientific staff through the recovery of withholding tax for an amount of EUR 0.75 million, an investment tax credit for an amount of EUR 0.75 million and EUR 0.06 million in patent and other subsidies.

R&D expenses in 2016 were at EUR 13.65 million compared to EUR 12.91 million in 2015. The increase is mainly due to the strengthening of the Company's clinical research team to support ongoing trials.

General and administrative expenses for the full year 2016 amounted to EUR 3.16 million compared to EUR 3.14 million over the same period last year. During 2015, EUR 1.06 million was accounted for as IPO-expenditure directly impacting the statement of comprehensive income. The net increase, disregarding IPO-expenditure in 2015, amounted to EUR 1.08 million. The increase mainly resulted from the full impact of a strengthening of the G&A team during 2015 (EUR 0.4 million), increase of activities for business development and investor relations (EUR 0.3 million) and fees (EUR 0.3 million) paid or to be paid (2017) to the former CEO for services rendered and to be rendered during a 12-month period post his departure (including a non-compete arrangement).

The operating loss in 2016 was EUR 12.80 million. In 2015, Bone Therapeutics reported an operating loss of EUR 12.22 million.

The Company had net financial expenses of EUR 0.27 million in 2016 compared to EUR 1.80 million in 2015 which was mainly explained by the non-cash impact of the derivative of the convertible bonds amounting to EUR 1.33 million and the transaction costs related to the convertible bonds of EUR 0.28 million.

The reported net loss in 2016 amounted to EUR 13.02 million or EUR 1.90 loss per share (on an undiluted basis). In 2015, the Company made a net loss of EUR 14.09 million, equivalent to a loss per share of EUR 2.14 (on an undiluted basis).

Balance sheet

Total assets at the end of December 2016 amount to EUR 38.59 million compared to EUR 50.38 million at the end of December 2015 with the main decrease due to cash and cash equivalents offset by an increase in property, plant and equipment and by the deferred tax assets.

The Company's cash position at the end of December 2016 amounted to EUR 20.30 million, a reduction of EUR 13.31 million mainly due to cash used in operating activities.

Non-current assets increased from EUR 8.68 million to EUR 10.11 million at the end of December 2016. This increase is related to property plant and equipment and to deferred tax assets. Property, plant and equipment increased by EUR 0.60 million in 2016. The Company invested an amount of EUR 0.57 million for this new production facility at Gosselies and EUR 0.53 million for the laboratory and production equipment related for this new production facility. The Company has recorded an amount of EUR 0.48 million as net depreciation. Deferred tax assets totalling EUR 3.08 million are representing a tax credit on investment in R&D, reimbursable in the foreseeable future (spread over the next 7 years).

Trade and other receivables slightly increased to EUR 0.10 compared to 2015.

Equity amounted to EUR 15.27 million at the end of December 2016 compared to EUR 28.15 million at the end of December 2015.

Retained earnings were impacted by the loss for the period amounting to EUR 13.02 million

Other reserves increased with an amount of EUR 0.14 million related to share-based payments

Liabilities amounted to EUR 23.32 million at the end of December 2016 compared to EUR 22.24 million at the end of December 2015, with the main increase due to non-current liabilities.

Non-current liabilities increased from EUR 11.69 million at the end of 2015 to EUR 12.80 million on 31 December 2016.

Current liabilities amounted to EUR 10.51 million at 31 December 2016 compared with EUR 10.54 million at the end of December 2015.

The financial liabilities amount to EUR 1.24 million and did decrease with EUR 1.07 million. This is mainly due to the reimbursement of the straight loan facility provided by ING and BNP Paribas Fortis for an amount of EUR 1.68 million following the receipt of this amount from the Walloon Region through an investment grant.

Trade and other payables amounted to EUR 3.12 million which represented an increase of EUR 0.54 million compared to the end of December 2015. This increase is mainly related to non-recurring items.

Other current liabilities amount to EUR 6.15 million at the end of December 2016 compared to EUR 5.59 million at the end of December 2015, showing an increase of EUR 0.56 million due to deferred income related to new grants the Company obtained from the Walloon Region during 2016.

Cash flow statement

Cash used for operating activities amounts to EUR 11.37 million for the full year 2016 compared with EUR 11.77 million for the full year 2015. Total operating loss for the period amounts to a loss of EUR 12.80 million compared with a loss of EUR 12.22 million over the same period in 2015.

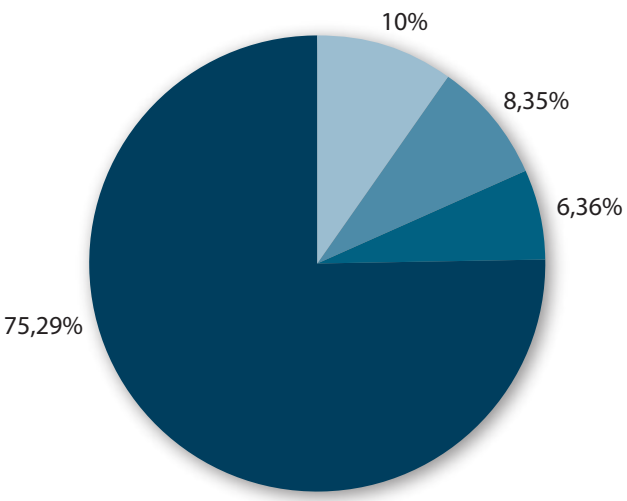
Adjustments for non-cash items amounted to EUR 2.57 million, compared with EUR 2.21 million in 2015 relating to depreciation, share based payments and recognition of grant income from RCA's, patent subsidies and tax credit. Actual cash received in 2016 for the grant related items amounted to EUR 2.75 million compared with EUR 2.23 million in 2015.

Working capital was positively impacted for the full year 2016 by EUR 1.92 million, mainly following a reduction in trade receivables (disbursement of the outstanding amount for the investment grant of EUR 1.31 million) and an increase of trade and other payables for an amount of EUR 0.34 million.

Cash flow from investing activities shows a net use of cash for EUR 0.58 million for the full year 2016 compared with EUR 2.98 million for the year 2015. This mainly represents investments made in property, plant and equipment related to the finalization of the construction of the new facilities in Gosselies.

Cash flow used in financing activities amounts to EUR 1.36 million compared to cash generated from financing activities of EUR 36.78 million in 2015. In 2015 the Company benefited from the proceeds of the IPO and proceeds of new loans exceeding the amount of loans reimbursed during the period. In 2016 the amounts reimbursed for existing loans were greater than the amounts received for new loans, resulting in the use of cash for financing activities of EUR 1.36 million, in particular, a reimbursement of a short-term credit facility for an amount of EUR 1.40 million.

Shareholder structure



- *S.R.I.W. SA & Sofipôle*
- *Mr. J. Reymann*
- *S.F.P.I. SA*
- *Other shareholders*

Financial calendar 2017

25 April 2017	Publication Annual Report 2016
11 May 2017	Q1 2017 Business Update
26 May 2017	Annual General Meeting 2017
31 August 2017	Half-year Results 2017
9 November 2017	Q3 2017 Business Update

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