A French *société anonyme* (limited liability company) with a Management Board and a Supervisory Board
and a share capital of € 1,301,962.56
Registered office: 1, rue Pierre Fontaine, Bâtiment Genavenir IV, 91058 Evry, France
Evry Trade and Companies Registry # 432 584 225

2011 HALF-YEAR FINANCIAL REPORT

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CHAPTER 1. BUSINESS REPORT FOR THE FIRST HALF-YEAR OF 2011

1.1 DESCRIPTION OF THE BUSINESS ACTIVITIES OF NOVAGALI PHARMA IN THE FIRST HALF-YEAR OF 2011

1.1.1 Continued clinical development of the product candidates of the Company

Over the course of the first half-year of the 2011 fiscal year, Novagali Pharma (hereinafter referred to as the "**Company**") continued to develop its product candidates:

- Cyclokat®: In January of 2011, the Company obtained a positive scientific advice for Europe from the *European Medicine Agency*, concerning the admissibility of the existing clinical data and the design of a second phase III study for patients suffering from severe dry eye syndrome. This multicenter (administered on several sites) pivotal double blind study that will include approximately 250 patients was launched in Europe with the very first patients beginning testing in March 2011. Subject to the results of this study, the Company could file a request for a marketing authorization.

- Catioprost®: In April of 2011, the Company completed the enrolment of patients (suffering from both glaucoma and damage to the ocular surface) for its phase II clinical trial of Catioprost® in the United States. This randomized study seeks to compare the safety profile of Catioprost® with that of Travatan Z® and results are expected in the third quarter of 2011.

1.1.2 Continued commercial development of Cationorm®

The Company signed a distribution agreement with Ardeo Health, LLC for Nova 23041 (marketed under the brand name "Cationorm®" in other countries) in the United States and in Canada. In addition, the Company also obtained the required authorizations to market Cationorm® in the United Arab Emirates and Saudi Arabia, countries in which it is currently preparing to launch the product.

1.1.3 Strengthening the business

Over the course of the half-year ended on June 30, 2011, the Company reinforced its corporate structure and its teams.

The Company appointed **Ronald R. Buggage** as Chief Scientific Officer.

Ronald Buggage is an ophthalmologist by training and has acquired solid university and industrial experience in strategic and operational activities related to the ophthalmic pharmaceutical development and marketing. He began his career as Staff Clinician and Director of the Ocular Immunology and Uveitis Program at the prestigious *National Eye Institute* of the National Institutes of Health in Bethesda, Maryland, where he led numerous clinical trials in subjects with retinal disease and was also responsible for the education and clinical supervision of ophthalmologists in the uveitis training program. In 2004, he joined Pfizer's laboratories, becoming Worldwide Medical Director for Research & Development. In particular, he led strategic plans aimed at strengthening Pfizer's position in retinal diseases. In 2008, Dr Buggage joined the Novartis group. As New Product Executive Medical Director within the Neuroscience and Ophthalmology Franchise, he was responsible for defining and managing the global development strategy for ophthalmic therapies while specifically focusing on their commercialization.

In addition, Philip Parkinson, the Chief Administrative and Financial Officer and member of the Management Board, has left the Company. He was replaced by **Didier Le Normand**, who was appointed Chief Administrative and Financial Officer.

Didier Le Normand, 52 years of age, joined the Company in February of 2011 and was appointed Chief Administrative and Financial Officer in August. He has a degree from the ESLSCA Paris business school and holds an MBA from Pace University (NY, USA). He worked in the banking industry in the United States and France before pursuing a career working for commercial companies. For seven years, he assisted the French businesses of the BASF chemical group. For roughly fifteen years, he was a manager responsible for finances and operations in companies operating in various business sectors, although mainly in the industrial sector and

while liaising with financial shareholders. In particular, he worked for Leica (scientific equipment business), Nextiraone (telecom integration) and, more recently, for Axyntis Orgapharm (fine chemistry business).

Lastly, some highly respected individuals in the industry (Russel G. Greig, Bo Jesper Hansen and Nayan Gregory Parekh) have joined the Supervisory Board of the Company as independent members. Russel G. Greig is the new Chairman of the Supervisory Board of the Company.

Russell G. Greig is a doctor of medicine. He spent approximately 30 years working for the GlaxoSmithKline group, where he was notably Chief Executive Officer for the UK and then Vice- President and Director of European Market Development for SmithKline Beecham Pharmaceuticals. Following the merger of SmithKline Beecham and Glaxo Wellcome in 2000, Dr. Greig was appointed Vice-President of Worldwide Business Development before becoming President of GSK Pharmaceuticals International and then of SR One, the GlaxoSmithKline group's investment fund.

Bo Jesper Hansen is a doctor of medicine. He is Chairman of the Board of Directors of Swedish Orphan Biovitrum AB (publicly-traded company), and board member of MipSalus ApS, TopoTarget A/S, Zymenex A/S, Incentive AB (part of the Gambro group), Orphazyme A/S and Kontrast AB. He has held a number of positions within Swedish Orphan International AB since 1993, before becoming Chief Executive Officer from 1998 until 2010. He is also Medical Advisor for Synthélabo, Pfizer, Pharmacia and Yamanouchi. He founded Scandinavian Medical Research.

Nayan Gregory Parekh is a doctor of economics. Until 2010, he was head of mergers and acquisitions at Novartis AG, overseeing more than 20 deals representing a total of $70 billion, including the acquisition of Alcon (ophthalmology), Ebewe (generics), Chiron (vaccines), Hexal (generics) and Eon Labs (generics), as well as the sale of Gerber (food) and Medical Nutrition (food). Before joining Novartis in 2004, he was Vice-President of the healthcare team at Bear Stearns in New York, and then managed the European Healthcare Group at Deutsche Bank AG in London for six years. He is the founder of the healthcare investment fund New Rhein LLC Healthcare.

Bernard Chauvin, who previously represented Sigefi Ventures Gestion on the Supervisory board, has now joined the Company's Supervisory board in a personal capacity.

The Combined Shareholders' Meeting dated June 22, 2011 did not renew the terms of office of CDC Innovation S.A.S., Galinova, and Sigefi Ventures Gestion. As such, the Supervisory Board of the Company has nine members, six of which are independent.

1.1.4 Grants of share subscription warrants (*bons de souscription d'actions*) and free shares

Pursuant to the decisions taken by the Management Board on February 3, 2011 (by using the delegation of authority granted to it by the Combined Shareholders' Meeting dated May 18, 2010), 53,358 share subscription warrants (hereinafter referred to as the "**Replacement BSA(s)**") were subscribed. These Replacement BSAs were issued for the benefit of former holders of BSAs (independent members of the Supervisory Board and certain members of the Scientific Advisory Board of the Company), under the condition precedent that such latter members waive their right to all of their previously held BSAs.

On February 3, 2011, by using the delegation of authority granted to it by the Combined Shareholders' Meeting dated May 18, 2010, the Management Board also decided on the issuance of 474,800 free shares for the benefit of salaried employees and eligible corporate officers (*mandataires sociaux*). 192,800 of these 474,800 free shares were granted under the condition precedent that the employees and corporate officers concerned waive their right to all of the share subscription warrants reserved for company founders (*bons de souscription de parts de créateur d'entreprise*) they previously held.

1.1.5 Settlement concerning the dispute between the Company and Holopack

In 2009, the Company had filed a claim with the Heilbronn (Germany) Commercial Court (*Tribunal de commerce d'Heilbronn*) against the German company Holopack, one of the subcontractors responsible for manufacturing (a Contract Manufacturing Organization, or "CMO"). The parties came to an agreement in June 2011 and Holopack paid the Company the amount of € 412,000 to end the dispute.

1.2 COMMENTS ON THE FINANCIAL STATEMENTS FOR THE PERIOD ENDED ON JUNE 30, 2011

The analysis below has been carried out on the basis of the IFRS accounts (presented at section 2 of the half-year financial report) and should be read in conjunction with these accounts.

1.2.1 Income

The income generated by the Company amounted to € 655 thousand and € 1,387 thousand in the half-years ended on June 30, 2010 and 2011, respectively.

This income can be broken down in the following way:

	Half-year ended on June 30,	
In € thousands	**2010**	**2011**
Sales	236	369
Research contracts and revenues from licenses	-	-
Subsidies, public financing, and tax credits for research	419	1,017
Income	**655**	**1,387**

The sales generated correspond mainly to the sales of Cationorm®. Its sustained growth is linked to the surge in the sales of Cationorm® in countries in which the product was already commercialized over the course of the half-year ended on June 30, 2010 and to its commercialization in new countries (Morocco, in particular).

Subsidies, public financing, and tax credits for research mainly include the tax credits for research for expenses incurred in connection with research activities recorded in the half-year in question. The amounts listed above as income correspond to the tax credit receivables generated over the course of the corresponding half-year. This item grew significantly due to the increase in research and development expenditures (please refer to section 1.2.2 of this Half-year Financial Report). This item also includes an operating subsidy amounting to € 175 thousand paid out by ISI-OSEO under the Vitrena project over the course of the half-year ended on June 30, 2011 (please refer to section 6.2.6 of the Registration Document (hereinafter referred to as the "**Registration Document**"), registered with the *Autorité des Marchés Financiers* (French financial markets regulator, hereinafter at times referred to as the "AMF") on April 20, 2011.

1.2.2 Operating expenses by business activity

	Half-year ended on June 30,	
In € thousands	**2010**	**2011**
Research and development expenses	2,347	4,840
Net research and development expenses of the tax credit for research	*1,930*	*3,998*
General expenses	1,598	2,718
Net operating expenses	**3,945**	**7,558**

Research and development expenses are mainly comprised of payroll expenses for employees working in research and development, the manufacturing costs of products, sub-contracting costs (research, pre-clinical and clinical development), and the purchase of materials (reactive substances and other consumable products) and pharmaceutical products.

Changes in the amounts of these expenses are largely caused by the expenses incurred in connection with the outsourcing of clinical and pre-clinical studies. For the half-year ended on June 30, 2010, research and development expenses were reduced in light of the upcoming initial public offering. They have significantly increased since the end of 2010, in particular in connection with the Catioprost® phase II study and the Cyclokat® phase III study.

General expenses are mainly comprised of payroll expenses for employees not working in research and development, as well as costs related to paying service providers for the management and development of the marketing activities of the Company. The increase of general expenses is linked to the increase of structural

costs themselves linked to the new status of listed company of Novagali and to the performance of strategic studies by outside consultants.

1.2.3 Operating expenses by expense category

In € thousands	Half-year ended on June 30, 2010	Half-year ended on June 30, 2011
Income	**655**	**1,387**
Raw materials & consumables used	373	659
Employee and benefits expenses	1,706	2,621
External expenses	1,662	4,198
Taxes (other than income tax)	66	67
Depreciation and amortization	95	121
Other operating income (loss)	(10)	(469)
Other operating expenses	53	334
Net Operating Expenses	**3,945**	**7,558**
Operating Loss	**(3,290)**	**(6,171)**

Raw materials and consumables used

The increase observed in this item can be explained by the manufacturing of batches for ongoing clinical studies (phase II clinical study of Catioprost® and phase III clinical study of Cyclokat®). It can also be explained by the increase in production associated with the growth in Cationorm® sales.

Payroll expenses

This item includes salaries, social charges, pensions and retirement obligations, as well as share-based compensation incurred by the Company in the half-years ended on June 30, 2010 and 2011, as set forth below:

In € thousands	Half-year ended on June 30, 2010	Half-year ended on June 30, 2011
Wages and salaries	1,178	1,569
Social charges	518	894
Pensions and retirement obligations	9	33
Share-based compensation	-	125
Payroll Expenses	**1,706**	**2,621**

The Company had 38 and 42 employees as of June 30, 2010 and 2011, respectively. The distribution of employees was as follows:

	June 30, [1] 2010	June 30, [1] 2011
Management (Operational Management Committee)	7	6
Scientists (PhDs in science, medicine and pharmacy)	10	11
Engineers and technicians	23	25
Other (support staff)	8	9
Total	**38**	**42**

(1) According to common practice, only those individuals working either full time or at least 80% full time are accounted for. Moreover, some employees could be accounted for in several categories.

From the half-year ended on June 30, 2010 to the half-year ended on June 30, 2011, payroll expenses grew from € 1,706 thousand to € 2,621 thousand. This increase can be explained by an increase in the employee base and a higher ratio of payroll expenses (wages and salaries) relative to the employee base at the end of the period. It can also be explained by the share-based payments made over the course of the half-year ended on June 30, 2011.

Indeed, this ratio amounted to an average monthly ratio of € 7.5 thousand and € 10.4 thousand per employee in the half-years ended on June 30, 2010 and 2011, respectively. The change in this ratio is justified by the presence of a higher number of managers in the Company, which can in turn be explained by the change in the Company's business activity that now requires more experienced employee profiles. For example, over the course of the half-year ended on June 30, 2011, the Company created a Chief Scientific Officer position.

Share-based compensation corresponds to the possible remuneration of executives and employees by way of financial instruments granting access to the Company's share capital, and accounted for as a liability in accordance with the IFRS 2 accounting standard.

These share-based payments amounted to € 125 thousand in the half-year ended on June 30, 2011, whereas no such payments were reported in the half-year ended on June 30, 2010. Indeed, Replacement BSAs and free shares were issued over the course of the half-year ended on June 30, 2011 (please refer to section 1.1.4 of this Half-year Financial Report). In addition, no such payments had been reported over the course of the half-year ended on June 30, 2010 because none of the outstanding financial instruments were in the money at that time.

External expenses

Over the course of the half-years ended on June 30, 2010 and 2011, external expenses were distributed in the following way:

	Half-year ended on June 30,	
In € thousands	**2010**	**2011**
Leases	225	253
Repairs & Maintenance	90	90
Insurance	32	61
Studies and sub-contracting	484	2,571
Documentation	6	8
Fees and consultants	636	933
Travel and conference expenses	156	232
Telecommunications	16	23
Bank expenses	9	14
Other	8	13
External Expenses	**1,662**	**4,198**

The **leases** expenses item primarily includes rent payments and charges incurred in connection with the corporate headquarters of Novagali. The increase in this item can be explained by the extension of the premises leased by the Company over the course of the half-year ended on June 30, 2011.

The variation observed for the **insurance** expenses item is strongly correlated with the number of ongoing clinical studies over the course of each half-year – indeed, specific premiums are paid out for each clinical trial carried out in Europe and in the United States. The increase in this item can be explained by the launch of the phase III clinical study for Cyclokat® and by the continuation of the phase II clinical study for Catioprost® over the course of the half-year ended on June 30, 2011.

The **studies and sub-contracting** expenses item includes (i) primarily the costs incurred in connection with pre-clinical studies (academic research projects, pilot productions, tolerability and pharmacology studies) and with clinical studies (management and logistics) for the four product candidates of the Company that are in the advanced stages of development and for Cationorm® and (ii) to a lesser extent, the costs incurred in connection with pre-clinical trials carried out for product candidates that are in the early stages of development. The Company outsources the completion of the majority of its pre-clinical and clinical trials to specialized companies (CROs).

The following table presents the distribution of these expenses by activity over the course of each of the half-years ended on June 30, 2010 and 2011:

	Half-year ended on June 30,	
In € thousands	**2010**	**2011**
Pre-clinical and other	199	449

Clinical	255	2,049
Production	30	73
Studies and Sub-contracting	**484**	**2,571**

The evolution of the studies and sub-contracting expenses item results mainly from the clinical studies activity and from the production of corresponding clinical batches, including:

- For the half-year ended on June 30, 2010, the end of the phase III clinical trials for Cyclokat® (the larger portion of the expenses incurred in connection with these phase III trials was accounted for in previous fiscal years) and the continuation of the phase I clinical trials for Cortiject®, and
- For the half-year ended on June 30, 2011, the continuation of the phase II study for Catioprost® and the launch of the pivotal confirmatory phase III clinical study for Cyclokat®.

The costs associated with clinical studies include all fees related to these studies and, in particular, the design of the study, the recruitment of investigators, procedures undertaken with regulatory authorities and committees on ethics, the inauguration of study centers, the recruitment of patients, the organization of patient monitoring, clinical and biological examinations, the compiling, treatment, and analysis of results, and the preparation of regulatory reports.

In addition, and to a lesser extent, the change in this studies and sub-contracting item results from the launch of feasibility studies relative to the intravitreal injection device for Crossject, a member of the consortium of the Vitrena project. Within the context of this consortium, and in its capacity as project leader, the Company receives all subsidies and advances, while other members of the consortium bill their services directly to the Company.

The **fees and consultants** expenses item is split between:

- scientific advice and services: the fees invoiced by outside consultants who provide the Company with advice regarding the research and development of its products and the fees paid out to members of the Scientific Advisory Board; and
- non-scientific fees: the fees invoiced by the statutory auditors, by the expert accountant of the Company in connection with assignments in corporate accounting, tax accounting, and social accounting assistance, lawyers' fees with respect to assistance provided in the negotiation of collaborative and license agreements or for general corporate assistance, fees for advice on business strategy or business development, as well as finders' fees for recruitment.

The following table presents the distribution of the fees and consultants expenses item by activity over the course the half-years ended on June 30, 2010 and 2011:

	Half-year ended on June 30,	
In € thousands	**2010**	**2011**
Scientific advice and services	34	53
Non-scientific fees	602	880
Fees and consultants	**636**	**933**

Expenses in the scientific advice and services expenses item evolve in conjunction with the development of the Company's business activities, in particular due to the formal nature of discussions with European and American regulatory authorities, the implementation of clinical trials, and the increase in fees related to the registration of requests for patents. These expenses have increased due to the launch of the phase III clinical trial for Cyclokat® and to the continued interaction with European and American regulatory authorities over the course of the half-year ended on June 30, 2011.

Non-scientific fees increased from the half-year ended on June 30, 2010 to the half-year ended on June 30, 2011. This was mainly the result of the new status of Novagali as a publicly traded company and of the recruitment process undertaken by the Company.

The **travel & conference** expenses item primarily includes employees' traveling fees as well as fees for participation in conferences.

Over the course of the half-year ended on June 30, 2011, the Company participated in two conferences. In May, it participated in the ARVO (*Association for Research in Vision and Ophthalmology*) conference in Florida, and in June it travelled to Geneva to participate in the conference organized by SEO (*Société européenne d'ophtalmologie, European Society of Ophthalmology*). For these two conferences, the Company rented a stand and put up several scientific posters. Within the context of the SEO conference, the Company also organized a meeting with all distributors of Cationorm®.

In addition, the increase in the travel & conference expenses item can be explained by the increase in the number of distributors of Cationorm® worldwide and by the resumption of the clinical studies for Cyclokat® and Catioprost® (resulting in travelling expenses incurred by the Company's teams when meeting with distributors and with service providers responsible for clinical studies).

Taxes (other than income tax)

Taxes other than income tax (incurred in connection with its payroll and the filing of patent requests) amounted to € 66 thousand and € 67 thousand over the course of the half-years ended on June 30, 2010 and 2011, respectively. This slight increase was due to the increase in taxes associated with filings of patent requests.

Amortization and depreciation

These net expenses represented amounts of € 95 thousand and € 121 thousand over the course of the half-years ended on June 30, 2010 and 2011, respectively. They correspond, for the most part, to the amortization charges on laboratory equipment. The relatively low amount of amortization and depreciation expenses incurred over the course of the half-year ended on June 30, 2010 the decrease in amortization charges can be explained by the end of the amortization cycle for tangible assets and by moderate investments over the course of the previous fiscal years.

However, following its initial public offering, the Company resumed its investment activities (investments amounting to € 27 thousand over the course of the half year ended on June 30, 2010, € 289 thousand for the fiscal year ended on December 31, 2010 as compared to € 118 thousand over the course of the half year ended on June 30, 2011).

Other revenues and operating expenses

This expenses item amounted to a net charge of € 43 thousand and to net revenues of € 108 thousand over the course of the half-years ended on June 30, 2010 and 2011, respectively. This expenses item can be broken down as follows:

	Half-year ended on June 30,	
In € thousands	**2010**	**2011**
Other revenues	10	30
Other expenses	(53)	(53)
Non-recurring revenues	0	412
Non-recurring expenses	0	(281)
Other revenues and expenses (netted)	**(43)**	**108**

The other expenses line item corresponds to compensation paid to non-executive corporate officers. The other revenues line item mainly corresponds to the reimbursement of social charges.

The non-recurring revenues and expenses correspond to, on the one hand, a transactional indemnity paid by Holopack (please refer to section 1.1.5 of this Half-year Financial Report) and, on the other hand, attorney and consultancy fees incurred in connection with strategic transactions indirectly related to the recurring business of the Company.

1.2.4 Net revenue

1.2.4.1 Financial revenue and expenses

This net revenue is distributed as follows for the half-years ended on June 30, 2010 and 2011:

In € thousands	Half-year ended on June 30, 2010	2011
Financial Revenue	8	138
Fair value of BSAOCA conversion option	46	0
Latent capital gains	0	0
Total amount of financial revenue	**55**	**138**
Financial expenses	(22)	(1)
Latent capital losses	0	0
Total amount of financial expenses	**(22)**	**(1)**
Financial Revenue and Expenses (netted)	**33**	**137**

This item includes financial revenue generated from investments carried out by the Company and the evaluation of the fair value of the BSAOCA conversion option, which were converted on the day of the initial public offering of the Company (please refer to section 10.1.2 of the Registration Document).

Over the course of the periods under review, structurally the Company had positive net balances with its banks, which explains the positive financial income. The Company's investment policy favors taking no risks with respect to its capital investments, with most of its investments made in the short and medium-term monetary markets.

The change in net financial revenue over this period was due to the average amounts of cash and current financial instruments, which amounted to € 2.0 million and € 14.0 million in the half-years ended on June 30, 2010 and 2011, respectively. This change is itself explained by the share capital increase in the gross amount of € 22.2 million carried out in July 2010 within the framework of the initial public offering of the Company.

For the purposes of this analysis, the average amounts of cash and current financial instruments in a given half-year is defined as the arithmetic mean of the balance of these revenue items at the close of each month of that half-year.

1.2.4.2 Corporate tax

Taking into account the losses incurred over the past periods in question, the Company has not recorded any corporate tax charge.

1.2.5 Net income (loss) per share

The net loss per issued share (average weighted number of shares in circulation over the course of a given half-year) amounted to € (0.51) and € (0.37) in the half-years ended on June 30, 2010 and 2011, respectively. On a diluted basis[1], the net loss amounted to € (0.47) and € (0.36) in the half-years ended on June 30, 2010 and 2011, respectively.

1.2.6 Changes in the line items of the balance sheet

1.2.6.1 Non-current assets

As of December 31, 2010 and June 30, 2011, non-current assets totaled € 1,009 thousand and € 1,156 thousand, respectively.

[1] In other words, following the exercise of the Share Subscription Warrants ("BSAs) granted to certain members of the Supervisory Board and of the Scientific Advisory Board, and of the BCEs granted to certain employees (please refer to section 17.2 and 21.1.4 of the Registration Document and section 1.1.4 of this Half-year Financial Report), but excluding the conversion of the OCABSAs, and the exercise of the BSA_{OCA}.

Non-current assets are comprised of tangible, intangible and financial assets. The increase in non-current assets can be explained by the continuation of investments in tangible assets over the course of the half-year ended on June 30, 2011 (investments amounting to € 289 thousand over the course of the fiscal year ended on December 31, 2010 and amounting to € 109 thousand over the course of the half-year ended on June 30, 2011).

1.2.6.2 Current assets

This line item is mainly comprised of cash and cash equivalents, receivables from research tax credits, and client receivables.

The decrease in the "Current assets" line item is mainly due to the decrease in cash and cash equivalents, which was only partially offset by the increase in the research tax credit and client receivables.

Ever since the 2008 corrective finance law was put into effect (carried over to 2009), companies are able to request the early repayment of tax credits for research. In addition, in the month of December 2010, a tax provision in the 2011 finance law was adopted, which effectively made this mechanism permanent: small and medium-sized companies (in the meaning of European regulations) can request the early repayment of the tax credits for research in the year following that in which the outstanding tax credit was declared. At that time, receivables from tax credits for research are classified in full as current assets.

The receivable from the tax credit for research depends on the level of eligible expenses incurred over the course of the fiscal year. Due to the fact that these expenses significantly increased over the course of the half-year ended on June 30, 2011, receivables from the tax credit for research also rose as a result.

Lastly, the increase in client receivables is inevitably due to the increase in revenues generated from Cationorm® sales.

1.2.6.3 Shareholders' equity

The net variations in shareholders' equity of the Company corresponded to the accounting of losses for each of the periods under review, offset by the contributions in capital made over the course of the periods in question.

1.2.6.4 Non-current liabilities

Non-current liabilities are comprised exclusively of provisions for the payment of pension commitments.

1.2.6.5 Current liabilities

This item includes the short-term debts owed by the Company to third parties, employees and social bodies.

1.2.7 Cash and cash equivalents

As of June 30, 2011, the amount of cash and cash equivalents held by the Company totaled € 11.5 million, as compared with € 18.2 million as of December 31, 2010. Cash and cash equivalents include available liquid assets and current financial instruments held by the Company (primarily mutual fund investment instruments (*SICAV monétaires*, or monetary collective investment schemes), as well as structured monetary investment income with a fixed maturity date). These available liquid assets and investment securities enable the Company to finance its business and, in particular, to cover its research and development expenses.

As of June 30, 2011, available liquid assets and investment securities held by the Company were primarily invested in financial instruments with a maturity lower or equal to 12 months.

1.2.7.1 Cash flow from operating activities

The depletion of the Company's cash and cash equivalents associated with operating activities in the half-years ended on June 30, 2010 and 2011 amounted to € 3.8 million and € 6.6 million, respectively.

Cash flow from operating activities experienced a significant increase as a result of the increase in research and development expenditures (please refer to section 1.2.2 of this Half-year Financial Report).

1.2.7.2 Cash flow from investment activities

The transactions carried out by the Company generally require a low investment in tangible assets insofar as the Company out-sources the majority of its production and validation responsibilities (quality control before the produced batches are released) to third parties. Its investments in tangible assets, which are primarily comprised of investments in laboratory equipment, amounted to € 15 thousand and € 109 thousand in the half-years ended on June 30, 2010 and 2011, respectively. The Company resumed its investment activities over the course of the half-year ended on June 30, 2011. They were mainly focused on investing in equipment for research and pilot production, as provided for in the annual budget.

1.2.7.3 Cash flow from financing activities

No significant item has had an impact on the cash flows from financing activities over the course of the half-year ended on June 30, 2011.

1.3 MAIN RISKS AND UNCERTAINTIES IN THE UPCOMING HALF-YEAR

The main risks and principal uncertainties to which the Company is exposed in the remaining six months of the fiscal year are the risks and uncertainties described in Chapter 4 of the Registration Document.

Investors should also focus their attention on Note 2 of the half-year financial statements pertaining to the continuity of the operating activities of the Company.

1.4 FUTURE OUTLOOK

The future of the commercialized product of the Company and of the product candidates currently under development by the Company is the following:

- Cationorm®: The Company is preparing to launch the product in the United States and in Saudi Arabia. Cationorm® will also be available in multi-dose bottles that are free of preservatives. Lastly, the Company continues its discussions with regulatory authorities in order to market the product in other countries, particularly in Europe.

- Cyclokat®: Subject to the results of the pivotal confirmatory phase III clinical study, the Company plans to file for a marketing authorization in late 2012. The Company is also continuing its discussions with major market players, which could lead to partnership agreements for both Cyclokat® and Vekacia®.

- Vekacia®: The Company plans to launch the pivotal confirmatory phase III clinical study in the first half of the 2012 fiscal year.

- Catioprost®: The results of the phase II clinical study are expected in the third quarter of the 2011 fiscal year.

- Cortiject®: The results of the phase I clinical study administered to diabetic patients suffering from macular edema demonstrated the safety and good ocular tolerability of Cortiject®, as well as its effectiveness over six-month periods or more in certain patients. Patients were monitored for over twelve months. The Company is currently working on optimizing the formulation before launching the next development phase of the program.

The objectives, statements, and information summarized above are of forward-looking nature. The reader is hereby warned with respect to the fact that these objectives, statements, and information are dependent on circumstances or facts that should occur in the future. These objectives, statements, and information are not historical data and must not be interpreted as guarantees that the facts and data provided will definitely occur or that the objectives will be reached. By their very nature, the data, assumptions and estimates, as well as all of the elements taken into account for the determination of said objectives, forward-looking statements, and prospective information, could be wrong or never occur, and could potentially evolve and be modified due to uncertainties relating to, in particular, the economic, financial, competitive, and regulatory context. Furthermore, the materialization of certain risks described in Chapter 4 of the Registration Document could

have an impact on the business activities of the Company and on the completion of the objectives, forward-looking statements and prospective information provided above. Therefore, the Company does not make any commitment and gives not guarantees with respect to the completion of the objectives, or the materialization of the forward-looking statements and prospective information appearing in this section or elsewhere in this Half-year Financial Report.

1.5 RELATED PARTY TRANSACTIONS

The agreements referred to in Article L. 225-86 of the French Commercial Code in force over the course of the half-year ended on June 30, 2011 are described in Chapter 19 of the Registration Document.

CHAPTER 2. FINANCIAL STATEMENTS AS OF JUNE 30, 2011

FINANCIAL POSITION AS OF JUNE 30, 2011

STATEMENT OF FINANCIAL POSITION
(Amounts expressed in Euros)

	Note	06/30/2011	12/31/2010
ASSETS		**€**	**€**
Fixed Assets			
Intangible assets	6	192,295	209,544
Property, plants, and equipment	5	546,198	541,440
Financial assets		417,966	257,916
Other non-current assets			
Total Fixed Assets		**1,156,460**	**1,008,900**
Current Assets			
Inventories			
Trade receivables	7	356,822	225,823
Other current receivables	8/12	2,467,077	1,979,590
Cash and cash equivalents	4	11,502,699	18,167,298
Total Current Assets		**14,326,598**	**20,372,711**
TOTAL ASSETS		**15,483,058**	**21,381,611**

STATEMENT OF FINANCIAL POSITION
(Amounts expressed in Euros)

	Note	06/30/2011	12/31/2010
LIABILITIES		**€**	**€**
Equity			
Common shares	9	1,301,963	1,301,963
Less: Own shares		(148,340)	(297,339)
Capital reserves	9	77,583,894	77,556,681
Retained losses		(61,596,823)	(54,258,596)
Net loss		(6,034,978)	(7,463,632)
Total Equity		**11,105,716**	**16,839,077**
Non-current Liabilities			
Long term debt	10.2		
Provisions	11	149,927	117,217
Other non-current debt	10.1/12	638,362	638,363
Total Non-current Liabilities		**788,289**	**755,580**
Current Liabilities			
Loans and short term debt	10.1/12	57,895	57,895
Trade payables	13	2,168,661	2,205,562
Other current liabilities	13	1,362,497	1,523,498
Total Current Liabilities		**3,589,053**	**3,786,955**
TOTAL LIABILITIES AND EQUITY		**15,483,058**	**21,381,611**

STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME
(Amounts expressed in Euros)

	Note	06/30/2011 6 months	06/30/2010 6 months	12/31/2010 12 months
		€	€	€
Income				
Sales	14	369,331	236,062	580,254
Research contracts and revenues from licenses	14			10,000
Subsidies, public financing, and tax credits for research	12/14	1,017,485	418,694	933,075
Total Income		**1,386,816**	**654,756**	**1,523,329**
Operating Expenses				
Raw materials & consumables		658,662	373,011	927,666
Employee and benefits expenses	15/16	2,621,558	1,705,944	3,523,457
External expenses	17	4,198,511	1,662,190	4,266,068
Taxes (other than income tax)		66,974	66,183	126,484
Depreciation and amortization		121,186	94,748	187,794
Other operating income	18	(442,380)	(9,580)	(35,331)
Other operating expenses	18	334,101	52,763	124,121
Operating Loss		**(6,171,796)**	**(3,290,503)**	**(7,596,930)**
Financial income	19	138,271	54,570	163,960
Financial expenses	19	(1,453)	(21,892)	(30,662)
Loss Before Income Tax		(6,034,978)	(3,257,825)	(7,463,632)
Corporate income tax expense				
Net Loss for the Year		**(6,034,978)**	**(3,257,825)**	**(7,463,632)**
Weighted average number of shares issued	23	16,274,532	6,359,882	10,718,533
Loss per share (€/share)		(0.37)	(0.51)	(0.70)
Weighted average number of shares (fully diluted)		16,954,383	6,918,158	11,267,563

	06/30/2011 6 months	06/30/2010 6 months	12/31/2010 12 months
	€	€	€
Net Loss	**(6,034,978)**	**(3,257,825)**	**(7,463,632)**
Other comprehensive income:			
Total Comprehensive Income for the Year	**(6,034,978)**	**(3,257,825)**	**(7,463,632)**

STATEMENT OF CASH FLOWS

STATEMENT OF COMPREHENSIVE INCOME
(Amounts expressed in Euros)

	Note	06/30/2011 6 months	06/30/2010 6 months	12/31/2010 12 months
		€	€	€
Cash Flows from Operating Activities		(6,034,978)	(3,257,825)	(7,463,632)
Net loss of the year				
Adjustments for Non-cash Income and Expenses related to Operational Activities:				
Depreciation and amortization	5/6	121,186	94,748	187,794
Instruments giving access to share capital	10/19	125,405	(46,023)	(46,023)
Other reconciling items		5,996	5,044	(29,143)
Cash Generated from Operations before Interest and Income Tax Paid		**(5,782,391)**	**(3,204,056)**	**(7,351,004)**
Trade receivables	7	(128,365)	(16,736)	(102,049)
Research tax credit receivables	10/12	3,844	(417,194)	903,440
Other current receivables	8	(491,885)	93,626	(538,408)
Trade payables	13	(39,535)	(194,467)	431,135
Other current liabilities		(160,040)	(96,389)	654,900
Changes in Working Capital		**(815,981)**	**(631,160)**	**1,349,017**
Net Cash Flows from Operating Activities		**(6,598,372)**	**(3,835,215)**	**(6,001,986)**
Cash Flows from Investing Activities				
Purchase of property, plants, and equipment	5	(108,695)	(28,065)	(288,692)
Purchase of intangible assets				(2,269)
Purchase of other assets		(160,050)	1,161	(208,143)
Purchase/sale of own shares		149,000		(297,339)
Proceeds from sales of property, plants, and equipment		26,308		287
Changes in purchases of property, plants, and equipment payables			11,585	
Other cash flows from investing activities				1,161
Net Cash Flows from Investing Activities		**(93,437)**	**(15,320)**	**(794,996)**
Cash Flows from Financing Activities				
Increase (decrease) in borrowings			200,000	238,363
Proceeds from issuance of shares (fees associated with the IPO)	8	27,213	(433,536)	19,980,520
Net Cash Flows from Financing Activities		**27,213**	**(233,536)**	**20,218,883**
Exchange gains / (losses) on cash and cash equivalents				
Net Increase / (Decrease) in cash and cash equivalents		**(6,664,598)**	**(4,084,071)**	**13,421,900**
Cash and cash equivalents and bank overdrafts at beginning of year	4	18,167,298	4,745,397	4,745,397
Cash and cash equivalents and bank overdrafts at end of year	4	11,502,699	661,325	18,167,298

STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY
(Amounts expressed in Euros)

	Common Shares					
	Number of Shares (note 9)	**Amount**	**Share Premium Account**	**Own shares**	**Retained Losses**	**Total Equity**
As of December 31, 2009	**6,359,882**	**508,791**	**45,305,693**		**(54,258,596)**	**(8,444,113)**
Net loss					(3,257,825)	(3,257,825)
As of June 30, 2009	**6,359,882**	**508,791**	**45,305,693**		**(57,516,421)**	**(11,701,938)**
Net Loss					(4,205,807)	(4,205,807)
Issue of shares - Public Offering	6,468,750	517,500	21,476,250			21,993,750
Issue of shares - Employee Offering	36,808	2,945	97,173			100,118
Impact of bond conversion	1,704,546	136,364	12,927,277			13,063,641
Issue of shares – Exercise of warrants (BSA (OCA))	1,704,546	136,364				136,364
Cost of share issuance			(2,249,712)			(2,249,712)
Own shares				(297,339)		(297,339)
As of December 31,	**16,274,532**	**1,301,963**	**77,556,681**	**(297,339)**	**(61,722,228)**	**16,839,077**
Net Loss					(6,034,978)	(6,034,978)
Issue of shares – Exercise of warrants (BSA (OCA))			27,213			27,213
Share-based payments					125,405	125,405
Own shares				149,000		149,000
As of June 30, 2011	**16,274,532**	**1,301,963**	**77,583,894**	**(148,340)**	**(67,631,801)**	**11,105,716**

APPENDIX TO THE CONDENSED HALF-YEAR FINANCIAL STATEMENTS

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PRESENTATION OF THE COMPANY

Novagali Pharma SA (hereinafter referred to as the "Company") is a pharmaceutical company, the business of which is essentially the development of drugs in the area of ophthalmology and eye care. The Company has three patented technological platforms.

As of June 30, 2010, the Company had a product commercialized since 2008, namely Cationorm®, indicated for the treatment of moderate dry eye and had four products under development that were at various stages in their development process.

MAJOR DEVELOPMENTS OF THE HALF-YEAR

- **Continued clinical development of product candidates**

Over the course of the first half-year of the 2011 fiscal year, the Company continued to develop its various product candidates:

- Cyclokat®: In January of 2011, the Company obtained a positive scientific opinion for Europe from the *European Medicine Agency*, concerning the admissibility of the existing clinical data and the design of a second phase III study for patients suffering from severe dry eye syndrome. This multicenter (administered on several sites) double blind study that will include approximately 250 patients was launched in Europe with the very first patients beginning testing in March 2011. Subject to the results of this study, the Company could file a request for a commercialization authorization.

- Catioprost®: In April of 2011, the Company completed the enrolment of patients (suffering from both glaucoma and damage to the ocular surface) for its phase II clinical trial of Catioprost® in the United States. This randomized study seeks to compare the safety profile of Catioprost® with that of Travatan Z® and results are expected in the third quarter of 2011.

- **Continued commercial development of Cationorm**

The Company signed a distribution agreement with Ardeo Health, LLC for Nova 23041 (marketed under the brand name "Cationorm®" in other countries) in the United States and in Canada. In addition, the Company also obtained the required authorizations to market Cationorm® in the United Arab Emirates and Saudi Arabia, countries in which it is currently preparing to launch the product.

- **Strengthening the business**

The Company appointed Dr. Ronald R. Buggage as Chief Scientific Officer. In addition, Philip Parkinson, the Chief Administrative and Financial Officer and member of the Management Board, has left the Company. He was replaced by Didier Le Normand, who was appointed Chief Administrative and Financial Officer.

Lastly, some highly respected individuals in the industry (Russel G. Greig, Bo Jesper Hansen and Nayan Greg Parekh) have joined the Supervisory Board of the Company as independent members. Russel G. Greig is the new Chairman of the Supervisory Board of the Company.

- **Grants of share subscription warrants (*bons de souscription d'actions*) and free shares**

Pursuant to the decisions taken by the Management Board on February 3, 2011 (by using the delegation of authority granted to it by the Combined Shareholders' Meeting dated May 18, 2010), 53,358 share subscription warrants (hereinafter referred to as the "**Replacement BSA(s)**") were subscribed. These Replacement BSAs were issued for the benefit of former holders of BSAs (independent members of the Supervisory Board and certain members of the Scientific Advisory Board of the Company), under the condition precedent that such latter members waive their right to all of their previously held BSAs.

On February 3, 2011, by using the delegation of authority granted to it by the Combined Shareholders' Meeting dated May 18, 2010, the Management Board also decided on the issuance of 474,800 free shares for the benefit of salaried employees and eligible corporate officers (*mandataires sociaux*). 192,800 of these 474,800 free shares were granted under the condition precedent that the employees and corporate officers concerned waive their right to all of the share subscription warrants reserved for company founders (*bons de souscription de parts de créateur d'entreprise*) they previously held.

- **Settlement concerning the dispute between the Company and Holopack**

In 2009, the Company had filed a claim with the Heilbronn (Germany) Commercial Court (*Tribunal de commerce d'Heilbronn*) against the German company Holopack, one of the subcontractors responsible for manufacturing (a Contract Manufacturing Organization, or "CMO"). The parties came to an agreement in June 2011 and Holopack paid the Company the amount of € 412,000 to end the dispute.

ACCOUNTING RULES, METHODS, AND SCOPE

1. Preparation of the financial statements

At the end of each fiscal year, the Company prepares its financial statements in accordance with the accounting standards applicable in France. Since the Company does not have any subsidiaries, it is not subject to the statutory requirement to present its consolidated financial statement in accordance with the International Financial Reporting Standards (hereinafter referred to as the "IFRS"). However, for the fiscal year ended on December 31, 2010, the Company also prepared financial statements in compliance with IFRS guidelines published by the International Accounting Standards Board (hereinafter referred to as the "IASB") as of December 31, 2010 and as adopted in the European Union as of the closing date applicable to the financial statements.

On August 30, 2011, the Management Board approved the condensed half-year financial statements of the Company as of June 30, 2011. They were prepared in compliance with IRFS guidelines.

2. Accounting rules and methods

The interim financial statements established as of June 30, 2011 are prepared in condensed form in accordance with the principles of standard IAS 34 entitled "Interim Financial Reporting", which is included in the IFRS guidelines, as adopted in the European Union as of June 30, 2011 and available on the following website: http://ec.europa.eu/internal_market/accounting/ias_fr.htm#adopted-commission. They do not include all of the information that must be reported in the annual financial statements and must therefore be read jointly with the financial statements established as of December 31, 2010. With the exception of the changes mentioned hereafter, the accounting rules and methods are identical to those applied in preparing the financial statements established as of December 31, 2010 in compliance with IAS/IFRS.

The following standards, interpretations, and amendments, which were published in the Official Journal of the European Union as of the closing date applicable to the half-year financial statements, were initially applied as of June 30, 2010 and have continued to be applied since then.

New standards / amendments applicable to fiscal years beginning as of January 1, 2011 in Europe

	Standard / Interpretation	Effective date provided for by the IASB (fiscal years starting as of)	Effective date in the EU (fiscal years starting as of)
1	IAS 32 – Classification of rights issues	02/01/2010	02/01/2010
2	IFRIC 19 – Extinguishing financial liabilities with equity instruments	07/01/2010	07/01/2010
3	IAS 24 – Related party disclosures	01/01/2011	01/01/2011
4	IFRIC 14 – Prepayments of a minimum funding requirement	01/01/2011	01/01/2011
5	**2010 Improvements**		
5.1	IFRS 3 Amendment – Business combinations	07/01/2010	07/01/2010
5.2	IFRS 7 Amendment – financial instruments - disclosures	01/01/2011	01/01/2011
5.3	IAS 1 Amendment – Presentation of financial statements	01/01/2011	01/01/2011
5.4	IFRIC 13 Amendment – Customer loyalty programs	01/01/2011	01/01/2011
5.5	IAS 34 Amendment – Interim financial reporting	01/01/2011	01/01/2011

Other standards / amendments published as of June 30, 2011

	Standard / Interpretation	Effective date provided for by the IASB (fiscal years starting as of)	Effective date in the EU (fiscal years starting as of)
1	IFRS 7 Amendment	07/01/2011	Not adopted
2	IAS 12 Amendment	01/01/2012	Not adopted
3	IFRS 9	01/01/2013	Not adopted
4	IFRS 10	01/01/2013	Not adopted
5	IFRS 11	01/01/2013	Not adopted
6	IFRS 12	01/01/2013	Not adopted
7	IFRS 13	01/01/2013	Not adopted
8	IAS 28	01/01/2013	Not adopted
9	IAS19	01/01/2013	Not adopted
10	Amendment IAS 1	07/01/2012	Not adopted

The initial application of these standards, interpretations, and amendments does not have a significant impact on the financial statements established as of June 30, 2011 and since then.

The Company did not apply any standard, interpretation, or amendment prior to its effective date. The following standards, interpretations, and amendments are those for which an early application as of June 30, 2011 is possible:

- the amendment to standard IAS 32 entitled, " Classification of rights issues " ;
- improvements to IFRS standards (May 2010);
- the interpretation of standard IFRIC 19 entitled " Extinguishing financial liabilities with equity instruments " ;
- the amendment to standard IFRS 1 entitled " Limited exemption from Comparative IFRS 7 disclosure for first time adopters "

as well as the standards, interpretations, and amendments for which an early application as of June 30, 2011 is not possible:

- the revised IAS 24 standard entitled " Related party disclosures " ;
- the IFRS 9 standard entitled " Financial instruments " ;
- the amendment to standard IFRIC 14 entitled "Prepayments of a minimum funding requirement".

The main areas for determining the estimates and judgments made while preparing the condensed half-year financial statements are the same as those described in Note 2.22 of the Appendix to the Financial Statements as of December 31, 2010.

The cash and cash equivalents held by the Company as of June 30, 2011 amounts to € 11.5 million. Due to the current amount of operating expenses it incurs, the Company cannot guarantee that it will have sufficient cash to meet its commitments and requirements in cash in the upcoming twelve months.

However, considering (i) the negotiations currently underway with major market players regarding possible partnerships (please refer to section 1.4 of the half-year financial report), (ii) future prospects for capital increases on the markets, and (iii) the possible implementation of an operating expenses adjustment plan, the Management Board concluded that the half-year financial statements could still be prepared in accordance with the going concern principle.

3. Scope of the Company

The Company does not have any subsidiaries and it is hereby reminded that the financial statements presented herewith are the financial statements of the Company prepared in accordance with IFRS for the purposes its

stock market listing. Since the Company does not hold any direct or indirect equity interests in other companies, it is not required to prepare consolidated financial statements.

Pursuant to the IFRS 5 standard, it should also be noted that the Company has neither held nor holds any asset it intends to sell or any business it intends to discontinue the operations of.

4. Cash, cash equivalents, and current financial assets

The cash and cash equivalents line item can be analyzed as follows (in €):

CASH AND CASH EQUIVALENTS (Amounts expressed in Euros)	**06/30/2011**	**12/31/2010**
Short term bank deposits	2,974,570	5,139,221
Short term financial instruments at their market value	8,528,129	13,028,077
Total	**11,502,699**	**18,167,298**
Of which latent gains amount to	4,184	4,132

The amount of latent gains relative to cash equivalents was reported in the income statement.

As of December 31, 2010, the Company did not have any investments in financial assets available for sale.

5. Property, plants, and equipment

PROPERTY, PLANT, AND EQUIPMENT
(Amounts expressed in Euros)

	12/31/2010	**Increase**	**Decrease**	**06/30/2011**
Laboratory equipment	1,644,755	53,211		1,697,966
Fixtures and fittings	35,649	6,185		41,834
Transport equipment	11,619			11,619
Office equipment	84,251	38,284		122,535
Computer equipment	165,739	11,015		176,753
Other fixed assets	2,096			2,096
Total (gross)	**1,944,108**	**108,695**		**2,052,803**
Cumulative depreciation of laboratory equipment	(1,181,723)	(87,930)		(1,269,652)
Cumulative depreciation of fixtures and fittings	(20,556)	(2,331)		(22,887)
Cumulative depreciation of transport equipment	(7,617)	(1,937)		(9,553)
Cumulative depreciation of office equipment	(44,942)	(5,476)		(50,418)
Cumulative depreciation of computer equipment	(145,737)	(6,263)		(152,000)
Cumulative depreciation of other fixed assets	(2,096)			(2,096)
Total cumulative depreciation	**(1,402,669)**	**(103,936)**		**(1,506,606)**
Total (net)	**541,440**	**(4,759)**		**546,198**

There has been no recorded impairment in application of IAS 36, and fair value accounting was never used in establishing the expected cost of a tangible fixed asset.

6. Intangible fixed assets

Intangible fixed assets are detailed as follows:

INTANGIBLE FIXED ASSETS (NET)
(Amounts expressed in Euros)

	06/30/2011	**12/31/2010**
Patents, licenses, trademarks	426,743	426,743
Software	44,498	44,498
Total (gross)	**471,241**	**471,241**
Cumulative depreciation of patents, licenses, trademarks	(234,826)	(219,990)
Cumulative depreciation of software	(44,119)	(41,707)

INTANGIBLE FIXED ASSETS (NET)
(Amounts expressed in Euros)

	06/30/2011	12/31/2010
Total depreciation	**(278,945)**	**(261,697)**
Intangible fixed assets (net)	**192,296**	**209,544**

There has been no recorded impairment in application of IAS 36, and fair value accounting was never used in establishing the expected cost of a tangible fixed asset.

7. Trade receivables

TRADE RECEIVABLES
(Amounts expressed in Euros)

	06/30/2011	12/31/2010
Trade receivables	356,822	225,823
Total	**356,822**	**225,823**

The trade receivables are essentially related to sales of Cationorm®.

8. Other current receivables

The other current receivables have evolved as follows:

OTHER CURRENT RECEIVABLES
(Amounts expressed in Euros)

	06/30/2011	12/31/2010
Personnel, advances paid	23,769	41,104
Research tax credit	1,725,480	883,084
Other tax receivables	389,412	336,971
Other receivables	40,138	58,371
Pre-paid expenses	288,277	660,060
Total	**2,467,077**	**1,979,590**

Other current receivables are mainly comprised of the research tax credit, VAT receivables and requested VAT reimbursement, and pre-paid expenses.

In accordance with the provisions of the 2010 French *Loi de Finances rectificative*, the research tax credit for the 2010 fiscal year, amounting to € 883,084, is payable in advance and upon request. The research tax credit for the first half-year of 2011 was calculated in accordance with the provisions in force and amounts to € 842,396. This "Research Tax Credit" line item is the main cause for the change in the "Other Current Receivables" item. If the 2011 French *Loi de Finances rectificative* does not confirm the ability to request an early repayment, the research tax credit for 2011 would be restated in the "Other non-current receivables" line item.

9. Equity

9.1 Share capital issued

The share capital is set as equal to one million three hundred and one thousand nine hundred and sixty two Euros and fifty-six cents (€ 1,301,962.56). It is split up into 16,274,532 fully subscribed and paid-up common shares of par value € 0.08 each. The share capital has not changed since the financial statements established as of the closing of the fiscal year ended on December 31, 2010 were published.

This amount does not include any *bons de souscription d'actions* (French share subscription warrants, hereinafter referred to as "BSA(s)"), *bons de souscription de parts de créateur d'entreprise* (share subscription warrants reserved for company founders, hereinafter referred to as "BCE(s)"), or free shares granted and subscribed by certain individuals who may or may not be employees of the Company as of June 30, 2011.

All shares entitle their owners to a proportionate share in the income and net assets of the Company.

9.2 BSA, BCE, and free shares

The Company issued BSAs and BCEs. The total number of BSAs and BCEs has changed since the closing of the financial year ended on December 31, 2010. Indeed, (i) some BCEs have become null and void, (ii) some beneficiaries waived their right to their previously-held BCEs in exchange for the grant of free shares, and (iii) some beneficiaries waived their right to their previously-held BSAs in exchange for the grant of Replacement BSAs, pursuant to the Management Board decisions dated February 3, 2011.

In addition, the Company issued free shares in February 2011 for the benefit of certain eligible employees and executives.

BCE / BSA Table:

Decision of Shareholders General Meeting	Type	Number of warrants issued as of 30/06/11	Number of warrants expired as of 30/06/11	Number of warrants outstanding as of 30/06/11	Maximum number of shares to be issued	Exercice price of the warrants per share
22/11/2002	BCE 1	31 580	31 580			6,18
22/11/2002	BCE 2	36 001	36 001			6,18
22/11/2002	BSA 1	8 210	8 210			6,18
28/05/2004	BSA 2004	6 970	6 970			6,33
28/05/2004	BCE 2004 & BCE Plan 2004/2007	83 978	80 479	3 499	6 998	6,33
28/06/2005	BSA 2005	6 746	6 046	700	1 400	6,33
28/06/2005	BCE Plan 2004/2007	52 567	33 237	19 330	38 660	6,33
22/06/2006	BSA 2006	16 317	16 317			8,80
22/06/2006	BCE Plan 2004/2007	71 187	39 982	31 205	62 410	8,80
22/06/2006	BCE Plan 2006/2008	29 863	18 426	11 437	22 874	8,80
15/05/2007	BCE Plan 2004/2007	49 220	35 339	13 881	27 762	8,80
15/05/2007	BCE Plan 2006/2008	63 282	53 885	9 397	18 794	8,80
15/05/2007	BSA 2007	15 564	15 564			8,80
24/06/2008	BSA 2008	12 096	12 096			8,80
18/05/2010	BSA de remplacement	53 358		53 358	53 358	3,40
	Total	**536 939**	**394 132**	**142 807**	**232 256**	

(1) Pursuant to a decision taken by the Combined Shareholders' Meeting dated September 8, 2007, the par value of the shares was split in half, resulting in a decrease in par value from € 0.16 to € 0.08 per share. The BSAs and BCEs granted and subscribed until 2008 and still considered outstanding as of the closing date, since then grant the right to subscribe two new shares, at a share price that is set at the time of issuance. However, the Replacement BSAs issued in February 2011 grant the right to subscribe one new share at the new share price set.

Free shares table:

Decision of Shareholders General Meeting	Type	Number of shares granted as of 30/06/11	Number of shares cancelled as of 30/06/11	Number of shares acquired as of 30/06/11	Number of shares left to acquire as of 30/06/11
18/05/2010	AGA remplacement 2010	192 800			192 800
18/05/2010	AGA 2010	282 000			282 000
	Total	**474 800**			**474 800**

At the General Shareholders' Meeting dated June 22, 2011, the shareholders decided to:

- authorize the issuance of 654,125 BSAs, corresponding to a par value of € 52,330, and granting the right to subscribe one new share under the conditions determined by the Management Board,
- authorized the issuance of 654,125 free shares, corresponding to a par value of € 52,330, and granting the right to subscribe one new share under the conditions determined by the Management Board,

- set the overall cap for share capital increases that could potentially be undertaken pursuant to the above-mentioned resolutions as equal to a par value amount that cannot exceed € 52,330 (or 654.125 securities).

10. Debt

10.1 OSEO loans

This line item relates to an OSEO loan, all or part of which is repayable based on the technical or commercial success of the financed project. The amounts in the line item entitled "Other non-current debt" (non-current liabilities) represent the portion of the loan received with a maturity of over one year. No discount has been taken into consideration.

The amounts in the line item entitled "Loans and short-term debt" (current liabilities) as of December 31, 2010 and June 30, 2011 represent the portion of the loan received with a maturity of less then one year and due for payment on September 30, 2011.

10.2 Maturity of financial liabilities

Maturity date of liabilities booked as of June 30, 2011

	Gross amount	Less than 3 months	3 to 6 months	Less than one year	1 to 5 years	Over 5 years
	€	€	€	€	€	€
Non-current LIABILITIES						
Long-term debt						
Provisions	149,927					
Other non-current debt	638,362				600,000	38,363
Current LIABILITIES						
Loans and short-term debt	57,895	57,895				
Trade payables	3,531,158	2,803,322	8,323	719,514		
Total liabilities	**4,077,488**	**2,861,217**	**8,323**	**719,514**	**600,000**	**38,363**

11. Provisions

This item is entirely comprised of the provision for retirement benefit commitments.

In compliance with IAS 19, the method used for determining retirement benefit commitments is the projected credit units method. The main actuarial assumptions used for determining severance payments, which have not changed since December 31, 2010, are the following:

- collective labor agreement (convention collective) for the pharmaceutical industry,
- discounting rate: 4.25%,
- age at retirement: 65 years,
- annual future increase in salaries: 4%,
- TGH 05 and TGF 05 mortality tables,
- Declining employee turnover rate relative to seniority.

The provision for retirement benefits commitments amounts € 149,927 as of June 30, 2011 against € 117,217 as of December 31, 2010.

12. Public subsidies and financings

The Company receives financial assistance in several forms from the French Government, the European Union, and various French local government authorities:

- Conditional loans repayable under certain conditions,
- Investment or operating subsidies, and
- Research tax credit.

12.1 Conditional public subsidies and financings

Conditional loans and borrowings from local government authorities are set forth in an agreement with the *Agence Nationale de Valorisation de la Recherche* (French innovations agency, or "ANVAR"). The Company benefits from two loans of this type. These loans do not bear interest and are 100% reimbursable (at par value) in the event of technical and/or commercial success.

In the case of the first loan the amount received totaled € 200,000. As of June 30, 2011, € 157,894.74 are still outstanding after an initial repayment on September 30, 2009 of € 42,105.26 corresponding to the technological know-how. An amount of € 57,894.74 is due on September 30, 2011 and the repayment of the € 100,000.00 balance is subject to an assessment of the success of the research program financed.

In the case of the second agreement, the total amount effectively received as of June 30, 2011 amounts to € 500,000, of which € 200,000 were received in April 2010 after the 1st step was validated. The next payment in the amount of € 150,000 is expected in September 2011. No repayment of this loan is expected before 2012.

In addition, with respect to the Vitrena® project backed by OSEO-ISI, the Company received a first installment in the amount of € 682,274, of which a subsidy of € 643,911 and a repayable loan of € 38,363. The repayment of this loan is only required in the event that the project leads to the commercialization of a product.

12.2 Operating subsidies

Since its creation, as a result of its pursuit for innovation, the Company has received a number of financial aids and subsidies from the French Government or local government authorities, intended to finance operations or specific recruitments.

As opposed to the terms of the conditional loans, these subsidies are not subject to repayment.

These subsidies are reported in the income statement for the fiscal year in which the charges or expenses to which they relate are incurred. In the first half-year of 2011, € 175,089 in subsidies have been reported.

12.3 Research tax credit

The outstanding amounts associated with the research tax credit and currently reported in the financial statements of the Company are the following:

- 2010: € 883,084, redeemable at any time in 2011,
- 2011: € 842,396, redeemable in 2012 unless a French *Loi de Finances rectificative* for 2011 approves the option of an early redemption.

The research tax credit for the 2011 fiscal year was paid to the Company in July 2011. It corresponded to the reported amount, or € 883,084.

13. Trade Payables and Other Liabilities

13.1 Trade payables

Trade payables represent the short-term liabilities generated by the day-to-day business of the Company.

TRADE PAYABLES
(Amounts expressed in Euros)

	06/30/2011	12/31/2010
Trade payables	2,168,661	2,205,562
Total	**2,168,661**	**2,205,562**

13.2 Other current liabilities

The other liabilities are as follows and include short-term indebtedness to third parties, employees, and tax and social services.

OTHER CURRENT LIABILITIES
(Amounts expressed in Euros)

	06/30/2011	12/31/2010
Social debt	423,590	441,624
Tax debt	489,482	457,610
Other short-term debt		
Deferred Income	449,425	624,264
Total	**1,362,497**	**1,523,498**

The deferred income is comprised of the portion of the OSEO-ISI subsidy that was not offset by expenses incurred over the fiscal year.

13.3 Financial instruments reported in the balance sheet and impact on income

The assets and liabilities of the Company are determined every period according to their fair value.

	Book value		Fair value through income		Receivables and loans		Debt at amortized cost		Non-financial instruments	
	06/30/2011	12/31/2010	06/30/2011	12/31/2010	06/30/2011	12/31/2010	06/30/2011	12/31/2010	06/30/2011	12/31/2010
inancial ASSETS										
ssets available for sale										
ther non-current	63,868	54,764			63,868	54,764				
inancial derivatives										
rade receivables (net)	356,822	225,823			356,822	225,823				
ther current financial ssets	2,821,175	1,979,590							2,821,175	1,979,59
ash equivalents	8,528,129	13,028,077	8,528,129	13,028,077						
ash	2,974,570	5,139,221	2,974,570	5,139,221						
otal financial assets	**14,744,565**	**20,630,627**	**11,502,699**	**18,167,298**	**420,690**	**280,588**	**0**	**0**	**2,821,175**	**1,979,59**
inancial LIABILITIES										
ong-term debt										
ther non-current debt	638,363	638,363					638,363	638,363		
oans and short-term debt	57,895	57,895					57,895	57,895		
rade payables and other abilities	3,531,158	3,729,060					3,531,158	3,729,060		
otal financial liabilities	**4,227,416**	**4,425,318**	**0**	**0**	**0**	**0**	**4,227,416**	**4,425,318**	**0**	

	Value to income statement		Fair value through income	
	06/30/2011	12/31/2010	06/30/2011	12/31/2010
Financial income	459	49,424	459	49,424
Financial expenses	0	0	0	0

See Note 19 for the amounts through income statement

14. Sales and other operational income

Operational income can be broken down as follows:

SALES AND OTHER OPERATIONAL INCOME
(Amounts expressed in Euros)

	06/30/2011	06/30/2010	12/31/2010
	6 months	6 months	12 months
	€	€	€
Sales revenues	369,331	236,062	580,254
Research and licensing revenues			10,000
Subsidies, public financings, and research tax credit	1,017,485	418,694	933,075
Total	**1,386,816**	**654,756**	**1,523,329**

Sales in 2011 represent sales of Cationorm®, the only commercialized product of the Company, in Europe (France, Italy, Portugal), the Middle East, and in Southeast Asia. These sales are concluded through distribution agreements with local market players. The research tax credit constitutes the large majority of the revenues included in the "subsidies, public financings, and research tax credit" line item. Since the Company has only one business and mainly operates in a single business sector, it provides no segment reporting.

15. Payroll expenses

Payroll expenses are broken down as follows (in Euros):

	06/30/2011	06/30/2010	12/31/2010
	6 months	6 months	12 months
Salaries	1,569,048	1,178,305	2,423,437
Social charges	894,395	518,203	1,127,021
Retirement benefit commitments	32,710	9,436	(27,000)
Share-based payments (note 16)	125,405	0	0
Payroll expenses	**2,621,558**	**1,705,944**	**3,523,458**

The Company employed 38 persons as of June 30, 2010 as compared with 40 persons as of December 31, 2010 and 42 persons as of June 30, 2011.

16. Share-based payments

Share-based payments include all grants of free shares and share warrants (BSAs/BCEs) to executive, employees, and members of the Supervisory Board and Scientific Advisory Board. For accounting purposes, they are reported as a liability in the fiscal year in which the grant was made.

The BSAs and BCEs issued prior to February 3, 2011 can be exercised at any time during their respective exercise periods (five years for BCEs and BSAs, which was extended three more years for the BSAs and BCEs granted under the *Dirigeants Plan* 2004/2007).

The Replacement BSAs issued on February 3, 2011 will expire on February 3, 2019. Beneficiaries can only exercise their Replacement BSAs under certain conditions based on:

- A gradual exercise over time (three years); and
- A performance condition based on a measured increase in the value of the shares of the Company, determined on the second and third anniversary of the grant date (the share price on the grant date of the BSAs must have increased by 50% as of the first anniversary date and by 100% as of the second anniversary date).

The main features of the free shares are the following:

The allocation of the free shares granted to beneficiaries is final and binding only as from February 3, 2013, subject to compliance with the performance conditions and continued employment condition.

Under the terms of the continued employment condition, the beneficiary must still be with the Company as of the acquisition date, working under either an employment agreement or as a corporate officer. However, the "replacement" free shares (granted under the condition precedent that their beneficiaries waive their rights to their previously-held BCEs) are not subject to this continued employment condition.

The satisfaction of the performance conditions is evaluated in the following way:

- Beneficiaries will definitively acquire the first third of the free shares on the date of acquisition without being subject to the satisfaction of a performance condition.

- Beneficiaries will definitively acquire the second third of the free shares on the date of acquisition if, on February 3, 2012, the average share price (defined as the simple moving average of the closing price of the shares of the Company on the Euronext Paris stock exchange over the course of the 20 last trading days preceding the date on which this average is determined by the Management Board) is at least equal to € 5.04 ("**Objective 1**").

- Beneficiaries will definitively acquire the final third of the free shares on the date of acquisition if, on February 3, 2013, the average share price (as defined above) is at least equal to € 6.72 ("**Objective 2**").

It should be noted that if Objective 1 is not reached on February 3, 2012 but that Objective 2 is reached on February 3, 2013, Objective 1 will be automatically considered as completed, and the two thirds of free shares will be considered acquired on the date on which the completion of Objective 2 is assessed.

As an exception to the above, in the event of a merger, demerger, or exchange of securities as a result of a public tender offer, the Management Board will have the option to assess the completion of Objectives 1 and 2 before the date of planned public offer.

The BSA/BCE and free shares can be broken down as follows:

Expenses incurred from share-based payments

Grant Date	Plan	Number of outstanding warrants as of 06/30/2011	Number of shares derived from the exercise of BCEs	Expected Term	Risk-free Interest Rate	Exercise Price	Volatility
06/14/2006	BCE 2004 - 2007	3,499	6,998	6.00	4.70%	6.33	40%
07/01/2005	BSA 2005	700	1,400	9.00	4.70%	6.33	40%
03/27/2006	BCE 2004 - 2007	19,330	38,660	8.00	4.70%	6.33	40%
03/26/2007	BCE 2004 - 2007	27,595	55,190	8.00	3.92%	8.8	63%
03/26/2007	BCE 2006 - 2008	11,437	22,874	8.00	3.92%	8.8	63%
05/29/2007	BCE 2004 - 2007	11,881	23,762	8.00	3.92%	8.8	63%
05/29/2007	BCE 2006 - 2008	9,397	18,794	5.00	3.92%	8.8	63%
03/26/2007	BCE 2004 - 2007	3,610	7,220	8.00	3.92%	8.8	63%
05/29/2007	BCE 2004 - 2007	2,000	4,000	5.00	3.92%	8.8	63%
02/03/2011	BSA 2010	53,358	53,358	8.00	2.93%	3.4	29%
02/03/2011	AGA 2010	474,800	474,800	3.00	1.89%	3.4	29%

The main assumptions used to determine the expenses incurred as a result of share-based payments made in the form of free shares by applying the binomial options pricing method were the following:

- Price of the underlying share: € 3.36
- Exercise Price: € 0
- Volatility of the share: 28.8 %
- Term of the option: 4 years
- Risk-free interest rate: 1.89 %

The expenses reported in the financial statements as of June 30, 2011 were adjusted in order to account for the fact that the free shares are granted gradually over time.

The main assumptions used to determine the expenses incurred as a result of share-based payments made in the form of BSAs by applying the binomial options pricing method were the following:

- Price of the underlying share: € 3.36
- Exercise price: € 3.40
- Volatility of the share: 28.8 %
- Term of the option: 8 years
- Risk-free interest rate: 2.93 %
- Interest rate on loans or borrowings of Novagali shares (estimate): 2%

The expenses reported in the financial statements as of June 30, 2011 were adjusted in order to take into account the exercise dates of the granted warrants.

Detailed information on the number of options per category and the exercise or reference prices is presented in Note 9.2.

17. External expenses

External expenses are presented below (expressed in Euros):

	06/30/2011	06/30/2010	12/31/2010
	6 months	6 months	12 months
Leases	252,982	225,033	448,053
Repairs and maintenance	90,154	89,623	186,293
Insurance	61,400	32,140	79,127
Studies and sub-contracting	2,570,839	484,205	1,293,052
Documentation	8,128	6,308	33,954
Fess and consultants	933,036	636,157	1,738,116
Travel and conference expenses	231,994	155,710	412,363
Telecommunications	23,069	16,201	40,000
Bank expenses	14,234	9,269	20,729
Other	12,675	7,544	14,382
Total	**4,198,511**	**1,662,190**	**4,266,069**

The leases expenses item primarily includes rent payments made in connection with the premises used by the Company.

The studies and sub-contracting item relates to the clinical studies completed over the course of each corresponding period. They are outsourced to specialized companies. Over the course of the first half-year of 2011, this item changed as a result of the resumption of clinical studies programs for products under development, made possible due to the resources generated through the initial public offering of the Company.

The fees and consultants item corresponds to the various amounts paid to entities providing scientific advice or assistance in the development of research projects, as well as providing strategic advice, and administrative expenses (accounting, legal, auditing). The increase can be explained, in particular, by the resumption of clinical studies projects and by the payment of fees associated with strategic changes and the status of publicly-traded company.

18. Other operating revenues and expenses

The other operating revenues and expenses can be broken down as follows (expressed in Euros):

	06/30/2011	06/30/2010	12/31/2010
	6 months	6 months	12 months
Other revenues	30,380	9,580	35,045
Other expenses	(53,005)	(52,763)	(118,526)
Non-recurring revenues	412,000	0	0
Non-recurring expenses	(281,096)	0	(5,308)
Other revenues and expenses (netted)	**108,279**	**(43,183)**	**(88,789)**

The other expenses line item corresponds to compensation paid to non-executive corporate officers. The other revenues line item mainly corresponds to the reimbursement of social charges. The non-recurring revenues and expenses correspond to, on the one hand, a transactional indemnity paid by Holopack and, on the other hand, attorney and consultancy fees incurred in connection with strategic transactions indirectly related to the recurring business of the Company.

19. Financial revenue and charges (netted)

The financial revenues / (charges) can be broken down as follows (expressed in Euros):

	06/30/2011	06/30/2010	12/31/2010
	6 months	6 months	12 months
Financial revenue	137,812	8,212	114,536
Fair value of BSAOCA conversion option	0	46,023	46,023
Latent capital gains	459	335	3,401
Total amount of financial revenue	**138,271**	**54,570**	**163,960**
Financial expenses	(1,453)	(21,892)	(30,662)
Latent capital losses	0	0	0
Total amount of financial charges	**(1,453)**	**(21,892)**	**(30,662)**
Financial revenue and charges (netted)	**136,818**	**32,678**	**133,298**

The financial revenue and charges are mainly comprised of capital gains generated from the sale of investment securities (categorized as cash equivalents). No significant amount of interest has been received. The Company has not made any significant interest payments over the course of the periods reviewed above.

20. Corporate income tax

According to current legislation, the Company has an indefinite fiscal carry-forward deficit amount of € 75,641,321 as of June 30, 2011 against € 68,880,617 as of December 31, 2010. The net asset basis for deferred taxation does not include any passive timing difference.

The tax rate applicable to the Company is the rate applicable in France, or 33.33%.

Deferred tax assets are accounted for based on the likelihood of future profits being able to offset losses that can be carried forward. At its current stage of development, which does not allow it to establish sufficiently reliable income projections, the Company does not report net assets from deferred taxes.

21. Commitments

As of June 30, 2011, there has not been any significant change in the financial commitments of the Company relative to those presented in the financial statements of the Company as of December 31, 2010, and described in the Registration Document registered with the AMF on April 29, 2011, with the one exception of the commitments associated with simple lease agreements.

Obligations in respect of simple lease agreements

The Company leases its premises and technical installations from the Génopole. A new agreement was signed with the Génopole in order to expand the premises of the Company. It is applicable for a term of 32 months and 28 days starting on March 1, 2011. The amount of rent and future charges incurred in connection with active leases can be broken down as follows as of June 30, 2011:

- 2011: € 226,147,
- 2012: € 399,882,
- 2013: € 87,241

Representing a total amount of € 713,270.

The Company has entered into leasing agreements for equipment and vehicles that are not considered as finance leases. As of June 30, 2011, the minimum future liability amounts to € 127 968.

22. Related party relations

There has not been any significant or notable change in the amount of compensation paid to the three members of the Management Board and to members of the Supervisory Board of the Company over the period under review. The compensation paid out takes into account the departure of Philip Parkinson (Chief Administrative and Financial Officer) and his resignation from office as a member of the Management Board on April 30, 2011.

Grants of free shares were undertaken over the course of the period under review, as described above.

23. Earnings per share

Basic net income (loss)

The basic net income (loss) per share is calculated by dividing the net income (loss) payable to shareholders of the Company by the weighted average number of common shares outstanding over the course of the fiscal year.

	06/30/2011	06/30/2010	12/31/2010
	6 months	6 months	12 months
Net income (loss) for the period	(6,034,978)	(3,257,825)	(7,463,632)
Weighted average number of shares outstanding	16,274,532	6,359,882	10,718,553
Base earning (loss) per share (€/share)	**(0.37)**	**(0.51)**	**(0.70)**

24. Management of financial risks

The Company's principal financial instruments consist of financial assets, cash and cash equivalents, and investment securities. The management objective for these instruments is to ensure the financing of the business and operations of the Company. The policy of the Company is to refrain from acquiring financial instruments for speculative purposes.

There has been no change in the management of financial risks (exchange rate risk, liquidity risk, interest rate risk, and credit risk) relative to the information published in the financial statements as of December 31, 2010 and presented in the Registration Document registered with the AMF on April 29, 2011.

25. Post-closing events

There is no event to report occurring after June 30, 2011 that could have a significant impact on the financial statements for the half-year.

CHAPTER 3. STATEMENT FROM THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I certify that, to my knowledge, the condensed financial statements for the elapsed half-year are prepared in accordance with applicable accounting standards and provide an accurate picture of the assets, the financial position, and the income of the Company, and that the half-year report of its business offers an accurate depiction of the significant events that occurred over the course of the initial six months of the fiscal year and of their impact on the financial statements, of the main related party transactions, as well as a description of the main risks and principal uncertainties the Company will face in the remaining six months of the fiscal year.

Jérôme Martinez
Chairman of the Management Board

CHAPTER 4. STATUORY AUDITORS' REPORT ON THE 2011 HALF-YEAR FINANCIAL INFORMATION

Not translated.

ANNEX 1 : FRENCH GAAP HALF-YEAR FINANCIAL STATEMENTS AND STATUTORY AUDITOR'S REPORT

Not translated.