Comments from the Board of Directors on the financial report of the fiscal year ending 31st of December 2011 and on the events following, in preamble to the Shareholder meeting held on 26th of April 2012

Questions asked during the Shareholder meeting on 26th of April 2012

* *
*

<u>Comments from the Board of Directors on the financial report for the period ending the 31st of December 2011 and on the events following, in preamble to the Shareholder meeting on 26th of April 2012</u>

With regards to the activities of the company, the Chairman of the Board, Mr. Jean-Clause Cadudal, reminds that innovations carried forth by CARMAT are not only of a technological nature but also regulatory (with no precedents in France) and industrial (no existing industrial network of qualified contractors). The many contractors and partners are still learning to conform to the strict and demanding regulatory constraints of the medical device industry and learn to do so 'on the job'.

In 2011, the bulk of our efforts was dedicated to solidifying our unique industrial process that integrates biological, mechanical and electronic components. These efforts have enabled the company to begin the testing phase not with prototypes – that would still need to be verified and validated – but with reproducible serial products. This process was validated through the ISO certification, which allowed the company to begin industrialisation; which reveals its trust in the project's sustainability.

With regards to human resources, the company currently has thirty six employees, in addition to approximately fifty providers and contractor's employees currently working in company offices. Recruitments were performed only for key and sustainable assignments. The next milestones facing the company – those of clinical trials, industrialisation and commercialisation – call for caution and justify the choice to outsource specific tasks and functions.

With regards to share capital, its increase in the 2011 summer was oversubscribed by 27.4%. This indicates a potential for demand which contributes to the share liquidity of CARMAT and to the fluidity of its capital flow in financial markets. Shareholding structure has been stable since; with increasing interest from new, overseas investors. At the end of period, public shareholders represented 24.02% and employees 0.18%. To sustain loyalty from new employees as well as current ones, you will be asked to consider and vote upon a new issue of BCE[1] allowing them to access company capital; this issue would not constitute a strong dilution of the existing capital.

[1] BCE : Bons de Créateur d'Entreprise – Company Founders' warrants.

With regards to financing, balance sheet and income statement, the milestones of the Oseo contract achieved in 2011 have helped secure, as of today, 57% of the total amount stipulated in the contract. The funding of the company is henceforth consolidated as there is still € 14 million to be received – the majority of which will be gained in the following two years – in addition to the existing € 29.4 million in cash.
These funds are enough to support the company's activities throughout 2012 and part of 2013 and, as a result, the company should not require a capital increase in 2012. Equity is solid at € 26.9 million.

Operating costs in 2011 – at about € 20 million – are in line with budget and 2012 should be a relatively serene year with regards to financing. The company registered an operating loss of € 13.4 million, its only revenues being from Oseo subsidies and from a Research Tax Credit.

Given the inherent risks of technological innovation, the company adopted a strict 'caution principle' with all its commitments and especially with those related to financial management.
Balance sheet total amounts to € 37 million. Major investments – including test benches – are subject to rapid depreciation to reflect the risk of technological obsolescence. In addition, the company has no outstanding debts apart from that of the contractual engagement with Oseo to reimburse its repayable advances in the event of commercial success. The repayable advances (amounting to € 3.7 million in 2011) are accounted for as liabilities in the balance sheet.

The Chairman of Audit Committee, Mr Michel Finance, confirms that the company adheres, since 2008, to strict internal control procedures in monitoring investments, depreciations and expenses. The objective is a faultless monitoring of the project in terms of accounting and finance. The report of the audit committee approves the accounts with respect to accounting standards and in relation to the internal control procedures of the company.

With regards to activities since the start of 2012, they were essentially aimed at four tasks: first, setting up a functional and sophisticated hemodynamic test bench capable of reproducing the blood circuit and of simulating daily life scenarios as well as pathological conditions such as haemorrhage; second, validating the 'Hospital Console, the link between the medical team and the device for monitoring, maintenance and settings; third, setting up endurance test benches to test the resistance of the systems in real time and in accelerated settings; fourth and foremost, the active training of the centres' surgical teams who will participate in the first trials.

Today, the company dedicates its full attention to the patient, as there must be a collective responsibility with all parties involved which includes: responsibility and trust of the company in its system; responsibility and trust of Afssaps to deliver a favourable opinion: responsibility and trust of the surgical teams in the procedure; and most importantly, trust of the patients who will accept the implantation.
The Chairman of the Board concludes that 'there is a magical moment when everybody will be ready, not only ready in technical terms, but also ready in conscience, with regards to ethics and risks: the patient, the surgeon, the regulatory authorities and the CARMAT company. The four must be ready and at the same time.'

Professor Alain Carpentier, as Scientific Director and Chairman of the Scientific Committee, insists that the patient and the human dimension must be at the centre of our minds, as it is the patient who ultimately runs the highest risk: there is still no viable immediate solution for patients with massive myocardial infarcts.
The Professor confirms the harmony with which the project is going forward and that it has allowed for the development of a common language between the doctors and the industry. The Professor concludes by insisting on the care that is given to every detail: 'Our goal is not to attempt but to succeed.'

After the intervention of the External Auditor, Mr Pierre Riou, the Chairman invites shareholders to ask questions.

*
* *

Questions asked during the Shareholder meeting of 26th April 2012

10 questions were asked. They are summarized here, without altering their meaning.

Two questions relating to Afssaps timing to approve the trials and the status of the file completion.

Answer given:

Il is difficult to give a provisional date for the Afssaps approval now. The file is 90% complete. As long as all the endurance testing is not finalized and up to the last day of testing, we are not immune to a last minute issue or defect, be it on the system or on the benches themselves.

The endurance tests must be performed for 4 months on each of the system that includes the prostheses and its external components, with an acceleration factor of 1.76. We are confident that the file completion is close. However, we cannot commit to a precise date: the devil is always in the details.

One question relating to a potential tightening of Afssaps requirements following the recent defective medical devices events.

Answer given:

We have not seen any recent change in their approach with us. The company relationship with Afssaps is good and stable.

One question relating to potential issues for Afssaps to identify experts able to assess CARMAT's technology.

Answer given:

Afssaps experts must by law be independent from any relationship with the promoter of a device. Therefore we do not know them. However, we suspect a very good level of expertise give the quality and pertinence of the questions they asked. Moreover, we answered the last set of questions in less than 48 hours, to the great satisfaction of our contacts. The shift in completing the file does not lie with Afssaps. The ball is in our court, with the submission of the endurance data.

One question relating to the prostheses used during the training of medical teams: are they mock-up prototypes or true prostheses?

Answer given:

They are true sterile and clinical grade prostheses and systems.

One question relating to the upcoming changes in Afssaps name and status and to the potential issues these changes may create.

Answer given:

We've been working with Afssaps since 2004 and our contacts there are the same people since. Pr Carpentier points out that he personally attends all the meetings with Afssaps and that he can vouch for the stability of the relationship. He adds that 3 medical teams have been selected for the pilot training, the Hôpital Européen Georges Pompidou, the Centre Chirurgical Marie Lannelongue and the University Hospital of Nantes. The training with the digital 3D simulation as well as the ex-vivo implant training have both been completed. The pilot training protocol also includes acute animal implants to become familiar with the prosthesis operation. These implants started in January. Implants debriefing is always performed in meetings attended by all three centres, in order to share the acquired information and experience. The animal implants confirm and go beyond our hopes. They follow a rigorous surgical protocol to test both

the procedure and the prosthesis up to 4, 5 hours post-implant. Earlier this month, an implant in a 120 kg animal was very satisfyingly extended to 24 hours[2].

One question relating to stem cells, after a recent article mentioning 30'000 patients potentially treated with stem cells as early as next year. What would be the impact on CARMAT?

Answer given *(post-shareholder meeting,)* :

This article[3] references a technique which has been experimented on 7 patients only since 2003, during a « Proof-of-concept » study. The study conclusion[4] clearly states that « *expression of cardiac markers by progenitor cells does not make them functional cardiomyocytes*" and that "*the link between the proposed two-phase myocardium regeneration mechanism and clinical outcome remains speculative*". In simpler terms, no one knows if a functional myocardium is regenerated and if it could last. The 30'00 patients' treatment called up by the article therefore seems quite far away. Stem cells constitute an attractive but elusive therapeutic domain. Large scale application is unlikely in a near future, whatever the media enthusiasm may be. The company does not consider this therapeutic approach as a short-term competitive threat, further less so as potential indications will likely differ from the ones of CARMAT's project.

One question relating to an increase of the frequency of the communications to shareholders, and notably to the one of the Shareholder Newsletter.

Answer given:

The company informs the public through official press releases as soon as events susceptible to influence the project progresses are known. The Shareholder Newsletter is meant to answer different objectives, notably to enable shareholders a better knowledge of the required activities and people skills. Its current biannual release is in line with public companies custom, as well as with the possibilities of a small company. More frequent releases are therefore not considered today.

One question relating to the time required to obtain reimbursement.

Answer given:

CE marking triggers the ability to sell in all the countries belonging to the European community. It is a mandatory prerequisite to any reimbursement filing. However, each and every country has different procedures to grant reimbursement to a medical device, with delay varying from 6 months to up to 5 years. Intermediate financing systems exist in most countries, especially with regards to the reimbursement of innovation, while reimbursement authorizations are pending. The absence of formal reimbursement right after CE should not prevent the company to start generating revenue, thanks to the above mentioned financing pathways for innovation. The Chairman moreover indicates that he has started to initiate contacts with the French authorities in charge of reimbursement.

---

2 A calf weighs 40 kg at birth, 300 kg at 6 months and up to 500 kg at 10 months. It is difficult to test in this model a prosthesis designed for the human physiology. However, acute implants represent a valuable training tool and enable to assess that the prosthesis operates as intended.

3 Aujourd'hui en France –April 24th 2012

4 http://www.cellprothera.com/medias/publication-cytotherapy-241109.pdf

One question relating to the issuance of 185,000 new shares through the exercising of the BCE-2009-2 Company Founders' Warrants issued by the Board of Directors on 8th July 2009 (Fourth Resolution of the Shareholders' Meeting of 8th July 2009 and Second Resolution of the Board Meeting of 8th July 2009, Thirtieth Decision of the Board Meeting of 22nd April 2010) and the conditions for the exercising of these BCE-2009-2.

Answer given:

The Compensation Committee will assess whether the conditions for exercising the BCE-2009-2 relative to the realisation of targets are met, in accordance with the terms of the resolution mentioned above, and will put its recommendations to the Board.