FARON

LEADING THE WAY IN **BREAKTHROUGH IMMUNOTHERAPIES**

ANNUAL REPORT

2024

Faron Pharmaceuticals in brief

Faron (AIM: FARN, First North: FARON) is a global, clinical-stage biopharmaceutical company, focused on tackling cancers via novel immunotherapies. Its mission is to bring the promise of immunotherapy to a broader population by uncovering novel ways to control and harness the power of the immune system. The Company's lead asset is bexmarilimab, a Faron's wholly owned, investigational immunotherapy designed to overcome resistance to existing treatments and optimize clinical outcomes, by targeting myeloid cell function and igniting the immune system. Bexmarilimab is being investigated in Phase I/II clinical trials as a potential therapy for patients with hematological cancers in combination with other standard treatments. Faron is also progressing plans to investigate bexmarilimab in combination with anti-PD-1 therapy in selected advanced solid tumors. Faron is headquartered in Turku, Finland.

2024 was a year of success and transformation for the company, with the positive clinical development of bexmarilimab solidifying our position in the field of immunotherapy. Faron's progress, from both a clinical and regulatory perspective, only strengthens our confidence in the potential of bexmarilimab to address critical unmet needs in oncology and unlock significant value creation for the company and shareholders. We remain steadfast in our mission to bring life-changing immunotherapies to patients who need them most and the exceptional progress we've achieved this year brings us closer to achieving that goal."

Dr. Juho Jalkanen | *Chief Executive Officer*

For further information on Faron's progress, development programs and pipeline, please visit Faron´s website www.faron.com.

CONTENTS

OUR PIPELINE

Building the future of immunotherapy

Company pipeline

TREATMENT	INDICATION(S)	PHASE OF DEVELOPMENT	ANTICIPATED KEY MILESTONES
Single-Agent *Bexmarilimab*	Advanced solid tumors **FARON SPONSORED**	MATINS (First in Human, single agent)	• Completed. Bex can modulate the TME which leads to improved survival
Bexmarilimab + Azacitidine	r/r MDS **FARON SPONSORED**	BEXMAB	• **Phase II topline readout in April' 25** • Phase II will be the registrational population for r/r MDS. Confirmatory Phase III in 1st line HR MDS
	1st Line MDS **FARON SPONSORED**	BEXMAB	• **Phase I/II topline readount in April'25** • Phase III preparations expected in H2'25
***Bexmarilimab* + PD-1**	PD-1 Blockade Basket trial in Solid Tumors **FARON SPONSORED**	MATINS-02	• First-patient-in expected in Q1 '26
	PD-1 resistant NSCLC and Melanoma **INVESTIGATOR INITIATED**	BLAZE	• First-patient-in expected in Q2 '25
	Soft Tissue Sarcomas **INVESTIGATOR INITIATED**	BEXAR	• First-patient-in expected in Q4'25
TBC	Lymphomas (DLBCL and TCL) **FARON SPONSORED**	MATINS-03	• Preclinical expected to complete Q2'25

Bexmarilimab – a CLEVER approach to fight cancer

THE TARGET AND PROGRAMME

Bexmarilimab is Faron's wholly owned, investigational precision immunotherapy. Tumor-associated macrophages (TAM) are considered a key source of resistance to current standard of care. Bexmarilimab is a novel humanised anti-CLEVER-1 antibody, that targets a subpopulation of TAMs, and converts the highly immunosuppressive M2-like macrophages to a more pro-inflammatory state to promote immune activation. Bexmarilimab has been shown to successfully alter the scavenging functions of CLEVER-1 in macrophages, which leads to increased antigen presentation and promotion of interferon gamma secretion by leukocytes. Additional preclinical studies have proven that CLEVER-1, encoded by the Stabilin-1 or STAB-1 gene, is a major source of T cell exhaustion and involved in cancer growth and spread.

Observations from clinical studies to date indicate that CLEVER-1 has the capacity to control T cell activation directly. This suggests the inactivation of CLEVER-1 as an immune suppressive molecule could be more important than previously thought. Certain blood cancer cells carry significant amounts of cell surface CLEVER-1, which may limit the body's ability to mount an immune response, and research has shown a clear survival benefit among certain blood cancer patients with low CLEVER-1 expression. As an immuno-oncology therapy, bexmarilimab is designed to downregulate CLEVER-1 expression, thereby increasing antigen presentation and allowing the immune system to better identify and kill cancer cells. This could result in a deeper and more durable clinical benefit compared to what most patients experience with currently approved treatments.

CLINICAL DEVELOPMENT

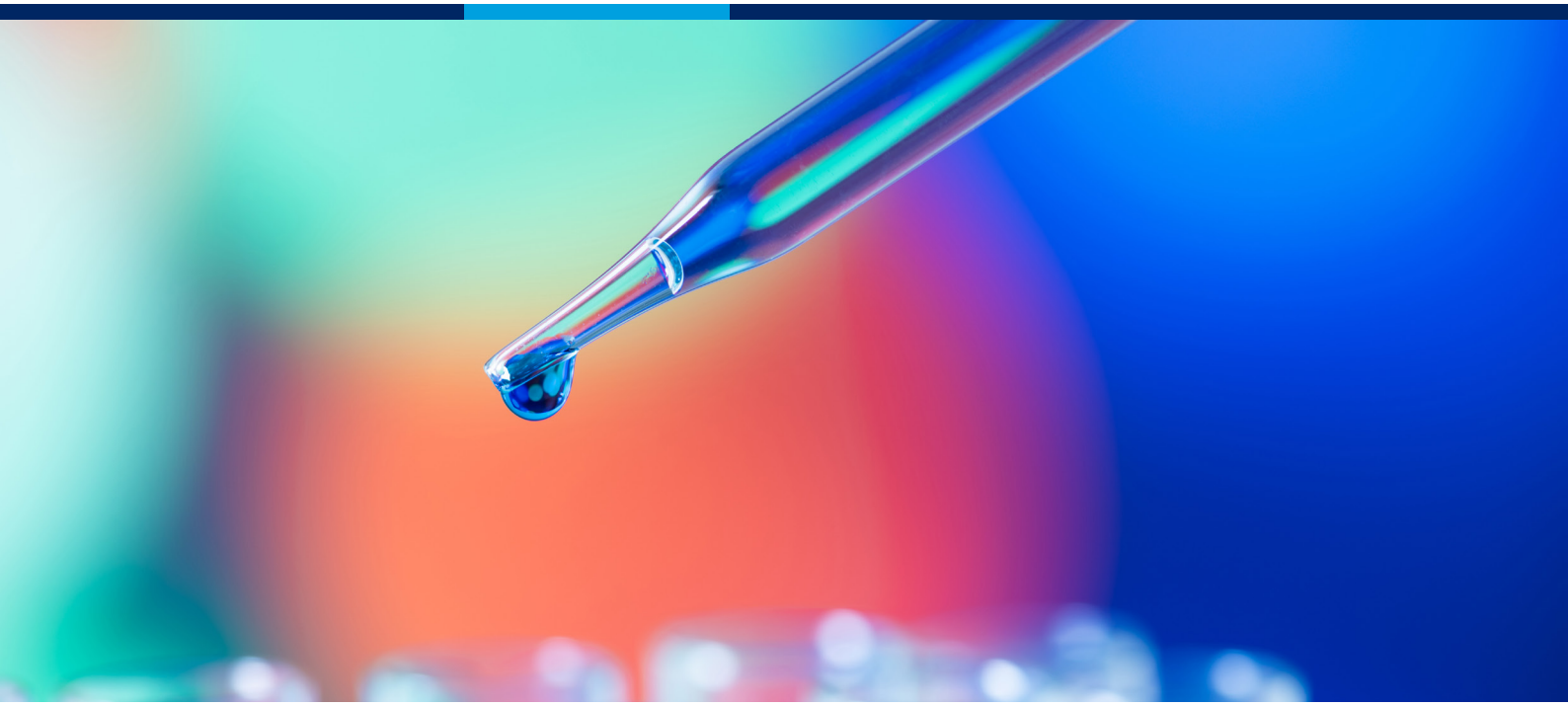
Bexmarilimab is currently being studied in combination with standard of care in patients with hypomethylating agents (HMAs)-refractory or -relapsed myelodysplastic syndrome (MDS), an aggressive myeloid leukemia with very few treatment options with focus on hematological malignancies. The Company is also exploring the immunotherapy's potential in low risk MDS as well as chronic myelomonocytic leukaemia (CMML) patients, who are currently treated with HMA-based therapies treatment upon worsening of disease.

Faron's current priority is its Phase I/II BEXMAB trial, investigating the safety, tolerability and preliminary efficacy of bexmarilimab in combination with standard of care therapies, azacitidine and other hypomethylating agents in relapsed/refractory myelodysplastic syndromes (MDS) and relapsed/refractory acute myeloid leukemia (AML) and chronic myelomonocytic leukemia (CMML).

The BEXMAB Phase II Interim results presented at the 66th American Society of Hematology (ASH) Annual Meeting in December 2024 showed a high objective response rate (ORR) at 80% (16/20) and estimated median overall survival of the 20 r/r MDS patients were 13.4 months. Beyond Hematological malignancies, the Company has planned Bexmarilimab combination studies in solid tumours.

BEXMARILIMAB MANUFACTURING

At the end of 2023, Faron, with its partner AGC Biologics, produced the first commercial scale 2000L batch of the active pharmaceutical ingredient (API) of bexmarilimab. During 2024, activities with AGC were paused as a cash saving measure at the end of Q1 2024 but then reactivated after securing finances in Q3 2024. The API is now being manufactured into final drug product to undergo stability and quality testing in order to be ready to be used in confirmatory registrational trials in leading to marketing approval. Final clinical testing needs to be done using the product that is produced using a tightly regulated commercial manufacturing process.



Traumakine® – enhancing the endothelial barrier, organ protection in ischemia and inflammation

THE TARGET AND PROGRAMME

Traumakine® is Faron's investigational intravenous (IV) interferon beta-1a (IFN beta-1a) therapy for the prevention of complications from cytokine release syndrome (CRS), or ischemia and hyperinflammatory conditions. The body's own, natural production of IFN beta-1a, a key anti-inflammatory signalling protein produced in response to viral infections, is one of the main defense mechanisms of the immune system against viruses and vital for cell integrity.

CLINICAL DEVELOPMENT

Faron joined a research consortium which received a U.S. Department of Defense grant to investigate the use of intravenous interferon beta (Traumakine®) for the prevention of ischemia-reperfusion injury in battlefield victims when using a lifesaving torniquet for the prevention of excessive blood loss. The Study is named Resuscitation by Endothelial Stabilization and Targeted Oxygen Rescue (RESTOR) Platform for Battlefield Applications. Participating institutions are Duquesne University School of Pharmacy and Wake Forest Medical University Health Sciences.

HIGHLIGHTS

Operational (including post period):

BEXMARILIMAB – Faron's wholly owned, novel precision cancer immunotherapy candidate, in Phase I/II development for difficult-to-treat hematological and solid tumor cancers.

Hematological cancer with standard of care (SOC) - BEXMAB

- The Company announced Positive Phase II Interim data from the BEXMAB trial confirming earlier positive Phase I and II findings in MDS patients with prior HMA failure.
- Overall response rate of 80% (16 out of 20) in refractory or relapsed HMA failed MDS patient population (r/r MDS).
- Observed responses were primarily deep and durable with 70% (14 out of 20) r/r MDS patients achieving complete response (CR) / marrow complete remission (mCR) / partial response (PR).
- Four patients have moved on to receive a bone marrow transplant.
- Estimated mOS of approximately 13.4 months in r/r MDS population.
- The combination of bexmarilimab and azacitidine remains well tolerated.
- Clever-1 target engagement and expression in the bone marrow with an increased antigen presentation capacity and presence of CD8 T and NK cells supports bexmarilimab mechanism-of-action.
- The FDA granted bexmarilimab Fast Track Designation for the treatment of r/r MDS in combination with azacitidine.
- Faron received positive feedback from its formal Type D Scientific Advice Meeting with the FDA regarding the registrational clinical development plan for bexmarilimab in the treatment of HR MDS. The FDA acknowledged the difficulties of running a randomized study with a comparator in the r/r setting and instead proposed that Faron conduct a confirmatory phase III trial in frontline high-risk MDS (HR MDS), that would not require a separate phase III in r/r MDS. Accelerated approval for r/r MDS could possibly be obtained with the existing phase II trial in addition to an interim read-out from the confirmatory phase III trial as per the FDA's Project FrontRunner.
- The Company received regulatory approval from the MHRA to conduct the BEXMAB trial in the UK. This approval allows Faron to recruit UK hematology patients directly, accelerating its research efforts by increasing recruitment and enhancing the study's diversity and scope by expanding the participant pool.
- Bexmarilimab received an Innovation Passport, under the Innovative Licensing and Access Pathway (ILAP) from the MHRA, for the treatment of r/r MDS.
- Further analysis of the patient profiles of those treated in the completed Phase I part of the BEXMAB trial confirmed that patients had experienced disease progression following previous treatment with azacitidine monotherapy or combinations of up to four therapies that included azacitidine or decitabine combined with magrolimab, venetoclax and sabatolimab.

- Full analysis of the positive Phase II interim data from BEXMAB trial was presented at the 66th American Society of Hematology (ASH) Annual Meeting and Exposition.

Combination potential with solid tumours - and further expansion

Preparations are ongoing for the initiation of three proof-of-concept studies in solid tumours.

- **BLAZE** – Can bexmarilimab overcome resistance to PD-1 inhibitors? Resistance to first-line immunotherapy in NSCLC and melanoma is common. Targeting tumor-associated macrophages may overcome this resistance. The response to bexmarilimab combined with anti-PD-1 antibody will serve as proof-of-concept for reversing resistance. The study involves initial priming with bexmarilimab seven days before the combination treatment. Biomarker analysis will provide translational correlations of macrophage switch and immune activation. Blaze is an Investigator Initiated Trial.
- **BEXAR** – Can bexmarilimab turn cold tumors hot in soft-tissue sarcomas? Early clinical trials with immune checkpoint inhibitors (ICIs) in soft tissue sarcoma (STS) have been disappointing, as these tumors are often "cold" due to an immunosuppressive tumor microenvironment rich in M2-like macrophages and Clever-1 expression. Studies show that Clever-1-positive macrophages are associated with poor chemotherapy response. In vitro, Clever-1 inhibition induces anti-tumor macrophages, and combining chemotherapy with an anti-Clever-1 antibody significantly increases survival in mice models. Targeting Clever-1 in immune cells may improve chemotherapy response in cancer patients by making primary refractory STS tumors more sensitive to treatment. Bexar is an Investigator Initiated Trial.
- **MATINS-02** – Can bexmarilimab overcome PD-1 primary resistance and expand the population of PD-1 responders? PD-1 inhibitors have shown disappointing results in immunologically cold tumors like gastric, gallbladder, cholangiocarcinoma, and ER+ breast cancer. Bexmarilimab has the potential to make these primary refractory (cold) tumors sensitive to PD-1. The study will also prospectively validate the use of intratumoral Clever-1 positivity as a predictive biomarker for treatment benefit. Matins-02 is a Faron Sponsored Trial.

CORPORATE HIGHLIGHTS

- The cash position was significantly strengthened through a combination of a convertible note issuance, private placements directed to institutional and other investors, a public offering to Finnish retail investors and an open offering to UK retail and institutional investors to raise a total of EUR 35.5 million (gross).

- In May 2024, Dr. Juho Jalkanen was appointed as the Company's new Chief Executive Officer (CEO), taking over from Dr. Markku Jalkanen, who retired as CEO, but who is continuing as a member of the Board of Directors of Faron. Dr. Juho Jalkanen has worked at Faron in various roles since 2006, most recently serving as its Chief Operating Officer.

- Mr. Tuomo Pätsi was elected as the Chair of the Board, following the departure of Dr. Frank Armstrong who did not stand for re-election. Mr. Pätsi was the President of the EMEA region and Worldwide Markets for Celgene Corporation, a global pharmaceutical company and currently wholly owned subsidiary of Bristol Myers Squibb, engaged primarily in the discovery, development, and commercialization of therapies for the treatment of cancer. He is an experienced biotech and pharmaceutical executive who was, until recently, the Executive Vice President for Seagen Inc., a US-based, cancer-focused biotechnology company.

- In April 2024, Mr. Yrjö Wichmann was appointed as the Company's interim Chief Financial Officer (CFO) and in August as the permanent CFO. Mr. Wichmann previously served as the Company's CFO between 2014 and 2019 and as Senior Vice President, Financing & IR from 2019 to April 2024. Mr. Wichmann is an accomplished biotech and financial executive with over 20 years' experience in financing and investment banking.

- In August 2024, Dr. Petri Bono was appointed as the Company's Chief Medical Officer (CMO), succeeding Dr. Birge Berns, who will continue her role as part of Faron's medical leadership team involved in developing bexmarilimab. Dr. Bono is an oncologist and has served as the CMO and member of the Group executive team of Terveystalo, the largest private healthcare service provider in Finland. Prior to joining Terveystalo he was the CMO at Helsinki University Hospital. He brings leading expertise in immunology, with his own research focusing on molecular and immunological oncology.

- In May 2024, Dr. Markku Jalkanen, co-founder, Board member and former CEO of Faron, and Dr. Sirpa Jalkanen, co-founder and member of Faron's Scientific Advisory Board, were selected as finalists for the European Inventor Award 2024, in recognition of their research developing Faron's wholly owned precision cancer immunotherapy candidate, bexmarilimab.

- The Company filed a patent application around the use of soluble Clever-1 for inactivating T-cells and the treatment of autoimmune diseases and inflammatory disorders. The Company will take the identified part of soluble Clever-1 and design the optimal drug composition with the desired characteristics for treating autoimmune diseases

FINANCIAL

- On December 31, 2024, Faron held cash balances of EUR 9.5 million (2023: EUR 6.9 million).

- Loss for the period for the financial year ended December 31, 2024, was EUR -25.9 million (2023: EUR -30.9 million).

- Net assets on December 31, 2024, were EUR –9.8 million (2023: EUR -15.2 million).

- In February 2024, Faron announced that it was in breach of several undertakings agreed in the facilities agreement entered into on 28 February 2022 between IPF Fund II SCA, SICAV-FIAR ("IPF") as Lender and Faron Pharmaceuticals Ltd as Borrower ("Facilities Agreement") and subsequent waiver letters provided by IPF, and therefore was in several Events of Default, as defined in the Facilities Agreement.

- In March 2024, Faron successfully raised a total of EUR 3.2 million in subordinated convertible loan arrangements with certain existing shareholders allowing the Company to make critical payments to third parties under agreed waivers with IPF.

- In April 2024 the Company conducted a private placement directed to a limited number of institutional and other investors to raise EUR 4.8 million which, together with the EUR 3.2 million convertible loan announced on 4 March 2024, secured the required short-term bridge financing totaling EUR 8 million.

- In June 2024, the Company raised a total of approximately EUR 30.7 million, of which approximately EUR 3.7 million was paid by converting the convertible loan and related arrangement fees and interests into shares in the Company.

- The primary reason for conducting the placings were to accelerate and expand the clinical development of the Company's main drug candidate, bexmarilimab, advance bexmarilimab's commercial scale production, support general corporate purposes and other pipeline development, and to strengthen the Company's balance sheet.

CONSOLIDATED KEY FIGURES, IFRS

€'000	Unaudited 7–12/2024 months	Unaudited 7–12/2023 months	1–12/2024 12 months	1–12/2023 12 months
Other operating income	0	0	0	0
Research and Development expenses	(5,082)	(11,024)	(11,744)	(19,542)
General and Administrative expenses	(2,301)	(4,732)	(6,929)	(9,026)
Operative Loss for the period	(7,383)	(15,756)	(18,673)	(28,568)
Loss per share, EUR	(0.11)	(0.26)	(0.29)	(0.48)
Number of shares at end of period	104,624,864	68,786,699	104,624,864	68,786,699
Average number of shares	104,624,864	67,137,790	88,518,654	65,055,036

€'000	Unaudited 30 Jun 2024	Unaudited 30 Jun 2023	31 Dec 2024	31 Dec 2023
Cash and cash equivalents	29,979	6,315	9,503	6,875
Equity	1,379	(9,483)	(9,762)	(15,160)
Balance sheet total	35,460	12,836	12,521	10,220

CHAIRMAN'S STATEMENT

Year 2024 has seen us achieve significant clinical milestones and strategic advancements, showcasing our resilience in a challenging biotechnology landscape. Despite the obstacles encountered, we conclude the year in our strongest position to date.

Faron has continued to make significant strides in the clinical development of bexmarilimab, its wholly owned, investigational immunotherapy, through the progression of our BEXMAB trial. We were very pleased to dose the first patient in Phase II part of that trial at the start of the year, evaluating the safety and efficacy of bexmarilimab in combination with standard of care (SoC) in patients with hypomethylating agents (HMAs)-refractory or relapsed myelodysplastic syndrome (r/r MDS). Data generated continue to be highly encouraging with the latest positive interim Phase II data, presented at the American Society of Hematology (ASH) Annual Meeting, showing a remarkable 80% overall response rate. In July 2024, we received positive feedback from the FDA regarding the registrational study plan for bexmarilimab, providing clear guidance on the path to approval. Their proposal significantly reduces the devolvement costs and timelines to bring this promising therapy to a broader group of patients and is a significant achievement for Faron.

> We will continue to explore the best options to commercialize bexmarilimab in the combination setting and, as we move to next year, we are looking to have substantial interactions with the US FDA about the best path to market in our chosen indications."

The financial landscape for biotechnology companies has been challenging but, despite this, Faron has demonstrated remarkable resilience. We successfully raised €35.5 million (gross) through an oversubscribed combined share offering, supported by both existing and new shareholders. This financial achievement not only provides critical funding for our BEXMAB trial but also reflects the confidence of our investors in our scientific approach and further validates the potential of bexmarilimab.

In 2024 we had notable changes in our leadership and governance. We welcomed Juho Jalkanen (previously our COO) as our new CEO, while retaining the invaluable guidance of former CEO, Markku Jalkanen, as a member of the Board. We also appointed Yrjö Wichmann as our CFO, Dr. Petri Bono as Chief Medical Officer and I

assumed the position of Chairman from Frank Armstong. I'd particularly like to thank both Markku and Frank for their support and guidance during their tenure at Faron. Their contributions have helped enormously in bringing Faron to the strong position that we find ourselves in today. Additionally, we established a Shareholders' Nomination Board, comprised of representatives from our top five shareholders, which will provide direct input into our Board nominations and strategic direction.

One highlight of the year was the international recognition received by our founders, Dr. Markku Jalkanen and Prof. Sirpa Jalkanen, as finalists at the 2024 European Inventor Awards, underscoring the innovative spirit that continues to drive Faron.

Looking forward to 2025, we remain excited about the potential of our bexmarilimab program. We expect topline efficacy readouts from our Phase II trial in the first half of the year, which will be crucial in determining our next steps. The Board is optimistic about potentially initiating preparations for Phase III development in the second half of 2025, a significant milestone that would bring us ever closer to bringing this innovative therapy to patients who desperately need new treatment options.

> Amongst other things, these funds have allowed us to accelerate our bexmarilimab program, bringing this much needed potential treatment one step closer to patients."

I would like to extend my gratitude to our dedicated team, our invaluable shareholders, the physicians and patients, and all other stakeholders who have made our continued progress possible. We look forward to 2025 with optimism.

Tuomo Pätsi
Chairman

February 27, 2025

CHIEF EXECUTIVE OFFICER'S REVIEW

2024 was a year of success and transformation for Faron Pharmaceuticals, marking a new chapter in Faron's story and solidifying our position as a leader in the field of immunotherapy.

With fresh leadership and renewed focus, we reinforced our organisational structure. We welcomed Tuomo Pätsi as the new Chairman of our Board, taking over from Dr. Frank Armstrong, alongside Yrjö Wichmann as our new CFO and Dr. Petri Bono as Chief Medical Officer, all of whose extensive expertise and fresh perspectives have invigorated our renewed strategy. I was also proud to assume the role of CEO this year, taking over from Dr. Markku Jalkanen. These changes, coupled with the strong foundation built by our predecessors, have enabled us to refine our mission and approach, making us well-equipped to navigate the complexities of a competitive and rapidly evolving sector and I would like to thank Markku and Frank for their commitment to Faron and for their support during this transition. Their contributions thus far, combined with the dedication of our entire team, have enabled us to sustain momentum even amidst challenging market conditions, setting a clear course for sustainable growth and innovation at Faron.

The theme of transformation has continued through the clinical development program for our lead asset, bexmarilimab. We have made significant progress, from both a clinical and regulatory perspective, further cementing our believe in the potential of bexmarilimab to address critical unmet needs in oncology. We had numerous positive interactions with regulatory authorities resulting in key milestones including Fast Track Designation (FTD) for bexmarilimab from the FDA for the treatment of relapsed or refractory myelodysplastic syndrome (r/r MDS) patients, underscoring the urgency for novel therapies in treating this aggressive blood cancer.

We also received positive feedback from our formal Type D Scientific Advice Meeting with the FDA regarding the registrational clinical development plan for bexmarilimab in the treatment of high-risk MDS (HR MDS). The FDA acknowledged the difficulties of running a randomized study with a comparator in the r/r setting and instead proposed that Faron conduct a confirmatory phase III trial in frontline HR MDS, that would not require a separate phase III in r/r MDS.

> 2024 was a year of success and transformation for Faron Pharmaceuticals."

> Looking ahead, 2025 promises to be a pivotal year."

These two milestones significantly enhance our ability to advance bexmarilimab through the regulatory process, also allowing for frequent FDA interactions and streamlined development pathways, which will be invaluable as we prepare for pivotal studies and market approval.

In parallel, the Phase II interim data from our BEXMAB trial, presented at the 66th American Society of Hematology (ASH) Annual Meeting, demonstrated remarkable efficacy. The trial achieved an 80% overall response rate in r/r MDS patients, with 70% achieving deep and durable responses, including complete and partial remissions. Importantly, four patients progressed to potentially curative bone marrow transplants, and the combination therapy with azacitidine continued to show a favourable safety profile.

The regulatory recognition and the robust clinical results achieved to date highlight bexmarilimab's ability to reprogram myeloid cells by engaging the Clever-1 receptor, overcoming resistance to hypomethylating agents (HMAs), and activating the immune system, demonstrating its potential as a transformative therapy for an underserved population. As we advance to pivotal efficacy readouts and prepare for the initiation of Phase III development in the second half of 2025 after having an end-of-phase 2 (EOP2) meeting with the FDA. We remain focused on our mission to bring this innovative therapy to patients facing significant unmet medical needs.

Also in 2024, we considerably strengthened our financial position, successfully raising €35.5 million (gross) through an oversubscribed combined share offering, a strong reflection of our investors' confidence in the potential of bexmarilimab. This additional financing played an essential role in the acceleration of our clinical programs – particularly our BEXMAB trial and provided a stronger foundation for advancing bexmarilimab towards commercialisation.

Looking ahead, 2025 promises to be a pivotal year as we aim to deliver crucial clinical data and engage in meaningful discussions with regulatory authorities. We remain steadfast in our mission to bring life-changing immunotherapies to patients who need them most and the exceptional progress we've achieved this year brings us closer to achieving that goal. I would like to extend my gratitude to our shareholders, partners, and the Faron team for their continuous support and commitment this year and I look forward to what 2025 brings.

Dr Juho Jalkanen
Chief Executive Officer

February 27, 2025

FINANCIAL REVIEW

Despite continuing challenging market conditions in 2024, the Company significantly strengthened its cash position through a combination of a convertible note issuance, private placements directed to institutional and other investors, a public offering to Finnish retail investors and an open offering to UK retail and institutional investors to raise a total of EUR 35.5 million (gross). As a result of these fundraising efforts, the net cash increased from financing activities of EUR 25.8 million compared to EUR 24.0 million in 2023.

Faron places a strategic emphasis on capital efficiency, a key element of efforts to extend our cash runway, without compromising the ability to advance our clinical development program. This capital efficiency has allowed us to achieve more with available resources, while focusing on clinical outcomes.

RESEARCH AND DEVELOPMENT COSTS

R&D costs were EUR 11.7 million in 2024 compared to 19.5 million in 2023, a decrease of EUR 7.8 million. These costs are attributable to advancing our clinical programs including completion of BEXMAB Phase I and the initiation of Phase II. Clinical trial costs include the cost of patient and site enrollment, CRO service costs including monitoring, investigator fees, and compensation and benefits for personnel directly responsible for R&D activities, and product supply costs. The costs of outsourced clinical trial services were EUR 3.3 million in 2024 compared to EUR 4.0 million in 2023. Compensation and benefits were EUR 1.4 million in 2024 and EUR 3.2 million in 2023 and included stock compensation expense of EUR 0.02 million and EUR 0.7 million in 2024 and 2023, respectively.

GENERAL AND ADMINISTRATION COSTS

G&A expenses were EUR 6.9 million in 2024 compared to EUR 9.0 million in 2023, and decrease of EUR 2.1 million. The decrease was mainly due to the recognition of the incremental fair value of amending the terms of 2015 option plan of EUR 1.1 million. Compensation and benefits were EUR 3.3 million in 2024 and EUR 5.7 million in 2023 and included stock compensation expense of EUR 0.7 million and EUR 1.7 million in 2024 and 2023, respectively.

TAXATION

The Company's tax credit for the fiscal year 2024 can be recorded only after the Finnish tax authorities have approved the tax report and confirmed the amount of tax-deductible expenses. The total amount of cumulative tax losses carried forward approved by tax authorities on 31 December 2024 was EUR 57.7 million (2023: EUR 51.6 million). The Company can utilize these losses against potential taxable profits generated during the years 2025 to 2034. In addition, the Company has

EUR 117.2 million of R&D costs incurred in the financial years 2010 - 2023 that have not yet been deducted from taxation. This amount can be deducted over an indefinite period at the Company's discretion.

LOSSES

Loss before income tax and total comprehensive income in 2024 was EUR 25.9 million compared to EUR 30.9 million in 2023, which represents a loss of EUR 0.29 per share and EUR 0.48 per share in 2024 and 2023, respectively.

CASH FLOWS

Net cash flow 2024 and 2023 was essentially flat. Cash used for operating activities in 2024 was EUR 23.0 million compared to 2023 of EUR 23.8 million. Net cash inflow from financing activities in 2024 was EUR 25.8 million compared to 2023 of EUR 24.0 million.

FUNDRAISING

On 19 February 2024 the Company announced that it was in breach of several undertakings agreed in the secured debt agreement dated 28 February 2022, between IPF Fund II SCA, SICAV-FIAR ("IPF") as Lender and Faron Pharmaceuticals Ltd as Borrower and subsequent waiver letters provided by IPF, and was therefore in several events of default. Faron's bank accounts are pledged to IPF and IPF notified Faron's banks of the blocking of the pledged accounts due to the above-mentioned breaches. After successful funding arrangements, the bank accounts were released in the beginning of March 2024.

On 4 March 2024 the Company raised a total of EUR 3.2 million through convertible loan instruments subscribed by a limited number of the Company's existing shareholders. The Convertible loans and related interest and fees were converted into shares in the June offering.

On 4 April 2024 the Company conducted a private placement directed to a limited number of institutional and other investors to raise EUR 4.8 million which, together with the EUR 3.2 million convertible loan announced on 4 March 2024, secured the required short-term bridge financing totaling EUR 8 million.

On 4 June 2024, Faron announced an offering of approximately EUR 30.7 million in total by offering for subscription preliminarily a maximum of 30,714,592 new and/or treasury shares at a subscription price of EUR 1.00 per Offer Share. The Offering was conducted as a directed share issue by way of

i. a public offering to private individuals and legal entities in Finland,
ii. an institutional offering to institutional investors in the European Economic Area.
iii. a separate open offer to qualifying holders of depositary interests in the United Kingdom and elsewhere and
iv. a separate retail offer to retail investors in the United Kingdom on the "REX" platform.

The results of the offering were announced on 20 June 2024, and it attracted significant interest from both existing shareholders and new investors and was oversubscribed. The Company raised a total of approximately EUR 30.7 million, of which approximately EUR 3.7 million was paid by converting the convertible loan and related arrangement fees and interests into shares in the Company. As a result of the share offering, with the gross proceeds of approximately EUR 27 million the Company believes it will have sufficient resources to execute its core business and deliver on its key milestones of the year 2024 under the current business plan and in compliance with the financial covenants of the IPF Fund. The Board of Directors of the Company decided to issue of a total of 30,709,056 newly issued treasury shares and new shares in the Company. As set out in the terms and conditions of the Offering, existing shareholders and DI (depositary interest) holders were given an allocation preference. Carnegie Investment Bank AB, Finland Branch ("Carnegie") and Peel Hunt LLP ("Peel Hunt") acted as lead managers (the "Lead Managers") and bookrunners for the Offering. On 20 June 2024 the Company entered into 90-day lock-up agreement with Lead Managers.

As a post-period event, Faron conducted in early February 2025 a private placement directed to a limited number of institutional and other investors raising EUR 12.0 million.

FINANCIAL POSITION

As of 31 December 2024, total cash and cash equivalents held were EUR 9.5 million compared to 2023 of EUR 6.9 million.

GOING CONCERN

As part of their going concern review, the Directors have followed the Finnish Limited Liability Companies Act, the Finnish Accounting Act and the guidelines published by the Financial Reporting Council entitled "Guidance on the Going Concern Basis of Accounting and Reporting

on Solvency and Liquidity Risks – Guidance for directors of companies that do not apply the UK Corporate Governance Code". Faron is subject to a number of risks similar to those of other development stage pharmaceutical companies.

These risks include, amongst others, generation of revenues in due course from the development portfolio and risks associated with research, development, testing and obtaining related regulatory approvals of its pipeline products. Ultimately, the attainment of profitable operations is dependent on future uncertain events which include obtaining adequate financing to fulfil Faron's commercial and development activities and generating a level of revenue adequate to support Faron's cost structure.

Faron made a net loss of EUR 25.9 million during the year ended 31 December 2024. It had a negative equity of EUR 9.8 million including an accumulated deficit of EUR 197.4 million. As 31 December 2024, Faron had cash and cash equivalents of EUR 9.5 million. As a post-period event Faron conducted In early February 2025 a private placement directed to a limited number of institutional and other investors to raise EUR 12.0 million, which significantly strengthened its financial position.

The Directors have prepared detailed financial forecasts and cash flows looking beyond 12 months from the date of the approval of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditions that are expected to prevail over the forecast period. Directors estimate that the cash held by Faron at 31 December 2024 together with the EUR 12.0 million funds raised post-period as well as known receivables will be sufficient to support the current level of activities into the third quarter of 2025. Despite this the Directors are continuing to explore sources of additional financing and they believe they have a reasonable expectation that they will be able to secure additional cash inflows that are sufficient for Faron to continue its activities for not less than 12 months from the date of approval of these financial statements; they have therefore prepared the financial statements on a going concern basis. Because the additional finance is not committed at the date of issuance of these financial statements, these circumstances represent a material uncertainty that may cast significant doubt on Faron's ability to continue as going concern. Should Faron be unable to obtain additional financing such that the going concern basis of preparation were no longer appropriate, adjustments would be required, including to reduce balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise.

HEADCOUNT

Faron's headcount at the end of year was 25 (2023: 34).

SHARES AND SHARE CAPITAL

During the period 1 January to 31 December 2024, the Company, using the share authorities granted at the Extraordinary General Meeting held on 22 September 2023 issued a total of 3,200,298 new ordinary shares at an issuance price of EUR 1.5 per share to investors. During the same period, the Company, using the share authorities granted at the Annual General Meeting held on 5 April 2024, issued a total of 30,709,056 shares at an issuance price of EUR 1.0 per share to investors. The subscription price net of costs was credited in full to the Company's reserve for invested unrestricted equity, and the share capital of the Company was not increased. The Company has no shares in treasury; therefore, at the end of 2024 the total number of voting rights was 104,624,864.

Yrjö Wichmann
Chief Financial Officer

February 27, 2025

RISKS AND UNCERTAINTIES

Faron is a clinical stage biopharmaceutical company and, similar to other companies operating in this field, is subject to a number of risks and uncertainties. The principal risks and uncertainties identified by Faron for the year ended December 31, 2024 are below.

RESEARCH AND DEVELOPMENT

Faron's main products are in clinical development however, they may not be successful in clinical trials and the Company may not be able to develop approved or marketable products. Technical risk is also present at each stage of the discovery and development process of other, earlier stage products with challenges in biology (including the ability to produce candidate drugs with appropriate safety, efficacy and usability characteristics). Conversion of cutting-edge scientific research into clinical development programmes of novel compounds and drugs where there is a limited amount of guidance, and no previous examples involves a high degree of uncertainty. This uncertainty, combined with Faron's lean organisation, could result in situations where the Company needs to make rapid alterations to its development projects without full visibility of all of the downstream consequences. Additionally, drug development is a highly regulated environment which presents technical risk through the need for study designs and data to be accepted by regulatory agencies. As part of the development risk, the manufacturing of the Company's intended products could become impossible or products would be supplied in lower quantities than needed.

COMMERCIAL PRODUCTS AND MANUFACTURING

The biotechnology and pharmaceutical industries in which Faron operates are very competitive. Faron is a clinical stage biopharmaceutical company and, similar to other companies operating in this field, is subject to a number of risks and uncertainties. Competitors include major multinational pharmaceutical companies, biotechnology companies and research institutions. Many of these companies have substantially greater financial, technical, and operational resources, such as larger research and development resources and staff. It may have a material adverse impact on the Company if its competitors succeed in developing, acquiring, or licensing drug product candidates that are more effective or less costly than any of the product candidates which the Company is currently developing or which it may develop. Furthermore, there can be no guarantee that the Company will be able, or that it will be commercially advantageous for the Company, to monetise the value of its intellectual property through entering into licensing or other cooperation deals with pharmaceutical companies. There can be no assurance that the Company's proposed products will be capable of being manufactured in sufficient quantities and standards for clinical trials or in commercial quantities, in compliance with regulatory requirements and at an acceptable cost or within an acceptable timeframe.

DEPENDENCE ON KEY PERSONNEL AND SCIENTIFIC AND CLINICAL COLLABORATORS

The Company's success is highly dependent on the expertise and experience of the Directors and key management. Whilst the Company has entered into employment and other agreements with each of these key personnel, the retention of such personnel cannot be guaranteed. Should key personnel leave or no longer be party to agreements or collaborations with the Company, the Company's business prospects, financial conditions and/or results of operations may be materially adversely affected. To develop new products and commercialise its current pipeline, the Company relies, in part, on the recruitment of appropriately qualified personnel, including personnel with a high level of scientific and technical expertise. There is currently a shortage of such personnel in the pharmaceutical industry, meaning that the Company is likely to face significant competition in recruitment. The Company may be unable to find a sufficient number of appropriately highly trained individuals to satisfy its growth rate, which could affect its ability to develop as planned. Furthermore, the Company's development and prospects depend to a significant degree on the experience, performance and continued service of its senior management team including the Directors. The Company has invested in its management team and has entered into contractual arrangements with these individuals with the aim of securing their services. Retention of these services or the identification of suitable replacements, however, cannot be guaranteed. The loss of the services of any of the Directors or other members of the senior management team and the costs of recruiting replacements may have a material adverse effect on the Company and its commercial and financial performance and reduce the value of an investment in the shares of the Company. The Company's financial situation may require savings measures that result in reduction of staff.

> The Company's success is highly dependent on the expertise and experience of the Directors and key management."

REGULATORY ENVIRONMENT

The Company operates in a highly regulated environment. Whilst the Company will take every effort to ensure that the Company and its partners comply with all applicable regulations and reporting requirements, there can be no guarantee of this. Failure to comply with applicable regulations could result in the Company being unable to successfully commercialise its products and/or result in legal action being taken against the Company, which could have a material adverse effect on the Company. The Company will need to obtain various regulatory approvals (including from the FDA and the EMA) and comply with extensive regulations regarding safety, quality and efficacy standards in order to market its products. While efforts have been and will be made to ensure compliance with governmental standards and regulations, there is no guarantee that any product will be able to achieve the necessary regulatory approvals to promote that product in any of the targeted markets

and any such regulatory approval may include significant restrictions for which the Company's products can be used. In addition, the Company may be required to incur significant costs in obtaining or maintaining its regulatory approvals. Delays or failure in obtaining regulatory approval for products would likely have a serious adverse effect on the value of the Company and have a consequent impact on its financial performance.

INTELLECTUAL PROPERTY AND PROPRIETARY TECHNOLOGY

The Company relies and will rely on intellectual property laws and third-party non-disclosure agreements to protect its patents and other proprietary rights. The Intellectual Property Rights (IPRs) on which the Company's business is based is a combination of patents, patent applications, confidential business knowhow and trade secrets, and trademarks. No assurance can be given that any currently pending patent applications or any future patent applications will result in patents being granted. In addition, there can be no guarantee that the patents will be granted on a timely basis, that the scope of any patent protection will exclude competitors or provide competitive advantages to the Company, that any of the Company's patents will be held valid if challenged, or that third parties will not claim rights in, or ownership of, the patents and other proprietary rights held by the Company.

Despite precautions taken by the Company to protect its products, unauthorised third parties may attempt to copy, or obtain and use, the Company's IPR and other technology that is incorporated into its pharmaceutical products. In addition, alternative technological solutions similar to the Company's products may become available to competitors or prospective competitors of the Company. It should be noted that once granted, a patent could be challenged both in the relevant patent office and in the courts by third parties. Third parties can bring material and arguments which the patent office granting the patent may not have seen at the time of granting the patent. Therefore, whilst a patent may be granted to the Company, it could in the future be found by a court of law or by the patent office to be invalid or unenforceable or in need of further restriction. Should the Company be required to assert its IPR, including any patents, against third parties it is likely to use a significant amount of the Company's resources as patent litigation can be both costly and time consuming. No assurance can be given that the Company will be in a position to devote sufficient resources to pursue such litigation. Any unfavourable outcomes in respect of patent litigation could limit the Company's IPR and activities moving forward.

The Directors do not believe that the Company's lead pharmaceutical drug candidates, future drug candidates in development, and proprietary processes for generating those candidate compounds infringe the IPR of any third parties. However, it is impossible to be aware of all third party intellectual property. The Company's research has included searching and reviewing certain publicly available resources, which are examined by senior levels of management to keep abreast of developments in the field.

FINANCIAL

The Company has incurred significant losses since its inception and does not have any approved or revenue generating products. The Company expects to incur losses for the foreseeable future, and there is no certainty that the business will generate a profit. The Company is highly dependent on equity, public grants and loan financing. The Company may not be able to raise additional funds that will be needed to support its product development programmes or commercialisation efforts, and any additional funds that are raised could cause dilution to existing investors. The Company operates internationally, and it is thus exposed in various currencies and fluctuation in their relative values. Even though the Company seeks to hedge currency positions there is no guarantee that it will be successful. The Company has a loan from IPF Fund II SCA, SICAV-FIAR in the principal amount of EUR 8.69 million. The said loan contains many financial covenants, and it is not certain that the company can comply with the said financial covenants at all times (see Note 25.). Certain covenants are in the control of the Company (e.g. the Minimum Cash Covenant) whereas certain are dependent on external events (e.g. Gearing covenant which is calculated using the Company stock price). Furthermore, the Company may not be able to repay the loan, as agreed with the lender. The Company's IPR, business mortgages and bank accounts are pledged to the lender, giving the lender operational control of the Company in an Event of Default, if the Company is in breach of its obligations towards the lender.

OTHER RISKS RELATED TO OPERATIONS

Operating with multiple vendors and other external suppliers means that the Company regularly delivers and receives information and data through multiple channels. Some of these are trade secrets or of confidential nature. Even though the Company uses all reasonably available means to secure the data and the channels used, there is no certainty that full data security can be obtained. As was seen with the COVID-19 pandemic, unexpected external reasons may have significant inpact on the market we are operating and indirectly affect or even directly affect also our operations, including our ability to conduct clinical trials. Additionally, military conflicts like the one currently taking place in Ukraine, have the potential to disrupt operations and negatively impact the debt and equity markets. The Company is publicly listed and as such subject to various securities laws in multiple jurisdictions. The Company uses significant amount of both internal and external resources to secure that all its operations and external communication are conducted in accordance with these regulations. Whilst the Company will take every effort to ensure that the Company and its partners comply with all applicable securities laws and requirements, there can be no guarantee of this.

This report was approved by the Board on 27 February, 2025.

CORPORATE GOVERNANCE

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

The Board of the Company emphasises the importance of good corporate governance and is aware of its responsibility for overall corporate governance and for supervising the general affairs and business of Faron.

As Chairman of the Board, I oversee the adoption, delivery and communication of Faron's corporate governance model. In this role, I endeavour to foster a positive governance culture throughout Faron, seeing that ultimate responsibility for the quality of, and Faron's approach to, corporate governance lies with me.

Faron is not required to comply with the UK Corporate Governance Code by virtue of being an AIM and Nasdaq First North Growth Market quoted company. The Board does, however, seek to apply the QCA Corporate Governance Code (as devised by the Quoted Companies Alliance in consultation with a number of significant institutional small company investors) in its updated form. After the year end 2020 and the UK leaving the European Union, Faron has to follow applicable domestic laws of the UK in addition to Finnish national and European Union's legislation.

No significant changes in governance arrangements occurred during the year.

As described below, the Board continues to promote a healthy corporate culture that is based on ethical values and behaviours consistent with Faron's objectives, strategy and business model described on Faron's website and with the description of principal risks and uncertainties set out in this document. As good corporate governance is fundamentally about culture, rather than procedure, Faron's corporate culture is monitored on a regular basis, and appropriate action is taken if, and to the extent, deemed necessary.

Tuomo Pätsi
Non-Executive Chairman

27 February 2025

Compliance

COMPLIANCE WITH THE PRINCIPLES OF THE QCA CODE

The Principles of the QCA Code	Comply/Explain	Disclosure in the 2024 Report
1. Establish a strategy and business model which promote long-term	Comply	Pages 4, to 7 and 12 to 19
2. Seek to understand and meet shareholder needs and expectations	Comply	Pages 38 to 41
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Comply	Pages 38 to 41
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	Comply	Pages 20 to 23
5. Maintain the board as a well-functioning, balanced team led by the chair	Comply	Pages 26 to 30 and 42 to 43
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Comply	Pages 26 to 30
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	Comply	Page 31
8. Promote a corporate culture that is based on ethical values and behaviours	Comply	Page 24
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	Comply	Pages 24 and 26
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Comply	Pages 24 to 43

BOARD OF DIRECTORS

On 5 April 2024, the Company held its Annual General Meeting (AGM). At the AGM the number of Directors was confirmed as five. Markku Jalkanen, John Poulos, Christine Roth, Marie-Louise Fjällskog and Tuomo Pätsi were re-elected to the Board for a term that ends at the end of the next AGM. After the AGM Tuomo Pätsi was elected as the Chairman of the Board. The longterm Chairman of the Board, Frank Armstrong, had decided to step down from his position.

At the end of year 2024, the Board comprised of five non-executive directors. Brief biographical details for the Directors can be found on the following pages. During 2024, the Board held 26 meetings.

The Board is responsible to the shareholders for the proper management of the Company and meets regularly to set the overall direction and strategy of Faron, to review scientific, operational and financial performance, to review the strategy and activities of the business, and to advise on management appointments. The Board sees to the administration of Faron and the organisation of its operations, being responsible for the appropriate arrangement of the control of Faron's accounts and finances.

All key operational and investment decisions are subject to full Board approval. The management of the Company prepares a monthly management and financial accounts pack of the Group, which is distributed to the Board every month and in advance of Board meetings. In individual cases the Board may decide in a matter falling within the general competence of the Chief Executive Officer.

The roles of Chief Executive Officer and Non-Executive Chairman are well defined and clearly separated. The Chairman oversees the Board's work, ensures that the Board's decision-making is balanced and that the Non-Executive Directors have all relevant information on matters to be decided. The Chairman sees to it that the Board meets when necessary.

The Chief Executive Officer is responsible for implementing the strategy of the Board and managing Faron's day-to-day business activities. The Chief Executive Officer, reviewing the operating results regularly to make decisions about the allocation of resources and to assess overall performance, is the chief operating decision-maker.

The Board considers there to be sufficient independence of the Board and that all the non-executive Directors are of sufficient competence and calibre to add strength and objectivity to the Board, and to bring considerable experience in terms of their knowledge of the scientific, operational and financial development of biopharmaceutical products and companies. Where necessary, the Company facilitates that non-executive Directors obtain specialist external advice from appropriate advisers.

The term of office of each Director expires on the closing of the AGM immediately following their appointment to the Board. Under the Finnish Limited Liability Companies Act and the Company's Articles of Association, the Directors are elected by the shareholders at general meetings annually. Under the Act, Directors may be removed from office at any time, with or without cause, by a majority of votes cast at a general meeting. Vacancies on the Board may only be filled by a majority of shareholder votes cast at a general meeting.

TUOMO PÄTSI

Non-Executive Chairman

b. 1964

Mr. Tuomo Pätsi (b. 1964) is a Non-Executive Chairman of Faron Pharmaceuticals Ltd., a role he has served since April 2024 prior joining the Board in March 2023 as a Non-Executive Director.

Mr. Tuomo Pätsi was the President of the EMEA region and Worldwide Markets for Celgene Corporation, a global pharmaceutical company and currently wholly owned subsidiary of Bristol Myers Squibb, engaged primarily in the discovery, development and commercialization of therapies for the treatment of cancer. He is an experienced biotech and pharmaceutical executive who was until recently the Executive Vice President for Seagen Inc., a US-based cancer-focused biotechnology company.

Mr. Pätsi has over 30 years' experience working in biotech and pharmaceuticals, with more than 10 years working at Celgene in various senior management roles, including as President of European and International Operations and President of the EMEA region and Worldwide Markets. Prior to this, he served as Vice President of Europe for Human Genome Science, a specialty pharma organization in Europe. Earlier in his career, he held roles of increasing responsibility in pharmaceutical companies, including more than ten years at Amgen Inc. Mr. Pätsi began his career as a Biomedical Research Scientist in Finland. He is a registered pharmacist and holds an MSc in pharmacology from the School of Pharmacy, Helsinki University.

Holdings in the company: 31,765 shares and 130,000 stock options, entitling him to the same amount of shares in the company.

MARKKU JALKANEN

Non-Executive Director

b. 1954

Dr. Jalkanen is the previous Chief Executive Officer of Faron Pharmaceuticals Ltd. a role he has served since 2007 and was a founding member of the Company. He has more than 40 years of experience within biomedical research, biotech development and the biopharmaceutical industry and has published over 130 peer reviewed scientific publications in various highly ranked international journals.

Between 1996 and 2002, Dr. Jalkanen was the founding CEO and President of BioTie Therapies Corp, which became the first publicly traded Finnish biotech company to be listed on NASDAQ. BioTie was sold to Acorda Therapeutics in January 2016 for $363 million. Over his career, Dr. Jalkanen has held several board memberships for both public and private companies including Inveni Capital Management, Meddia Ltd and Priaxon AG. He is also an advisor for the only active Finnish life sciences fund – Inveni Capital.

Dr. Jalkanen obtained a Masters in Medical Biochemistry from the University of Kuopio and subsequently received a PhD in Medical Biochemistry from the University of Turku. He completed a side-laudatur examination in Molecular Biology from the University of Turku and completed his post-doctoral training at Stanford University, California between 1983 and 1986. Dr. Jalkanen obtained the position of docent in Biochemistry from University of Helsinki and the same qualification in Molecular and Cell Biology from the University of Turku. He became a Professor at the University of Turku in 1992

Holdings in the Company: 3,413,434 shares (directly and with his spouse) and 570,000 stock options, entitling to same amount of shares in the Company.

JOHN POULOS

Non-Executive Director

b. 1954

Mr. Poulos is a Non-Executive Director of Faron Pharmaceuticals Ltd., a role he has served since joining the board in May 2017. He has extensive experience in the global pharmaceutical industry having spent nearly 40 years at AbbVie and Abbott.

Mr. Poulos served as Vice President, Head of Business Development and Acquisitions for AbbVie from 2013 until 2016. He was also Group Vice President, Head of Pharmaceutical Licensing and Acquisitions for Abbott from 2005 until 2012. During his career with AbbVie and Abbott, Mr. Poulos was instrumental in the negotiation of numerous acquisitions, including Knoll/BASF Pharma (Humira) in 2001 for $6.9 billion, Kos Pharmaceuticals in 2006 for $3.7 billion, Solvay in 2010 for $6.2 billion and Pharmacyclics (Imbruvica) in 2015 for $21 billion.

Mr. Poulos is currently President GNK Advisors Inc., a Pharmaceutical Business Development firm, and is a member of the Board of Memgen, Inc. Mr. Poulos also serves as a advisor at Nucleome Therapetics.

Mr. Poulos holds a B.S. in Marketing and M.B.A in Finance from Indiana University.

Holdings in the Company: no shares and 170,000 stock options, entitling to same amount of shares in the Company.

MARIE-LOUISE FJÄLLSKOG

Non-Ececutive Director

b. 1964

Dr. Marie-Louise Fjällskog (b. 1964) is a Non-Executive Director of Faron Pharmaceuticals Ltd., joining the Board in September 2023. She is an experienced life sciences leader who has held senior leadership positions at large pharmaceutical, biotech and specialty pharma companies.

Dr. Marie-Louise Fjällskog is a professional with extensive experience in the pharmaceutical and biopharmaceutical industry, particularly in the field of clinical oncology, translational research, and drug development. She holds an MD degree and a Ph.D. from Uppsala University, Sweden, and is an Associate Professor of Oncology at the same institution. With over 25 years of clinical experience, Dr. Fjällskog has made significant contributions to the development of targeted therapies for cancer. She has held key roles in various pharmaceutical companies, such as Sensei Biotherapeutics, Merus, and Infinity Pharmaceuticals, where she led clinical development programs and played instrumental roles in their success, including Sensei's $152 million IPO in 2021. Her extensive expertise and leadership have also earned her a position on the board of Biovica International AB, a prominent biotech company in Sweden and in the US, respectively. She is also on the board of Norwegian company Lytix Biopharma.

In January 2022, Dr. Fjällskog assumed the role of Chief Medical Officer at Faron where she leads Faron's clinical development programs, particularly the bexmarilimab program. Dr. Fjällskog stepped down from the CMO role on September 21, 2023. Currently Dr. Fjällskog serves as a Interim CMO at Excientia.

Holdings in the company: No shares and 210,000 stock options, entitling her to the same amount of shares in the company.

CHRISTINE ROTH

Non-Executive Director

b. 1963

Ms. Christine Roth (b. 1963) is a Non-Executive Director of Faron Pharmaceuticals Ltd., joining the Board in September 2023. She is an experienced life sciences leader who has held senior leadership positions at large pharmaceutical companies.

Ms. Christine Roth is a pharmaceutical executive with over three decades of experience in the industry. She has played key roles in the development and launch of several therapies, including the first immune-oncology therapy and intentionally designed targeted therapy combinations. Her career includes leadership positions at major pharmaceutical companies, such as Novartis, Bristol-Myers Squibb, GlaxoSmithKline (GSK), and most recently, Bayer AG, where she serves as the Executive Vice President of the Oncology Strategic Business Unit focussing on precision molecular oncology, next-generation immuno-oncology medicines, and radioligand therapies. At GSK, she was responsible for the rebuild of the oncology business, including the integration of assets following the acquisition of Tesaro. Ms. Roth's expertise extends across various therapy areas, including Oncology, Cardiovascular, Metabolic, and Infectious Diseases. She is actively involved in industry associations, such as the American Society of Clinical Oncology and the American Society of Hematology. She holds a Bachelor's degree in Chemistry from the University of North Carolina at Chapel Hill.

Holdings in the company: 46,075 shares and 60,000 stock options, entitling her to the same amount of shares in the company.

BOARD COMMITTEES

The Company has established audit, nomination, business development and remuneration committees of the Board with formally delegated duties and responsibilities.

Under the Finnish Limited Liability Companies Act, Board committees do not, generally speaking, have a formal legal status or independent decision-making powers; rather, their role is to provide support in the preparation of the decision-making. The responsibility for the decisions remains with the Board even if the matter has been delegated to a committee.

Members of the Board committees were first elected at the Board meeting held following the AGM on 5 April 2024.

During 2024, the Remuneration and Business Development Committee did not formally convene.

REMUNERATION COMMITTEE

The remuneration committee has the task of advising on and making recommendations to the Board in relation to the remuneration paid to the Directors and supervising the development of any other remuneration or reward systems of Faron. In the beginning of year 2024, the Remuneration Committee comprised of John Poulos as Chair together with Christine Roth and Frank Armstrong. As of 5 April 2024, the Remuneration Committee comprises of John Poulos as Chair together with Christine Roth and Tuomo Pätsi.

AUDIT COMMITTEE

In the beginning of year 2024, the Audit Committee comprised Erik Ostrowski as Chair together with Frank Armstrong, Marie-Louise Fjällskog and Tuomo Pätsi. As of 5 April 2024, the Committee comprises Markku Jalkanen as Chair together with Marie-Louise Fjällskog and John Poulos. The Audit Committee meets not less than twice a year. The audit committee has the task of supervising and developing the internal audit of the Group, monitoring of financial reporting, and advising and making recommendations to the Board on related issues.

NOMINATION COMMITTEE

In the beginning of year 2024, the nomination committee comprised Frank Armstrong as Chair together with Erik Ostrowski and Tuomo Pätsi. As of 5 April 2024, the Committee comprises Tuomo Pätsi as a chair together with Markku Jalkanen and Christine Roth. The nomination committee has the task, in co-operation with the Board, of advising on and making recommendations to the Board on issues relating to the composition and nomination of the Board.

The nomination committee considers succession planning for senior executives in the course of its work.

BUSINESS DEVELOPMENT COMMITTEE

The Business Development committee has the task of evaluating and identifying new business opportunities and strategic partners that align with the company's mission and vision. In 2024, the business development committee has comprised of John Poulos as a chair together with Markku Jalkanen and Juho Jalkanen as the other members, and Leopoldo Zambeletti as a consultant to the committee.

SHAREHOLDERS' NOMINATION BOARD

The Annual General Meeting decided on 5 April 2024 to establish a Shareholders' Nomination Board, a corporate body of the Company's shareholders, responsible for preparing and submitting proposals to the Annual General Meeting for the election and remuneration of the members of the Board of Directors and the remuneration of any committees of the Board of Directors. The members of the Board are selected by the five biggest shareholders. Starting 29 October 2024, the Nomination Board comprised of Timo Syrjälä as Chair together with Erkka Kohonen and Joonas Haakana. Chairman of the Board of Directors Tuomo Pätsi acts as an expert to the Nomination Board. During 2024, the Nomination Board held two meetings.

Attendance at Board Meetings

During 2024, the Board held 26 meetings. The table below lists the Directors' attendance at the Board and Committee meetings during the year:

THE DIRECTORS' ATTENDANCE DURING THE YEAR ENDED 31 DECEMBER 2024

	Board meetings	Audit Committee	Nomination Committee
Executive Directors			
Jalkanen Markku*	26	1	3
Non-Executive Directors			
Armstrong Frank**	11	1	3
Ostrowski Erik**	12	1	3
Poulos John	24	1	3
Pätsi Tuomo	25		3
Fjällskog Marie-Louise	24	2	
Roth Christine	26		

(*) Executive Director until May 2024
(**) Board Member until April 2024

REMUNERATION REPORT

Remuneration Policy for Directors

The Remuneration Committee sets the remuneration policy that aims to align Director remuneration with shareholders' interests and attract and retain the best talent for the benefit of Faron. No Director is involved in discussions relating to their own remuneration. This report sets out Faron's remuneration policy for the Executive and Non-Executive Directors. The remuneration of the Directors during the year ended 31 December 2024 is set out below:

BASIC SALARY

Executive Directors' basic salaries are reviewed annually. The review process is managed by the Remuneration Committee with reference to market salary data, the Executive Director's performance and contribution to Faron during the year.

BONUSES

Executive Directors' annual bonuses are based on the achievement of Faron's strategic and financial targets and personal performance objectives. The Non-Executive Directors believe that bonuses are an incentive to achieve the targets and objectives and represent an important element of the total compensation of the Executive Directors; they have established that the annual bonus potential will be up to 50% for the Executive Directors.

LONGER TERM INCENTIVES

In order to further incentivise the Executive Directors and employees, and align their interests with shareholders, the Extraordinary General Meeting of the Company on 15 September 2015 approved a share option plan and granted share options to the members of the Board under this option plan. At the AGM held on 28 May 2019, the Company authorised the Board to implement a new share option plan for the employees and Directors of, and persons providing services to the Group. Rules of that new option plan were approved by the Board on 20 November 2019. The most recent versions of the amendment Option plans 2015 and 2019 were resolved by the general meetings during 2023. Details of these option plans are on pages 33 to 34.

PENSION

Faron has a law-defined contribution plans under which it pays fixed contributions into a separate entity. The plans cover all the employees of Faron including the Executive Directors. Faron has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

OTHER BENEFITS

The Chief Executive Officer and some employees have the possibility to take a company car allowance, which is part of their gross salary. All employees including Executive Directors have a company mobile phone that constitutes a company mobile phone allowance.

EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND TERMINATION PROVISIONS

The service contracts of Executive Directors are approved by the Board and are concluded for an indefinite term.

The details of the Executive Directors' contracts are summarised below:

	Date of contract	Notice period
Jalkanen Juho, CEO	1.5.2024	6 months

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

The remuneration and compensation payable to the members of the Board including the Non-Executive Directors is approved by the shareholders at the AGM. Any Non-Executive Director who, by request, goes or resides abroad for any purposes of Faron or who performs services which in the opinion of the Board go beyond the ordinary duties of a Director may be paid extra remuneration or may receive such other benefits as the Remuneration Committee may approve. Non-Executive Directors are entitled to be reimbursed in respect of their reasonably and properly incurred travelling, accommodation and incidental expenses for attending and returning from meetings of the Board, Committee meetings or the general meetings of shareholders.

With the exception of share options disclosed below, the Non-Executive Directors do not receive any pension, bonus or benefit from the Company. The contracts of the Non-Executive Directors, excluding remuneration and compensation, are reviewed by the Board annually.

Current contracts are summarised below:

Non-Executive Directors	Independence	Contract	Date of Contract
Tuomo Pätsi	Independent	Chairman	27.03.2023
Markku Jalkanen	Not independent	Member	16.09.2015
Poulos John	Independent	Member	16.05.2017
Roth Christine	Independent	Member	25.09.2023
Fjällskog Marie-Louise	Not independent	Member	25.09.2023

The appointments of Non-Executive Directors are terminable with immediate effect, in accordance with the Company's Articles of Association and pursuant to the Finnish Limited Liability Companies Act, through a resolution of shareholders at a general meeting on any grounds. The Non-Executive Directors may resign as a director by delivering three months' notice to the registered office of the Company or through tendering such resignation at a meeting of the Board.

The Directors received the following remuneration during the year:

€	Salaries and fees	Bonus	Taxable benefits	Total
Executive Directors				
Jalkanen Markku*	131,442	117,548	120	249,110
Jalkanen Juho**	220,350		160	220,510
Non-Executive Directors				
Armstrong Frank***	43,500			43,500
Tuomo Pätsi	62,500			62,500
Fjällskog Marie-Louise	42,000			42,000
Jalkanen Markku	20,462			20,462
Poulos John	48,000			48,000
Roth Christine	42,500			42,500
Ostrowski Erik***	24,500			24,500

(*) Executive Director until May 2024
(**) Executive Director starting 1.5.2024
(***) Board member until April 2024

THE COMPANY'S OPTION PLANS AND DIRECTORS' SHARE OPTIONS

Aggregate remunerations disclosed on the previous page exclude any amounts for the value of options to acquire ordinary shares in the Company granted to or held by the Directors.

Option Plan 2015 was adopted by the Company at the Extraordinary General Meeting held on 15 September 2015 and amended in the Annual General Meetings of 16 May 2017, 18 May 2020, 23 April 2021 and 22 September 2023, respectively. Option Plan 2015 allowed the Company to offer options for subscription free of charge to members of the Board and to such officers and employees of the Company as the Board sees fit. Each option entitles the holder of the option to subscribe for one ordinary share in the Company. Under the terms of Option Plan 2015, an aggregate maximum number of 1,800,000 options could be granted, such aggregate being made up of a maximum of 400,000 "2015A" options, the subscription period for which ended on 9 June 2016, a maximum of 400,000 "2015B" options, the subscription period for which ended on 30 September 2019, a maximum of 500,000 "2015C" options, the subscription period for which ended on 30 September 2019, and a maximum of 500,000 "2015D" options, the subscription period for which ended on 30 September 2019, all such options being exercisable until 30 September 2025.

The exercise price for ordinary shares based on "2015A" options is €3.71. The exercise price for ordinary shares based on "2015B" options is €2.90. The exercise price for ordinary shares based on "2015C" options is €8.39. The exercise price for ordinary shares based on "2015D" options is €1.09. All options granted under 2015 Option plan are visible on the next pages.

Share Option Plan 2019 was adopted by the Board on 20 November 2019 and amended on 19 March 2020 based on an authorisation by the Annual General Meeting of 28 May 2019, as amended in the Annual General Meeting of 18 May 2020. During 2023 the Option Plan 2019 was amended at the Annual General Meeting on 24 March 2023. Share Option Plan 2019 allows the Company to offer options for subscription free of charge to employees and directors of the Group (including any non-executive members of the Board) and any eligible person who provides services to the Group. Each option entitles the holder of the option to subscribe for one ordinary share in the Company. Under the amended rules of the Share Option Plan 2019, an aggregate maximum number of 4,350,000 options can be granted. The number of granted options under the Option Plan 2019 and their exercise period and prices is described in the table below.

Option tranches under Option Plans 2015 and 2019	Total number of options	Grant date	Exercised period, vesting 25% per annum	Exercise price, €
2015 A options	400,000	16.09.2015	02.11.2015–30.09.2025	3.67
2015 B options	400,000	18.11.2016	08.10.2016–30.09.2025	2.90
2015 C options	500,000	16.11.2017	08.10.2017–30.09.2025	8.39
2015 D options	500,000	21.05.2019	08.10.2018–30.09.2025	1.09
2019 A options	554,333	23.07.2020	23.07.2021–23.07.2025	3.80
2019 B options	590,583	24.03.2021	24.03.2022–24.03.2026	3.99
2019 B bis options	0	05.07.2021	05.07.2022–05.07.2026	4.40
2019 B tertiary options	147,000	17.11.2021	17.11.2022–17.11.2026	4.47 (4.04€ under US plan)
2019 C options	440,000	24.03.2022	24.03.2023–24.03.2027	3.09 (2.91€ under US plan)
2019 C bis options	129,000	24.08.2022	24.08.2023–24.08.2027	2.50 (2.38€ under US plan)
2019 C tertiary options	16,000	17.11.2022	17.11.2023–17.11.2027	2.06
2019 D options	779,000	08.06.2023	08.06.2024–08.06.2028	3.57 (3.36€ under US plan)
2019 D bis options	34,000	09.11.2023	09.11.2024–9.11.2028	3.53 (3.35€ under US plan)
2019 E options	645,000	25.06.2024	25.06.2025-25.06.2029	1.00 (1.35€ under US plan)
2019 E bis options	100,000	26.08.2024	26.08.2025-26.08.2029	1.48
2019 E tertiary options	50,000	04.12.2024	04.12.2025-04.12.2029	2.28 (2.01€ under US plan)

Total options under 2015 and 2019 Option Plans	At 1 January 2024	Granted during the period	Exercised during the period:	At 31 December 2024	Average exerc. price per 2024 options, €
Jalkanen Markku	540,000	30,000	0	570,000	1.00
Armstrong Frank*	340,000	0	0	340,000	-
Ostrowski Erik*	60,000	0	0	60,000	-
Poulos John	140,000	30,000	0	170,000	1.35
Pätsi Tuomo	30,000	100,000	0	130,000	1.00
Fjällskog Marie-Louise	180,000	30,000	0	210,000	1.35
Roth Christine	30,000	30,000	0	60,000	1.35

(*) Board member until April 2024

	Issued Share Capital		Share Options	
At 31 December 2024	Ordinary shares	Percentage held	Options	Average exercise price, €
Non-Executive Directors				
Jalkanen Markku	3,413,434*	3.26	570,000	4.17
Poulos John	0	0.00	170,000	3.71
Pätsi Tuomo	31,765	0.03	130,000	1.59
Fjällskog Marie-Louise	0	0.00	210,000	3.31
Roth Christine	46,075	0.04	60,000	2.35

(*) of which 2,225,266 are held by Markku Jalkanen directly and 1,188,168 are held by Markku Jalkanen's wife Sirpa Jalkanen

CORPORATE GOVERNANCE STATEMENT

COMMUNICATING WITH SHAREHOLDERS

The Company acknowledges that effective communication with its shareholders on strategy and governance is an important part of its responsibilities. Interim and final results are communicated via formal meetings with investor roadshows, participation in conferences and additional dialogue with key investor representatives held in the intervening periods. Faron recognises the Annual General Meeting as an opportunity to meet shareholders.

As an AIM and First North listed company, Faron complies the Market Abuse Regulation (both EU and UK domestic laws after year end 2020), the AIM Rules for Companies and the Nasdaq First North Growth Market Rulebook. Faron complies with other relevant legislation in all its corporate communications issues.

Faron speaks to the financial community and shareholders only through authorised representatives. In accordance with Faron's disclosure policy, the Chief Executive Officer is the designated person to make public statements. The Chief Executive Officer may delegate this authority to other members of the management team. In addition to the CEO, the CFO is able to communicate externally on behalf of Faron on financial matters.

The contact details are below:
email: investor.relations@faron.com

Media and investor relations:
Consilium Strategic Communications
email: faron@consilium-comms.com

SHARE DEALING

The Company has established a share dealing code appropriate to an AIM and First North listed company, and all the Directors understand the importance of compliance to that code.

ETHICAL VALUES AND CORPORATE CULTURE

Faron is strongly committed to conducting its business affairs with honesty and integrity and in full compliance with all applicable laws, rules and regulations. All employees and Directors are required to comply with all laws, rules and regulations applicable to Faron wherever it does business.

Employees and Directors should endeavour to deal honestly, ethically and fairly with Faron's collaborators, licensors, licensees, business partners, suppliers, customers, competitors and other employees. Statements regarding Faron's therapies and services must not be untrue, misleading, deceptive or fraudulent.

Employees and Directors act in the best interests of Faron and use its assets and services solely for legitimate business purposes and not for any personal benefit or the personal benefit of anyone else.

RISK MANAGEMENT AND INTERNAL CONTROL

The principal risks and uncertainties identified by the Board are set out on pages 18-21 of the 2024 Report. The Board has put in place internal controls and systems which are designed to manage rather than eliminate

risk and provide reasonable but not absolute assurance against material misstatement or loss. A key element of delivering Faron's strategy and managing the risks facing Faron is the employment of a skilled workforce and use of appropriate vendors. The Board reviews the risks and uncertainties facing Faron and the effectiveness of its systems annually.

At present, Faron does not consider it necessary to have an internal audit function due to the small size of the administrative function, the frequent interaction with the auditors and the supervision of the audit committee. The Board is, however, closely following both regulatory and operational developments in this realm and plans to react appropriately if, and to the extent, considered necessary.

There is a monthly review and authorisation of transactions by the Chief Financial Officer and Chief Executive Officer. A comprehensive budgeting process is completed once a year and is reviewed and approved by the Board. The Group's results, compared with the budget, are reported to the Board on a monthly basis and discussed in detail.

Faron maintains appropriate insurance cover in respect of actions taken against the Directors because of their roles, as well as against material loss or claims against Faron. The insured values and type of cover are comprehensively reviewed on a periodic basis.

REGULATED ADVISORS

The shares of the Company are listed for trading on the London Stock Exchange AIM and Nasdaq First North Growth Market marketplaces, which require the nominating of advisors. Cairn Financial Advisers LLP is the Company´s nominated advisor and broker on AIM and Sisu Partners Oy is the Company's certified advisor on First North.

RESPONSIBILITY

At Faron we embrace the responsibility we have to patients, our employees, the communities where we work and the planet. We set ambitious goals for our own operations, high expectations for our suppliers and serve as an example of leadership for our industry.

In the same way that it drives the development of our transformational medicines, innovation fuels our approach to practices related to environmental, social and governance (ESG) matters. We are focused on enhancing patient access to medicines, being an employer of choice and prioritizing environmental sustainability, all while operating with the highest levels of quality, integrity and ethics. Our strong governance profile includes board oversight and active participation and reporting from leadership and team members across functions and geographies.

Faron is committed to maintaining and promoting high standards of business integrity. Faron's values, which incorporate the principles of corporate social responsibility and sustainability, guide its relationships with clients, employees and the communities and environment in which it operates. Faron's approach to sustainability addresses both its environmental and social impacts, supporting its vision to remain an employer of choice, while meeting client demands for socially responsible partners.

By putting ESG into practice, Faron is committed, wherever possible, to:

- developing treatments for medical conditions with significant unmet needs
- conducting itself responsibly and in an ethical manner
- creating a positive and supportive working environment
- acting fairly in its dealings with suppliers and other third parties
- minimising the impact on its environment

Environmental – Prioritizing Sustainability

The well-being of our communities is enriched by a safe, clean and healthy environment. Faron is committed to behaving responsibly and to minimizing its impact on the world around us. In considering the environment, Faron has resolved to include environmental factors in its business travel practices and to minimise its consumption of natural resources and manage waste through responsible disposal and reuse and recycling. Faron endeavours also, through its suppliers, to make environment-friendly choices where possible, for example when selecting packages for our drug substances.

Social – Patients, Employees and Inventions

Unmet medical needs and enhancing patient access
Faron exists to help patients overcome serious medical conditions and diseases. Bexmarilimab has been used for cancer patients for which all available treatments have been tested and which were not bringing help for them.

Inventions from academia to patients

We are a pioneer in partnering with academia to bring scientific advancements from the laboratory to patients in the clinic. All three of Faron's pipeline candidates originate from academic laboratories.

Be an Employer of Choice

Driving everything we do is a team of dedicated and talented professionals who share a commitment to working every day to deliver innovative medicines for patients with serious and life-threatening diseases. Not only do we hire the best and brightest people, but we also provide them with a work environment that places a premium on diversity, integrity, collaboration, community involvement and personal development. We have created an inclusive and empowering culture that embraces diverse experiences and perspectives of all our employees to drive innovation and transformative scientific and business results. Faron considers all staff members to be equal and aims to create a working environment which is free of unlawful discrimination. In this regard, Faron maintain an internal code of conduct based on professionalism and respect.

Governance

Accountability is fundamental to our business. Faron respects local laws and customs while supporting international laws and regulations. Faron aims to adopt the highest professional standards and not to act in such a way as to compromise its integrity. Faron is also committed to eliminating unlawful discrimination and to promoting equality and diversity in its professional dealings, which includes a commitment to enter into clear and fair contracts with its suppliers.

The cornerstone for Faron's internal policies is its Code of Business Conduct and Ethics, which embodies the standards and policies under which Faron operates. The code combines the values and corporate responsibility commitments to provide the framework and guidance for its employees to operate in an open, honest, ethical, and principled way. The code is supported by a set of internal policies varying from information security to anti-corruption. Faron continuously trains its employees on e.g., business ethics, securities regulations, and data privacy. We have also engaged with external providers to test IT security, the results of which identified no major vulnerabilities.

The Board has overall responsibility and plays a key role in ensuring the appropriate systems and controls are in place and effective. As described in this Annual Report, the Company complies QCA's Corporate Governance Code for Small and Medium Sized Companies. Faron is fully committed to the highest possible standards of openness, honesty, and accountability. In line with that commitment, Faron actively encourages all staff members who have serious concerns about any real or perceived departure from the high ethical standard that it sets to voice those concerns openly.

STATEMENT OF RESPONSIBILITIES

Under the Finnish Limited Liability Companies Act and the Finnish Accounting Act, the Company must prepare financial statements in accordance with applicable law and regulations.

The Board and the CEO are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as for the preparation of financial statements and the report of the Board that give a true and fair view in accordance with the laws and regulations governing the preparation of the financial statements and the report of the Board in Finland. The Board is responsible for the appropriate arrangement of the control of Faron's accounts and finances, and the CEO shall see to it that the accounts of Faron are in compliance with the law and that its financial affairs have been arranged in a reliable manner. In accordance with the rules of the London Stock Exchange for companies trading securities on AIM, the Company is also required to prepare annual accounts and financial statements under IFRS.

In preparing these financial statements, the Board of Directors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRS as adopted by the EU, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Board and the CEO are responsible for keeping adequate accounting records that are sufficient to show and explain Faron's transactions and disclose with reasonable accuracy at any time the financial position of Faron and enable them to ensure that the financial statement comply with the requirements of the Finnish Accounting Act. They are also responsible for safeguarding the assets of Faron and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

WEBSITE PUBLICATION

The Directors are responsible for ensuring that the financial statements are made available on a website. Financial statements are published on Faron's website in accordance with AIM Rule 26, Nasdaq First North Growth Market Rulebook and the recommendations of the QCA's Corporate Governance Code for Small and Medium Sized Companies.

On behalf of the Board

Tuomo Pätsi
Non-Executive Chairman

27 February 2025

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the year ended 31 December 2024.

DIRECTORS

During the year ended 31 December 2024 the following persons have been members of the Board of the Company:

Executive
Dr Markku Jalkanen, PhD | Chief Executive Officer until 30.4.2024

Non-executive
Dr. Frank Armstrong | Chairman*
Mr. Tuomo Pätsi | Non-Executive Director, Chairman**

Dr. Markku Jalkanen | Non-Executive Director***
Mr John Poulos | Non-Executive Director
Mr Leopoldo Zambeletti | Non-Executive Director
Mr Erik Ostrowski | Non-Executive Director****
Dr. Marie-LouiseFjällskog | Non-Executive Director
Mrs. Christine Roth | Non-Executive Director

**Chairman and a member until April 2024*
*** Chairman starting April 2024*
****Executive director until April 2024*
***** A member until April 2024*

PRINCIPAL RISKS AND UNCERTAINTIES

For a discussion of the principal risks and uncertainties which face Faron please see pages 18 to 21 of this document.

RESULTS AND DIVIDENDS

The Consolidated Statement of Comprehensive Income for the year is set out here.

The Group's loss of the financial year after taxation and other comprehensive losses was 25.9 million (2023: €30.9 million).

The Company has no distributable equity and thus the Directors do not recommend the payment of a dividend (2023: nil).

FINANCIAL INFORMATION

The Group produces budgets and cash flow projections on an annual basis for approval by the Board. These are reviewed during the year and updated if needed to reflect any changes in the business. Detailed management accounts are produced on a monthly basis, with all significant variances investigated promptly. The management accounts are reviewed and commented on by the Board at Board meetings and are reviewed and reported to the Directors on a monthly basis by the Chief Financial Officer.

FINANCIAL KEY PERFORMANCE INDICATORS (KPIS)

For a review of the Group's KPIs please see pages 15-17 Financial Review.

RESEARCH AND DEVELOPMENT

Details of the Group's key research and development programmes can be found in the Strategic Report and the detailed programme sections. See also notes 2.7 and 5. Further information is also available on Faron's website, www.faron.com.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF LIQUID RESOURCES

The Group's principal financial instrument comprises cash, and this is used to finance the Group's operations. The Group has also other financial instruments such as leasing facilities that arise directly from its operations.

The Group has a policy, which has been consistently followed, of not trading in financial instruments and to minimise currency exposure by actively matching currency expenses and income to the extent possible. The Group's cash is held on bank accounts in reputable banks in Finland, Switzerland and US. See note 2.16 'Financial assets', note 19 'Financial assets and liabilities' and note 20, 'Financial risk management' in the notes to the Financial Statements for IFRS disclosure regarding financial instruments.

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2024, the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company.

The information presented in the below table is consistent with the Company's best knowledge as at 31 December 2024.

Timo Syrjälä*	16,024,023	15.32 %
Varma Mutual Pension Fund	4,498,869	4.30%
The European Investment Council Fund, EIC	3,630,437	3.47%
A&B (HK) Company Limited	3,559,893	3.40%
Fjärde AP Fonden	3,490,405	3.34%
Markku Jalkanen**	3,413,434	3.26%

(*) of which 4,944,614 are held directly by Timo Syrjälä and 11,079,409 are held by Acme Investments SPF S.à.r.l., an entity which is wholly owned by Timo Syrjälä / (**) of which 2,256,266 are held by Markku Jalkanen directly and 1,188,168 are held by Markku Jalkanen's wife Sirpa Jalkanen

GENERAL MEETINGS

The Company held the Annual General Meeting on 5 April 2024. In 2025, the Annual General Meeting will be held on 21 March 2025. Further details will be provided to shareholders in advance of the meeting.

INDEPENDENT AUDITORS

PricewaterhouseCoopers have expressed their willingness to continue in office as auditors for the year. A resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

DISCLOSURE AND INFORMATION TO AUDITORS

Each of the current Directors hereby confirms that:

(a) So far as he/she is aware, there is no relevant audit information of which the auditors are unaware; and

(b) He/she has taken all reasonable steps to ascertain any relevant audit information and to ensure that the auditors are aware of such information

On behalf of the Board

Tuomo Pätsi
Chairman

27 February 2025

FINANCIAL STATEMENTS 2024

Statement of Comprehensive Income

For the year ended 31 December		Group		Parent	
€'000 (except per share information)	**Note**	**2024**	**2023**	**2024**	**2023**
Revenue	**3**	**-**	**-**		**-**
Other operating income	4	-	-	3	65
Research and development expenses	5, 6, 7	(11,744)	(19,542)	(11,735)	(19,019)
General and administrative expenses	5, 6, 7	(6,929)	(9,026)	(7,046)	(9,792)
Operating loss		**(18,673)**	**(28,568)**	**(18,778)**	**(28,746)**
Financial income	8	434	233	455	317
Financial expenses	8	(7,676)	(2 609)	(7,673)	(2,664)
Loss before tax		**(25,915)**	**(30,944)**	**(25,995)**	**(31,094)**
Tax expense	9	(5)	-	(5)	-
Loss for the period		**(25,920)**	**(30,944)**	**(26,000)**	**(31,094)**
Other comprehensive income (loss)		9	2	-	-
Total comprehensive loss for the period		**(25,911)**	**(30,942)**	**(26,000)**	**(31,094)**
Loss per ordinary share					
Basic and diluted loss per share, EUR	10	(0.29)	(0.48)	(0.29)	(0.48)

Balance Sheet

As at December 31		Group		Parent	
€'000	Note	2024	2023	2024	2023
Assets					
Non-current assets					
Machinery and equipment	11	1	6	1	6
Right-of-use-assets	13	296	198	296	198
Subsidiary shares	23	-	-	18	18
Intangible assets	11	1,112	1,088	1,112	1,088
Prepayments and other receivables	12	46	60	551	544
Total non-current assets		**1,456**	**1,352**	**1,979**	**1,854**
Current assets					
Prepayments and other receivables	14	1,563	1,992	1,682	2,317
Cash and cash equivalents	15	9,503	6,875	9,462	6,842
Total current assets		**11,065**	**8,868**	**11,143**	**9,159**
Total assets		**12,521**	**10,220**	**13,122**	**11,013**
Equity and liabilities					
Capital and reserves attributable to the equity holders of Faron					
Share capital		2,691	2,691	2,691	2,691
Reserve for invested unrestricted equity		184,955	154,352	184,955	154,346
Accumulated deficit		(197,421)	(172,208)	(197,955)	(172,649)
Translation difference		13	4	0	0
Total equity	**16, 17**	**(9,762)**	**(15,160)**	**(10,308)**	**(15,611)**
Provisions					
Other provisions		0	0	0	0
Total provisions		**0**	**0**	**0**	**0**
Non-current liabilities					
Borrowings	18	8,088	9,423	8,093	9,428
Lease liabilities	13	186	50	186	50
Other liabilities	20	3,839	895	3,839	895
Total non-current liabilities		**12,113**	**10,369**	**12,117**	**10,373**
Current liabilities					
Borrowings	18	3,722	3,475	3,718	3 475
Lease liabilities	13	117	163	117	163
Trade payables	21	4,876	8,971	5,996	10,585
Accruals and other current liabilities	21	1,456	2,403	1,482	2,028
Total current liabilities		**10,171**	**15,012**	**11,313**	**16,251**
Total liabilities		**22,284**	**25,380**	**23,430**	**26,624**
Total equity and liabilities		**12,521**	**10,220**	**13,122**	**11,013**

Parent Company Statement of Changes in Equity

€'000	Note	Share capital	Reserve for invested unrestricted equity	Accumulated deficit	Total equity
Balance as at 31 December 2022		**2,691**	**129,539**	**(144,008)**	**(11,778)**
Comprehensive loss for the period		-	-	(31,094)	(31,094)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs	16	-	24,808	-	24,808
Share-based compensation	6,17	-	-	2,450	2,450
Other movements		-	-	2	2
		-	**24,808**	**(28,641)**	**(3,833)**
Balance as at 31 December 2023		**2,691**	**154,346**	**(172,649)**	**(15,611)**
Comprehensive loss for the period		-	-	(26,000)	(26,000)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs		-	30,609	-	30,609
Share-based compensation		-	-	694	694
Other movements		-	-	-	-
		-	**30,609**	**(25,306)**	**5,303**
Balance as at 31 December 2024		**2,691**	**184,955**	**(197,955)**	**(10,308)**

Group Statement of Changes in Equity

€'000	Note	Share capital	Reserve for invested unrestricted equity	Translation difference	Accumulated deficit	Total equity
Balance as at 31 December 2022		**2,691**	**129,544**	**2**	**(143,713)**	**(11,476)**
Comprehensive loss for the period		-	-	2	(30,944)	(30,942)
Transactions with equity holders of the Group						
Issue of ordinary shares, net of transaction costs		-	24,808	-	-	24,808
Share-based compensation		-	-	-	2,450	2,450
		-	**24,808**	**2**	**(28,494)**	**(3,684)**
Balance as at 31 December 2023		**2,691**	**154,352**	**4**	**(172,208)**	**(15,160)**
Comprehensive loss for the period		-	-	9	(25,920)	(25,911)
Transactions with equity holders of the Group						
Issue of ordinary shares, net of transaction costs	16	-	30,609	-	-	30,609
Share-based compensation	6,17	-	-	-	694	694
Reserve on retained earning for legal			(5)		11	6
			30,603	**9**	**(25,215)**	**5,398**
Balance as at 31 December 2024		**2,691**	**184,955**	**13**	**(197,421)**	**(9,762)**

Statement of Cash Flows

As at 31 December		Group		Parent	
€'000	Note	2024	2023	2024	2023
Cash flow from operating activities					
Loss before tax		(25,915)	(30,944)	(25,995)	(31,094)
Adjustments for:					
Received grants	4	-	(33)	-	(33)
Depreciation and amortisation	7	314	346	314	346
Change in provision		-	(158)	-	(158)
Financial items	8	7,242	2,376	7,217	2,348
Share-based compensation	17	694	2,450	694	2,450
Operating cash flows before movements in working capital		(17,665)	(25,963)	(17,770)	(26,141)
Change in net working capital:					
Prepayments and other receivables		444	300	627	59
Trade payables		(4,095)	2,994	(4,589)	3,253
Other liabilities		(947)	(50)	(545)	50
Cash used in operations		(22,263)	(22,719)	(22,277)	(22,779)
Income taxes paid		(41)	-	(5)	-
Interest received		361	243	361	243
Interest paid		(1,028)	(1,330)	(1,028)	(1,330)
Net cash used in operating activities		**(22,971)**	**(23,806)**	**(22,949)**	**(23,866)**
Cash flow from investing activities					
Payments for intangible assets	11	(225)	(123)	(225)	(123)
Payments for tangible assets	11	(1)	-	(1)	-
Net cash used in investing activities		**(226)**	**(123)**	**(226)**	**(123)**
Cash flow from financing activities					
Proceeds from issue of shares	16	31,850	26,031	31,850	26,031
Share issue transaction cost	16	(4,951)	(1,190)	(4,951)	(1,190)
Proceeds from borrowings	18	3,200	64	3,200	64
Repayment of borrowings	18	(3,371)	(861)	(3,371)	(861)
Transaction and structuring fees of borrowings	18	(750)	(400)	(750)	(400)
Proceeds from grants	4, 21	-	481	-	481
Payment of lease liabilities	2, 18	(162)	(142)	(162)	(142)
Net cash from financing activities		**25,816**	**23,983**	**25,816**	**23,983**
Net increase (+) / decrease (-) in cash and cash equivalents		**2,627**	**(114)**	**2,620**	**(41)**
Effect of exchange rate changes on cash and cash equivalents		(8)	(168)	(22)	(35)
Cash and cash equivalents at 1 January	15	6,876	6,990	6,842	6,884
Cash and cash equivalents at 31 December	**15**	**9,503**	**6,876**	**9,462**	**6,842**

Notes to the Financial Statements

1. CORPORATE INFORMATION

Faron Pharmaceuticals Oy ("Company"), a clinical stage biopharmaceutical company incorporated and domiciled in Finland, with its headquarters at Joukahaisenkatu 6 B, 20520 Turku, Finland, is the parent company for all its subsidiaries ("Faron" or "Group"). The Group has a pipeline based on the receptors involved in regulation of immune response in oncology, organ damage and bone marrow regeneration. Faron Pharmaceuticals Oy is listed on the London Stock Exchange's AIM market since 17 November 2015 and Nasdaq First North Growth Market since 21 November 2019. The Board of Directors of the Company approved the financial statements on 26 February 2025.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1. Basis of Preparation

The financial statements incude both the group and the Company which have been prepared in accordance with the IFRS Accounting Standards as adopted by the European Union and the interpretations of the International Financial Reporting Standards Interpretations Committee (IFRIC). The financial statements have been prepared on a historical cost basis, unless otherwise stated. The parent company bears vast majority of the costs in the Group. The intercompany items are recognized by the Parent which make the Group figures differ.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all the periods presented, unless otherwise stated. The areas of the financial statements involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.21.

The Consolidated Financial Statements incorporate the parent company, Faron Pharmaceuticals Oy, and all subsidiaries in which it holds over 50% of the voting rights. The subsidiaries established during the financial period are consolidated from the date that control was obtained by the Group.The subsidiaries are consolidated by using the purchase method. All intragroup transactions, receivables, liabilities and unrealized gains are eliminated in the Consolidated Financial Statements. Faron Pharmaceuticals Oy holds 100% ownership of all its subsidiaries.

The Consolidated Financial Statements and parent company financial statemetnts are presented in euro which is the functional currency of the parent company. The statements of comprehensive income and statements of cash flows of foreign subsidiaries, whose functional currency is not euro, are translated into euro each month at the average monthly exchange rates, while the statements of financial position of such subsidiaries are translated at the exchange rate prevailing at the reporting date. Translation differences resulting from the translation of profit for the period and other items of comprehensive income in the statement of comprehensive income and statement of financial position are recognized as a separate component in equity and in other comprehensive income. Also, the translation differences arising from the application of the purchase method and from the translation of equity items cumulated subsequent to acquisition are recognized in other comprehensive income.

All figures presented in notes are group figures if not else stated. Where the numbers for the Group and the Company differ significantly those are explained in the notes. The differences are mainly caused by employee related costs at subsidiaries and compensation of the services subsidiaries provide to the Company.All amounts are presented in thousands of euros, unless otherwise indicated, rounded to the nearest euro thousand.

2.2. Going Concern

As part of their going concern review, the Directors have followed International Accounting Standard 1, Presentation of Financial Statements (IAS 1). The Company and its subsidiaries are subject to a number of risks similar to those of other development state pharmaceutical companies. These risks include, amongst others, generation of revenues in due course from the development portfolio and risks associated with research, development, testing and obtaining related regulatory approvals of its pipeline products. The subsidiaries have limited economic activities and have immaterial assets and liabilities and thus Group's ability to continue as going concern is dependent on the Company. Ultimately, the attainment of profitable

operations is dependent on future uncertain events which include obtaining adequate financing to fulfill the Group's commercial and development activities and generate a level of revenue adequate to support the Group's cost structure.

The Group generated a net loss of EUR -25.9 million and recorded a EUR 23.0 million cash outflow from operating activities during the year ended 31 December 2024. At the end of the financial year, it had total negative equity of EUR -9.8 million including an accumulated deficit of EUR 197.4 million. As of that date, the Group had cash and cash equivalents of EUR 9.5 million.

During the financial period ended 31, December 2024, the Group raised 35.5 million (gross) in three fundraising rounds. Subsequent to 31 December 2024, the Group has conducted in early February 2025 a private placement directed to a limited number of institutional and other investors raising EUR 12.0 million.

The Directors have prepared the detailed financial forecasts and cash flows looking beyond 12 months from the date of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditionsto the Company and the Group that are expected to prevail over the forecast period. The Director's estimate that the cash held by the Group, together with the EUR 12.0 million funds raised post-period as well as with known receivables will be sufficient to support the current level of activities until Q3 2025.

Despite this the Directors are continuing to explore sources of additional financinge available to Faron and they believe they have a reasonable expectation that they will be able to secure additionalsufficient cash inflows that are sufficient for Faron to continue its activities for not less than 12 months from the date of approval of these financial statements; they have therefore prepared the financial statements on a going concern basis.

Because the additional finance is not committed at the date of issuance of these financial statements, these circumstances represent a [material] uncertainty that may cast significant doubt on Faron's ability to continue as going concern. Should Faron be unable to obtain additionalfurther financinge such that the going concern basis of preparation were no longer appropriate, adjustments would be required, including to reduce balance sheet values of assets to their recoverable amounts, to provide for further liabilities that might arise.

2.3. Foreign Currency Transactions and Balances

Functional and Presentation Currency
The financial statements are presented in euro, which is the Company's functional and presentation currency.

Transaction Currency
Transactions in foreign currencies are translated at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the reporting date. Foreign exchange differences arising on translation are recognized in the statement of comprehensive income. Non-monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

2.4. Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Chief Executive Officer, reviewing the operating results regularly to make decisions about the allocation of resources and to assess overall performance, is identified as the chief operating decision maker. The Chief Executive Officer manages the Group as one integrated business and hence, the Group has one operating and reportable segment.

2.5. Revenue Recognition

The Group uses IFRS 15 standard for Revenue from Contracts with Customers and applies the single, principles based five-step model to all contracts with customers provided by IFRS 15 as follows:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation (over time or at a point in time).

Revenue from Licensing Agreements
According to IFRS 15, performance obligation is a promise to provide a distinct good or service or a series of distinct goods or services. Goods and services that are not distinct are bundled with other goods or services in the contract until a bundle of goods or services that is distinct is created. A good or service promised to a customer

is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

2.6. Recognition of Government Grants

The direct government grants are recognized as other operating income at the same time as the underlying expenditure is incurred, provided that there is reasonable assurance that the Group will receive the grant and it complies with the conditions of such grant. Direct grant payments received in advance of the incurrence of the expenditure that the grant is intended to compensate are deferred at the reporting date and presented under advances received on the balance sheet.

The indirect government assistance in the form of below-market interest government loans is recognized as grant income and recorded as other operating income in the same period in which the Group recognizes the expenses for which the benefit is intended to compensate. Grant income is measured as the difference between the initial fair value of the loan and the proceeds received.

2.7. Research and Development Expenses

Research and development costs are expensed as incurred and presented under research and development expenses in the statement of comprehensive income. Research and development expenses include costs for outsourced clinical trial services, materials and services, employee benefits and other expenditure directly attributable to the Group's research and development activities. The Group's research and development expenses are directly related to the Group's development projects and may therefore fluctuate strongly from year to year.

Capitalization of expenditure on the development of the Group's products commences from the point at which technical and commercial feasibility of the product can be demonstrated and it is probable that future economic benefits will result from the product once completed. As at 31 December 2024, considering the development stage of the Group's drug candidates, no internally developed assets related to Group's development activities had met these criteria and had therefore not been recognized. The uncertainties inherent in developing pharmaceutical products prohibits the capitalization of internal development expenses as an intangible asset until the marketing approval has been received from the relevant regulatory agencies.

2.8. Employee Benefits

The Group's employee benefits consist of short-term employee benefits, post-employment benefits (defined contribution pension plans) and share-based compensation. Short-term employee benefits are charged to the statement of comprehensive income in the year in which the related service is provided. Under defined contribution plans, the Group's contributions are recorded as an expense in the accounting period to which they relate and the Group does not have any further obligations once the contributions have been paid.

2.9. Share-based Compensation

The options granted under share-based incentive programs are measured at fair value at earlier of the grant date or the service commencement date, using the Black-Scholes valuation model. The options, for which the option exercise price is determined later, right before the vesting, an estimate is used to determine the fair value at service commencement date and the estimate is subsequently revised until the options become granted. The share-based compensation expense is recognized on a straight-line basis over the vesting period together with a corresponding increase in equity, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments that are expected to vest and its estimate of the grant date fair value for the options with earlier service commencement date. The exercise price paid by the option or warrant holder to subscribe the Group's shares is recognized in the reserve for invested unrestricted equity.

2.10. Loss per Share

Basic loss per share is calculated by dividing the loss for the period with the weighted average number of ordinary shares during the period.

Since the Group and parent company have reported losses, inclusion of unexercised options would decrease the loss per share and therefore they are not taken into account in diluted loss per share calculation.

2.11. Income Tax

Income tax expense for the period consists of current and deferred taxes. Tax is recognized in the statement of comprehensive income, except for the income tax effects of items recognized in other comprehensive income or directly in equity, which is similarly recognized in other comprehensive income or equity.

Deferred taxes are recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred taxes are determined using tax rates enacted or substantively enacted by the balance sheet date in the respective countries and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable income will be available, against which the temporary differences, tax losses and tax credit can be utilized.

2.12. Machinery and Equipment

The Group's machinery and equipment comprise of office furniture and equipment, which is stated at historical cost less depreciation and any impairment losses. The historical cost includes expenditure that is directly attributable to the acquisition of the machinery and equipment.

Depreciation is calculated using the straight-line method over the asset's estimated useful life of four years. Depreciation is recorded to the costs of the asset function.

2.13. Intangible Assets

The Group's intangible assets comprise of capitalized patent costs arising in connection with the preparation, filing and obtaining of patents. Patent costs are amortized on a straight-line basis over the useful lives of the patents of ten years.

2.14. Impairment of Non-financial Assets

Assets that are subject to depreciation or amortisation are reviewed for impairment whenever there are indications that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. The value in use represents the discounted future net cash flows expected to be derived from the asset.

2.15. Inventories

Inventories are stated at the lower of cost and net realizable value. The cost includes all costs of direct materials and external services associated with the process of manufacturing of the goods sellable upon obtaining the regulatory marketing approval. The cost of inventories is fully written down.

2.16. Financial Assets

The Group's financial assets comprise of other receivables and cash and cash equivalents, which are all classified to the category "financial assets measured at amortised cost". These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date, which are classified as non-current assets.

Other receivables consist mainly of VAT refund and restricted cash in the form of security deposits for rental agreements. Cash and cash equivalents comprise cash at banks.

2.17. Financial Liabilities

The Group's financial liabilities comprise of interest-bearing borrowings, trade payables, other non-current and current liabilities. The Group's financial liabilities are divided into two groups: the ones measured at amortized cost using the effective interest method and the ones at fair value through profit and loss.

Borrowings are initially recognized at fair value, less any directly attributable transaction costs. Subsequently borrowings are carried at amortized cost using the effective interest method (EIR). Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss. Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Borrowings are not derecognized until the liability has ceased to exist, that is, when the obligation identified in a contract has been fulfilled or cancelled or is no longer effective. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition

of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

Borrowings comprise of a secured debt by IPF partners and four government loans with a below-market rate of interest from The Finnish Funding Agency for Technology and Innovation ("Business Finland").

The grant component of the gorvernment loans, which is the benefit of the below-market interest rate, is measured as the difference between the initial fair value of the loan and the proceeds received.

Other liabilities consist of warrants issued as part of the IPF loan agreement for no consideration paid. The warrants meet the definition of a derivative and are therefore recognized at fair value through profit or loss. In estimating the fair value of the liability, the Group uses market-observable data to the extent it is available.

Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Where Level 1 inputs are not available, the Group engages third party qualified valuers to assist in preparing the valuation models.

Trade payables and other liabilities are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period, in which case they are classified as non-current liabilities. The carrying amount of trade payables and other current liabilities are considered to be the same as their fair values, due to their short-term nature.

2.18. Equity

The Group's equity comprises of share capital, reserve for invested unrestricted equity and accumulated deficit. The proceeds from issuance of new ordinary shares, less incremental costs directly attributable to the issue, are credited to the reserve for invested unrestricted equity, in accordance with the terms and conditions of the share issue. The accumulated deficit comprises of the accumulated profits and losses of the Group since the inception.

Under the Finnish Limited Liability Companies Act (624/2006, as amended), if the board of directors of a company notices that the company has negative equity, the board must make a register notification on the loss of share capital. However, if the fair value of the assets of the Company is otherwise than temporarily notably higher than their book value, the difference between the probable current price and the book value may be taken into account as an addition to equity. During Financial Period 2024, the Board notified that the equity of the Company turned negative. After having notified this, the Board decided to further assess the equity amount. In this regard, the Board, exercising special caution, noted that the fair value of the intangible assets related to Traumakine and Bexmarilimab is significantly higher than their respective book values. When making the calculations mandated by the Finnish Limited Liability Companies Act, the difference of the book and fair value of the assets was taken into account, thus the registration has not been filed.

2.19. Leases

The Group as Lessee

The Group recognizes all leases, with the exception of short-term (i.e. lease term less than 12 months) and low value leases, in line with IFRS 16 Leases as right-of-use assets with a corresponding lease liability at the date at which the leased asset is available for use by the Group. A contract is or contains a lease if the Group has the right to control the use of an identified asset for a period of time in exchange for consideration. When determining the lease term, the Group assesses the probability of exercising extension and termination options over the non-cancellable period by considering all relevant facts and circumstances. Right-of-use assets and lease liabilities are initially recognized on the consolidated balance sheet at future fixed lease payments over the lease term. Lease payments are discounted to present value using an effective interest rate. Right-of-use assets are depreciated on a straight-line basis over

the lease term and reviewed periodically for indication of impairment. When the future lease payments are revised due to changes in index-linked considerations or the lease term changes, the right-of-use asset and the corresponding lease liability is remeasured. Any differences arising on reassessments are recognized in the consolidated income statement. Interest expense on lease liabilities is presented within Interest expense in the consolidated income statement. In the consolidated cash flow statement, the principal portion of the lease payment is presented in the cash flow from financing activities.

2.20. Provisions and Contingent Liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the control of the entity. Such present obligation that probably does not require settlement of a payment obligation and the amount of which cannot be reliably measured is also considered to be a contingent liability. Contingent liabilities are disclosed in the notes to the financial statements.

2.21. Critical Accounting Estimates and Significant Management Judgements in Applying Accounting Policies

Share-based Compensation
The Group and the Company recognizes expenses for share-based compensation. For share options management estimates certain factors used in the option pricing model, including volatility, vesting date of options and number of options likely to vest. If these estimates vary from actual occurrence, this will impact the value of the share-based compensation. Further details of the Group's estimation of share-based compensation are disclosed in note 17.

Clinical Trial Accruals
Quantification of the accruals related the clinical trials require a lot of detailed information about the services performed. The services invoiced by Contract Research Organizations consist of contributions of various independent subcontractors and the actual tasks completed may be reported with significant delays. Also the clinical study sites, may invoice their costs with long delays. These factors combined result in a complicated task of defining on which period the cost belongs to and the Group has implemented a detailed tracking process to minimize any judgement needed.

2.22. New and Amended Standards and Interpretations Adopted by the Group

The effect of changes required by the adoption of new standards, interpretations and amendments to existing standards and interpretations on 1 January 2024 were considered immaterial for the group.

New standards not yet implemented by the Group:
Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2024 reporting periods and have not been early adopted by the group. Those include:

- IFRS 18, 'Presentation and Disclosure in Financial Statements'
- Amendments to IAS 21 - Lack of Exchangeability
- Amendments to the Classification and Measurement of Financial Instruments – Amendments to IFRS 9 and IFRS 7
- These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions
- The group is monitoring potential changes in future accounting standards and assessing any impact thereof on a continuing basis.

3. SEGMENT REPORTING

Faron is a late clinical stage drug discovery and development Group. Its operations have been focused on the development of its main drug candidates Traumakine and Bexmarilimab. The Group's chief operating decision maker has been identified as the Chief Executive Officer (CEO). The CEO manages the Group as one integrated business and hence the Group has one operating and reportable segment. The Group had no revenue in 2024 (EUR 0 thousand in 2023). All of the Group's non-current assets are located in Finland.

4. OTHER OPERATING INCOME

The Group had no operating income in year 2024 or 2023.

The Company had EUR 3,42 thousand operating income in 2024 and EUR 65 thousand operating income in 2023 related to intra-group transactions.

5. BREAKDOWN OF EXPENSES BY FUNCTION

Research and Development Expenses

	Year ended 31 December	
€'000	**2024**	**2023**
Materials and services	(505)	(134)
Employee benefits	(1,363)	(3,230)
Outsourced clinical trials services	(3,277)	(3,997)
Drug production	(3,633)	(8,095)
Analytics	(655)	(1,288)
Data management	(233)	(260)
Legal and consulting	(1,382)	(1,731)
IT expenses	(143)	(246)
IPR expenses	(188)	(200)
Travelling	(70)	(74)
Depreciation and amortization	(170)	(129)
Short term rent and premises	-	(26)
Other R&D costs	(126)	(133)
Total research and development expenses	**(11,744)**	**(19,542)**

The significant decrease of R&D costs was mainly caused by lower costs in drug production and analytics. Also the cost of employee benefits/option programs were lower due to changes in share price as well as lower number of employees. Third main contributor was lower usage of external legal and consulting services.

The Company had lower research and development expenses than the group mainly due to employee benefits at subsidiaries.

General and Administration Expenses

	Year ended 31 December	
€'000	**2024**	**2023**
Employee benefits	(3,314)	(5,686)
Communication	(395)	(481)
Audit fees	(120)	(46)
Legal and consulting	(1,918)	(1,167)
IT expenses	(205)	(276)
Travelling	(118)	(225)
Depreciation and amortization	(144)	(217)
Short term rent and premises	(246)	(320)
Other G&A	(469)	(607)
Total general and administrative expenses	**(6,929)**	**(9,026)**

The sizable decrease in G&A costs was due to lower costs of employee benefits/option programs due to changes in share price as well as lower number of employees. The legal and consulting costs however were much higher due to the complex financing arrangements in spring 2024.

The Company had higher general and administration expenses than the group mainly due to compensation of services subsidiaries has provided to the Company.

6. EMPLOYEE BENEFITS

	Year ended 31 December	
€'000	**2024**	**2023**
Salaries	(3,407)	(5,540)
Pension expenses – contribution-based plans	(499)	(758)
Social security contributions	(77)	(165)
Share-based compensation	(694)	(2,453)
Total employee benefit expenses	**(4,676)**	**(8,916)**
Employee benefit expenses by function		
Research and development expenses	(1,363)	(3,230)
General and administrative expenses	(3,314)	(5,686)
Total employee benefit expenses	**(4,676)**	**(8,916)**

The headcount of personnel at the end of 2024 was 25 (2023: 34). Share-based compensation information is included in note 17 and management remuneration information in note 23.

7. DEPRECIATION AND AMORTISATION

	Year ended 31 December	
€'000	**2024**	**2023**
Depreciation and amortisation by type of asset		
Depreciation for right-of-use-assets	(110)	(149)
Intangible assets - patents	(170)	(129)
Intangible assets	(31)	(61)
Machinery and equipment	(4)	(7)
Total depreciation and amortisation	**(314)**	**(346)**
Depreciation and amortisation by function		
Research and development expenses	(170)	(129)
General and administrative expenses	(144)	(217)
Total depreciation and amortisation	**(314)**	**(346)**

8. FINANCIAL INCOME AND EXPENSES

	Year ended 31 December	
€'000	**2024**	**2023**
Financial income		
Interest income	93	230
Other financial income	268	-
Gains from foreign exchange	72	3
Total financial income	**434**	**233**
Financial expenses		
Interest expenses	(3,943)	(2,124)
Warrant value change	(2,944)	(42)
Losses from foreign exchange	(5)	4
Interest expenses from lease liabilities	(1)	(1)
Transaction and structuring fees of borrowings	(750)	(400)
Other financial expenses	(33)	(46)
Total financial expenses	**(7,676)**	**(2,609)**
Total financial income and expenses, net	**(7,242)**	**(2,376)**

Interest expenses consist of paid and accrued interest expenses. The interest expense relates mainly to the IPF loan, Business of Finland loans and interest expenses recognised from lease liabilities.

The single most important factor in the increase of financial expenses was the value change of the IPF warrants due to a new lower strike price of the warrants. The interest expenses related to the complex financing arrangements in spring 2024 caused an sizable increase in the interest expenses

The foreign exchange gains mainly relate to the cash balance denominated in US Dollars which strengthened against the EUR. Unrealised foreign exchange gain, net is EUR 67 thousand for 2024 and EUR 7 thousand for 2023.

9. TAX EXPENSE

	Year ended 31 December	
€'000	**2024**	**2023**
Tax expense	5	-
Total tax expense	**5**	**-**

The difference between income taxes at the statutory tax rate in Finland (20%) and income taxes recognised in the statement of comprehensive income is reconciled as follows:

	Year ended 31 December	
€'000	**2024**	**2023**
Loss before tax	(25,915)	(30,944)
Income tax calculated at Finnish tax rate 20%	5,183	6,189
Tax losses and temporary differences for which no deferred tax asset is recognised	(5,919)	(5,950)
Non-deductible expenses, tax-exempt income and other permanent items	736	(239)
Foreign income taxes	**(5)**	**-**
Taxes in the statement of comprehensive income	**(5)**	**-**

Tax losses and deductible temporary differences for which no deferred assets have been recognised, are as follows:

	Year ended 31 December	
€'000	**2024**	**2023**
R&D expenses not yet deducted in taxation [1]	117,625	95,179
Tax losses carried forward [2]	57,679	51,633
Total	**175,304**	**146,812**

(1) The Group has incurred research and development costs, which have not yet been deducted in its taxation in Finland. The amount deferred for tax purposes can be deducted over an indefinite period.

(2) Tax losses carried forward relate to Finland and expire over the period of 10 years. The tax losses will expire as follows:

€'000	2024	2023
Expiry within five years	34,060	30,911
Expiry within 6-10 years	23,619	20,722
Total	**57,679**	**51,633**

The related deferred tax assets have not been recognised in the balance sheet due to the uncertainty as to whether they can be utilized. The Group has a loss history, which is considered a significant factor in the consideration of not recognizing deferred tax assets. The total tax value of unrecognized deferred tax assets is EUR 35,061 thousand (2023: EUR 29,362 thousand).

The Group does not have any other material deductible or taxable temporary differences. Therefore, no deferred tax assets or liabilities have been recognised in the balance sheet and thus the itemization of deferred taxes is not provided.

10. LOSS PER SHARE

Loss per share is calculated by dividing the net loss by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
€'000	2024	2023
Loss for the period	(25,911)	(30,942)
Weighted average number of ordinary shares in issue	88,518,654	65,055,036
Basic and dilutive loss per share (in €)	**(0.29)**	**(0.48)**

As of 31 December 2024, Faron Pharmaceuticals Oy had only share options outstanding. Number of potentially dilutive instruments currently outstanding totaled 4,617,816 as of 31 December 2024 (31 December 2023: 4,007,066, comparative number was revised to match with the calculation method of 2024). Since the Group and the Company has reported a net loss, the share options would have a further dilutive effect and are therefore not taken into account in diluted loss per share-calculation. As such, there is no difference between basic and diluted loss per share.

11. INTANGIBLE ASSETS AND MACHINERY AND EQUIPMENT

€'000	Intangible assets	Machinery and equipment
Book value on 1 January 2024	**1,088**	**6**
Additions	225	-
Disposals	-	-
Depreciation/amortisation	(200)	(5)
Book value 31 December 2024	**1,112**	**1**
As at 31 December 2024		
Acquisition cost	2,245	27
Accumulated disposals	-	-
Accumulated depreciation/ amortisation	(1,132)	(25)
Book value 31 December 2024	**1,112**	**1**
Book value on 1 January 2023	**1,154**	**13**
Additions	122	-
Disposals	-	-
Depreciation/amortisation	(188)	(7)
Book value 31 December 2023	**1,088**	**6**
As at 31 December 2023		
Acquisition cost	2,031	27
Accumulated disposals	-	-
Accumulated depreciation/ amortisation	(943)	(21)
Book value 31 December 2023	**1,088**	**6**

12. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	As at 31 December	
€'000	**2024**	**2023**
Other receivables	46	60
Total non-current prepayments and other receivables	**46**	**60**

Other receivables consist mainly of restricted cash in the form of security deposits for rental agreements.

For the parent company, the other receivables (2024 EUR 551 thousand) consist of intercompany loans that are eliminated at the group level.

13. RIGHT-OF-USE-ASSETS AND LEASING LIABILITIES

€'000	**31 December 2024**	**31 Dec 2023**
Right-of-use assets		
Office & parking places	296	198
Total right-of-use assets	**296**	**198**
Lease liabilities		
Long-term leasing liability	117	50
Short-term leasing liability	186	163
Total leasing liabilities	**303**	**213**

New lease contracts were done in 2024. The new lease for office space is valid until 31st of July 2027. New contract for parking places is valid until further notice and thus lease term is estimated reflecting same period as the office lease.

14. CURRENT PREPAYMENTS AND OTHER RECEIVABLES

As at 31 December	**Group**		**Parent**	
€'000	**2024**	**2023**	**2024**	**2023**
Prepayments	1,280	1,764	1,279	1,761
Other accrued incomes and other receivables	201	196	321	524
Prepayment for product testing	-	-	-	-
VAT receivable	82	32	82	32
Total current prepayments and other receivables	**1,563**	**1,992**	**1,682**	**2,317**

The majority of prepayments consist of the Clinical Service Agreements with Contract Research Organizations, which are current service providers in different clinical trials.

The decrease of the prepayments, other accrued incomes and other receivables is due to the recognition of those costs as those costs accrued during the period.

15. CASH AND CASH EQUIVALENTS

As at 31 December	**Group**		**Parent**	
€'000	**2024**	**2023**	**2024**	**2023**
Bank accounts	9,503	6,875	9,462	6,842
Total cash and cash equivalents	**9,503**	**6,875**	**9,462**	**6,842**

16. SHAREHOLDERS' EQUITY

Movements in number of shares, share capital and reserve for invested unrestricted equity were as follows:

€'000	Total registered shares (pcs)	Share capital	Reserve for unrestricted equity
1 January 2023	**59,805,383**	**2,691**	**129,544**
Issue of new shares, net of transaction costs	8,981,316	-	24,808
31 December 2023	**68,786,699**	**2,691**	**154,352**
1 January 2024	**68,786,699**	**2,691**	**154,352**
Issue of new shares, net of transaction costs	35,838,165	-	30,609
Accumulated deficit, legal reserve	-	-	(5)
31 December 2024	**104,624,864**	**2691**	**184,955**

On 19 January 2024, the number of shares was increased to 68,807,199 shares following the issue of 20,500 new shares. On 4 April 2024, the number of shares was increased to 72,007,497 shares following the issue of 3,200,298 new shares. On 20 June 2024, the number of shares was increased to 104,624,864 shares following the issue of 32,617,367 new shares. At the year end 2024 authorization to issuance of shares, options or other special rights entitling to shares and conveyance of up to the same maximum number of treasury shares was 19,113,496.

Faron Pharmaceuticals Ltd has one class of ordinary shares. The shares have no par value. Each share entitles the holder to one vote at the Annual General Meeting and equal dividend. All shares are fully paid.

The subscription price for the shares is recorded to the share capital, unless the Board has made a resolution to record the subscription price in the reserve for invested unrestricted equity. If the shares of a Finnish limited liability company have no par value according to its articles of association, the Finnish Limited Liability Companies Act allows companies the recognition of the proceeds from share issuance to the reserve for invested unrestricted equity. In such situations the board of a company can choose on a subscription-by-subscription basis, how much of the issue, if anything, is recorded in share capital and how much to the reserve for invested unrestricted equity that is distributable. During 2023 and 2024, the Company recognised all relevant transactions in the invested unrestricted equity reserve.

17. SHARE OPTIONS

Option Plan 2015

The Option Plan 2015 was approved at the Company's extraordinary shareholders' meeting on 15 September 2015 as part of the Group's incentive scheme determined by the Board of Directors. The share options are granted to the members of the Board of Directors and the management team and other management and employees for no consideration. The annual general meeting on 16 May 2017 resolved to amend, due to the increase in the number of employees in the Group and the increase in the number of members of the Board of Directors, the Option Plan so that a maximum total of 500,000 C options and a maximum total of 500,000 D options may be offered under initial Option Plan terms and conditions. The share options have a service condition and are forfeited in case the employee leaves the Company before the share options vest, unless the Board of Directors approves otherwise. After the beginning of the share subscription period, the vested options may be freely transferred or exercised. Grant dates for the share options may vary depending on the date when the Company and the employees agree to the key terms and conditions of the Option Plan. The maximum number of share options that can be awarded under the Option Plan is 1,800,000 in four different tranches designated as A options, B options, C options and D options. Each share option entitles the holder of the option to subscribe for one ordinary share of the Company.

The exercise price for ordinary shares based on A options is euro equivalent of the Company's share subscription price in the Company's initial public offering on the AIM marketplace of the London Stock Exchange on 17 November 2015. The exercise price for ordinary shares based on B options, C options and D options is euro equivalent of the exercise price determined based on the Company's average share price on the AIM marketplace during 1 July - 30 September 2016, 2017 and 2018, respectively.

The extraordinary general meeting 2023 resolved to amend the terms and conditions of the Option Plan 2015 so that the subscription period for shares based on the options is extended by two (2) years, i.e., until 30 September 2025. The amendment is expected to enhance the usability of the options and thereby significantly increase the desired benefits of the incentivisation system for the management and personnel of the Company. The management has determined the incremental fair value related to the extension of the subscription window of the 2015 Option Plan. This valuation is based on a comparison of the fair value of the instruments before and after the modification, using Black-Scholes-Merton model. Notably, as the modification occurred post-vesting date, the incremental fair value was promptly recognized in the financial statements.

Key characteristics and terms of the option plan are listed in the table below.

2015 Option Plan	A options	B options	C options	D options
Maximum number of share options	400,000	400,000	500,000	500,000
Exercise price, EUR	3.71	2.90	8.39	1.09
Dividend adjustment	No	No	No	No
Beginning of subscription period	2 November 2015	8 October 2016	8 October 2017	8 October 2018
End of subscription period	30 September 2025*	30 September 2025*	30 September 2025*	30 September 2025*
Vesting conditions	Service until the beginning of the subscription period			

* The extraordinary general meeting, held on 22 September 2023, resolved to amend the terms and conditions of the Option Plan 2015 so that the subscription period for shares based on the options is extended by two (2) years, i.e., until 30 September 2025.

	2024 2015 Option Plan				2023 2015 Option Plan			
Number of share options	**A**	**B**	**C**	**D**	**A**	**B**	**C**	**D**
Outstanding at 1 January	385,000	338,400	500,000	170,000	385,000	383,900	500,000	320,000
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	5,000	-	8,000	-	45,500	-	150,000
Outstanding at 31 December	385,000	333,400	500,000	162,000	385,000	338,400	500,000	170,000
Exercisable at 31 December	385,000	333,400	500,000	162,000	385,000	338,400	500,000	170,000
The weighted average fair value of the share options granted, EUR	-	-	-	-	-	-	-	-
The weighted average share price at the date of exercise, EUR	-	1,73	-	1,73	-	3.19		3.19

Option Plan 2019

The Option Plan 2019 was approved at the Company's board of directors meeting on 20 November 2019. The Annual General Meeting on 24 March 2023 resolved to amend the terms and conditions of the Option Plan 2019, so that a maximum total under the 2019 Option Plan is 4,350,000 options. The share options are granted to the members of the Board of Directors, Scientific Advisory Board, the management team and other management and employees for no consideration.

The share options have a service condition and are forfeited in case the employee leaves the Group before the share options vest, unless the Board of Directors approves otherwise. After the beginning of the share subscription period, the vested options may be freely transferred or exercised. The fair value of the options has been determined using the Black & Scholes option valuation model and expensed over the vesting period. Grant dates for the share options may vary depending on the date when the Company and the employees agree to the key terms and conditions of the Option Plan. The maximum number of share options has certain maximum limits per certain person. The details of the plan are available on www.faron.com. Each share option entitles the holder of the option to subscribe for one ordinary share of the Company.

The exercise price for ordinary shares based on 2019 grant options is euro equivalent of the average share price at the London AIM list for the past 90 or 30 days prior to the grant date. For the GBP to EUR price conversion, the exchange rate of the European Central bank on the grant date is used. The weighted average exercise price for ordinary shares based on Plan 2019 granted options in 2024 is EUR 1.16

The Company's Board has confirmed the grant of a total of 785,000 options under the Option plan 2019 during 2024. The Options have been allocated under the Share Option Plan 2019 and will be released in 25% per annum over a period of 4 years starting on the first anniversary after grant. Key characteristics and terms of the option plan are listed in the table below.

2019 Option Plan	**2024**	**2023***
Maximum number of share options	4,350,000	4,350,000
Exercise price, EUR (weighted average if several grant during the year)	1.16	3.45
Dividend adjustment	No	No
Beginning of first subscription period	17 November 2022	17 November 2022
End of the last subscription period	9 November 2028	9 November 2028
Vesting conditions	Service until the beginning of each subscription period	Service until the beginning of each subscription period

* In There were two grants, in both 2024 and 2023

2023–2024
2019 Option Plan

Number of share options	2024	2023
Outstanding at 1 January	2,613,666	1,876,916
Granted	785,000	813,000
Forfeited	153,750	76,250
Exercised	7,500	-
Outstanding at 31 December	3,237,416	2,613,666
Exercisable at 31 December	1,477,957	904,040

2023–2024
2019 Option Plan

Valuation inputs for instruments granted during period (weighted average)	2024	2023
Share price at grant date, EUR	1.18 - 2.36	2.96 - 3.50
Subscription price, EUR	1.00 - 2.28	3.35 - 3.77
Volatility, % *	76.5	65.4
Risk free rate, %	2.8	3.1
Expected dividends yield, %	0	0
Option fair value, EUR	0.87	1.31

* Expected volatility was determined by calculating the historical volatility of the Company`s share using monthly observations over corresponding maturity.

The share-based compensation expense for the Option Plan 2019 was EUR 694 thousand (EUR 1,259 thousand in 2023).

18. FINANCIAL ASSETS AND LIABILITIES

As at 31 December	Group		Parent	
€'000	2024	2023	2024	2023
Financial assets measured at amortised cost				
Other receivables*	121	72	121	169
Cash and cash equivalents	9,503	6,875	9,462	6,842
Total financial assets measured at amortised cost	**9,624**	**6,948**	**9,583**	**7,011**
Financial liabilities measured at amortised cost				
Lease liabilities	303	213	303	213
Account payables	4,876	8,971	5,996	10,585
Borrowings in form of Business Finland R&D loans	3,124	3,520	3,124	3,520
Borrowings in form of IPF Tranche A	8,686	9,383	8,686	9,383
Total financial liabilities measured at amortised cost	**16,990**	**22,087**	**18,109**	**23,701**
Financial liabilities measured at FVTPL (category 2)				
Other non-current liabilities**	3,839	895	3,839	895
Total financial liabilities measured at FVTPL	**3,839**	**895**	**3,839**	**895**

* Prepayments are excluded as they are not considered to be financial instruments.
**see note 21

Borrowings in the Form of Business Finland R&D Loans

Fair value for the Business Finland R&D loans is calculated by discounting estimated future cash flows for the loans using appropriate interest rates at the reporting date. The discount rate considers the risk-free interest rate and estimated margin for the Company's own credit risk. Discounted future cash flows are derived from the terms containing the repayment amounts and repayment dates for the principal and the cash payments for interest. Given that some of the inputs to the valuation technique rely on unobservable market data, loan fair values are classified in Level 3. The carrying amount of all the Business Finland loans was EUR 3,124 thousand (2023 EUR 3,520 thousand).

Business Finland R&D loans are granted to a defined product development project and cover a contractually defined portion of the underlying development projects' R&D expenses. The below-market interest rate for these loans is the base rate set by the Ministry of Finance minus three (3) percentage points, subject to a minimum rate of 1%. Repayment of these loans shall be initiated after 5 years, thereafter loan principals shall be paid back in equal instalments over a 5-year period, unless otherwise agreed with Business Finland. Requesting accord to the loan(s) is also a possibility. For more information on contractual maturities of the Business Finland R&D loans and interests is provided in the note 19. The interest on Business Finland R&D loans amounted to EUR 83 thousand (2023 EUR 329 thousand).

Loan facilities and related warrant agreements with IPF

On 28 February 2022, Faron entered into agreement with IPF Fund II SCA (IPF), which contained

- a Euro term loan facility (Tranche A) of up to EUR 10 million,
- a Euro term loan facility (Tranche B) of up to EUR 5 million,
- the possibility of Faron to request up to an additional EUR 15 million facility (Tranche C), subject to IPFs approval process and certain conditions to be met,
- Faron to issue warrants to IPF as part of the loan agreement, based on the amount drawn in the above facilities.

The first tranche (Tranche A) of EUR 10 million was drawn down upon signing the agreements in 2022. Faron pays cash interest on drawn amounts of the above facilities plus a pay-in-kind interest (PIK) for drawn amounts in

Tranche A. In addition, Faron has paid a structuring fee of the committed facility on the utilization date of the respective facility. Tranche A has been measured at amortised cost using the effective interest method. The carrying amount of the Tranche A was EUR 8,686 thousand. With respect to the availability of additional funding from IPF, the respective term allowing the Group to draw on Tranche B and Tranche C has expired. The Group does not anticipate, at this time, having the ability to draw further funding from IPF. The interest on Tranche A facility amounted to EUR 945 thousand. The loan facility is subject to financial covenants. The covenants measure the Group's gearing ratio and cash runway. Given that some of the inputs to the valuation technique rely on unobservable market data, loan fair values are classified in Level 3.

Liabilities designated at fair value through profit or loss primarily represent warrants which entitle IPF to subscribe for new ordinary shares in the Company.

The subscription price per share is the lower of EUR 1,85 or the subscription price per share in any subsequent share offering undertaken by the Company. The warrants were issued as part of the loan agreement in 2022 for no consideration paid and have been treated as a separate financial instrument. On initial recognition of the agreement, the fair value of the loan facility was reduced by the structuring fee and other fees that are integral part of the loan and by the implicit costs of the warrants. On subsequent reporting dates the changes in fair value of warrants have been accounted separately through profit and loss. The warrants are classified as Level 2 instruments and their fair value is determined using techniques whose inputs are based on observable market data. Total warrants issued in 2024 were 1.5 million.

This section sets out an analysis of net debt and the movements in net debt (calculated as cash and cash equivalents less borrowings) for each of the periods presented.

As at 31 December	Group		Parent	
€'000	**2024**	**2023**	**2024**	**2023**
Cash and cash equivalents	9,503	6,875	9,462	6,842
Lease liabilities	(303)	(213)	(303)	(213)
IPF Tranche A	(8,686)	(9,383)	(8,686)	(9,383)
Business Finland R&D loans	(3,124)	(3,520)	(3,124)	(3,520)
Net debt	**(2,610)**	**(6,241)**	**(2,651)**	**(6,274)**

€'000	**Borrowings**	**Lease liabilities**	**Other liabilities**	**Total**
Opening balance as at 1 Jan 2023	**12,953**	**316**	**853**	**14,123**
Financing cash flows	(692)	(142)		(834)
Fair value adjustments			42	42
Other movements (*)	637	39		676
Balance as at 31 Dec 2023	**12,898**	**213**	**895**	**14,006**
Financing cash flows	3,200	(162)		(4,033)
New lease liability		239		239
Fair value adjustments			2,944	2,944
Other movements (*)	(4,288)	13		2,792
Balance as at 31 Dec 2024	**11,810**	**303**	**3,839**	**15,952**

*) Other changes include reversals, interest accruals and payments.

19. FINANCIAL RISK MANAGEMENT

This section applies to The Group and the Company. The operations of the Group expose it to financial risks. The main risk that the Group is exposed to is liquidity risk, with capital management being another important area given the nature of the Group's operations and its financing structure. The Group's financial risk management principles focus on obtaining funding and managing capital taking into consideration the unpredictability of the financial markets with the aim at minimizing any undesired impacts on the Group's financial performance and position. The Board of Directors define the general risk management principles and approve operational guidelines concerning specific areas including but not limited to liquidity risk, foreign exchange risk, interest rate risk, credit risk, the use of any derivatives and investment of the Group's liquid assets.

(a) Capital Management and Liquidity Risks

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern (refer to note 2.2).

Significant financial resources are required to advance the drug development programs into commercialized pharmaceutical products. The Group relies on its ability to fund the operations of the Group through three major sources of financing – equity financing, research and development grants and loans, venture debt and licensing agreements.

The Company has been able to fund its operations with equity, grants, debt and R&D loans. While equity financing has generally been available in the past, there can be no assurance that sufficient funds can be secured in order to permit the Group to carry out its planned activities. In general, capital market conditions are volatile. The prevailing financial market situation and overall investor sentiment dictate whether the Group is able to secure additional financing in the future, which can be considered a risk. To partly manage this risk, the Group and its management is in constant dialogue with financial investors, investment banks, debt providers and other market participants.

The Group also relies on different sources of financing and research and development grants and loans. These funds, which are provided through regional, national or EU level institutions, have been historically available to the Group. The Group strictly complies with all rules and legal obligations pertaining to these funding programs and is in regular contact with the funding agencies providing these. Availability of such funds in the future cannot be guaranteed and thus this poses a potential risk to the Group's funding in the future.

Finally entering into potential commercialization, collaboration and licensing agreements with larger pharmaceutical companies entitles the Group to receive up-front and milestone payments related to agreed regulatory or commercial points, as well as royalty payments once commercialization has been successful. Activities in the area of business development are targeted at securing such agreements. Consideration of these activities is part of the management's duties and is monitored by the Board of Directors, which ultimately decides on entering into such agreements.

There can be no assurance that sufficient financing can be secured in order to permit the Group to carry out its planned activities. To protect the continuity of the Group's operations, sufficient liquidity and capital has to be maintained. The Group aims to have funds to finance its operations for the foreseeable future. The Group can influence "somewhat" as the ability to impact on cash runway with cost management is limited the amount of capital by adapting its cost basis considering available financing. Management monitors liquidity on the basis of the amount of funds. These are reported to the Board of Directors on a monthly basis.

The Company's Board of Directors approves the operational plans and budget and monitors the implementation of these plans and the financial status of the Group on a monthly basis.

As at 31 December 2024, the contractual maturity of non-derivative liabilities excluding other payables and accruals was as follows. The Company had additional EUR 1,124 thousand (EUR 1,464 thousand as at 31 December 2023) trade payables to subsidiaries:

€'000	2025	2026	2027	2028 - thereafter	Total
Borrowings	4,644	4,182	5,094	476	14,396
Trade payables	4,876	-	-	-	4,876
Lease liabilities	117	109	76	-	303
Total	**9,638**	**4,292**	**5,170**	**476**	**19,575**

As at 31 December 2023, the contractual maturity of non-derivative liabilities and interests excluding other payables and accruals was as follows. Trade payable are presented to align with 2024 presentation:

€'000	2024	2025	2026	2027 - thereafter	Total
Borrowings	4,371	4,177	4,277	4,132	16,958
Trade payables	8,971	-	-	-	8,971
Lease liabilities	163	50	-	-	213
Total	**13,505**	**4,227**	**4,277**	**4,132**	**26,141**

(b) Market Risk

i. Foreign Exchange Risk

The Group operates internationally but is mainly exposed to translation risk in respect of US Dollar ("USD") denominated cash and cash equivalents balances. The Group's policy is not to hedge translation risk. As of 31 December 2024, the Group had cash and cash equivalents of EUR 6,752 thousand, USD 205 thousand, CHF 20 thousand and GBP 2,100 thousand (2023: EUR 6,460 thousand, GBP 90 thousand, CHF 2 thousand and USD 342 thousand) and the foreign exchange gains and losses recorded arise mainly from the USD cash balances. The Group is not exposed to significant transaction risk, as the Group mainly operates in EUR.

ii. Interest Rate Risk

The Group's interest rate risk arises from the IPF Tranche A loan and Business Finland R&D loans. IPF Tranche A interest consists of cash interest (margin and 3 months EURIBOR) and payment in kind interest accrued over the repayment period.

Business Finland R&D loans, which interest is the base rate defined by the Finnish Ministry of Finance minus three (3) percentage points, is subject to a minimum rate of 1%. During the periods presented, the interest has been below the minimum level and the Group has paid the minimum interest of 1% on the loans. During the periods presented, the Group has not been exposed to material variable interest rate risk and accordingly the Group has not entered into derivative contracts.

(c) Credit and Counterparty Risk

The Group works with partners and financial institutions with good credit ratings. Management monitors credit ratings of the financial institutions that hold the Group's bank deposits regularly.

20. OTHER NON-CURRENT LIABILITIES

	As at 31 December	
€'000	2024	2023
FV of warrants	3,839	895
Total non-current liabilities	**3,839**	**895**

The fair value of warrants issued to IPF (see note 18) is recognized in Other liabilities.

21. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

As at 31 December	Group		Parent	
€'000	2024	2023	2024	2023
Trade payables	**3,703**	**8,177**	**4,823**	**9,791**
Clinical trial site fees (included in trade payables in BS)	1,173	794	1,173	794
Accrued payroll	1,208	1,718	1,208	1,567
Accrued general and administration	166	114	166	109
Other liabilities and accruals	96	550	109	352
Total	**6,336**	**12,147**	**7,478**	**13,407**

22. CONTINGENCIES AND COMMITMENTS

Operating Lease – Faron as a Lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Year ended 31 December	
€'000	2024	2023
No later than 1 year	9	54
Later than 1 year and no later than 5 years	2	-
Later than 5 years	-	-

The Group's operating lease commitments comprise of lease commitments for machines and equipment with low value leases of 3 to 4 years. The Group's operating leases are non-cancellable and they do not include redemption or extension options. Contingencies and commitments liabilities do not include lease liabilities that are recognised as lease liabilities on the balance sheet.

Contractual Contingencies

The Group has a contingent contractual liability to a development party for Bexmarilimab to pay additional milestone payments. The remaining milestone becomes payable upon the Group receiving a certain amount of Net Sales for Bexmarilimab.

23. RELATED PARTY TRANSACTIONS

Parent and subsidiary relations of Faron Pharmaceuticals Group on 31 December 2024:

	Country	Group holding %	Group voting %
Companies owned by the parent company			
Faron Europe GmbH	Switzerland	100	100
Faron USA LLC	USA	100	100

At the end of period, the Company has EUR 512 thousand in long term receivables from subsidiaries, which contains intercompany loans and the interests associated with them. The transactions are at arm's length. The parent Company trade payables to subsidiaries at the end of the period were EUR 1,124 thousand.

During the period the profit and loss relevant bookings are EUR 22 thousand for the interest of the intercompany loans, management fee charges to subsidiaries of EUR 3 thousand and the invoices for administrative services by the subsidiaries of EUR 413 thousand.

The Group identifies the following related parties:

- Members of the Board of Directors, and their close family members; and
- Company's key Management team and their close family members

The Company has not had interests in other entities as at, and for the years ended, December 31, 2024 and 2023.

Key Management Personnel

The Company's key management personnel consist of the following:

- Members of the Board of Directors
- Management team, including CEO

	Year ended 31 December	
€'000	**2024**	**2023**
Compensation of key management personnel*		
Salaries and other short-term employee benefits	1,685	2,929
Post-employment benefits	118	134
Share-based payments	576	1,409
Total	**2,378**	**4,472**

* Presented information for the Management includes the executive directors of the Board

The Management team was awarded 396,000 share options during 2024 (2023: 211,000 share options). At the end of the 2024 the number of outstanding options and shares granted to the Management team amounted to 860,270 share options (at the end of 2023: 888,270 share options).

Non-executive Directors were awarded 580,000 share options during 2024, (2023: 220,000 share options). At the end of 2024, the number of outstanding options and share options granted to the non-executive directors amounted to 1,900,000 share options (at the end of 2023: 800,000 share options).

Management and Board Shareholding

Management* shareholding	**31 December 2024**
Number of shares (pcs)	2,104,062
Shareholding, percentage	2.01
Board shareholding, 31 December 2024** (excluding the shareholding of CEO)	
Number of shares (pcs)	3,491,274
Shareholding, percentage	**3,34**
Total number of shares outstanding at 31 December 2024 (pcs)	**104,624,864**

* Presented information for the Management includes the executive directors of the Board
** Presented information for the Board includes only non-executive directors.

Transactions with Related Parties

There are no additional related party transactions during 2024 and 2023 than already disclosed.

24. SUBSEQUENT EVENTS

In January 2025, Faron announced that the final MDS patient was identified for the BEXMAB Phase II trial and that topline readout is expected in April 2025.

In early February 2025, Faron conducted a private placement directed to a limited number of institutional and other investors raising EUR 12.0 million.

Result and Dividends

The Company's comprehensive loss for the period was EUR 25,999,608 (2023: EUR 31,093, 581). The Board of Directors proposes to the Annual General Meeting 2024 not to pay dividend.

BOARD SIGNATURES

Turku, 26 February 2025

Tuomo Pätsi
Chairman

Juho Jalkanen
CEO

Markku Jalkanen

John Poulos

Christine Roth

Marie-Louise Fjällskog

THE AUDITOR'S NOTE

A report on the audit performed has been issued today

Helsinki, 26 February 2025
PricewaterhouseCoopers Oy
Authorised Public Accountants

Panu Vänskä
Authorised Public Accountant (KHT)

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Faron Pharmaceuticals Oy

Report on the Audit of the Financial Statements

Opinion

In our opinion the financial statements give a true and fair view of the group's and the parent company's financial position, financial performance and cash flows in accordance with IFRS Accounting Standards as adopted by the EU and comply with statutory requirements.

What we have audited

We have audited the financial statements of Faron Pharmaceuticals Oy (business identity code 2068285-4) for the year ended 31 December 2024. The financial statements comprise the balance sheets, statements of comprehensive income, statements of changes in equity, statements of cash flows and notes, which include material accounting policy information and other explanatory information for the group as well as for the parent company.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Material Uncertainty Related to Going Concern

We draw attention to note 2.2 Going concern in the financial statements. Because the additional finance is not committed at the date of issuance of these financial statements, this fact together with other matters stated in the notes, indicates that a material uncertainty exists that may cast significant doubt on the group's and the parent company's ability to continue as a going concern. Our opinion has not been modified in respect of this matter.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the group as a basis for forming an opinion on the group financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the information included in the Annual Report 2024, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

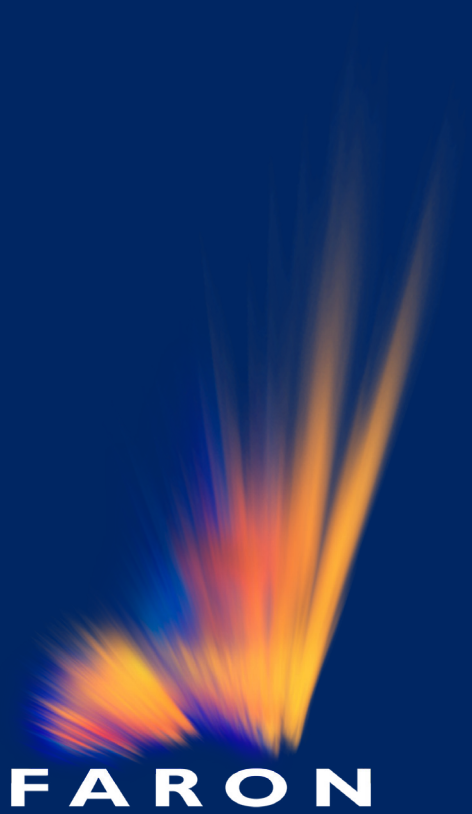
In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 26.2.2025

PricewaterhouseCoopers Oy
Authorised Public Accountants

Panu Vänskä
Authorised Public Accountant (KHT)



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