FARON

Leading the way in
breakthrough immunotherapies

Annual Report 2022

Faron Pharmaceuticals in brief

Faron Pharmaceuticals Oy ("Company", AIM: FARN, First North: FARON) together with its subsidiaries ("Faron" or "Group") is a clinical-stage biopharmaceutical group focused on building the future of immunotherapy by harnessing the power of the immune system to tackle cancer and inflammation. Faron currently has a pipeline based on the receptors involved in regulation of immune response in oncology. *Bexmarilimab,* a novel anti-CLEVER-1 humanised antibody, is its investigative precision immunotherapy with the potential to provide permanent immune stimulation for difficult-to-treat cancers through targeting myeloid function. Currently in Phase I/II clinical development in combination with standard of care in hematological malignancies, the agent has also demonstrated a well-tolerated profile as a monotherapy for patients with untreatable solid tumours. Faron is also progressing plans to investigate *bexmarilimab* in combination with anti-PD-1 therapy in selected advanced solid tumors. In terms of other pipeline assets, Traumakine® is an investigational intravenous (IV) interferon beta-1a therapy for the prevention of complications that arise from cytokine release syndrome, or hyperinflammatory conditions. Faron is headquartered in Turku, Finland with offices in Zürich, Switzerland and Boston, MA in the United States.

"In 2022, we saw impressive growth in our *bexmarilimab* program, with exciting early data across both hematologic malignancies and solid tumors. These accomplishments could not have been done without the continued support of our shareholders and the incredible team at Faron. We have a bright future ahead and I'd like to thank everyone for their dedication to fighting cancer and improving patient outcomes."

Dr. Markku Jalkanen

Chief Executive Officer

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

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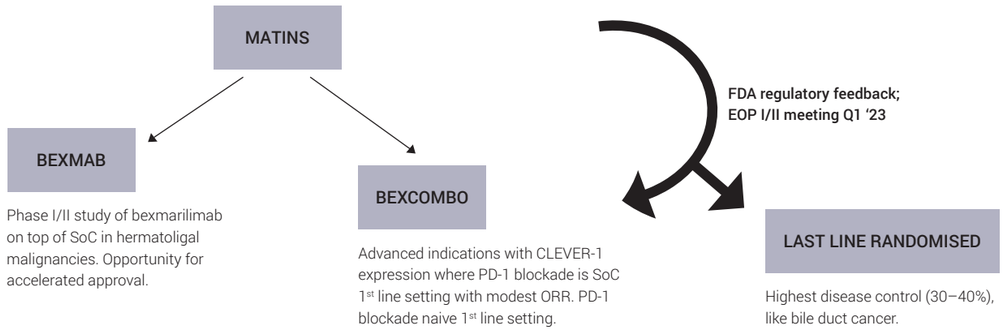
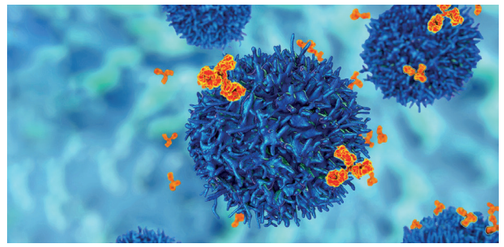
Our Pipeline

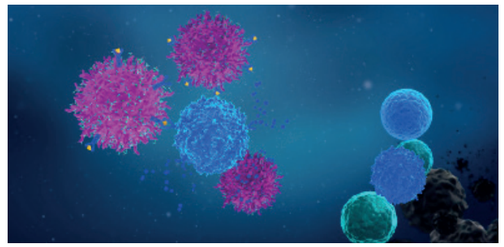
Building the future of immunotherapy

PROGRAMS (Target)	INDICATION (Trial name)	PHASE OF DEVELOPMENT			
		Preclinical	Phase I	Phase II	Phase III
IMMUNO-ONCOLOGY **Bexmarilimab** (anti-CLEVER-1 mAb)	Solid Tumors **(MATINS)**	First-in-human			
	AML and MDS **(BEXMAB)**				
	Checkpoint Combination in Solid Tumors **(BEXCOMBO)**				
	NSCLC* **(BEXLUNG)** (Investigator-Initiated)				
ORGAN PROTECTION **Traumakine®** (intravenous IFN beta-1a)	Prevention of Cytokine Release Syndrome				
REGENERATIVE MEDICINE **Haematokine®** (AOC3 inhibitor)	Chemotherapy-Induced Neutropenia				

** Non-Small Cell Lung Cancer*







Bexmarilimab – the future of immunotherapy

THE TARGET AND PROGRAMME

Bexmarilimab is Faron's wholly owned, investigative 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.

As an immuno-oncology therapy, *bexmarilimab* has potential as a single-agent therapy or in combination with other standard treatments including immune checkpoint molecules.

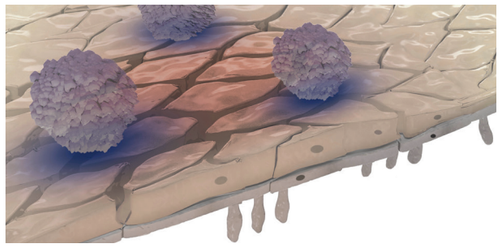
CLINICAL DEVELOPMENT

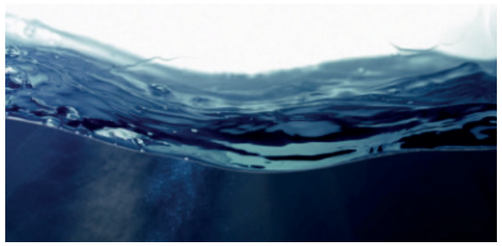
Bexmarilimab is being evaluated for safety and efficacy in a Phase I/II clinical trial in combination with standard of care (SoC) in aggressive hematological malignancies including acute myeloid leukemia (AML) and myelodysplatic syndrome (MDS). The trial has posted early, positive results, including tolerability and objective responses observed in three out of five patients in the first doublet cohort. Two of the three responders were refractory to prior azacitidine monotherapy.

Bexmarilimab has already demonstrated a strong safety and overall survival benefit profile in the Phase I/II MATINS trial as a monotherapy in late-stage solid tumors.

Beyond BEXMAB, a Phase II BEXCOMBO study investigating *bexmarilimab* in metastatic or unresectable, recurrent HNSCC, locally advanced or metastatic UCC and metastatic NSCLC in which first-line PD-1 blockade is approved standard of care is planned.

This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 960914.





Traumakine® – enhancing the endothelial barrier, hyperinflammation protection

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 hyperinflammatory conditions.

The body's own, natural production of IFN beta-1a, a key anti-inflammatory signaling protein produced in response to infection, is one of the major innate immunity defenses against virus invasion and a vital response to inflammation and cell integrity. IFN beta-1a has previously demonstrated a compelling argument against viral infection.

Faron is investigating the potential of Traumakine® treatment to further strengthen this natural defense. In addition to a profound antiviral effect, when given intravenously, IFN beta-1a upregulates the cell surface protein Cluster of Differentiation 73 (CD73) on endothelial cells. CD73 is an enzyme that suppresses pro-inflammatory responses and protects organs from ischemia and inflammation.

The integrity of vasculature and capillaries, which maintain the supply of oxygen in various organs, is sustained by endothelial cells covering the inner surfaces of blood vessels and forming a barrier between circulation and tissues. The breakdown of this endothelial barrier results in leakage of blood content to tissues. Inducing CD73 enzyme expression on vascular endothelium can protect vital organs against ischemia and inflammation, offering a new approach to the treatment of several life-threatening diseases and conditions.

CLINICAL DEVELOPMENT

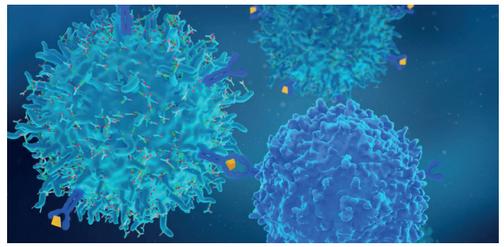
Faron and the Fred Hutchinson Cancer Research Center in Seattle, Washington, have announced a collaboration to further develop IV IFN beta-1a in the prevention of cytokine release syndrome (CRS) and other CAR-T therapy side effects, such as neurotoxicity.

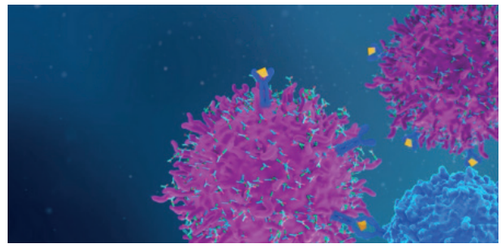
Prior to this announcement, *Scientific Reports* published data from the INFORAAA study showing Traumakine®-induced upregulation of CD73 was associated with 100% survival in surgically operated ruptured abdominal aorta aneurysm (RAAA) patients. These patients are at high risk of ischemia-reperfusion injury, with expected mortality between 30-40%.

Data from the preclinical Salvage, Preservation, and Advanced Resuscitation through Endothelial Stabilization (SPARES) study was presented at the Military Health System Research Symposium (MHSRS) held in Orlando, Florida. The results further highlight the promise of IV IFN beta-1a therapy as potential therapeutic for emergency and trauma patients, especially when given early on. In the study, primates treated with Traumakine® at the time of major inflammation due to ischemia showed lower levels of muscle and liver damage markers indicating total body protection. The full restoration of limb function was seen with no evidence of muscle atrophy or degeneration.

The study was coordinated in conjunction with investigators from Wake Forest Health, Duquesne University, the 59th Medical Wing of the US Air Force and with funding from the US Department of Defense.

Faron closed its Phase II/III HIBISCUS trial investigating Traumakine® in the treatment of hospitalized COVID-19 patients compared to corticosteroid treatment with dexamethasone, due to low COVID-19 infections and hospitalization rates in the US. Faron has transitioned the development of Traumakine® to settings without the risk of interference from corticosteroids.





Haematokine® – haematopoietic stem cell expansion

THE TARGET AND PROGRAMME

Hematopoietic Stem Cell Transplantation (HSCT) is standard of care for many diseases of the blood. However, transplant failure, a result of poor expansion rates from the transplanted cells, is a complication arising from transplantations that occurs in over 25% of patients and can be lethal.

The AOC3 enzymatic domain, a semicarbazide sensitive amine oxidase, is known to produce hydrogen peroxide (H2O2), a potent inflammatory mediator. AOC3 in vivo, ex vivo and in vitro studies have revealed that an ACO3 enzymatic end product H2O2 controls expansion of hematopoietic stem cells.

Haematokine® regulates AOC3 activity in order to expand hematopoietic stem cells, which can be used in regenerative medicines in hematological malignancies where expansion rates in transplanted cells are low and possibly for the treatment of chemotherapy induced suppression of the bone marrow, e.g. chemotherapy-induced neutropenia (CIN). This program, currently in preclinical development, has the potential to benefit all indications where an expansion of haemopoietic stem cells is needed.

CLINICAL DEVELOPMENT

Hematokine is currently undergoing IND-enabling studies.

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)

- Faron reported that three out of five patients achieved objective responses in the first doublet cohort evaluating the combination of azacitidine and *bexmarilimab* in the Phase I/II (BEXMAB) study. Two of the three responders were refractory to standard of care (SoC) azacitidine monotherapy. The addition of *bexmarilimab* to SoC was well tolerated.
- Both the 1mg/kg and 3mg/kg doublet arms are fully enrolled, and the dose-escalation meeting is planned for Q1 2023. Faron has opened the first triplet cohort with *bexmarilimab* (1mg/kg), azacitidine and venetoclax in newly diagnosed AML patients who are not able to tolerate chemotherapy.
- Faron anticipates sites in the U.S. to be opened during Q1/Q2 2023 to speed up recruitment even further.

Single-agent safety and activity in advanced solid tumors

- *Bexmarilimab* has been evaluated as a single agent in the Phase I/II MATINS in more than 200 patients and found to be well-tolerated.
- Up to 36% of heavily pre-treated patients achieved disease control in certain indications.
- Median overall survival was 14.9 months for patients who achieved stabilization of disease from *bexmarilimab* compared to 4.4 months for those who did not, representing a 3.4-fold increase.
- *Bexmarilimab* treatment in MATINS induced significant systemic interferon gamma (IFN-γ) increase, again showing the therapy's capacity to activate immune response in cancer patients, especially in patients with immunologically "cold" tumors. As presented at ASCO2022 in Chicago, the higher baseline CLEVER-1 levels in the tumors were associated with clinical benefit and could become an essential component as a diagnostic tool for patient selection.
- An FDA meeting will take place in Q1 2023 for feedback on the recommended dosing regimen and study design for further development of single agent *bexmarilimab*.

Combination potential with PD-1 blockade

- A high baseline level of IFN-γ in the tumor indicates that the immune system is already set to attack cancer cells and seems required for PD-1 blockade to work.
- *Bexmarilimab i*gnites the immune system by inducing IFN-y production.
- Thus, adding *bexmarilimab* to PD-1 blockade is anticipated to enhance efficacy.
- Faron plans to initiate the Phase II BEXCOMBO study investigating *bexmarilimab* in metastatic or unresectable, recurrent HNSCC, locally advanced or metastatic UCC and metastatic NSCLC in which first-line PD-1 blockade is approved SoC.

TRAUMAKINE® – Faron's investigational intravenous (IV) interferon beta-1a therapy, in development for hyperinflammatory conditions.

- Data from the preclinical Salvage, Preservation, and Advanced Resuscitation through Endothelial Stabilization (SPARES) study was presented at the Military Health System Research Symposium (MHSRS) held in Orlando, Florida.
- The results further highlight the promise of IV interferon beta-1a (IFN beta-1a) therapy as a potential therapeutic for emergency and trauma patients, especially when given early on.
- In the study, primates treated with Traumakine® at the time of major inflammation due to ischemia showed lower levels of muscle and liver damage markers indicating total body protection. The full restoration of limb function was seen with no evidence of muscle atrophy or degeneration. The SPARES study was coordinated in conjunction with investigators from Wake Forest Health, Duquesne University, the 59th Medical Wing of the US Air Force and with funding from the US Department of Defense.
- Faron has refocused its therapeutic strategy of Traumakine, and closed its Phase II/III HIBISCUS trial investigating Traumakine® in the treatment of hospitalized COVID-19 patients compared to corticosteroid treatment with dexamethasone.
- Faron published research identifying a gene mutation in interferon alpha/beta receptor that contributed to the corticosteroid response and outcomes in ARDS and COVID-19 patients in the completed Phase III INTEREST trial of Traumakine® in ARDS patients. The results build on Faron's initial 2018 findings from the study.
- The Company filed a patent to the US Patent Office and Trademark Office regarding a patient selection method in terms of steroid treatment with an identified gene mutation in the interferon beta receptor. It received positive feedback in 2022.
- Another patent has been filed on sequencing interferon beta and steroid treatments, so that steroids can be used once adequate levels of CD73 are reached using IV IFN beta-1a.

HAEMATOKINE – An investigative AOC3 (amine oxidase copper containing 3) protein inhibitor targeting Vascular Adhesion Protein-1 (VAP-1) for the use in regenerative medicine for the expansion of hematopoietic stem cells and to treat supressed bone marrow and the production of new blood cells.

CORPORATE HIGHLIGHTS

- Balance sheet was strengthened by raising EUR 13.4 million gross through two fundraising rounds, which encompassed existing and new investors, including The Leukemia & Lymphoma Society® (LLS). In February 2022, Faron also announced a debt funding agreement with IPF Partners for up to EUR 30 million. EUR 10 million was accessed upon signing of the agreement with an additional EUR 20 million available in the future through additional tranches of EUR 5 million and EUR 15 million, subject to certain conditions being met. Post period in January 2023, Faron raised EUR 12.0 million gross from new and existing shareholder, including LLS.
- Marie-Louise Fjällskog, M.D., Ph.D., joined Faron's Global Management Team as Chief Medical Officer, bringing with her over 30 years of experience in clinical oncology, translational research, and drug development. Dr. Fjällskog joined Faron from Sensei Biotherapeutics (NASDAQ: SNSE). As Chief Medical Officer at Sensei, she was responsible for leading clinical and development strategy and operations. Previously, she served as Vice President, Clinical Development at Merus (NASDAQ: MRUS) and Infinity Pharmaceuticals (NASDAQ: INFI) where she led development of multiple small molecule and immuno-oncology clinical programs. She was also formerly Global Clinical Program Leader at the Novartis Institute for Biomedical Research.
- Maija Hollmén, PhD, joined Faron's Global Management Team as Chief Scientific Officer. In her role, Dr. Hollmén oversees preclinical and supports clinical development for Faron. Her priority will be the further development of bexmarilimab, Faron's wholly owned, novel precision cancer immunotherapy candidate. Dr. Hollmén is the world-leading expert on CLEVER-1 biology and CLEVER-1-expressing tumor-associated macrophages. She is an Adjunct Professor of Tumor Immunology on the Faculty of Medicine at the University of Turku in Finland, as well as a Principal Investigator.
- Juho Jalkanen, M.D., Ph.D., joined Faron's Global Management Team as as Chief Operating Officer. In his role, Dr. Jalkanen leads business strategy and daily operations for Faron. This includes oversight of academic and industry partnerships, resource prioritization and allocation, chemistry, manufacturing and controls, supply chain and driving performance measures. Dr. Jalkanen joined Faron in 2018 as Faron's Chief Development Officer. He also served as Faron's interim Chief Medical Officer in 2021 prior to the appointment of Dr. Marie-Louise Fjällskog.
- Vesa Karvonen, LL.M., General Counsel and Juuso Vakkuri, MA, MSc, EMBA, Chief Human Resources Officer joined Faron's Global Management Team.
- Faron appointed Erik Ostrowski as a Non-Executive Director of the Company. Mr. Ostrowski is an experienced biotech and financial executive who is currently the Chief Financial Officer of AVROBIO, Inc. (NASDAQ: AVRO).

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FINANCIAL

- On December 31, 2022, Faron held cash balances of EUR 7.0 million (2021: EUR 6.9 million).
- Loss for the period for the financial year ended December 31, 2022 was EUR 28.7 million (2021: EUR 21.2 million).
- Net assets on December 31, 2022 were EUR -11.5 million (2021: EUR 2.9 million).
- In June 2022, the Company successfully raised a total of EUR 5.0 million gross (EUR 4.8 million net) from new and existing shareholders, through issuance of a total of 3,318,421 new ordinary shares to itself without consideration. 2,006,621 of those shares were conveyed to investors. In October 2022, the Company successfully raised a total of EUR 8.4 million gross (EUR 8.2 million net) from new and existing shareholders, through issuance of a total of 3,229,930 new ordinary shares to itself. Those shares and the 1,311,800 existing treasury shares were conveyed to investors. Proceeds from both raises will be used to accelerate clinical development of Faron's main drug candidate, continue the CMC process and US build-up and to strengthen the Company's balance sheet.
- In February 2022, the Company secured a debt funding agreement with IPF Partners for up to EUR 30 million. EUR 10 million was accessed upon signing of the agreement with an additional EUR 20 million available in the future though additional tranches of EUR 5 million and EUR 15 million, subject to certain conditions being met.
- Post period, in January 2023 the Company successfully raised a total of EUR 12.0 million gross through the issuance of 3,692,308 ordinary shares to itself without consideration which were conveyed to investors.

CONSOLIDATED KEY FIGURES, IFRS

€'000	Unaudited 7–12/2022 months	Unaudited 7–12/2021 6 months	1–12/2022 12 months	1–12/2021 12 months
Other operating income	318	4,927	803	6,137
Research and Development expenses	(10,683)	(8,361)	(20,730)	(17,369)
General and Administrative expenses	(3,697)	(7,250)	(7,498)	(9,876)
Loss for the period	(15,603)	(10,649)	(28,730)	(21,194)
Loss per share EUR	(0.27)	(0.21)	(0.52)	(0.42)
Number of shares at end of period	59,805,383	53,232,032	59,805,383	53,232,032
Average number of shares	57,230,625	51,836,953	55,229,835	50,723,964

€'000	Unaudited 30 Jun 2022	Unaudited 30 Jun 2021	31 Dec 2022	31 Dec 2021
Cash and cash equivalents	9,936	6,967	6,990	6,853
Equity	(5,194)	2,813	(11,476)	2,919
Balance sheet total	16,729	11,865	11,271	13,182

Chairman's Statement

During 2022, Faron has continued to focus on *bexmarilimab*, our novel, wholly owned novel precision cancer immunotherapy candidate, with exciting clinical data milestones anticipated for 2023. We have also grown the Company in the US and in Finland, bringing world-class expertise into Faron to advance *bexmarilimab*.

We have the ongoing Phase I/II MATINS clinical trial in pretreated, late-stage cancer, and as a result have delivered on our goals to understand monotherapy *bexmarilimab* efficacy and safety across multiple tumor types, as well as identify a dose and potential dosing regimens. We have also undertaken substantial work on biomarkers to develop enrichment strategies to identify patients who will best respond in future trials.

Faron has published data on *bexmarilimab* that consistently supports earlier positive results and continues to underscore that the mechanism of action demonstrates an effect on mortality in responders. The Company will be presenting a data package to the US Food and Drug Administration in the first half of 2023.

Faron recognises the future of cancer treatment will be in combination therapies, and as such we have reported exciting data from the Phase I/II BEXMAB study in hematological malignancies. We also plan to initiate BEXCOMBO, a Phase II study of the combination therapy *bexmarilimab* plus PD-1 blockade in patients that have metastatic or unresectable, recurrent HNSCC, locally advanced or metastatic UCC and metastatic NSCLC where first-line PD-1 blockade is approved standard of care.

We continue to see *bexmarilimab* as the major value driver for Faron, and our goal is to deliver worldwide approvals to allow *bexmarilimab* to be used by cancer physicians to treat patients.

Despite Faron's focus on *bexmarilimab*, we have used partnerships to develop Traumakine®, Faron's investigational intravenous (IV) interferon (IFN) beta-1a therapy, to prevent multiorgan dysfunction.

We recognise the funding environment for European companies has been extremely challenging and despite that, we have continued to raise capital to finance Faron's activities. In 2022, we announced Faron had entered into a secured debt agreement with IPF Partners to advance and accelerate its pipeline programs. We had two equity financing rounds and are pleased we continue to have supportive shareholders in Finland and the rest of Scandinavia. In January 2023 we completed a further financing round of EUR 12 million to support the continued development of *bexmarilimab*. We are delighted that The Leukemia & Lymphoma Society participated in the previous round and in the January fundraise.

In terms of building the Group, Dr. Juho Jalkanen was promoted to COO and we welcomed CMO Marie-Louise Fjällskog, based in Boston, as well as a Vesa Karvonen, our new general counsel based in Turku and Juuso Vakkuri as Chief Human Resources Officer. We have developed the US team in Boston, investing in clinical and regulatory personnel. Erik Ostrowski joined the Board of Directors. He brings substantial finance experience including as the CFO of a NASDAQ-listed company. We anticipate continuing to add employees in 2023.

I'd like to thank the staff of Faron, our partner organizations, study steering and advisory committee members investigators and patients that have participated in our clinical trials. I am indebted to CEO Dr. Markku Jalkanen, CFO Toni Hänninen, COO Juho Jalkanen, CMO Marie-Louise Fjällskog, General Counsel Vesa Karvonen and CHRO Juuso Vakkuri for their contributions to Faron in 2022. We look forward to great success in 2023.

Dr Frank Armstrong
Chairman
March 2, 2023

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Chief Executive Officer's Review

The past year 2022 has been an incredible year of transformation for Faron, in terms of development of our key asset *bexmarilimab*, building up a new Global Management Team with five new C-level members and the initiation of a clinical/regulatory team for US-based activities. We are excited to go into 2023 with strong clinical data behind us and clear plans to move forward.

The year 2022 started with premium recruitment when Dr. Marie-Louise Fjällskog (M.D., PhD) came on board as Chief Medical Officer, bringing over 30 years of experience in clinical oncology, translational research, and drug development. She joined Dr. Juho Jalkanen (M.D., PhD), Chief Operating Officer, as well as our new General Counsel, Vesa Karvonen. We also welcomed Juuso Vakkuri as our Chief Human Resources Officer, and most recently, Dr. Maija Hollmén, PhD, as our Chief Scientific Officer. She will spearhead further inventions around bexmarilimab, Faron's wholly owned, novel precision cancer immunotherapy candidate.

Our first, large Phase I/II MATINS study has provided us a proper dosing regimen for *bexmarilimab* and demonstrated a good safety profile. Initial efficacy data on advanced solid tumors allows us to identify biomarkers predicting extended survival of these hard-to-treat cancer patients. Our teams have worked hard to build a solid data package for the FDA on the next steps forward. This feedback will significantly impact our activities in 2023.

Importantly, we have found *bexamarilimab* is effective for patients who are refractory to PD-1 blockade. These patients have silent immune reaction as observed in low interferon gamma (IFN-gamma) levels. This is opposite to PD-1 blockers that are usually are active in cancer patients with high IFN-gamma levels. This is understandable as their mode of action is based on activating the existing T-cells, not to generate new T-cell populations. Thus, the combination of PD-1 blockade with *bexmarilimab* provides a unique opportunity to stimulate immune ignition and effective T-cells.

Bexmarilimab is being evaluated for safety and efficacy in tBexmarilimab is being evaluated for safety and efficacy in the Phase I/II BEXMAB clinical trial, in combination with standard of care (SoC), in aggressive hematological malignancies including acute myeloid leukemia (AML) and myelodysplastic syndrome (MDS). This study is very exciting as now we have cancer cells which express the therapy target molecule CLEVER-1 on their surfaces. This means that wherever they travel in cancer patients, they carry this immunosuppressive element with them. In December, we reported in BEXMAB a partial responder achieving complete remission of blasts in blood and bone marrow followed by normalization of blood counts. A second patient showed reduced blast counts. This is particularly noteworthy considering the population targeted in BEXMAB, such as those having AML, have high mortality rates. Post period, we reported even more positive news: that three out of five patients achieved objective responses in the first doublet cohort of the Phase I/II BEXMAB study evaluating the combination of azacitidine and *bexmarilimab*. Two of the three responders were refractory to standard of care (SoC) azacitidine monotherapy.

We are thrilled with the progress and are pushing ahead in opening sites at US hematological centers.

We have also been successful in obtaining continued, long-term patent protection for *bexmarilimab*. During 2021 the United States Patent and Trademark Office and equivalent Japanese patent office approved protection, at least through 2037, for our humanized anti-CLEVER-1 antibody (*bexmarilimab*) sequence. During 2022 we obtained similarly patent coverage in Europe and other territories providing Faron excellent commercial opportunity in more than 90% of pharmaceutical markets. This fact has been recognised also by our partner candidates.

We have continued background work to advance both Traumakine® and Haematokine® programs to open clinical studies for both in 2023. We decided to close the HIBISCUS study using Traumakine due to lack of steroid-free patients. Our focus now is on opportunities where steroids cannot be used, and where ischemic conditions with vascular damage is the main reason for patient death. For the latter, we will continue to collaborate with the US Department of Defense (DoD). We also understand today the molecular basis of steroid interruption of IFN-beta signalling pathway and what role some genetic alterations may cause.

The third program in our pipeline, Haematokine, an investigational Vascular Adhesion Protein 1 (VAP-1)

inhibitor, has preclinical studies continuing. We believe Haematokine could have broad applicability, not just in hematological malignancies, but across the field of regenerative medicine.

Our future looks bright, with the focus for 2023 to accelerate *bexmarilimab's* clinical development, especially in BEXMAB. We also aim to initiate the Phase II BEXCOMBO study investigating *bexmarilimab* in metastatic or unresectable, recurrent HNSCC, locally advanced or metastatic UCC and metastatic NSCLC where first-line PD-1 blockade is approved standard of care. This combination regimen has the potential to change the future of cancer care. Future interactions with the FDA will guide our path forward.

I would like to thank our shareholders for their continued support of Faron and the management team. I would also like to express my profound gratitude to every Faron team member who come to work each day committed to disrupting the current treatment landscape and fundamentally improving patient outcomes.

Dr Markku Jalkanen
Chief Executive Officer
March 2, 2023

Financial Review

Despite continuing challenging market conditions, the Company was able to conduct two successful fundraising rounds in 2022. Combined, they raised EUR 13.4 million gross and both rounds included new and existing investors. In our fundraising round in June we were able to attract The Leukemia & Lymphoma Society® (LLS) to support our newest *bexmarilimab* trial, BEXMAB. Faron became part of LLS' Therapy Acceleration Program® (TAP). In our October fundraise we were further able to attract reputable Finnish pension funds.

Additionally, in February 2022, the Company secured a debt funding agreement with IPF Partners, one of the leading alternative financing providers focused on the healthcare sector, for up to EUR 30 million. EUR 10 million was accessed upon signing of the agreement with an additional EUR 20 million available in the future, subject to certain conditions being met. This funding agreement strengthened our financial position and gives us the flexibility to access supplemental and inexpensive capital as we continue to accelerate the development of our pipeline assets.

As a result of these fundraising efforts, the net cash from financing activities of EUR 23.5 million exceeded the net cash used in operating activities of EU 23.0 million in 2022. We were able to accomplish this while also increasing R&D and reducing G&A expenditures, as per our plan, to focus on accelerating our pipeline.

Post period in January 2023, the Company successfully raised a total of EUR 12.0 million gross. This fundraising round was supported by long-only institutional investors, family offices, existing shareholders and the Leukemia & Lymphoma Society® (LLS).

REVENUE AND OTHER OPERATING INCOME

Faron's revenue was nil for the year ended December 31, 2022 (2021: EUR nil). Faron recorded other income of EUR 0.8 million that consisted of grants from the European Union and Business Finland.

RESEARCH AND DEVELOPMENT COSTS

R&D costs increased by EUR 3.4 million from EUR 17.4 million in 2021 to EUR 20.7 million in 2022. In total, almost 90% of the R&D costs are directly attributable to advancing our clinical programs, and Faron expects this to continue as we accelerate patient recruitment. The costs of outsourced clinical trial services were increased by EUR 1.6 million from EUR 3.5 to EUR 5.1 million. The cost of employee benefits increased by EUR 1.9 million from EUR 3.3 to EUR 5.2 million, mainly driven by additional headcount in the US.

GENERAL AND ADMINISTRATION COSTS

Administrative expenses decreased by EUR 2.4 million from EUR 9.9 million in 2021 to EUR 7.5 million in 2022. The decrease was mainly due to the EUR 3.5 million decrease of legal expenses, that consisted in 2021 of the arbitration with Rentschler Biopharma SE, resulting in Faron's favor. Employee benefits increased by EUR 1.1 million from EUR 3.5 million to EUR 4.5 million due to additional headcount.

TAXATION

The Company's tax credit for the fiscal year 2022 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 December 31, 2022 was EUR 47.1 million (2021: EUR 41.0 million). The Company estimates that it can utilize most of these during the years 2023 to 2033 by offsetting them against future profits.

In addition, the Company has EUR 91.8 million of R&D costs incurred in the financial years 2010 - 2022 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 was EUR 28.7 million (2021: EUR 21.2 million). Total comprehensive loss for the year was EUR 28.7 million (2021: EUR 21.2 million), representing a loss of EUR 0.52 per share (2021: EUR 0.42 per share).

CASH FLOWS

Net cash flow was EUR 0.1 million positive for the year ended December 31, 2022 (2021: EUR 2.7 million positive). Cash used for operating activities increased by EUR 0.8 million to EUR 23.0 million for the year, compared to EUR 22.2 million for the year ended December 31, 2021. This increase was mostly driven by an increase in R&D investments. Net cash inflow from financing activities was EUR 23.5 million (2021: EUR 25.6 million) mainly due to the successful equity placings completed in June 2022 and October 2022 as well as the proceeds from borrowings of the loan with IPF Partners.

FUNDRAISING

In June 2022, the Company successfully raised a total of EUR 5.0 million gross (EUR 4.8 million net) from new and existing shareholders, through issuance of a total of 3,318,421 new ordinary shares to itself without consideration. 2,006,621 of those shares were conveyed to investors. In October 2022, the Company successfully raised a total of EUR 8.4 million gross (EUR 8.2 million net) from new and existing shareholders, through issuance of a total of 3,229,930 new ordinary shares to itself. Those shares and the 1,311,800 existing treasury shares were conveyed to investors. Proceeds from both raises were used to accelerate clinical development of the Company's main drug candidate, continue the CMC process and US operations buildup and to strengthen the Company's balance sheet. In February 2022, the Company secured a debt funding agreement with IPF Partners for up to EUR 30 million. EUR 10 million was accessed upon signing of the agreement with an additional EUR 20 million available in the future, subject to certain conditions being met.

Post period, in January 2022, the Company successfully raised a total of EUR 12.0 million gross through and issuance of 3,692,308 ordinary shares to itself without consideration which were conveyed to investors.

FINANCIAL POSITION

As at 31 December 2022, total cash and cash equivalents held were EUR 7.0 million (2021: 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 28.7 million during the year ended December 31, 2022. It had a negative equity of EUR 11.4 million including an accumulated deficit of EUR 143.7 million. As of that date, Faron had cash and cash equivalents of EUR 7.0 million.

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 together with known receivables will be sufficient to support the current level of activities into the third quarter of 2023. The Directors are continuing to explore sources of finance available to Faron and they believe they have a reasonable expectation that they will be able to secure sufficient cash inflows 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 further finance 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 40 (2021: 37)

SHARES AND SHARE CAPITAL

During the period January 1 to December 31, 2022, the Company, using the share authorities granted at the Annual General Meeting held on April 23, 2021, issued a total of 3,318,421 new ordinary shares to itself without consideration and conveyed 2,006,621 of those shares at an issuance price of EUR 2.49 per share to investors. During the same period, the Company, using the share authorities granted at the Extraordinary General Meeting held on July 7, 2022, issued a total of 3,229,932 new ordinary shares to itself without consideration. Those shares and the existing treasury shares were conveyed to investors at an issuance price of EUR 1.85 per share.

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 2022 the total number of voting rights was 59,805,383.

Toni Hänninen
Chief Financial Officer
March 2, 2023

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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, 2022 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 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 to 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. The Company's competitors include major multinational pharmaceutical companies, biotechnology companies and research institutions. Many of which 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 at all levels 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.

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 IPR 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.

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.

While the impact of COVID-19 seems to be lessening, there remains uncertainty related to the future course of the pandemic and what impact it or future public health crises may have on 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 March 2, 2023.

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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.

Dr Frank Armstrong
Non-Executive Chairman
March 2, 2023

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Compliance

COMPLIANCE WITH THE PRINCIPLES OF THE QCA CODE

The Principles of the QCA Code	Comply/Explain	Disclosure in the 2022 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 22 April 2022, the Company held its Annual General Meeting (AGM). The AGM was held through exceptional procedures in accordance with the temporary legislative act to limit the spread of the Covid-19 pandemic (375/2021). The shareholders of the Company or their proxy representatives could participate in the AGM and exercise their shareholders' rights only by voting in advance as well as by submitting counterproposals and asking questions in advance. At the AGM the number of Directors was confirmed as seven. Frank Armstrong, Markku Jalkanen, Leopoldo Zambeletti, Gregory Brown, John Poulos and Anne Whitaker were re-elected to the Board and Erik Ostrowski was elected as a new member to the Board for a term that ends at the end of the next AGM whereas longterm member and Vice Chair of the Board Matti Manner stepped down from his position. At the meeting of the Board held following the AGM, Frank Armstrong was re-elected Chairman of the Board. The Board comprises six non-executive directors and one executive director. Brief biographical details for the Directors can be found on the following pages. During 2022, the Board held 23 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.

Dr Frank Armstrong

Non-Executive Chairman

b. 1957

Dr. Armstrong is the Non-Executive Chairman of Faron Pharmaceuticals Ltd. and has served in this role since joining the board in September 2015. He has built a distinguished career as a visionary leader, scientist, and life sciences executive.

Dr. Armstrong has held Chief Executive roles with five biotechnology companies, both public and private, including Fulcrum Pharma plc and CuraGen, which was acquired by Celldex Therapeutics Inc, Bioaccelerate, Provensis and Phoqus. He also led Medical Science and Innovation at Merck Serono, the biopharmaceutical division of Merck KGaA and was previously Executive Vice President of Product Development at Bayer and Senior Vice President of Medical Research and Communications at Zeneca.

Dr. Armstrong is currently the Chairman of Enhanc3D Genomics, BioCaptiva and Bloomsbury Genetic Therapies, a Director of Newcells Biotech, a Non-Executive Director of ECO Animal Health Group plc and a member of the Senior Advisory Board at Healthcare Royalty Partners as well a Convenor of the Estates Committee at the university of Edingburgh.

Dr. Armstrong received an honours degree in biochemistry and an MBChB, Bachelor of Medicine, Bachelor of Surgery from the University of Edinburgh, Scotland. He is a physician, a Fellow of the Royal College of Physicians of Edinburgh and Non-Executive Director of the University of Edinburgh's governing body, theUniversity Court.

Holdings in the Company: 71,062 shares and 280,000 stock options, entitling to same amount of shares in the Company.

Dr Markku Jalkanen

Chief Executive Officer

b. 1954

Dr. Jalkanen is the Chief Executive Officer of Faron Pharmaceuticals Ltd. 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: 3,291,865 shares (directly and with his spouse) and 480,000 stock options, entitling to same amount of shares in the Company.

Dr Gregory B. Brown

Non-Executive Director

b. 1953

Dr. Brown is a Non-Executive Director of Faron Pharmaceuticals Ltd., a role he has served since joining the Board in May 2017. He has more than 35 years of experience in healthcare and investment banking.

Dr. Brown founded HealthCare Royalty Partners, a healthcare-focused private asset management firm investing in biopharmaceutical and medical products, where he serves as a member of the Senior Advisor Board. In addition, Dr. Brown is currently Chief Executive Officer and a Director of Memgen, and a Director of Aquestive Therapeutics. In addition, Dr. Brown is currently Chairman of Lisata Therapeutics Inc. He previously served as a Director of Invuity between October 2014 and December 2015.

Earlier in his career, Dr. Brown was a Managing Director at Paul Capital Partners in New York, Co-Head of Investment Banking at Adams, Harkness & Hill, and VP of Corporate Finance at Vector Securities International.

Dr. Brown received a Bachelor of Arts with honors from Yale University, a Doctor of Medicine with honors from SUNY Upstate Medical Center, and a Master of Business Administration with honors from Harvard Business School.

Holdings in the Company: 46,490 shares and 130,000 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 holds a B.S. in Marketing and M.B.A in Finance from Indiana University.

Holdings in the Company: no shares and 130,000 stock options, entitling to same amount of shares in the Company.

Leopoldo Zambeletti

Non-Executive Director

b. 1968

Mr. Zambeletti is a Non-Executive Director of Faron Pharmaceuticals Ltd., a role he has served since joining the board in September 2015. He is a highly respected figure within the life sciences and investment banking industries.

Mr. Zambeletti led the European Healthcare Investment team at JP Morgan for eight years before serving in the same role at Credit Suisse for an additional five years. He started his career at KPMG as an auditor.

Since 2013 Mr Zambeletti has been an independent strategic advisor to life science companies on Merger and Acquisitions, out-licensing deals and financing strategy. He is a Non-Executive Director of Nogra Pharma, Philogen, Touchlight, LenioBio, Adler Ortho, Meatless Farm and Qardio Inc.

Mr. Zambeletti received a BA in Business from Bocconi University in Milan, Italy.

Holdings in the Company: 17,461 shares and 140,000 stock options, entitling to same amount of shares in the Company.

Anne Whitaker

Non-Executive Director

b. 1967

Ms. Whitaker is a Non-Executive Director of Faron Pharmaceuticals Ltd., a role she has served since joining the board in April 2021. She is an experienced life sciences leader who has held senior leadership positions at large pharmaceutical, biotech and specialty pharma companies.

Ms. Whitaker is currently Chairman of the Board for Aerami Therapeutics Holdings, Inc., having previously served as the Company's Chief Executive Officer and Director. She also currently serves as a member of the Board of Directors on three publicly listed companies, Mallinckrodt Plc, OraSure Technologies Inc and Ergomed Plc. as well on three private companies, Bryn Pharma, Curio Digital Therapeutics and Trinity LIfe Science Partners

Previously, Ms. Whittaker was Chief Executive Officer at Novoclem Therapeutics, Inc. and Executive Vice President at Bausch Health, where she oversaw its Global Branded Pharmaceutical Business and the Western European Region. Earlier in her career, she also served as President and Chief Executive Officer of Synta Pharmaceuticals and President, North America Pharmaceuticals at Sanofi, where she oversaw all pharmaceutical and consumer healthcare operations for the region.

Ms. Wihitaker holds a bachelor of science in Chemistry from the University of North Alabama.

Holdings in the Company: 4,018 shares and 60,000 stock options, entitling to same amount of shares in the Company.

Erik Ostrowski
Non-Executive Director
b. 1972

Mr. Ostrowski is a Non-Executive Director of Faron Pharmaceuticals Ltd., a role he has served since joining the board in April 2022. He is a Veteran biotech and financial executive with significant fundraising and investment bank experience.

Mr. Ostrowski is currently the Chief Financial Officer and Treasurer of AVROBIO (Nasdaq: AVRO), a role he has served since joining the Company in January 2019. Prior to joining AVROBIO, he served as CFO of Summit Therapeutics plc. (Nasdaq: SMMT) and vice president of finance at Organogenesis Inc. (Nasdaq: ORGO). He previously worked in investment banking, most recently as a director with Leerink Partners LLC. Having begun his career as an accountant with Coopers & Lybrand (now PricewaterhouseCoopers).

Mr. Ostrowski received a BS in accounting and economics from Babson College and an MBA from the University of Chicago Booth School of Business.

Holdings in the Company: 2,009 shares and 30,000 stock options, entitling to same amount of shares in the Company.

PERFORMANCE EVALUATION

The Board has a process for evaluation of its own performance and that of its committees and individual Directors, including the Chairman. These evaluations are carried out at least annually.

In the Board performance evaluation process adopted by the Company, Board, committee and individual effectiveness is considered against the criteria of creating and running an effective Board, professional development, strategic foresight, stewardship, managing management, value creation and corporate culture.

In 2022 the Directors performed a self-assessment exercise and reviewed its results against previous assement from the year 2021. The results of the self assessment remained on the same level compared to the previous years, being in overall good.

BOARD COMMITTEES

In conjunction with being admitted to trading on AIM, the Company has established audit, nomination 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 elected at the Board meeting held following the AGM on 22 April 2022.

REMUNERATION COMMITTEE

As of 22 April 2022, the remuneration committee comprises Anne Whitaker as Chair together with Frank Armstrong, John Poulos and Leopoldo Zambeletti. 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. During 2022, the remuneration committee held four meetings.

AUDIT COMMITTEE

The audit committee, which comprises Leopoldo Zambeletti as Chair together with Gregory Brown, and Erik Ostrowski, meets not less than twice a year. The audit committee has the task of supervising and developing the internal audit of the Group and advising and making recommendations to the Board on related issues. During 2022, the audit committee held four meetings.

NOMINATION COMMITTEE

As of 22 April 2022 , the nomination committee comprises Frank Armstrong as Chair together with Gregory Brown and Anne Whitaker. 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. During 2022, the nomination committee held three meetings.

The nomination committee considers succession planning for Directors and other senior executives in the course of its work, bearing in mind the challenges and opportunities facing the Company and the skills and expertise needed on the Board in the future, and makes recommendations to the Board concerning formulating plans for succession for both Executive and Non-Executive Directors and in particular for the key roles of Chairman and Chief Executive Officer.

Attendance at Board Meetings

During 2022 the Board held 23 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 2022

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Jalkanen Markku	23			
Non-Executive Directors				
Armstrong Frank	21		4	3
Ostrowski Erik*	19	3		
Brown Gregory	23	4		2
Manner Matti**	4	1		1
Poulos John	21		4	
Zambeletti Leopoldo	20	4	4	
Whitaker Anne	21		4	3

(*) Board member since April 2022 (**) Board member until April 2022

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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 2022 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. An amendment to option plans 2015 and 2019 was resolved at the AGM held on 18 May 2020. The amendment enables options to be transferred or pledged after the conditions for share subscription have been fulfilled under the relevant rules. Details of these option plans are on pages 35 to 39.

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 Markku, CEO	16.9.2015	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
Armstrong Frank	Independent	Chairman	16.09.2015
Ostrowski Erik*	Independent	Member	22.04.2022
Brown Gregory	Independent	Member	16.05.2017
Poulos John	Independent	Member	16.05.2017
Zambeletti Leopoldo	Independent	Member	16.09.2015
Whitaker Anne	Independent	Member	23.04.2021

(*) Board member since April 2022

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	538,974	95,299	240	634,513
Non-Executive Directors				
Armstrong Frank	82,560			82,560
Manner Matti*	27,341			27,341
Ostrowski Erik**	19,022			19,022
Brown Gregory	43,319			43,319
Poulos John	41,000			41,000
Zambeletti Leopoldo	52,000			52,000
Whitaker Anne	44,758			44,758

(*) Board member until April 2022 (**) Board member since April 2022

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 and 23 April 2021, 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 2023.

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. 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 rules of Share Option Plan 2019, an aggregate maximum number of 2,000,000 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	02.11.2015-30.09.2023	3.67
2015 B options	400,000	18.11.2016	08.10.2016-30.09.2023	2.90
2015 C options	500,000	16.11.2017	08.10.2017-30.09.2023	8.39
2015 D options	500,000	21.05.2019	08.10.2018-30.09.2023	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	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	2.09

Total options under 2015 and 2019 Option Plans	At 1 January 2022	Granted during the period	Exercised during the period:	At 31 December 2022	Average subs. price per shares, €
Jalkanen Markku	480,000		0	480,000	4.45
Armstrong Frank	280,000		0	280,000	3.97
Ostrowski Erik*	0	30,000	0	30,000	2.38
Brown Gregory	100,000	30,000	0	130,000	3.93
Poulos John	100,000	30,000	0	130,000	3.93
Zambeletti Leopoldo	140,000		0	140,000	3.97
Whitaker Anne	30,000	30,000	0	60,000	3.45

(*) Board member since April 2022

At 31 December 2022	Issued Share Capital		Share Options	
	Ordinary shares	Percentage held	Options	Average exercise price, €
Executive				
Jalkanen Markku[1]	3,291,865	5.50	480,000	4.45
Non-Executive Directors				
Armstrong Frank	71,062	0.12	280,000	3.97
Ostrowski Erik*	2,009	0.01	30,000	2.38
Brown Gregory	46,490	0.08	130,000	3.93
Poulos John	0	0.00	130,000	3.93
Zambeletti Leopoldo	17,461	0.03	140,000	3.97
Anne Whitaker*	4,018	0.01	60,000	3.45
	3,429,905		**1,390,000**	

(*) Board member since April 2022

(1) of which 2,153,697 are held by Markku Jalkanen directly and 1,138,168 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 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 20-23 of the 2022 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. Peel Hunt LLP acts as the Company's sole broker on AIM. Cairn Financial Advisers LLP is the Company´s nominated advisor 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

Frank Armstrong
Chairman
2 March 2023

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2022.

DIRECTORS

During the year ended 31 December 2022 the following persons have been members of the Board of the Company:

Executive

Dr Markku Jalkanen, PhD | Chief Executive Officer

Non-executive

Dr Frank Armstrong, FRCPE, FFPM | Chairman
Dr Gregory B Brown | Non-Executive Director
Mr John Poulos | Non-Executive Director
Mr Leopoldo Zambeletti | Non-Executive Director
Ms Anne Whitaker | Non-Executive Director
Mr Erik Ostrowski | Non-Executive Director*

(*) Appointed to the Board on April 2022

PRINCIPAL RISKS AND UNCERTAINTIES

For a discussion of the principal risks and uncertainties which face Faron please see pages 20 to 23 of this document.

RESULTS AND DIVIDENDS

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

The Group's loss of the financial year after taxation and other comprehensive losses was €28.7 million (2021: €21.2 million).

The Company has no distributable equity and thus the Directors do not recommend the payment of a dividend (2021: 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 page 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. The Group's treasury policy is reviewed annually. 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 2022, the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company.

Timo Syrjälä*	12,367,825	20.68 %
Tom-Erik Lind	3,666,647	6.13 %
A&B (HK) Company Limited	3,408,409	5.7 %
Markku Jalkanen**	3,291,865	5.5 %
Marko Salmi	2,660,451	4.45 %
Fjarde AP Fonden (The Fourth Swedish National Pension Fund)	2,632,385	4.4 %
The European Investment Council Fund, EIC	2,080,437	3.48 %
Varma Mutual Pension Fund	1,891,891	3.16%

(*) of which 4,898,234 are held directly by Timo Syrjälä and 7,469,591 are held by Acme Investments SPF S.à.r.l., an entity which is wholly owned by Timo Syrjälä / (**) of which 2,153,697 are held by Markku Jalkanen directly and 1,138,168 are held by Markku Jalkanen's wife Sirpa Jalkanen

The information presented in the above table is consistent with the Company's best knowledge as at 31 December 2022.

GENERAL MEETINGS

The Company held the Annual General Meeting on 22 April 2022 and the Extra Ordinary General meeting on 7 July 2022. In 2023, the Annual General Meeting will be held on 24 March 2023. 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

Frank Armstrong
Chairman
2 March 2023

Financial Statements 2022

Statement of Comprehensive Income

For the year ended 31 December

€'000	Note	Group 2022	Group 2021	Parent 2022	Parent 2021
Revenue	**3**	**0**	**0**	**0**	**0**
Other operating income	4	803	6,137	868	6,137
Research and development expenses	5, 6, 7	(20,730)	(17,369)	(19,958)	(17,369)
General and administrative expenses	5, 6, 7	(7,498)	(9,876)	(8,495)	(9,969)
Operating loss		**(27,426)**	**(21,108)**	**(27,585)**	**(21,201)**
Financial income	8	96	165	36	182
Financial expenses	8	(1,400)	(235)	(1,376)	(249)
Loss before tax		**(28,730)**	**(21,178)**	**(28,924)**	**(21,268)**
Tax expense	9	0	(16)	0	(2)
Loss for the period		**(28,730)**	**(21,194)**	**(28,924)**	**(21,270)**
Other comprehensive income (loss)		17	(15)	-	-
Total comprehensive loss for the period		**(28,713)**	**(21,209)**	**(28,924)**	**(21,270)**
Loss per ordinary share					
Basic and diluted loss per share, EUR	10	(0.52)	(0.42)	(0.52)	(0.42)

Balance Sheet

€'000	Note	Group 2022	Group 2021	Parent 2022	Parent 2021
Assets					
Non-current assets					
Machinery and equipment	11	13	20	13	20
Right-of-use-assets	13	314	187	314	187
Subsidiary shares	24	-	-	18	18
Intangible assets	11	1,154	899	1,154	899
Prepayments and other receivables	12	60	53	522	649
Total non-current assets		**1,541**	**1,159**	**2,021**	**1,772**
Current assets					
Prepayments and other receivables	14	2,740	5,170	2,845	5,164
Cash and cash equivalents	15	6,990	6,853	6,884	6,634
Total current assets		**9,730**	**12,023**	**9,729**	**11,798**
Total assets		**11,271**	**13,182**	**11,750**	**13,570**
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		129,544	116,507	129,539	116,507
Accumulated deficit		(143,713)	(116,265)	(144,008)	(116,381)
Translation difference		2	(14)	-	-
Total equity	**16, 17**	**(11,476)**	**2,919**	**(11,778)**	**2,818**
Provisions					
Other provisions	18	158	-	158	-
Total provisions		**158**	**-**	**158**	**-**
Non-current liabilities					
Borrowings	19	11,102	2,918	11,106	2,918
Lease liabilities	13	163	16	163	16
Other liabilities	21	853	151	853	151
Total non-current liabilities		**12,118**	**3,085**	**12,122**	**3,085**
Current liabilities					
Borrowings	19	1,851	429	1,851	429
Lease liabilities	13	153	184	153	184
Trade payables	22	6,014	2,229	7,265	2,951
Accruals and other current liabilities	22	2,453	4,336	1,978	4,104
Total current liabilities		**10,471**	**7,178**	**11,247**	**7,668**
Total liabilities		**22,748**	**10,263**	**23,528**	**10,753**
Total equity and liabilities		**11,271**	**13,182**	**11,750**	**13,570**

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 2020		**2,691**	**92,015**	**(96,598)**	**(1,892)**
Comprehensive loss for the period		-	-	(21,270)	(21,270)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs	16	-	24,492	-	24,492
Share-based compensation	6,17	-	-	1,487	1,487
		-	**24,492**	**1,487**	**25,981**
Balance as at 31 December 2021		**2,691**	**116,507**	**(116,381)**	**2,818**
Comprehensive loss for the period		-	-	(28,924)	(28,924)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs	16	-	13,032	-	13,032
Share-based compensation	6,17	-	-	1,297	1,297
		-	**13,032**	**1,297**	**14,329**
Balance as at 31 December 2022		**2,691**	**129,539**	**(144,008)**	**(11,778)**

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 2020		**2,691**	**92,015**	**2**	**(96,557)**	**(1,849)**
Comprehensive loss for the period		-	-	(15)	(21,194)	(21,209)
Transactions with equity holders of the Group						
Issue of ordinary shares, net of transaction costs	16	-	24,492	-	-	24,492
Share-based compensation	6,17	-	-	-	1,487	1,487
		-	**24,492**	**-**	**1,487**	**25,980**
Balance as at 31 December 2021		**2,691**	**116,507**	**(15)**	**(116,265)**	**2,919**
Comprehensive loss for the period		-	-	17	(28,730)	(28,713)
Transactions with equity holders of the Group						
Issue of ordinary shares, net of transaction costs	16	-	13,037	-	-	13,037
Share-based compensation	6,17	-	-	-	1,297	1,297
Other movements		**-**	**-**	**-**	**(16)**	**(16)**
		-	**13,037**	**17**	**(27,448)**	**(14,395)**
Balance as at 31 December 2022		**2,691**	**129,544**	**2**	**(143,713)**	**(11,476)**

Statement of Cash Flows

As at 31 December		*Group*		*Parent*	
€'000	**Note**	**2022**	**2021**	**2022**	**2021**
Cash flow from operating activities					
Loss before tax		(28,730)	(21,194)	(28,924)	(21,268)
Adjustments for:					
Received grant	4	(803)	(1,387)	(868)	(1,387)
Depreciation and amortization	7	300	307	300	307
Change in provision		(158)	-	(158)	-
Financial expense & income	8	1,304	-	1,339	-
Interest expense	8	-	216	-	215
Unrealized foreign exchange loss (gain), net	8	-	153	-	168
Tax expense	9	-	16	-	2
Share-based compensation	17	1,297	1,487	1,297	1,487
Operating cash flows before movements in working capital		(26,790)	(20,402)	(27,014)	(20,476)
Change in net working capital:					
Prepayments and other receivables		2,864	(1,919)	2,887	(2,358)
Trade payables		719	723	4,314	1,090
Other liabilities		1,183	(566)	(2,126)	(566)
Cash used in operations		(22,023)	(22,163)	(21,940)	(22,309)
Taxes paid		-	(16)	-	(2)
Transaction costs related to loans and borrowings		(165)	-	(165)	-
Interest received		11	-	11	-
Interest paid		(816)	(40)	(816)	(40)
Net cash used in operating activities		**(22,993)**	**(22,218)**	**(22,909)**	**(22,351)**
Cash flow from investing activities					
Payments for intangible assets	11	(385)	(461)	(385)	(461)
Payments for tangible assets	11	(0)	(13)	(0)	(13)
Net cash used in investing activities		**(385)**	**(473)**	**(385)**	**(473)**
Cash flow from financing activities					
Proceeds from issue of shares	16	13,445	25,559	13,445	25,559
Share issue transaction cost	16	(365)	(1,067)	(365)	(1,067)
Proceeds from borrowings	19	10,389	662	10,389	661
Repayment of borrowings	19	(105)	(122)	(105)	(122)
Proceeds from grants	4, 21	231	750	231	750
Payment of lease liabilities	2.19	(116)	(191)	(116)	(191)
Net cash from financing activities		**23,478**	**25,590**	**23,478**	**25,590**
Net increase (+) / decrease (-) in cash and cash equivalents		**137**	**2,899**	**250**	**2,766**
Effect of exchange rate changes on cash and cash equivalents		37	(153)	66	(168)
Cash and cash equivalents at 1 January	15	6,853	4,108	6,634	4,037
Cash and cash equivalents at 31 December	**15**	**6,990**	**6,853**	**6,884**	**6,634**

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 2 March 2023.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1. Basis of Preparation

The financial statements have been prepared in accordance with the International Financial Reporting Standards of the International Accounting Standards Board (IASB) and as adopted by the European Union (IFRS) 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 principal accounting policies applied in the preparation of these financial statements are set out below. The Group has consistently applied these policies 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 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. 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 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". The Company and its subsidiaries are 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 the Group's commercial and development activities and generating a level of revenue adequate to support the Group's cost structure.

The Group made a net loss of €28,7 million during the year ended 31 December 2022. At the end of the financial year, it had total negative equity of €11,5 million including an accumulated deficit of €143,7 million. As at that date, the Group had cash and cash equivalents of €7,0 million.

The Directors have prepared detailed financial

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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. The Directors estimate that the cash held by the Group together with known receivables will be sufficient to support the current level of activities into the third quarter of 2023. The Directors are continuing to explore sources of finance available to the Group and they believe they have a reasonable expectation that they will be able to secure sufficient cash inflows for the Group 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 the Group's ability to continue as going concern. Should the Group be unable to obtain further finance 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. See further commentary on financial risk management on note 20.

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 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 2022, 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 has reported losses, inclusion of unexercised options would decrease the loss per share and therefore 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.

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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.

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. At the yearend 2022, the Group had recognized a provision on restructuring. A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

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 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

New standards implemented by the Group:

The Group has applied the following amendments for the first time in the annual reporting period commencing 1 January 2022:

- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Cost of Fulfilling a Contract – Amendments to IAS 37
- Annual Improvements to IFRS Standards 2018–2020, and
- Reference to the Conceptual Framework – amendments to IFRS 3.

The effect of changes required by the adoption of new standards, interpretations and amendments to existing standards and interpretations on 1 January 2022 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 2022 reporting periods and have not been early adopted by the group. Those include:

- IFRS 17 Insurance Contracts and Amendments to IFRS 17 Insurance contracts: Initial Application of IFRS 17 and IFRS 9 –Comparative Information
- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 and IAS 8 Accounting Policies, Changes in Accounting Policies and Errors: Disclosure of Accounting policies and Definition of Accounting Estimates
- Classification of Liabilities as Current or Non-current– Amendments to IAS 1Non-Current Liabilities with Covenants – Amendments to IAS 1
- 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 Bex. 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 2022 (EUR 0 thousand in 2021). All of the Group's non-current assets are located in Finland.

4. OTHER OPERATING INCOME

€'000	Year ended 31 December 2022	2021
Grant from the European Union	526	1,387
Grant from Business Finland	273	160
Grant component of government loans	0	498
Other income	4	4,091
Total operating income	**803**	**6,137**

Grant from the European Union comprise of direct funding from the European Commission under the Horizon 2020 research and innovation program (for research and technological development to support the Matins clinical program). Grant from Business Finland is also direct funding to support Cancer IO research. The grant component of government loan comprise of indirect financial benefit from the below-market interest of a loan from Business Finland which has been granted to finance Traumakine manufacturing. In 2021 the group recognized an extraordinary other income based on successful arbitration case.

The other income in 2021 consists of the reimbursement of already occurred legal expenses by the third-party recovery services and the arbitration award provider.

5. BREAKDOWN OF EXPENSES BY FUNCTION

Research and Development Expenses

€'000	Year ended 31 December 2022	2021
Materials and services	(1,372)	(1,156)
Employee benefits	(5,200)	(3,281)
Outsourced clinical trials services	(5,112)	(3,541)
Drug production	(4,361)	(6,109)
Analytics	(2,237)	(1,726)
Data management	(499)	(400)
Legal and consulting	(830)	(62)
IT expenses	(170)	(357)
IPR expenses	(254)	(80)
Travelling	(85)	(16)
Depreciation and amortization	(214)	(232)
Short term rent and premises	(16)	(5)
Other R&D costs	(381)	(404)
Total research and development expenses	**(20,730)**	**(17,369)**

General and Administration Expenses

€'000	Year ended 31 December 2022	2021
Employee benefits	(4,525)	(3,472)
Communication	(315)	(396)
Audit fees	(83)	(22)
Legal and consulting	(1,283)	(4,782)
IT expenses	(257)	(209)
Travelling	(283)	(102)
Depreciation and amortization	(87)	(75)
Short term rent and premises	(114)	(7)
Other G&A	(552)	(811)
Total general and administrative expenses	**(7,498)**	**(9,876)**

6. EMPLOYEE BENEFITS

€'000	Year ended 31 December 2022	2021
Salaries	(7,153)	(4,419)
Pension expenses – contribution-based plans	(822)	(644)
Social security contributions	(453)	(202)
Share-based compensation	(1,297)	(1,487)
Total employee benefit expenses	**(9,725)**	**(6,753)**
Employee benefit expenses by function		
Research and development expenses	(5,200)	(3,281)
General and administrative expenses	(4,525)	(3,472)
Total employee benefit expenses	**(9,725)**	**(6,753)**

The headcount of personnel at the end of 2022 was 40 (2021: 37). Share-based compensation information is included in note 17 and management remuneration information in note 24.

7. DEPRECIATION AND AMORTISATION

€'000	Year ended 31 December 2022	2021
Depreciation and amortisation by type of asset		
Depreciation for right-of-use-assets	(163)	(172)
Intangible assets - patents	(99)	(110)
Intangible assets	(31)	(18)
Machinery and equipment	(7)	(6)
Total depreciation and amortisation	**(300)**	**(307)**
Depreciation and amortisation by function		
Research and development expenses	(213)	(232)
General and administrative expenses	(87)	(75)
Total depreciation and amortisation	**(300)**	**(307)**

8. FINANCIAL INCOME AND EXPENSES

€'000	Year ended 31 December 2022	2021
Financial income		
Interest income	11	2
Other financial income	18	-
Gains from foreign exchange	67	163
Total financial income	**96**	**165**
Financial expenses		
Interest expenses	(1,362)	(200)
Losses from foreign exchange	(23)	(3)
Interest expenses from lease liabilities	(11)	(15)
Other financial expenses	(5)	(17)
Total financial expenses	**(1,400)**	**(235)**
Total financial income and expenses, net	**(1,304)**	**(70)**

Interest expenses consist of paid and accrued interest expenses. The interest expense relates mainly to the IPF loan and government loans. Interest expenses recognised from lease liabilities totaled to EUR 11 thousand (2021: EUR 15 thousand).

The foreign exchange wins mainly relate to the cash balance nominated in US Dollars which strengthened against the EUR. Unrealised foreign exchange gain, net is EUR 43 thousand for 2022 and EUR 153 thousand for 2021.

9. TAX EXPENSE

€'000	Year ended 31 December 2022	2021
Tax expense	(0)	(16)
Total tax expense	**(0)**	**(16)**

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:

€'000	Year ended 31 December 2022	2021
Loss before tax	(28,730)	(21,209)
Income tax calculated at Finnish tax rate 20%	5,746	4,242
Tax losses and temporary differences for which no deferred tax asset is recognised	(6,587)	(4,131)
Non-deductible expenses and tax-exempt income	841	(111)
Non-credited foreign withholding taxes	-	(16)
Taxes in the statement of comprehensive income	**-**	**(16)**

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

€'000	Year ended 31 December 2022	2021
R&D expenses not yet deducted in taxation [1]	91,799	70,085
Tax losses carried forward [2]	56,117	42,561
Total	**147,916**	**112,646**

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

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

€'000	2022	2021
Expiry within five years	26,040	23,037
Expiry within 6-10 years	30,077	19,524
Total	**56,117**	**42,561**

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 29,583 thousand (2021: EUR 22,529 thousand).

The Group does not have any other 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.

€'000	Year ended 31 December 2022	2021
Loss for the period	(28,713)	(21,209)
Weighted average number of ordinary shares in issue	55,229,835	50,723,964
Basic and dilutive loss per share (in €)	**(0.52)**	**(0.42)**

As of 31 December 2022, Faron Pharmaceuticals Oy had only share options outstanding. Number of potentially dilutive instruments currently outstanding totaled 3,465,816 as of 31 December 2022 (31 December 2021: 2,951,691). Since the Group 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 2022	**899**	**20**
Additions	387	-
Disposals	-	-
Depreciation/amortisation	(132)	(7)
Book value 31 December 2022	**1,154**	**13**
As at 31 December 2022		
Acquisition cost	1,910	57
Accumulated disposals	-	-
Accumulated depreciation/amortisation	(756)	(44)
Book value 31 December 2022	**1,154**	**13**
Book value 1 January 2021	**565**	**14**
Additions	461	13
Disposals	-	-
Depreciation/amortisation	(127)	(6)
Book value 31 December 2021	**899**	**20**
As at 31 December 2021		
Acquisition cost	1,521	57
Accumulated disposals	-	-
Accumulated depreciation/amortisation	(622)	(37)
Book value 31 December 2021	**899**	**20**

12. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

€'000	As at 31 December 2022	2021
Other receivables	60	53
Total non-current prepayments and other receivables	**60**	**53**

Other receivables consist mainly of restricted cash in the form of security deposits for rental agreements.
For the parent company, the other receivables (2022 EUR 522 thousand) consist on intercompany loans that are eliminated on group level.

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

€'000	31 December 2022	31 Dec 2021
Right-of-use assets		
Office & parking places	314	187
Total right-of-use assets	**314**	**187**
Lease liabilities		
Long-term leasing liability	163	16
Short-term leasing liability	153	184
Total leasing liabilities	**316**	**200**

The Group maintained the office premises during 2022 and opened an office in Boston, USA. Lease contracts are valid until further notice and thus lease term is estimated reflects the period when the Group is reasonably certain not to terminate the lease.

14. CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	Group		*Parent*	
€'000	As at 31 December			
	2022	2021	2022	2021
Prepayments	1,836	3,752	1,834	3,752
Other accrued incomes and other receivables	332	808	439	802
Prepayment for product testing	454	434	454	434
VAT receivable	119	176	119	176
Total current prepayments and other receivables	**2,740**	**5,170**	**2,845**	**5,164**

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

	Group		*Parent*	
€'000	As at 31 December			
	2022	2021	2022	2021
Bank accounts	6,990	6,853	6,884	6,634
Total cash and cash equivalents	**6,990**	**6,853**	**6,884**	**6,634**

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 2021	**46,896,747**	**2,691**	**92,015**
Issue of new shares, net of transaction costs	6,335,285	-	24,492
31 December 2021	**53,232,032**	**2,691**	**116,507**
1 January 2022	**53,232,032**	**2,691**	**116,507**
Issue of new shares, net of transaction costs	6,573,351	-	13,037
31 December 2022	**59,805,383**	**2,691**	**129,544**

On 12 February 2021, the number of shares was increased to 50,417,874 following the issue of 3,521,127 new shares. On 6 April 2021 the number of shares was increased to 50,457,874 following the issue of 40,000 new shares. On 1 October 2021 the number of shares was increased to 53,221,032 following the issue of 2,763,158 new shares. On 8 October 2021 the number of shares was increased to 53,232,032 following the issue of 11,000 new shares.

On 6 April 2022, the number of shares was increased to 53,257,032 following the issue of 25,000 new shares, On 28 June 2022, the number of shares was increased to 55,063,653 following the issue of 1,806,621 new shares. On 5 July 2022, the number of shares was increased to 55,263,653 following the issue of 200,000 new shares. On 14 October 2022, the number of shares was increased to 59,805,383 following the issue of 4,541,730 new shares.

Faron Pharmaceuticals Oy 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 2021 and 2022, 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.

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

The date of the allocation of D options to the employees and key management is 30 June 2019, which has been used in the option calculations.

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 2023*	30 September 2023*	30 September 2023*	30 September 2023*
Vesting conditions	Service until the beginning of the subscription period			

(*) During the Company annual general meeting on 23 April 2021, the AGM resolved to amend the terms and conditions of the 2015 option programme by extending the end of subscription period by 2 years, i.e. to 30 September 2023.

	2022 *2015 Option Plan*				*2021* *2015 Option Plan*			
Number of share options	**A**	**B**	**C**	**D**	**A**	**B**	**C**	**D**
Outstanding at 1 January	385,000	383,900	500,000	345,000	385,000	385,900	500,000	394,000
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	25,000	-	2,000	-	49,000
Outstanding at 31 December	385,000	383,900	500,000	320,000	385,000	383,900	500,000	345,000
Exercisable at 31 December	385,000	383,900	500,000	320,000	385,000	383,900	500,000	345,000
The weighted average fair value of the share options granted, EUR	-	-	-	-	-	-	-	-
The weighted average share price at the date of exercise, EUR	-	-	-	2.44	-	4.78	-	4.16

	2022 *2015 Option Plan*		*2021* *2015 Option Plan*	
Valuation parameters for instruments granted	**C**	**D**	**C**	**D**
Share price at grant date, EUR	4.51–9.39	0.62–4.96	4.51–9.39	0.62–4.96
Subscription price, EUR	4.51–8.39	1.09–4.96	4.51–8.39	1.09–4.96
Volatility, %(*)	42.59–52.57	55.60	42.59–52.57	55.60
Interest free rate, %	0.01	0.01	0.01	0.01
Expected dividends yield, %	0	0	0	0
Option fair value, EUR	1.42–4.01	0.11–1.25	1.42–4.01	0.11–1.25

(*) Expected volatility was determined as the average volatility of a peer group consisting of ten comparable biotechnology companies listed on London Stock Exchange AIM list.

There was no effect on earnings 2022 or 2021 based on share options granted under the 2015 Option Plan. The share-based compensation expense for the Option Plan 2015 was EUR 0 in 2022 (EUR 0 in 2021).

Option Plan 2019

The Option Plan 2019 was approved at the Company's board of directors meeting on 20 November 2019 and amended on 19 March 2020 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, 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 that can be awarded under the Option Plan is 2.000.000 in aggregate, with certain maximum limits per 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 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 2022 is €3,04.

The Company's board has confirmed the grant of a total of 742,000 options under the Option plan 2019 during 2022. The Options have been allocated under the Share Option Plan 2019 and are exercisable between 17 November 2022 and 17 November 2027 vesting 25% per annum over a period of four years.

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

2019 Option Plan	2022**	2021*
Maximum number of share options	2,000,000	2,000,000
Exercise price, EUR (weighted average if several grant during the year)	3.04	4.03
Dividend adjustment	No	No
Beginning of first subscription period	17 November 2022	24 April 2022
End of the last subscription period	17 November 2027	17 November 2026
Vesting conditions	Service until the beginning of each subscription period	Service until the beginning of each subscription period

(*) In 2021, there was three grants at three different times
(**) In 2022, there was six grants at four different times

2021–2022
2019 Option Plan

Number of share options	2022	2021
Outstanding at 1 January	2,000,000	2,000,000
Granted	742,000	796,333
Forfeited	202,875	-
Exercised	-	-
Outstanding at 31 December	1,876,916	2,000,000
Exercisable at 31 December	458,374	152,458

2021–2022
2019 Option Plan

Valuation inputs for instruments granted during period (weighted average)	2022	2021
Share price at grant date, EUR	2.05 - 3.44	4.00 - 4.43
Subscription price, EUR	2.06 - 4.04	3.99 - 4.47
Volatility, %(*)	63.92	79.54
Interest free rate, %	0.50	(0.58)
Expected dividends yield, %	0	0
Option fair value, EUR	1.14 - 2.19	2.10 - 2.63

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

The share-based compensation expense for the Option Plan 2022 was EUR 1,296 thousand (EUR 1,487 thousand in 2021).

18. PROVISIONS

€'000	Group	Parent
At 1 January 2022	-	-
Restructuring provision	396	396
Utilization of provision	238	238
At 31 December 2022	**158**	**158**

The restructuring provision relates to severance payments or other arrangements for employees leaving the Group during 2022. As at 31 December 2022, approximately 60 per cent of the provision was reversed whereas remainder of the provision was reversed in January 2023.

19. FINANCIAL ASSETS AND LIABILITIES

	Group		*Parent*	
€'000	As at 31 December			
	2022	2021	2022	2021
Financial assets measured at amortised cost				
Other receivables(*)	137	270	252	264
Cash and cash equivalents	6,990	6,853	6,884	6,634
Total financial assets measured at amortised cost	**7,127**	**7,123**	**7,136**	**6,898**
Financial liabilities measured at amortised cost				
Lease liabilities	316	200	316	200
Account payables	6,014	2,229	7,265	2,951
Borrowings in form of Business Finland R&D loans	3,401	3,380	3,401	3,380
Borrowings in form of IPF Tranche A	9,557	-	9,557	-
Total financial liabilities measured at amortised cost	**19,228**	**5,809**	**20,539**	**6 531**
Financial liabilities measured at FVTPL (category 2)				
Other liabilities	853	-	853	-
Total financial liabilities measured at FVTPL	**853**	**-**	**853**	**-**

(*) Prepayments are excluded as they are not considered to be financial instruments.

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 3,401 thousand (2021 EUR 3,380 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. For more information on contractual maturities of the Business Finland R&D loans and interests is provided in the note 20. The interest on Business Finland R&D loans amounted to EUR 210 thousand (2021 EUR 174 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 10 million euro,
- a Euro term loan facility (Tranche B) of up to 5 million euro,
- the possibility of Faron to request up to an additional 15 million euro 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. Faron pays a 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 9,557 thousand.

The interest on Tranche A facility amounted to EUR 1,225 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 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.

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.

	Group		*Parent*	
€'000	As at 31 December			
	2022	2021	2022	2021
Cash and cash equivalents	6,990	6,853	6,884	6,634
Lease liabilities	(316)	(199)	(316)	(199)
IPF Tranche A	(9,557)	-	(9,557)	-
Business Finland R&D loans	(3,401)	(3,380)	(3,401)	(3,380)
Net debt	**(6,284)**	**3,274**	**(6,390)**	**3,055**

€'000	Borrowings	Lease liabilities	Other liabilities	Total
Opening balance as at 1 Jan 2021	**2,850**	**375**	**786**	**4,011**
Financing cash flows	540	-191		349
Other movements (*	-43	16	-635	-662
Balance as at 31 Dec 2021	**3,347**	**200**	**151**	**3,698**
Financing cash flows	10,119	-116		10,003
Fair value adjustments			853	853
New lease liability		232		232
Other movements (*	-513		-151	-664
Balance as at 31 Dec 2022	**12,953**	**316**	**853**	**14,123**

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

20. FINANCIAL RISK MANAGEMENT

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 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 and licensing agreements.

The Company has been able to fund its operations with equity, grants, debt and R&D loans. While equity financing has 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 the overall investor's 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 debt 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 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 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 2022, the contractual maturity of non-derivative liabilities excluding trade payables, other payables and accruals was as follows:

€'000	2023	2024	2025	2026-thereafter	Total
Borrowings	1,892	4,300	4,419	7,975	18,586
Lease liabilities	169	169	-	-	338
Total	**2,061**	**4,469**	**4,419**	**7,975**	**18,924**

As at 31 December 2021, the contractual maturity of non-derivative liabilities and interests excluding trade payables, other payables and accruals was as follows:

€'000	2022	2023	2024	2025-thereafter	Total
R&D loans					
Repayment of loans	429	523	1,048	1,841	3,841
Interest expenses	32	34	29	27	122
Lease liabilities	184	16	-	-	200
Total	**645**	**573**	**1,077**	**1,868**	**4,163**

(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 2022, the Group had cash and cash equivalents of EUR 6,862 thousand, USD 109 thousand, CHF 27 thousand and GBP 7 thousand (2021: EUR 5,291 thousand, GBP 3 thousand, CHF 83 thousand and USD 1,672 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 IPF Tranche A loan and Business Finland R&D loans. IPF Tranche A interest consist 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, subject to 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.

21. OTHER NON-CURRENT LIABILITIES

€'000	As at 31 December 2022	2021
FV of warrants	853	-
Advance received	-	151
Total non-current liabilities	**853**	**151**

During the 2020 and 2021 the Group received a grant of EUR 1.375 thousand and EUR 750 thousand respectively from the European Union. In 2022 the remainder of related advances received was recognized as other income. The fair value of warrants issued to IPF (see note 19) is recognized in Other liabilities.

22. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	Group		*Parent*	
€'000	As at 31 December			
	2022	2021	2022	2021
Account payables	5,142	2,229	6,385	2,951
Clinical trial hospital fees	621	1,197	621	1,197
Accrued research & development costs	-	1,405	-	1,405
Accrued payroll	1,841	558	1,490	558
Accrued general and administration	195	896	195	749
Other liabilities and accruals	667	280	551	195
Total	**8,467**	**6,565**	**9,243**	**7,055**

23. CONTINGENCIES AND COMMITMENTS

Operating Lease – Faron as a Lessee

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

€'000	Year ended 31 December 2022	2021
No later than 1 year	70	18
Later than 1 year and no later than 5 years	1	27
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 Bex to pay additional milestone payments. The remaining milestone becomes payable upon the Group receives a certain amount of Net Sales for Bex.

24. RELATED PARTY TRANSACTIONS

Parent and subsidiary relations of Faron Pharmaceuticals Group on 31 December 2022:

	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 469 thousand in long term receivables from subsidiaries, which contains intercompany loans and the interests associated to them. The parent Company trade payables to subsidiaries at the end of the period were EUR 1,264 thousand.

During the period the profit and loss relevant bookings are EUR 23 thousand for the interest of the intercompany loans, Management fee charges to subsidiaries of EUR 42 thousand and the invoices for admin services by the subsidiaries of EUR 2,835 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, 2022 and 2021.

Key Management Personnel

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

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

€'000	Year ended 31 December 2022	2021
Compensation of key management personnel(*)		
Salaries and other short-term employee benefits	2,374	2,038
Post-employment benefits	260	238
Share-based payments	801	604
Total	**3,435**	**2,880**

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

The Management team was awarded 230,000 share options during 2022 (2021: 280,333 share options). At the end of the 2022, the number of outstanding options and share granted to the Management team amounted to 1,003,936 share options (at the end of 2021: 1,044,471 share options).

Non-executive Directors were awarded 120,000 share options during 2022, (2021: 210,000 share options). At the end of 2022, the number of outstanding options and share options granted to the non-executive directors amounted to 770,000 share options (at the end of 2021: 790,000 share options).

Management and Board Shareholding

Management(*) shareholding, 31 December 2022	
Number of shares (pcs)	4,485,538
Shareholding, percentage	7.5%
Board(**) shareholding, 31 December 2022 (excluding the shareholding of CEO)	
Number of shares (pcs)	141,040
Shareholding, percentage	0.24 %
Total number of shares outstanding at 31 December 2022 (pcs)	**59,805,383**

(*) 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 2021 and 2022 than already disclosed.

25. SUBSEQUENT EVENTS

Subsequent to the reporting date, on January 27, 2023, the Company successfully raised a total of EUR 12.0 million gross through issuance of 3,692,308 ordinary shares to itself without consideration which were conveyed to investors. With these proceeds and the current level of activities the Company has sufficient working capital into Q3 2023.

Result and Dividends

The Company's comprehensive loss for the period was 28 924 250,82 Euro (2021: 21 270 235,71 Euro). The Board of Directors proposes to the Annual General Meeting 2023 not to pay dividend.

BOARD SIGNATURES

Turku, 2 March 2023

Frank Armstrong
Chairman

Markku Jalkanen
CEO

Gregory Brown

Erik Ostrowski

John Poulos

Leopoldo Zambeletti

Anne Whitaker

THE AUDITOR'S NOTE

A report on the audit performed has been issued today

Helsinki, 3 March 2023
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 Ltd

Report on the Audit of the Financial Statements

Opinion

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

What we have audited

We have audited the financial statements of Faron Pharmaceuticals Ltd (business identity code 2068285-4) for the year ended 31 December 2022. The financial statements comprise the balance sheets, statements of comprehensive income, statements of changes in equity, statements of cash flows and notes 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 the notes in financial statements, item 2.2 "Going concern". As stated in the notes, additional funding has not been confirmed by approval of the 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 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 and the parent company's financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and comply with the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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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 2022, 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 3 March 2023

PricewaterhouseCoopers Oy
Authorised Public Accountants

Panu Vänskä
Authorised Public Accountant (KHT)

FARON

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