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Faron Pharmaceuticals Oy

("Faron" or the "Company")

Proposed Issue and Placing of Shares to raise approximately EUR 15 million

Company announcement, 11 February 2021 at 4:30 p.m. GMT / 6:30 p.m. EET

Inside information

TURKU – FINLAND – Faron Pharmaceuticals Oy (First North: FARON, AIM: FARN), the clinical stage biopharmaceutical company, today announces a proposed private placement of new ordinary shares ("**Placing Shares**") to raise approximately EUR 15 million before expenses to a limited number of institutional investors ("**Placing**"). Swedbank AB (publ), Finnish Branch ("**Swedbank**") is acting as sole bookrunner and financial adviser to the Company for the Placing in association with Kepler Cheuvreux S.A.

The Placing will be conducted in a private placement by way of an accelerated book-building process in which selected investors may submit bids for the Placing Shares (the **"Bookbuild"**). The subscription price per

Placing Share is to be determined on the basis of the bids received in the Bookbuild. The Bookbuild is expected to commence immediately following this announcement and is expected to end by 9:00 a.m. EET on 12 February 2021 at the latest. The Bookbuild may be discontinued at any time during the book-building process. Following the close of the Bookbuild, the Board of Directors of Faron (the "**Board**") will make the decision on the issue of the Placing Shares, including, as applicable, acceptance of the received bids, the number of Placing Shares to be issued and the subscription price per Placing Share (the "**Issue Price**"). The Company has received non-binding indications of interest from potential investors to subscribe for the Placing Shares under the Placing during a pre-marketing process. In addition, the Company and Swedbank have obtained from the European Innovation Council (EIC) Fund ("**EIC**") a binding and irrevocable pre-commitment to subscribe for one third (1/3) of the Placing Shares for an aggregate amount of maximum EUR 10 million and minimum EUR 3 million. EIC's pre-commitment is subject to certain customary conditions.

As soon as practicable after the close of the Bookbuild, and following receipt of binding commitments from investors, an announcement will be made on the final number of the Placing Shares to be issued and the Issue Price as well as the expected registration date of the Placing Shares.

Further details on the terms and conditions of the Placing are set out below.

The Placing Shares are expected to be issued and admitted to trading on Nasdaq First North Growth Market Finland ("**First North**") and AIM ("**AIM**") in London as set out below.

KEY HIGHLIGHTS

- A proposed private placement to raise approximately EUR 15 million conducted by way of an accelerated book-building, directed to a limited number of institutional and other investors, in which Swedbank uses reasonable endeavours to procure subscriptions for Placing Shares.
- EIC has provided a binding and irrevocable pre-commitment to subscribe for one third (1/3) of the Placing Shares for an aggregate amount of maximum EUR 10 million and minimum EUR 3 million, subject to certain conditions.
- The net proceeds of the Placing would be primarily used for the expansion of the *bexmarilimab* clinical development programme and manufacturing. Some proceeds would also be used to support the clinical

development of Traumakine® and its new manufacturing process, and in strengthening the balance sheet.

- As information not disclosed earlier, the cash balance held by the Company as of 31 December 2020 was ca. €4.1 million.
- Swedbank acts as Lead Manager and Sole Bookrunner of the Placing and Financial Adviser to the Company in association with Kepler Cheuvreux.

Dr Markku Jalkanen, Chief Executive Officer of Faron, said: *"We have continued to accelerate the clinical development of both of our lead pipeline programs, bexmarilimab and traumakine, over recent months and we are continually gaining valuable insights into these promising immunotherapy candidates. It is a significant achievement to have the support from the European Innovation Council (EIC), firstly in the form of a grant in summer 2020 and now with the pre-commitment, which is EIC's first investment in a publicly listed company. This fundraise will enable us to continue driving our two clinical programmes forward. I am looking forward to providing further updates over the coming months."*

REASONS FOR THE PROPOSED PLACING

The Faron pipeline has advanced significantly during the last 12-18 months. This pipeline development on both key projects (*bexmarilimab* and Traumakine) provides an opportunity to build further value for shareholders. The recent external support for Traumakine's HIBISCUS study from the US Department of Defense (DoD) allows the Company to focus on the design of new pivotal *bexmarilimab* clinical trials, which could be accelerated with further resources. This additional data generation, especially to support *bexmarilimab's* expansion into new combination studies in lung cancer and acute myeloid leukaemia, together with any MATINS study cancer cohorts (hard-to-treat-solid tumours) will allow full realisation of the potential upside connected to these projects. Part of this development includes establishing a Company unit in the US (Boston) to handle the increasing US activities (FDA and clinical site interactions) that the pipeline development requires.

The primary reason for conducting the Placing is to accelerate and expand the clinical development of the Company's main drug candidates, *bexmarilimab* and Traumakine (intravenous *interferon beta*).

Bexmarilimab

- testing higher frequency of dosing to investigate potential for enhanced clinical responses;
- three new trials to study *bexmarilimab* treatment in a neoadjuvant setting, in combination with a PD(L)-1 checkpoint inhibitor and in haematological malignancies; and
- continuation of the MATINS trial, where five solid tumour cohorts have demonstrated early signs of clinical benefit in the first two stages (Part I and II) of the study.

Traumakine

- launch of the phase II/III HIBISCUS study in the US; and
- prepararations to expand into additional clinical indications.

General corporate

- establishment of an operational unit in the US;
- investment in the manufacturing of both *bexmarilimab* and intravenous interferon beta; and
- strengthening of the Company's balance sheet.

DETAILS OF THE PROPOSED PLACING AND ISSUE OF EQUITY

The proposed Placing is being carried out within the authorisation granted to the Board by shareholders at the Company's Annual General Meeting held on 18 May 2020 to issue up to a total of 8,650,000 ordinary shares in the Company in a directed share issue and in deviation from the shareholders' pre-emptive rights. As no shares have been issued within the outstanding authority, the Company may issue up to a maximum of 8,650,000 new ordinary shares pursuant to the Placing, which represents approximately 18.4 per cent of all the issued shares and votes in the Company immediately prior to the Placing.

The Placing, arranged by Swedbank in association with Kepler Cheuvreux, will be conducted in a private placement by way of the Bookbuild, which is an accelerated book-building process in which selected investors may submit bids for the Placing Shares. The Issue Price is to be determined on the basis of the bids received in the Bookbuild. The Bookbuild is expected to commence immediately following this announcement and is expected to end by 9:00 EET a.m. on 12 February 2021 at the latest. The Bookbuild may be discontinued at any time during the book-building process. Following the close of the Bookbuild, the Board will make the decision on the issue of the Placing Shares, including, as applicable, acceptance of the received bids, the number of Placing Shares to be issued and the Issue Price. As soon as practicable after the close of the Bookbuild, receipt of binding commitments from investors and the Board having resolved on carrying out the

Placing, an announcement will be made on the final outcome of the Bookbuild and, as applicable, the number of the Placing Shares to be issued and the Issue Price as well as the expected registration date of the Placing Shares.

In connection with the proposed Placing, the Company has entered into a placing agreement with Swedbank (the "**Placing Agreement**"). Pursuant to the terms of the Placing Agreement, Swedbank has agreed to use its reasonable endeavours to procure the subscription of Placing Shares. In addition, the Company and Swedbank have obtained a binding and irrevocable pre-commitment from EIC to subscribe for one third (1/3) of the total amount of the Placing Shares for an aggregate amount of maximum EUR 10 million and minimum EUR 3 million. EIC's pre-commitment is subject to certain customary conditions.

The Placing Agreement contains customary warranties and an indemnity from the Company in favour of Swedbank together with provisions which enable Swedbank to terminate the Placing Agreement in certain circumstances before the completion of the Bookbuild and the Board's resolution on carrying out the Placing, including where there has been a material breach of any of the warranties contained in the Placing Agreement or where there is a material adverse change, e.g., in the business or financial affairs of the Company. The Company has agreed to pay Swedbank certain commissions and fees in connection with the Placing. Pursuant to the terms of the Placing Agreement, Swedbank has agreed to a limited settlement underwriting covering payments of the subscription prices to be made by subscribers of the Placing Shares to the Company upon the Board having resolved on carrying out the Placing after the close of the Bookbuild, on the Issue Price, on approving the binding subscriptions received through the Bookbuild and on confirming such final number of the Placing Shares.

The Placing is conditional upon, *inter alia*:

- the Placing Agreement having become unconditional in all respects;
- binding commitments being received from investors;
- the Board resolving to carry out the Placing at the Issue Price and the Company and Swedbank entering into a separate pricing agreement confirming the Issue Price and the number of the Placing Shares; and
- the Placing Shares being issued and being registered with the Finnish Trade Register.

In connection with the Placing, Faron has entered into a lock-up undertaking, under which it has, subject to certain exceptions, agreed not to issue or sell any shares in Faron for a period of ninety days after the closing of the Placing.

Subject to all conditions being met, the Placing Shares are expected to be entered in the Finnish Trade Register approximately on 12 February 2021.

ISSUE OF THE PLACING SHARES AND ADMISSION TO TRADING

Subject to all conditions being met and the Placing Shares being subscribed for, the Placing Shares are expected to be issued in one tranche. To the extent shares are subscribed for and subject to all conditions being met, application will then be made for the admission of the Placing Shares to trading on First North and AIM with said admission expected to become effective and trading to commence on or around 16 February 2021 (the "**Admission**"). The dates above may be subject to change.

A further announcement will be made to confirm the outcome of the Placing (subject to, *inter alia*, satisfaction of the above conditions) and to confirm the expected timing of issue of the Placing Shares and the Admission.

Upon registration with the Finnish Trade Register, the Placing Shares will rank *pari passu* in all respects with the existing shares of the Company.

NOTE REGARDING THE COMPANY'S FINANCIAL REPORTING IN 2021

The Company will publish its Financial Statement Release and its Annual Report 2020 (including financial statements) on 25 March 2021.

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About Faron Pharmaceuticals Ltd

Faron (AIM: FARN, First North: FARON) is a clinical stage biopharmaceutical company developing novel treatments for medical conditions with significant unmet needs. The Company currently has a pipeline based on the receptors involved in regulation of immune response in oncology and organ damage. *Bexmarilimab* is its investigative precision immunotherapy with the potential to provide permanent immune stimulation for difficult-to-treat cancers through targeting myeloid function. A novel anti-Clever-1 humanised antibody, *bexmarilimab* targets Clever-1 positive (Common Lymphatic Endothelial and Vascular Endothelial Receptor 1) tumour associated macrophages (TAMs) in the tumour microenvironment, converting these highly immunosuppressive M2 macrophages to immune stimulating M1 macrophages. With the ability to switch immune suppression to immune activation in various conditions, *bexmarilimab* has potential across oncology, infectious diseases and vaccine development. Currently in phase I/II clinical development as a

potential therapy for patients with untreatable solid tumours, *bexmarilimab* has potential as a single-agent therapy or in combination with other standard treatments including immune checkpoint molecules. Traumakine is an investigational intravenous (IV) interferon beta-1a therapy for the treatment of acute respiratory distress syndrome (ARDS) and other ischemic or hyperinflammatory conditions. In addition to its profound antiviral effect, Traumakine upregulates the cell surface protein Cluster of Differentiation 73 (CD73), an enzyme that suppresses pro-inflammatory responses in endothelial cells. Using an IV administration of interferon beta-1a provides optimal exposure to the lung vasculature, increasing protection against serious lung complications and helping to prevent vascular leakage by enhancing endothelial barrier function. Traumakine is currently being evaluated in global trials as a potential treatment for hospitalised patients with COVID-19. As part of a working relationship established with Faron, the 59th Medical Wing of the US Air Force and the US Department of Defense are also evaluating Traumakine's role in preventing multiple organ dysfunction syndrome (MODS) after ischemia-reperfusion injury caused by a major trauma. Faron is based in Turku, Finland. Further information is available at www.faron.com.

About the European Innovation Council Fund

Established in June 2020, the European Innovation Council ("**EIC**") Fund is a breakthrough initiative of the Commission to make direct equity and quasi-equity investments (between €500.000 and €15 million) in the capital of start-ups and SMEs. The EIC Fund aims to fill a critical financing gap faced by innovative companies when bringing their technologies to the commercialisation stage. The Fund helps to fill this financing gap at the start-up stage where the EU venture capital market still underperforms compared to the global venture capital market. Its main purpose is not to maximise the return on the investments, but to have a high impact by accompanying companies with breakthrough and disruptive technologies in their growth as patient capital investor.

IMPORTANT INFORMATION

Market Abuse Regulation

Market soundings, as defined in Regulation (EU) No 596/2014 ("**MAR**"), were taken in respect of the proposed Placing with the result that certain persons became aware of inside information, as permitted by

MAR. That inside information in relation to the Placing is set out in this announcement and has been disclosed as soon as possible in accordance with paragraph 7 of article 17 of MAR. Therefore, those persons that received inside information in such market sounding are no longer in possession of inside information relating to the Company and its securities.

This announcement contains inside information for the purposes of Article 7 of MAR and Article 7 of UK MAR.

MiFID II

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, whether arising in tort, contract or otherwise, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Placing Shares have been subject to a product approval process, which has determined that the Placing Shares are: (i) compatible with an end target market of: (a) retail investors, (b) investors who meet the criteria of professional clients and (c) eligible counterparties (each as defined in MiFID II); and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Placing Shares may decline and investors could lose all or part of their investment; the Placing Shares offer no guaranteed income and no capital protection; and an investment in the Placing Shares is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the offer.

Caution regarding forward-looking statements

Certain statements in this announcement are, or may be deemed to be, forward-looking statements. Forward-looking statements are identified by their use of terms and phrases such as ''believe'', ''could'', "should", "expect", ''envisage'', ''estimate'', ''intend'', ''may'', ''plan'', ''potentially'', ''will'' or the negative of

those, variations or comparable expressions, including references to assumptions. These forward-looking statements are not based on historical facts but rather on the Directors' current expectations and assumptions regarding the Company's future growth, results of operations, performance, future capital and other expenditures (including the amount, nature and sources of funding thereof), competitive advantages, business prospects and opportunities. Such forward-looking statements reflect the Directors' current beliefs and assumptions and are based on information currently available to the Directors.

A number of factors could cause actual results to differ materially from the results and expectations discussed in the forward-looking statements, many of which are beyond the control of the Company. In addition, other factors which could cause actual results to differ materially include the ability of the Company to successfully licence its programmes, risks associated with vulnerability to general economic and business conditions, competition, environmental and other regulatory changes, actions by governmental authorities, the availability of capital markets or other sources of funding, reliance on key personnel, uninsured and underinsured losses and other factors. Although any forward-looking statements contained in this announcement are based upon what the Directors believe to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with such forward-looking statements. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements. Subject to any continuing obligations under applicable law or any relevant AIM Rule requirements, in providing this information the Company does not undertake any obligation to publicly update or revise any of the forward-looking statements or to advise of any change in events, conditions or circumstances on which any such statement is based.