Annual Report 2020

FARON

LEADING THE WAY IN
BREAKTHROUGH IMMUNE THERAPIES

Faron Pharmaceuticals in brief

Faron (AIM: FARN, First North: FARON) is a clinical stage biopharmaceutical company developing novel treatments for medical conditions with significant unmet needs caused by dysfunction of our immune system. The Company currently has a pipeline based on the receptors involved in regulation of immune response in oncology, organ damage and bone marrow regeneration. *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 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. Traumakine is currently being evaluated in global trials as a potential treatment for hospitalised patients with COVID-19 and with the 59th Medical Wing of the US Air Force and the US Department of Defense for the prevention of multiple organ dysfunction syndrome (MODS) after ischemia-reperfusion injury caused by a major trauma. Faron is based in Turku, Finland.

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The past year has been one of the most significant in Faron's history, with rapid expansion of our clinical development programme for *bexmarilimab*, our novel Clever-1 targeting precision immunotherapy. I'd like to thank our shareholders for their continued support and the entire team at Faron for their exceptional efforts during a challenging year.

Dr Markku Jalkanen

Chief Executive Officer

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

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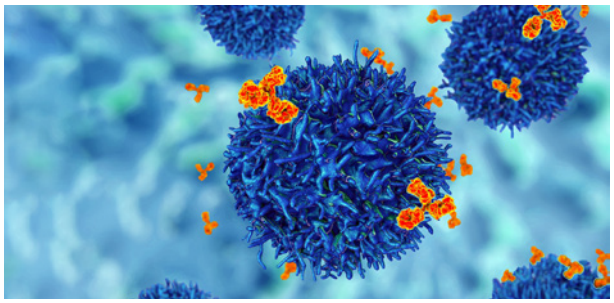
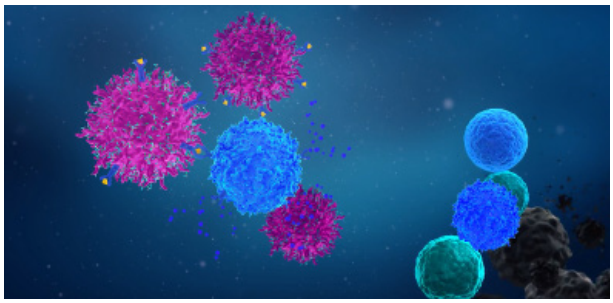
Our Pipeline

Building the future of immunotherapy

THERAPEUTIC SPACE	PROGRAMME	INDICATIONS	PRECLINICAL	PHASE I	PHASE II	PHASE III	PARTNER
IMMUNO-ONCOLOGY	***Bexmarilimab*** *(anti-Clever-1 mAb)*	Solid tumors[1]	MATINS				
		NSCLC[2]	MATINS-05 LUNG				
		Hematological malignancies	MATINAML				
ORGAN PROTECTION	**Traumakine** *(intravenous IFN beta-1a)*	ARDS[3] & COVID-19	REMAP–CAP				REMAP-CAP / HARVARD MEDICAL SCHOOL
			HIBISCUS				
		Major Cardiovascular Surgery					
		CAR-T induced CRS					
		Acute Kidney Injury					
		IRI in Solid Organ Transplantation					
REGENERATIVE MEDICINE	**Haematokine** *New Chemical Entity* AOC3 inhibitor	Hematological malignancies					
		Bone marrow					

1) Solid tumours including: ovarian cancer, uveal melanoma, hepatocellular carcinoma, colorectal cancer, cholangiocarcinoma, cutaneous melanoma, gastric cancer, ER+ breast cancer, pancreatic cancer, anaplastic thyroid carcinoma
2) NSCLC – Non-small cell lung carcinoma. Standard of care (inc. anti-PD-1) in combination with bexmarilimab
3) ARDS – Acute Respiratory Distress Syndrome





Bexmarilimab (formerly 'Clevegen') – the future of immunotherapy

THE TARGET AND PROGRAMME

Bexmarilimab is Faron's wholly-owned, investigative precision immunotherapy with the potential to provide permanent immune stimulation for difficult-to-treat cancers through targeting myeloid cell 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.

Bexmarilimab has been shown to successfully block or silence Clever-1, activating antigen presentation and promoting interferon gamma secretion by leukocytes. Additional pre-clinical 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, suggesting that 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. Beyond immuno-oncology, it offers potential in infectious diseases, vaccine development and more.

CLINICAL DEVELOPMENT

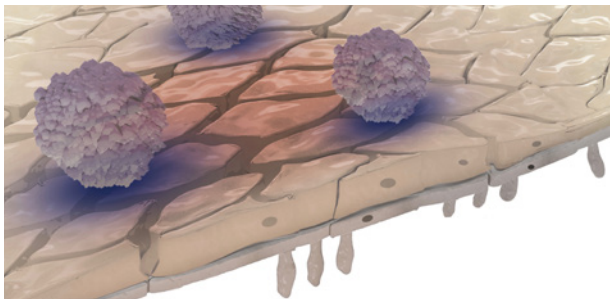
Bexmarilimab is currently in phase I/II clinical development as a potential therapy for patients with untreatable solid tumours. The MATINS study is a first-in-human open label phase I/II clinical trial investigating the tolerability, safety and efficacy of *bexmarilimab* in ten different hard-to-treat metastatic or inoperable solid tumour cohorts – cholangiocarcinoma, colorectal cancer, cutaneous melanoma, ER+ breast cancer, gastric cancer, hepatocellular carcinoma, ovarian cancer, uveal melanoma, pancreatic cancer and anaplastic thyroid carcinoma – which are all known to host a significant number of Clever-1 positive TAMs.

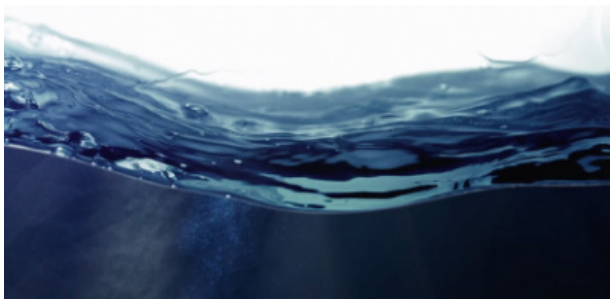
Data from MATINS have shown that *bexmarilimab* has the potential to be the first macrophage immune checkpoint therapy. To date, the investigational therapy has been shown to be safe and well-tolerated, making it a low-risk candidate for combination with existing cancer therapies, and has demonstrated early signs of clinical benefit in patients who have exhausted all other treatment options.

Six solid tumour cohorts – cutaneous melanoma,colorectal cancer, hepatocellular cancer, ovarian cancer, cholangiocarcinoma (also known as bile duct cancer) and gastric cancer have demonstrated early signs of clinical efficacy from *bexmarilimab* therapy.

Harnessing the immune system to fight cancer using immunotherapy has been a landmark achievement and one of the most exciting breakthroughs in modern science. As the immunotherapy research revolution continues Faron is focused on activating immunity by supporting human immune defence mechanisms against tumours. This could help in treating several cancer types as immune defences are often, if not always, suppressed in cancer patients.

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

THE TARGET AND PROGRAMME

Traumakine® is Faron's investigational intravenous (IV) interferon beta-1a therapy for the treatment of acute respiratory distress Syndrome (ARDS) and other ischemic or hyperinflammatory conditions.

ARDS is a severe, orphan lung disease characterised by widespread inflammation in the lungs and a sudden failure of the respiratory system. 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. When this happens in the lungs of ARDS patients, the lungs fill with protein rich fluid and blood cells, resulting in respiratory failure.

The body's own, natural production of interferon beta-1a, a key interferon signalling protein produced in response to infection, is one of the major innate immunity defences against virus invasion and a vital response to inflammation, especially in severe respiratory viral infections. Faron is investigating the potential of Traumakine treatment to further strengthen this natural defence.

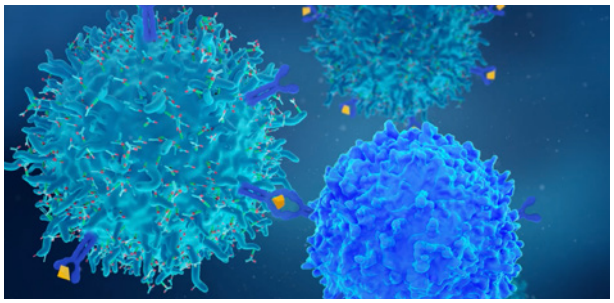
In addition to a profound antiviral effect, Traumakine upregulates the cell surface protein Cluster of Differentiation 73 (CD73), an enzyme that suppresses pro-inflammatory responses in endothelial cells. Using an IV administration of interferon beta-1a provides optimal exposure to the lung vasculature, increasing protection against serious lung complications and helping to prevent vascular leakage by enhancing endothelial barrier function.

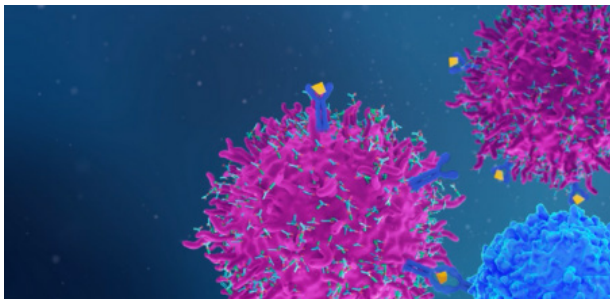
CLINICAL DEVELOPMENT

Building on robust pre-clinical research, Faron has conducted multiple clinical studies using Traumakine for the treatment of ARDS and other conditions. Phase I/II proof of concept studies investigating the potential of Traumakine for the treatment of ARDS reported promising results with a significant drop in mortality among patients treated with Traumakine and efficacy improvements consistent with a reduction in vascular leakage. In the Phase III INTEREST trial that followed, Traumakine missed the trial's primary endpoint – an unexpected outcome which was found, through subsequent data analyses, to have been caused by the concomitant use of corticosteroids, which blocked interferon beta-1a activity and increased mortality risk.

Traumakine is currently being evaluated as a potential treatment for hospitalised patients with COVID-19:

- The ongoing global REMAP-CAP (Randomized, Embedded, Multifactorial Adaptive Platform Trial for Community-Acquired Pneumonia) trial, is evaluating potential treatments, including Traumakine, for community-acquired pneumonia, including in COVID-19 patients, and is currently ongoing across more than 200 sites and 19 countries.
- An upcoming Phase II/III trial – HIBISCUS (Human intravenous Interferon Beta-Ia Safety and preliminary efficacy in hospitalized subjects with CoronavirUS) –will be conducted across the US in hospitalised patients with COVID-19, who do not yet require mechanical ventilation, but maximally low flow oxygen support. In the trial, Traumakine will be used prior to the current practice of corticosteroid treatment, to prevent systemic inflammatory response syndrome (SIRS) and ARDS, to improve clinical condition and reduce patient death. HIBISCUS has received $6.1 million of funding from the U.S. Department of Defense and the Coronavirus Aid, Relief, and Economic Security (CARES) Act.





As part of a working relationship established with Faron, the 59th Medical Wing of the US Air Force and the U.S. 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.

IFN beta-1a has previously demonstrated a compelling argument as the body's first line of defence against viral infection. Inducing CD73 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.

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.

Hematokine® regulates AOC3 activity in order to expand hematopoietic stem cells, which can be used in regenerative medicines and in hematological malignancies where expansion rates in transplanted cells are low. This programme, currently in pre-clinical 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 in preparation for its regulatory submission in 2021.

Highlights

Operational (including post period):

CLEVEGEN® (*bexmarilimab*) – Faron's wholly-owned, novel precision cancer immunotherapy candidate, in Phase I/II development for difficult-to-treat cancers

- **Strong patient recruitment** continues in Part II of the Phase I/II MATINS trial, investigating the potential of *bexmarilimab* in patients with solid tumours who have exhausted all treatment options. 10 cancer types – cutaneous melanoma, uveal melanoma, ovarian cancer, colorectal cancer (CRC), hepatocellular cancer, ER+ breast cancer, pancreatic cancer, gastric cancer, cholangiocarcinoma, anaplastic thyroid carcinoma – are currently under investigation.
- **Clinical benefits have been observed across six cancer types** to date – CRC, ovarian cancer, cutaneous melanoma, hepatocellular cancer, cholangiocarcinoma and gastric cancer. These are primary candidates to become expansion cohorts for Part III of the study.
- **More frequent dosing,** beyond the original three week dosing interval, is being explored in all six cohort types showing early signs of clinical benefit in order to confirm the optimum dosing regimen for pivotal studies, following analysis of key pharmacokinetic and pharmacodynamic biomarkers indicating the potential for increased *bexmarilimab* efficacy.
- **Clinical expansion trials** will investigate *bexmarilimab*'s potential in additional clinical settings, with trials expected to start later in 2021 – in combination with standard of care (SOC) as a first-line therapy in selected advanced solid tumours and haematological malignancies. Additionally, trials will also investigate *bexmarilimab* as a standalone neoadjuvant therapy for patients with early stage CRC and and clear cell renal cell carcinoma.
- **Established soluble Clever-1 as potential inhibitor of T cell activation** through the testing of MATINS patients' plasma. New findings suggest that their high levels of free, soluble Clever-1 can act as a direct inhibitor of T cell activation, thereby providing a broader immunosuppressive effect than previously expected. This suggests that the inactivation of Clever-1 could be more broadly applicable, potentially enabling patients to benefit from immuno-oncology therapies which have previously been ineffective. A new patent application has been filed seeking global protection for these findings and related applications.
- **Commercial scale manufacturing contract f**or the development and manufacturing of *bexmarilimab* was established with AGC Biologics.
- **€3.3 million grants to support the development of *bexmarilimab*** were received in 2020 from the European Innovation Council (EIC) Accelerator pilot scheme (€2.5 million) and the Finnish Cancer IO consortium (€0.8 million).
- **Scientific learnings on *bexmarilimab* were shared at key global conferences** including the virtual American Society of Clinical Oncology (ASCO20) Annual Meeting, the European Society of Medical Oncology (ESMO) Virtual Congress and ESMO's Immuno-Oncology Virtual Congress 2020.

TRAUMAKINE® – Faron's investigational intravenous (IV) interferon beta-1a therapy, is in development for the treatment of acute respiratory distress syndrome (ARDS) and other ischemic or hyperinflammatory conditions.

- **Supported the global search for potential treatments for COVID-19,** with Traumakine's inclusion in two global initiatives in 2020 – the global REMAP-CAP (Randomized, Embedded, Multifactorial Adaptive

Platform Trial for Community-Acquired Pneumonia), which is ongoing across more than 200 sites and 19 countries, and the WHO's Solidarity trial. The WHO trial determined in October 2020 that subcutaneous IFN beta-1a was ineffective in reducing overall mortality in hospitalised COVID-19 patients. At the time of analysis, too few patients had received an IV formulation of IFN beta to enable interpretation of the data and to draw any conclusions on its effect. WHO has yet to provide the Company with detailed dosing and safety information which is a normal regulatory requirement for drug testing and use.

- **On track to initiate a Faron-sponsored trial investigating the potential of Traumakine to treat COVID-19.** The Phase II/III HIBISCUS (**H**uman intravenous **I**nterferon **B**eta-**I**a **S**afety and preliminary efficacy in hospitalised subjects with **C**oronavir**US)** study will be conducted in approximately 5-10 study sites across the US in hospitalised patients with COVID-19, who do not yet require mechanical ventilation, but maximally low flow oxygen support. Use of corticosteroids concomitantly with Traumakine is not possible in the study setting but enabled in a sequenced manner, following Traumakine treatment. Post period the Company received $6.1 million of funding from the Coronavirus Aid, Relief, and Economic Security (CARES) Act, granted by the US Department of Defense, to support HIBISCUS.
- **Building on Faron's already strong IP portfolio for Traumakine,** the Company applied for additional patent protection for Traumakine relating to the induction of CD73 for organ protection, followed by the use of corticosteroids for the treatment of systemic inflammation. In this sequence, the best effects of both drugs are optimised in a sequence for patient benefit. This order is strongly supported by molecular analysis of IFN-beta signaling pathways in many published articles over recent months.
- **Partnership established with the 59th Medical Wing of the U.S. Air Force and U.S. Army and U.S. Army Institute of Surgical Research** to explore the use of Traumakine for organ protection in combat wounds leading to multi-organ failure from ischemia and reperfusion.
- **To support Traumakine's potential future commercial use,** AGC Biologics was selected to be the new manufacturing house for commercial scale production. A €2.1 million low interest rate loan from Business Finland and a €2.5 million loan guarantee from Finnvera, the official Export Credit Agency of Finland, are supporting the establishment of a new cell line for the manufacturing process.
- **Detailed analyses into the deleterious effects of glucocorticoids** on Traumakine activity, undertaken following the INTEREST trial results in 2018, were published in Intensive Care Medicine, a world-leading journal in the field of critical care, in May 2020.

HAEMATOKINE® – An AOC3 (amine oxidase copper containing 3) protein inhibitor in development for use in regenerative medicine and to treat hematological malignancies.

- **Faron acquired rights for this potential use of AOC3 inhibitors** in March 2020 and will be responsible for the future development of Haematokine and for the management, prosecution, maintenance and filing of patent applications.
- **IND-enabling studies for this programme are continuing** and, following a first review by the Finnish patent office, the Company believes global patent protection could be possible for the Haematokine project.

CORPORATE

- Faron hosted a virtual R&D Day presenting the Company's R&D strategy and insights into its two clinical stage programmes. Alongside Dr Markku Jalkanen, Chief Executive Officer, and members of the Executive Leadership and senior management teams, external perspectives were provided by Prof. Alberto Mantovani, Humanitas University, Milan, Italy; Ass. Prof. Maija Hollmén, MediCity, Turku University, Finland and Dr. Petri Bono, Terveystalo, Helsinki, Finland.

IMPACT OF COVID-19

- During the pandemic the Company's ability to secure funding and remote working operations has been key to continued success. Even during exceptional circumstances, Faron has been able to continue to operate its business almost normally and the development of its clinical trials proceeded as planned.
- Additionally, Faron closely followed and strictly complied with the regulations and recommendations of the Finnish National Institute for Health and Welfare (THL) and other relevant authorities to ensure the safety for its employees, study subjects and partners.

FINANCIAL

- On 31 December 2020, the Company held cash balances of €4.1 million (2019: €7.1 million).
- Loss for the period for the financial year ended 31 December 2020 was €16.9 million (2019: €13.3 million).
- Net assets on 31 December 2020 were €-1.8 million (2019: €1.6 million).
- In April 2020, the Company successfully raised a total of €14.0 million gross (€13.0 million net) from new and existing shareholders, through issuance of total of 3,500,000 new ordinary shares. The majority of these proceeds are being used to expand Clevegen in additional targets in the MATINS trial, support Traumakine in the ongoing REMAP-CAP trial and to strengthen the Company's balance sheet.
- The Company received a combination of grants, loans and loan guarantees totalling €7.9 million from Business Finland (May 2020: Grant €0.8 million, June 2020: Loan €2.1 million), The European Innovation Council (June 2020: Grant €2.5 million), Finnvera (Aug 2020: Loan guarantee €2.5 million). A total of €2.2 million of these funds were received during the period and the rest will continue to be received post period.
- Post period in February 2021, the Company raised €15 million gross (approximately €14.4 million net) from new and existing shareholders through an issuance of 3,521,127 new ordinary shares.

CONSOLIDATED KEY FIGURES, IFRS

€'000	Unaudited 7–12/2020 6 months	Unaudited 7–12/2019 6 months	1–12/2020 12 months	1–12/2019 12 months
Revenue	0	0	0	0
Other operating income	1,379	185	2,122	185
Research and Development expenses	(8,345)	(5,255)	(13,879)	(10,237)
General and Administrative expenses	(2,543)	(1,688)	(4,897)	(3,049)
Loss for the period	(9,603)	(6,850)	(16,946)	(13,262)
Loss per share EUR	(0.22)	(0.18)	(0.37)	(0.36)
Number of shares at end of period	46,896,747	43,290,747	46,896,747	43,290,747
Average number of shares	44,606,204	38,551,293	45,712,111	36,850,577

€'000	Unaudited 30 Jun 2020	Unaudited 30 Jun 2019	31 Dec 2020	31 Dec 2019
Cash and cash equivalents	11,627	2,892	4,108	7,059
Equity	7,313	(1,761)	(1,849)	1,610
Balance sheet total	14,343	5,103	8,367	10,209

Chairman's Statement

2020 was a year of significant activity for Faron. Despite the challenges that the global pandemic presented to business continuity and clinical trials across the life sciences sector, the Company's focus on pipeline delivery continued unabated and delivered impressive results.

The development programme for *bexmarilimab,* Faron's wholly-owned novel precision cancer immunotherapy candidate, made important clinical progress in 2020 following completion of the dose-finding Part I of the MATINS clinical trial. While intended to investigate safety and tolerability, this part of the trial also delivered exciting data on the potential of this therapy to promote immune activation, and early signs of clinical benefit. With ten different hard-to-treat cancers now under investigation in the second part of the trial, the Company is gaining greater insights into the future clinical use and commercial potential of this unique Clever-1 targeting therapy, with a clear focus on patient populations whose cancers are known to demonstrate significant levels of the Clever-1 receptor.

The Faron team's analyses of data from the trial, alongside the broader scientific community's growing understanding of the role of Clever-1 as an immune suppressive molecule, have provided a much clearer understanding of the next steps required for *bexmarilimab's* clinical development and support its potential as a breakthrough therapy for the future. Harnessing the immune system to fight cancer using immunotherapy has, undoubtedly, been one of the most exciting breakthroughs in modern science and the first wave of pioneering treatments changed the face of cancer treatment. We know these therapies do not work for everyone and many patients who initially respond will eventually relapse. Combining immunotherapies with complementary approaches is becoming increasingly important in cancer treatment and *bexmarilimab's* expanded clinical development programme, investigating its combination with existing treatments, will provide important evidence of its potential use as a future combination therapy.

The emergence of COVID-19 and its serious complications, including acute respiratory distress syndrome (ARDS), mobilised medical and scientific communities in 2020. I was very pleased that Faron answered the global call for potential therapies that might contribute to the fight against the pandemic, by providing Traumakine, Faron's intravenous (IV) interferon (IFN) beta-1a, to two global initiatives investigating multiple therapies to treat severe COVID-19 patients – the REMAP-CAP (Randomized, Embedded, Multifactorial Adaptive Platform Trial for Community-Acquired Pneumonia) and the World Health Organization's (WHO) Solidarity trial.

Faron has generated a wealth of data to support the hypothesis that Traumakine can strengthen the body's natural defences and provide increased protection against serious lung complications. Sadly, the first global initiative to report data –WHO's Solidarity trial – did not generate supportive results, with too few patients receiving an IV formulation of IFN beta to enable interpretation of the data and to draw any conclusions on the effect of IV IFN beta.

Faron's earlier observations from Traumakine's development programme in ARDS patients, that corticosteroid use interferes with Traumakine's efficacy, are a significant consideration in trialling the potential of this therapy in COVID-19 patients. A third trial investigating Traumakine in COVID-19 patients, the Company's US phase II/III HIBISCUS trial, in which the use of corticosteroids is only possible following treatment with Traumakine, will yield important results. Interest in IFN beta as a COVID-19 therapy continues to be strong and I am proud that Faron

remains actively involved in research to further build the treatment armamentarium against COVID-19.

Through 2020, as the world adapted to life during a pandemic, Faron as a company showed remarkable resilience in the face of such unexpected pressures. Thanks to the strength shown by everyone across the Company, who quickly responded to a very different working environment, all business operations were maintained, clinical progress accelerated and engagement with the scientific community continued at a number of virtual congresses.

Faron's successful financing, both the capital fundraising and securing non-dilutive funding, was a major undertaking, particularly in a virtual world. It puts the Company in a strong financial position to progress its clinical programmes and related business activities, as well as to explore further scientific opportunities within the Faron pipeline.

On behalf of the Board, I would like to thank everyone who has contributed to Faron maintaining its momentum in a difficult year – each and every member of staff and my colleagues on the Board for their commitment to the Company; our partner organisations and steering committee members for their support and expertise; Faron's investors for showing continued confidence in the Company and, importantly, the clinicians and patients across our trial network. Particular thanks must also go to our Chief Executive Officer, Markku Jalkanen, and Chief Financial Officer, Toni Hänninen, for their leadership throughout 2020.

We look forward to continued progress in 2021.

Dr Frank Armstrong
Chairman
24 March 2021

Chief Executive Officer's Review

OVERVIEW

Faron has three assets (Clevegen® - *bexmariliumab*; Traumakine® and Haematokine®), all focusing on harnessing our immune system. We believe that the three target molecules Clever-1, CD73 and AOC3 provide new medical treatment options either to activate, suppress or maintain the power of our immune system. Our goal is to save lives by developing unique scientific discoveries into ground-breaking new treatments for hard-to-treat and rare diseases. Our work is rooted in two scientific principles. First, a deep knowledge of the pharmacology of our drug candidates. And second, understanding the science of the targeted conditions at the molecular level, to most effectively influence their underlying causes.

Our focus for 2020 has been to continue to progress our wholly-owned novel precision cancer immunotherapy candidate, *bexmarilimab,* through the first-in-human clinical study, MATINS, in selected metastatic or inoperable solid tumours. We have also been working closely with the regulatory authorities to finalize the HIBISCUS study protocol for Traumakine in acute respiratory distress syndrome (ARDS) and organ failures, and were pleased to provide Traumakine to global initiatives investigating multiple therapies to treat severe COVID-19 patients, although our focus to protect central organ provides significant wider application potential. The third asset around AOC3, Haematokine, could help to recover lost renewal of blood cells and activate our immune defence and other vital blood functions.

BEXMARILIMAB (CLEVEGEN)

During 2020, we have continued to make strong progress in accelerating the clinical development of *bexmarilimab* despite the challenges of COVID-19. *Bexmarilimab* is our wholly-owned novel precision cancer immunotherapy candidate, which causes conversion of the immune environment around a tumour from immune-suppressive to immune-stimulating by reducing the number and function of tumour-associated macrophages (TAMs) by inactivating the function of CLEVER-1 receptor. *Bexmarilimab* is differentiated from other immunotherapies through its specific targeting of M2 TAMs, which facilitate tumour growth. Through myeloid cell plasticity, *bexmarilimab* can convert these M2 TAMs to M1s, leaving existing M1 TAMs intact and allowing both to support immune activation against tumours. We believe it has the potential to function as a novel macrophage checkpoint immunotherapy, both as a monotherapy and in combination with other immuno-oncology therapies or standard of care treatments.

MATINS STUDY

The ongoing Phase I/II MATINS (Macrophage Antibody To INhibit immune Suppression) study is a first-in-human open label Phase I/II clinical trial with an adaptive design to investigate the safety and efficacy of *bexmarilimab* in selected metastatic or inoperable solid tumours.

The completed Part I of the MATINS trial, primarily intended to investigate safety and tolerability, has already shown that *bexmarilimab* administration promoted immune activation in MATINS patients, with data also indicating that *bexmarilimab* can down regulate a range of major inhibitory immune checkpoints (like PD-1, CTLA-4, etc.) that current immuno-oncology therapies aim to suppress. *Bexmarilimab* has also been well tolerated, showing no significant adverse events even at the highest dosing levels.

Clinical progress accelerated early in 2020 and today six out of 10 test cohorts have demonstrated early clinical benefits, being currently primary candidates to become expansion cohorts for Part III of the MATINS study as a monotherapy in patients who have exhausted all treatment options. All these solid cancer types (colorectal cancer, ovarian cancer, cutaneous melanoma, hepatocellular cancer, cholangiocarcinoma – also known as bile duct cancer – and gastric cancer) require additional treatment options and therefore present a significant commercial opportunity.

As a result of key pharmacokinetic and pharmacodynamic biomarkers indicating that more frequent dosing could potentially increase *bexmarilimab* treatment efficacy, compared to the original dosing interval of every three weeks, the regulatory authorities approved an expansion of MATINS to include two additional CRC cohorts receiving 1 mg/kg dosed at either weekly or two week intervals, which are on-going currently. The aim is to reach enough data to finalise dosing regimen for *bexmarilimab* prior entering pivotal studies. Recently the MATINS study data monitoring committee (DMC) also proposed to study more frequent dosing and higher doses across all six cohort types showing early signs of clinical benefit and plans for this are underway.

An additional post period important finding was the discovery of an abundant amount of free, soluble Clever-1 in the plasma of MATINS study patients. Further experimental testing of isolated Clever-1 has indicated that this soluble form is a direct inhibitor of T cell activation and its inactivation could potentially result in an improved immune response and therefore enable patients to benefit from immuno-oncology therapeutics which have previously been ineffective. A new patent application has been filed seeking global protection for these findings and related applications.

CLINICAL EXPANSION

Many findings support *bexmarilimab* combination with negative immune check point inhibitors: i) synergistic effect has been observed in animal models, ii) human tumours with high Clever-1 transcript are resistant to current immuno-oncology therapies and iii) *bexmarilimab* administration can down regulate these inhibitors. These facts have led Faron to design *bexmarilimab* combination studies with standard of care, as a first-line therapy in selected advanced solid tumours and haematological malignancies, and as a standalone neoadjuvant therapy for patients with early stage colon cancer, all of which Company hopes to start in 2021.

Alongside *bexmarilimab*'s clinical progress in 2020, the Company has undertaken further work to prepare for its future, by appointing global contract development and manufacturing organisation, AGC Biologics, as the commercial scale manufacturer. AGC Biologics has decades of experience in manufacturing of biotechnological products, including commercial market supplies of FDA (US), PDMA (Japan), MHRA (UK) and EMA (continental Europe) approved products.

TRAUMAKINE

Faron is encouraged by recent vaccine developments to curb the spread of COVID-19 but the need for effective treatment options to reduce intensive care need and mortality for COVID-19 and other virally infected (e.g.

influenza) patients remains critical. As such, the Company remains involved in international efforts supported by the global scientific community to explore the therapeutic and anti-viral effects of the Company's intravenous (IV) interferon (IFN) beta-1a, Traumakine, and to continue to develop the asset as a future treatment for acute respiratory distress syndrome (ARDS).

Having demonstrated a compelling argument as one of the body's main first lines of defence against viral infection, recent findings have also shown that seriously ill COVID-19 patients have compromised interferon responses (Feulliet et al. 2021). These findings continue to drive confidence that treatment with Traumakine can strengthen the body's natural defences if administered intravenously. Specifically, the intravenous dosing of Faron's IFN beta-1a provides the lung vasculature with optimal exposure to IFN, which we believe is a critical aspect of Traumakine's potential to increase protection against serious lung complications.

In 2020, we joined two global initiatives investigating the potential of multiple therapies to treat COVID-19, by providing supplies of Traumakine to the REMAP-CAP programme and the World Health Organization's (WHO) Solidarity trial. The data readout from the WHO Solidarity trial was announced in October 2020 and concluded that subcutaneous IFN beta-1a was ineffective in treating hospitalised COVID-19 patients. Interestingly, the use of concomitant steroids had no impact on this outcome, confirming again that subcutaneous dosing has limited exposure to the lungs and should not be practiced. Traumakine continues to be investigated as part of the ongoing global REMAP-CAP programme, which is evaluating potential treatments for community-acquired pneumonia, including in COVID-19 patients, and is currently ongoing across more than 200 sites and 19 countries.

Faron is also initiating a third trial investigating the potential of Traumakine to treat COVID-19 – the US **H**uman intravenous **I**nterferon **B**eta-**I**a **S**afety and preliminary efficacy in hospitalised subjects with **C**oronavir**US** (HIBISCUS) trial – which, in January 2021, received $6.1 million from the US Department of Defense (DOD) as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The HIBISCUS trial is a phase II/III study to evaluate the potential of Traumakine to treat COVID-19 and will be conducted in approximately 5-10 study sites across the US in hospitalised patients with COVID-19, who do not yet require mechanical ventilation, but maximally low flow oxygen support. Use of corticosteroids concomitantly with Traumakine is not possible in the study setting but enabled in a sequenced manner after Traumakine. Supporting this protocol, a detailed analysis into the effects of glucocorticoids on IV IFN beta-1a activity, which arose following the INTEREST trial in 2018, was published in Intensive Care Medicine, a world leading journal in the field of critical care, in May 2020. The results showed that the desired mechanism of action of IV IFN beta-1a in the lung vasculature - the upregulation of CD73 - is blocked by the administration of glucocorticoids, and co-administration of glucocorticoids with IV IFN beta-1a increases mortality in patients with ARDS compared to patients administered with IV IFN beta-1a alone.

Subject to data from these trials supporting Traumakine's profile, the Company will work with regulatory authorities and other parties to identify the best path to ensure its future availability to patients.

To progress Traumakine manufacturing and support its potential future commercial use, in August 2020 Faron announced plans to initiate a new state-of-the-art process for Traumakine manufacturing with a €2.1 million low interest rate loan from Business Finland, the governmental innovation financing agency of Finland. This will be used to develop and select a new cell line that can be used for future commercial scale production of Traumakine. The Company subsequently received a loan guarantee from Finnvera for €2.5 million to expand the commercial scale manufacturing.

HAEMATOKINE

In March 2020, Faron announced it had acquired rights for the potential new use of AOC3 inhibitors. The AOC3 enzymatic domain, a semicarbazide-sensitive amine oxidase, is known to produce hydrogen peroxide, a potent inflammatory mediator. AOC3 in vivo, ex vivo and in vitro studies have revealed that ACO3's enzymatic end product hydrogen peroxide (H2O2) controls expansion of hematopoietic stem cells. Hematopoietic Stem Cell Transplantation (HSCT) is today the standard of care in all haematological malignancies. This is due to the fact that transplant failure is a lethal complication and a result of poor expansion of transplanted cells, which can occur in up to 30 per cent of patients. In addition, secondary transplantation and treatments to revive failing transplants are expensive and often unsuccessful. With Haematokine, we believe we can expand stem cells by regulating AOC3 activity.

Pre-clinical studies with humanised AOC3 mice and with ex vivo human cells are currently ongoing and further information will be provided later in the year.

CORPORATE

In June 2020, we hosted a virtual R&D Day presenting the Company's R&D strategy and insights into our clinical stage programmes. In addition to Faron's management, external perspectives were provided by Prof. Alberto

Mantovani, Humanitas University, Milan, Italy; Ass. Prof. Maija Hollmén, MediCity, Turku University, Finland and Dr. Petri Bono, Terveystalo, Helsinki, Finland.

At the Annual General Meeting held on 18 May 2020, the number of members of the Board was confirmed as six. Frank Armstrong, Markku Jalkanen, Matti Manner, Leopoldo Zambeletti, Gregory Brown and John Poulos were re-elected to the Board for a term that ends at the end of the next AGM.

The Company also announced in July 2020 that Cairn Financial Advisers LLP had been appointed as Nominated Adviser to the Company with immediate effect, with Panmure Gordon (UK) Limited continuing to act as the Company's Broker.

FINANCIAL

During the period, the Company successfully raised approximately €14.0 million (gross), €13.0 million (net) from new and existing shareholders. Additionally, the Company was also awarded grants and loans from Business Finland and from the European Innovation Council (EIC) Accelerator pilot scheme and a Finnvera loan guarantee in total of €7.9 million.

Post period in February 2021, the Company raised €15.0 million gross (approximately €14.4 million net) from new and existing shareholders through an issuance of 3,521,127 new ordinary shares.

OUTLOOK

Our focus for 2021 will be to continue to progress *bexmarilimab*'s clinical development through Part II and Part III of the MATINS trial and new combination studies, to further develop our understanding of its potential future clinical use and commercial potential. We are excited to commence the HIBISCUS trial for Traumakine in the US and will continue to provide assistance with global efforts in fighting COVID-19. We are continuing to make progress with potential partners regarding both Clevegen and Traumakine, whilst also exploring funding opportunities to ensure we can continue to progress both products. I would like to thank our shareholders for their continued belief in the Company and the management team and all the employees at Faron for their hard-work and dedication during this challenging year and look forward to updating the market on our progress throughout the course of 2021.

The Board anticipates the following pipeline progress and catalysts during 2021:

Clevegen:

- Summary of data from MATINS Part I
- Final CLEVER-1 occupancy data
- Top line data from MATINS Part II
- First patient in neoadjuvant CRC and RCC
- Final dosage and dose frequency decision
- Selection of first pivotal cohort from MATINS trial
- First patient in NSCLC PD(L)1 combination
- First patient in haematological malignancies
- Pre-clinical evaluation in multiple new tumour types

Traumakine:

- Initiation of HIBISCUS
- Anticipated REMAP-CAP interim read out
- Formation of a Traumakine Scientific Advisory Board
- Interim analysis from HIBISCUS
- Preclinical work on solid organ transplant
- Partnering update during 2021

AOC3 Antagonist Platform Technology::

- Additional information from pre-clinical studies with humanised AOC3 mice and with ex vivo human cells during 2021

Dr Markku Jalkanen
Chief Executive Officer
24 March 2021

Financial Review

KEY PERFORMANCE INDICATOR

As a clinical stage drug development company, Faron's primary interconnected KPIs are cash burn and cash position. The Company conducted a successful fundraise during 2020. The Company's net cash flow showed €2.8 million negative due to an increase of R&D and G&A expenditure, partially offset by other income. The Board will consider the appropriateness of monitoring additional KPIs as the Company's operations advance.

REVENUE AND OTHER OPERATING INCOME

The Company's revenue was €0.0 million for the year ended 31 December 2020 (2019: €nil).

The Company recorded €2.1 million (2019: €0.2 million) of other operating income. This consisted of the reimbursement of already occurred legal expenses by the third-party recovery services provider as announced by the Company on 30 December 2019.

RESEARCH AND DEVELOPMENT COSTS

The R&D costs increased by €3.6 million from €10.2 million in 2019 to €13.9 million in 2020. The costs of outsourced clinical trial services were increased by by €2.5 million from €1.9 to €4.4 million. The cost of employee benefits in the R&D was increased by €0.8 million from €2.1 to €2.9 million, mainly driven by additional headcount.

GENERAL AND ADMINISTRATION COSTS

Administrative expenses increased by €1.9 million from €3.0 million in 2019 to €4.9 million in 2020. The increase was mainly due to the €1.2 million increase in other G&A costs, mainly driven by legal expenses, which were offsed by other income. Futher, employee benefits increased by €0.5million mainly driven by additonal headcount.

TAXATION

The Company's tax credit for the fiscal year 2020 can be recorded only after the Finnish tax authorities have approved the tax report and confirmed the amount of tax-deductible. The total amount of cumulative tax losses carried forward approved by tax authorities on 31 December 2020 was €38.2 million (2019: €16.1 million). The Company estimates that it can utilise most of these during the years 2020 to 2021 by offsetting them against future profits. In addition, Faron has €55.0 million of R&D costs incurred in the financial years 2010 - 2020 that have not yet been deducted in its taxation. This amount can be deducted over an indefinite period at the Company's discretion.

LOSSES

Loss before income tax was €16.9 million (2019: €13.3 million). Net loss for the year was €16.9 million (2019: €13.3 million), representing a loss of €0.37 per share (2019: €0.36 per share) (adjusted for the changes in number of issued shares).

CASH FLOWS

Net cash flow was €2.8 million negative for the year ended 31 December 2020 (2019: €3.0 million positive). Cash used for operating activities increased by €6.0 million to €17.5 million for the year, compared to €11.5 million for the year ended 31 December 2019. This increase was

mostly driven by a increase in R&D investments.

Net cash inflow from financing activities was €14.8 million (2019: €14.6 million) mainly due to the successful equity placing completed in April 2020.

FUNDRAISING

In April 2020, the Company successfully raised a total of €14.0 million gross (€13.0 million net) through a fundraise from new and existing shareholders. The majority of these proceeds are being used to commence expansion of Clevegen through the MATINS trial, to support Traumakine in the ongoing REMAP-CAP trial and to strengthen the Companys balance sheet.

Post period in February 2021, the Company raised €15.0 million gross (approximately €14.4 million net) from new and existing shareholders through an issuance of 3,521,127 new ordinary shares.

FINANCIAL POSITION

As at 31 December 2020, total cash and cash equivalents held were €4.1 million (2019: €7.1 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". The Company and its subsidiaries (the "Group") 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 €16.9 million during the year ended 31 December 2020. It had a negative equity of €1.8 million including an accumulated deficit of €96.6 million. As at that date, the Group had cash and cash equivalents of €4.1 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. 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 fourth quarter of 2021. 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 Company'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.

HEADCOUNT

Average headcount of the Company for the year was 30 (2019: 24).

SHARES AND SHARE CAPITAL

During the period 1 January to 31 December 2020, the Company, using the share authorities granted at the Extraordinary General Meetings held on 25 October 2019, issued a total of 3,500,000 new ordinary shares at an issuace price of €4.00 (£3.48) 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 2020 the total number of voting rights was 46,896,747.

LEGAL PROCEEDINGS

As announced by the Company on 2 October 2019 and 30 December 2019, the Company has received a letter from Rentschler Biopharma SE in which Rentschler stated that it terminates the agreement concerning the Traumakine API manufacturing. The Company considers that this statement is without merit and has filed a request for arbitration to seek damages. To fund the proceedings, the Company has entered into a litigation funding agreement with a third-party recovery services provider which, in the event of success, would receive a typical portion of any damages awarded. The arbitration is ongoing and the final arbitration award is expected to be issued by the arbitration tribunal during the autumn 2021.

Toni Hänninen
Chief Financial Officer
24 March 2021

Risks and Uncertainties

Faron is a late clinical stage biopharmaceutical company and, similarly 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 31 December 2020 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 the downstream consequences. Additionally, drug development is a highly regulated environment which in itself 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 would 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 co-operation 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 know-how 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 in order 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

While operating with multiple vendors and other external suppliers, 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.

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 to 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 24 March 2021.

Corporate Governance

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

The Board of Faron 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 the Company.

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 the Company, 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.

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 the Company's objectives, strategy and business model described on the Company'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
24 March 2021

Compliance

COMPLIANCE WITH THE PRINCIPLES OF THE QCA CODE

The Principles of the QCA Code	Comply/Explain	Disclosure in the 2020 Report
1. Establish a strategy and business model which promote long-term	Comply	Pages 4, to 7 and 14 to 17
2. Seek to understand and meet shareholder needs and expectations	Comply	Pages 39 to 41
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Comply	Page 41
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	Comply	Pages 21 to 23
5. Maintain the board as a well-functioning, balanced team led by the chair	Comply	Pages 30 to 31 and 42 to 43
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Comply	Pages 27 to 29
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	Comply	Page 30
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 30 and 32 to 38

Board of Directors

On 18 May 2020, Company' held its Annual General Meeting (AGM) using special arrancements due to ungoing COVID-19 pandemic. The shareholders were encouraged to participate by way of centralised proxy representation and to follow the meeting by webcast. At the AGM the number of Directors was confirmed as six, with Frank Armstrong, Markku Jalkanen, Matti Manner, Leopoldo Zambeletti, Gregory Brown and John Poulos re-elected to the Board for a term that ends at the end of the next AGM. At the meeting of the Board held following the AGM, Frank Armstrong was re-elected Chairman of the Board and Matti Manner was re-elected Vice-Chairman of the Board. The Board comprises five non-executive directors and one executive director. Brief biographical details for the Directors can be found on the following pages. During 2020, the Board held 15 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 the Company, 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 the Company and the organisation of its operations, being responsible for the appropriate arrangement of the control of the Company 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, 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 the day-to-day business activities of the Company. 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 has held Chief Executive roles with five biotechnology companies, both public and private, including Fulcrum Pharma plc and CuraGen. He led Medical Science and Innovation at Merck Serono 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 Caldan Therapeutics and Enhanc3D Genomics, a Director of Newcells Biotech and a Non-Executive Director of ECO Animal Health Group plc, as well as a member of the Senior Advisory Board at Healthcare Royalty Partners and Epidarex Capital.

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, the University Court.

He was appointed to the Board as a Non-Executive Director in September 2015.

Matti Manner

Non-Executive Vice-Chairman

b. 1953

Mr Manner was appointed a partner of Brander & Manner Attorneys Ltd in 1980, having previously sat as a judge at the Court of Appeal, Turku, Finland. He has significant experience in national and international business deals, corporate law and mergers and acquisitions, and has held a number of Board memberships throughout his career.

He He is currently Chairman of Ruissalo Foundation and Länsi-Suomen Yleishyödyllinen Asuntosäätiö Foundation and Vice-Chairman of Suomen Asianajajaliitto Foundation, a member of the Board of Marva Media Ltd, Satatuote Ltd, YH VS-Rakennuttajat Ltd and Nurmi-Yhtiöt Ltd.

Mr Manner has experience of several trustee posts including the Presidency of the Finnish Bar (Lawyers) Association during the period of 1998 to 2004. He obtained a Master of Law from the University of Turku, Finland, and became an Honorary Chief Justice in Finland in 2013.

Mr Manner joined the board of the Company as Chairman in 2007 having previously been the Chairman of Faron Ventures Oy from 2002. He was appointed to the Board as Non-Executive Vice-Chairman in October 2015.

Dr Markku Jalkanen

Chief Executive Officer

b. 1954

Dr Jalkanen has more than 25 years of experience within biomedical research, biotechnology research and development, and the biopharmaceutical industry. In addition to his role as Chief Executive Officer, Dr Jalkanen is an advisor for the only active Finnish life sciences fund, Inveni Capital. Between 1996 and 2002, Dr Jalkanen was the founding Chief Executive Officer and President of BioTie Therapies Corp which went on to become the first publicly-traded Finnish biotechnology company to list on Nasdaq.

Dr Jalkanen has been a member of several Boards for both public and private companies including Inveni Capital Management, Meddia Ltd and Priaxon AG.

He obtained a Masters in Medical Biochemistry from the University of Kuopio, Finland and subsequently received a PhD in Medical Biochemistry from the University of Turku, Finland. He completed a side-laudatur examination in Molecular Biology from the University of Turku and completed his post-doctoral training at Stanford University, California, USA, between 1983 and 1986. Dr Jalkanen obtained the position of Docent in Biochemistry from University of Helsinki, FInland 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.

Dr Jalkanen has published over 130 peer reviewed scientific publications in various highly ranked international journals.

He was a founding member of the Company and has been Chief Executive Officer since 2003.

Dr Gregory B. Brown

Non-Executive Director

b. 1953

Dr Brown has more than 35 years of experience in healthcare and investment. Most recently, he founded HealthCare Royalty Partners, a healthcare-focused private asset management firm investing in biopharmaceutical and medical products, where he currently 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 Caladrius Biosciences and Aquestive Therapeutics. He previously acted as a Director of Invuity between October 2014 and December 2015.

Prior to this, 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.

He was appointed to the Board as a Non-Executive Director in May 2017.

John Poulos

Non-Executive Director

b. 1954

Mr. John Poulos has a wealth of expertise in global corporate life sciences, having spent 38 years working for AbbVie and Abbott. He 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 in 2001 for $6.9 billion, Kos Pharmaceuticals in 2006 for $3.7 billion, Solvay in 2010 for $6.2 billion and Pharmacyclics 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.

He was appointed to the Board as a Non-Executive Director in May 2017.

Leopoldo Zambeletti

Non-Executive Director

b. 1968

During his 19-year career as an investment banker, Mr Zambeletti led the European Healthcare Investment Banking team at JP Morgan for eight years before taking up the same position at Credit Suisse for a further five years. He started his career at KPMG as an auditor and, since 2013, has been an independent strategic advisor to life science companies on merger and acquisitions, out-licensing deals and financing strategy.

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

Mr Zambeletti is a Non-Executive Director of Philogen, Nogra Pharma, The Meatless Farm, Adler Ortho and Baccuico.

He was appointed to the Board as a Non-Executive Director in September 2015.

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.

The Directors have reviewed the results of the most recent Board self-assessment exercise and and conducted a peer group review in 2020. The self assessment showed and improvement compared to prior year, and the peer group review showed that Faron is offering competetive compensation compared to peer group, and not adjustments were deemed necessary.

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.

At the Board meeting held following the AGM on 18 May 2020, the Board of Directors re-elected the Chairmen and elected the other members of the Board committees.

REMUNERATION COMMITTEE

As of 18 May 2020, the remuneration committee comprises Frank Armstrong as Chairman together with 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 the Company. During 2020, the remuneration committee held three meetings.

AUDIT COMMITTEE

The audit committee, which comprises Leopoldo Zambeletti as Chairman together with Matti Manner and Gregory Brown, meets not less than twice a year. The audit committee has the task of supervising and developing the internal audit of the Company and advising and making recommendations to the Board on related issues. During 2020, the audit committee held two meetings.

NOMINATION COMMITTEE

The nomination committee comprises Matti Manner as Chairman together with Frank Armstrong. 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 2020, 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 2020 the Board held 15 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 2020

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Jalkanen Markku	15			
Non-Executive Directors				
Armstrong Frank	15		3(3)	3(3)
Manner Matti	14	2(2)		3(3)
Brown Gregory	14	2(2)		
Poulos John	15		3(3)	
Zambeletti Leopoldo	14	2(2)	3(3)	

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 the Company. 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 2020 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 the Company during the year.

BONUSES

Executive Directors' annual bonuses are based on the achievement of the Company'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 Company's 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 38.

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 the Company 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
Manner Matti	Non-independent(*)	Vice-chairman	16.09.2015
Brown Gregory	Independent	Member	16.05.2017
Poulos John	Independent	Member	16.05.2017
Zambeletti Leopoldo	Independent	Member	16.09.2015

(*) Has served as a director for more than 10 consecutive years

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	323,500	85,992	14,460	423,952
Non-Executive Directors				
Armstrong Frank	83,000			83,000
Manner Matti	48,000			48,000
Brown Gregory	42,000			42,000
Poulos John	41,000			41,000
Zambeletti Leopoldo	47,000			47,000

DIRECTORS' SHARE OPTIONS

Aggregate remunerations disclosed above do not include 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 and 18 May 2020, 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 2021.

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. 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 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.

On 14 October 2020, the Board confirmed the grant of a total of 690,333 "2019A" options under Share Option Plan 2019. The "2019A" options are exercisable between 23 July 2021 and 23 July 2025 at an exercise price of €3.80 per share, vesting 25% per annum over a period of four years.

Total options	At 1 January 2020	Granted during the period	Exercised during the period:	At 31 December 2020	Average subs. price per shares, €
Jalkanen Markku	320,000	120,000	80,000	360,000	4.60
Armstrong Frank	160,000	60,000	0	220,000	3.96
Manner Matti	80,000	30,000	0	110,000	3.96
Brown Gregory	40,000	30,000	0	70,000	4.34
Poulos John	40,000	30,000	0	70,000	4.34
Zambeletti Leopoldo	80,000	30,000	0	110,000	3.96
	610,000	**230,000**	**0**	**840,000**	

Details of 2015 Option Plan are as follows

2015A options	Date of grant	At 1 January 2020	Granted during the period	Cancelled during the period	At 31 December 2020	Subscription price per share, €	Date from which exercisable	Expiry date
Jalkanen Markku	16.09.2015	80,000	0	0	80,000	3.71	02.11.2015	30.09.2021
Armstrong Frank	16.09.2015	40,000	0	0	40,000	3.71	02.11.2015	30.09.2021
Manner Matti	16.09.2015	20,000	0	0	20,000	3.71	02.11.2015	30.09.2021
Brown Gregory	-	0	0	0	0	-	-	-
Poulos John	-	0	0	0	0	-	-	-
Zambeletti Leopoldo	16.09.2015	20,000	0	0	20,000	3.71	02.11.2015	30.09.2021
		160,000	**0**	**0**	**160,000**			

2015B options	Date of subscription	At 1 January 2020	Granted during the period	Cancelled during the period	At 31 December 2020	Subscription price per share, €	Date from which exercisable	Expiry date
Jalkanen Markku	18.11.2016	80,000	0	0	80,000	2.90	08.10.2016	30.09.2021
Armstrong Frank	18.11.2016	40,000	0	0	40,000	2.90	08.10.2016	30.09.2021
Manner Matti	18.11.2016	20,000	0	0	20,000	2.90	08.10.2016	30.09.2021
Brown Gregory	-	0	0	0	0	-	-	-
Poulos John	-	0	0	0	0	-	-	-
Zambeletti Leopoldo	18.11.2016	20,000	0	0	20,000	2.90	08.10.2016	30.09.2021
		160,000	**0**	**0**	**160,000**			

2015C options	Date of subscription	At 1 January 2020	Granted during the period	Cancelled during the period	At 31 December 2020	Subscription price per share, €	Date from which exercisable	Expiry date
Jalkanen Markku	16.11.2017	80,000	0	0	80,000	8.39	08.10.2017	30.09.2021
Armstrong Frank	16.11.2017	40,000	0	0	40,000	8.39	08.10.2017	30.09.2021
Manner Matti	16.11.2017	20,000	0	0	20,000	8.39	08.10.2017	30.09.2021
Brown Gregory	16.11.2017	20,000	0	0	20,000	8.39	08.10.2017	30.09.2021
Poulos John	16.11.2017	20,000	0	0	20,000	8.39	08.10.2017	30.09.2021
Zambeletti Leopoldo	16.11.2017	20,000	0	0	20,000	8.39	08.10.2017	30.09.2021
		200,000	**0**	**0**	**200,000**			

2015D options	Date of subscription	At 1 January 2020	Granted during the period	Exercised during the period:	At 31 December 2020	Subscription price per share, €	Date from which exercisable	Expiry date
Jalkanen Markku	21.05.2019	80,000	0	80,000	0	1.09	08.10.2018	30.09.2021
Armstrong Frank	21.05.2019	40,000	0	0	40,000	1.09	08.10.2018	30.09.2021
Manner Matti	21.05.2019	20,000	0	0	20,000	1.09	08.10.2018	30.09.2021
Brown Gregory	21.05.2019	20,000	0	0	20,000	1.09	08.10.2018	30.09.2021
Poulos John	21.05.2019	20,000	0	0	20,000	1.09	08.10.2018	30.09.2021
Zambeletti Leopoldo	21.05.2019	20,000	0	0	20,000	1.09	08.10.2018	30.09.2021
		200,000	**0**	**80,000**	**120,000**			

Details of 2019 Option Plan are as follows

2019 options	Date of grant	At 1 January 2020	Granted during the period	Cancelled during the period	At 31 December 2020	Subscription price per share, €	Date from which exercisable	Expiry date
Jalkanen Markku	23.07.2020	0	120,000	0	120,000	3.80	23.07.2021	23.07.2025
Armstrong Frank	23.07.2020	0	60,000	0	60,000	3.80	23.07.2021	23.07.2025
Manner Matti	23.07.2020	0	30,000	0	30,000	3.80	23.07.2021	23.07.2025
Brown Gregory	23.07.2020	0	30,000	0	30,000	3.80	23.07.2021	23.07.2025
Poulos John	23.07.2020	0	30,000	0	30,000	3.80	23.07.2021	23.07.2025
Zambeletti Leopoldo	23.07.2020	0	30,000	0	30,000	3.80	23.07.2021	23.07.2025
		0	**300,000**	**0**	**300,000**			

At 31 December

2020	Issued Share Capital		Share Options	
	Ordinary shares	Percentage held	Ordinary shares	Average exercise price, €
Executive				
Jalkanen Markku[(1)]	3,226,677	6.88	360,000	4.84
Non-Executive Directors				
Armstrong Frank	64,792	0.14	220,000	3.96
Manner Matti[(2)]	551,035	1.17	110,000	3.96
Brown Gregory	46,490	0.10	70,000	4.34
Poulos John	0	0.00	70,000	4.34
Zambeletti Leopoldo	17,461	0.04	110,000	3.96
	3,906,455	**8.33**	**940,000**	

(1) of which 2,100,565 are held by Markku Jalkanen directly and 1,126,112 are held by Markku Jalkanen's wife Sirpa Jalkanen

(2) of which 528,890 are held by Matti Manner directly and 22,145 are held by his wife

Corporate Governance Statement

COMMUNICATING WITH SHAREHOLDERS

The Company acknowledges that effective communication with 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. The Company complies with other relevant legislation in all its corporate communications issues.

The Company speaks to the financial community and shareholders only through authorised representatives. In accordance with the Company'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 Vice President of Funding and Investor Relations is able to communicate externally on behalf of the Company, and the CFO is authorised to comment 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
Stern Investor Relations
email: faron@sternir.com

SHARE DEALING

The Company has established a share dealing code appropriate to an AIM and First North listed company, and all the Directors of the Company 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. The Company requires that all employees and Directors comply with all laws, rules and regulations applicable to the Company wherever it does business.

Employees and Directors should endeavour to deal honestly, ethically and fairly with the Company's collaborators, licensors, licensees, business partners,

suppliers, customers, competitors and other employees. Statements regarding the Company's therapies and services must not be untrue, misleading, deceptive or fraudulent.

Employees and Directors act in the best interests of the Company and use the Company's assets and services solely for legitimate business purposes of the Company 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 21-23 of the 2020 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 the Company's strategy and managing the risks facing the Company is the employment of a skilled workforce and use of appropriate vendors. The Board reviews the risks and uncertainties facing the Company and the effectiveness of its systems annually.

At present, the Company 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 Company's results, compared with the budget, are reported to the Board on a monthly basis and discussed in detail.

The Company 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 the Company. The insured values and type of cover are comprehensively reviewed on a periodic basis.

REGULATED ADVISORS

The shares of Faron are listed for trading on the London Stock Exchange AIM and Nasdaq First North Growth Market marketplaces, which require the nominating of advisors. Panmure Gordon (UK) Limited acted as the Company's nominated adviser and broker on AIM until 27 July 2020, after which it has served as the Company's broker. On the same date Cair Financial Advisers LLP was appointed as the Company's nominated advisor on AIM. Sisu Partners Oy is the Company's certified advisor on First North.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

Faron acknowledges that running its business has an effect on society. In particular, the Company has a responsibility to the patients, its employees and contractors as well as the broader community in which it operates.

Faron is committed to taking responsibility for its actions and encourages a positive contribution towards improving standards for patients and its employees, minimising its impact on the environment and improving the quality of the local community.

Faron is committed to maintaining and promoting high standards of business integrity. The Company'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. Faron respects local laws and customs while supporting international laws and regulations.

By putting CSR 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

FARON'S CSR PRINCIPLES

Conduct

The Company aims to adopt the highest professional standards and not to act in such a way as to compromise Faron's integrity. Faron actively promotes respect between its staff members in their dealings with each other and with suppliers and other third parties.

Working Environment

The Company recognises that its staff are its most important resource. Faron actively seeks to offer its staff a positive and healthy working environment and ensure that they have rewarding careers and job satisfaction.

Faron seeks to ensure that all staff have access to the training they need both for their own development and to enable them to deliver a high-quality work contribution.

Faron considers all staff members to be equal and aims to create a working environment which is free of unlawful discrimination. In this regard, the Company maintain an internal code of conduct based on professionalism and respect.

Suppliers

Faron is committed to eliminating unlawful discrimination and to promoting equality and diversity in its professional dealings with suppliers and other third parties. The Company endeavours to enter into clear and fair contracts with its suppliers.

Environment

Faron is committed to behaving responsibly and to minimising its impact on the environment. In considering the environment, the Company has resolved to include environmental considerations in its business travel and to minimise its consumption of natural resources and manage waste through responsible disposal and reuse and recycling, including paper and ink cartridges.

Responsibility and Review

The Board has overall responsibility for the Company's CSR strategy and for implementing Faron's CSR principles. They have a key role in ensuring the systems and controls Faron has in place are effective. All members of staff have a role to play in complying with the Company's CSR objectives and are encouraged to make further suggestions in relation to initiatives Faron could undertake.

Faron is fully committed to the highest possible standards of openness, honesty and accountability. In line with that commitment, the Company 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 the Company's accounts and finances, and the CEO shall see to it that the accounts of the Company 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 the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company 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 the Company 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 the Company'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
24 March 2021

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2020.

DIRECTORS

During the year ended 31 December 2020 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
Mr Matti Manner, LLM | Vice-Chairman
Dr Gregory B Brown | Non-Executive Director
Mr John Poulos | Non-Executive Director
Mr Leopoldo Zambeletti | Non-Executive Director

PRINCIPAL RISKS AND UNCERTAINTIES

For a discussion of the principal risks and uncertainties which face Faron please see pages 21 to 23 of this document.

RESULTS AND DIVIDENDS

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

The Company's loss of the financial year after taxation and other comprehensive losses was €16.9 million (2019: €13.3 million).

The Company has no distributable equity and thus the Directors do not recommend the payment of a dividend (2019: nil).

FINANCIAL INFORMATION

The Company 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 18 Financial Review.

RESEARCH AND DEVELOPMENT

Details of the Company's key research and development programmes can be found in the Strategic Report and the detailed programme sections. See also notes 2.7 and 6. Further information is also available on the Company website, www.faron.com.

FINANCIAL INSTRUMENTS AND MANAGEMENT OF LIQUID RESOURCES

The Company's principal financial instrument comprises cash, and this is used to finance the Company's operations. The Company has also other financial instruments such

as leasing facilities that arise directly from its operations.

The Company 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 Company's cash is held on bank accounts in reputable banks in Finland. 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 2020, the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company.

Timo Syrjälä (*)	6,590,348	14.05 %
Tom-Erik Lind	3,804,572	8.11 %
A&B (HK) Company Limited	3,408,409	7.27 %
Markku Jalkanen (**)	3,226,677	6.88 %
Marko Salmi	2,717,163	5.79 %
Fjarde AP Fonden (The Fourth Swedish National Pension Fund)	2,205,432	4.70 %

(*) of which 2,590,728 are held directly by Timo Syrjälä directly and 3,999,620 are held by Acme Investments SPF S.à.r.l., an entity which is wholly owned by Timo Syrjälä
(**) of which 2,100,565 are held by Markku Jalkanen directly and 1,126,112 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 2020.

ANNUAL GENERAL MEETING

The Company held the Annual General Meeting on 18 May 2020.

In 2021, the Annual General Meeting will be held on 23 April 2021. 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 is aware, there is no relevant audit information of which the auditors are unaware; and
(b) He 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
24 March 2021

Financial Report

Statement of Comprehensive Income

For the year ended 31 December

		Group		Parent	
€'000	Note	2020	2019	2020	2019
Revenue	**3, 4**	**0**	**0**	**0**	**0**
Other operating income	5	2,122	185	2,122	185
Research and development expenses	6, 7, 8	(13,879)	(10,237)	(13,879)	(10,237)
General and administrative expenses	6, 7, 8	(4,897)	(3,049)	(4,947)	(3,080)
Operating loss		**(16,654)**	**(13,101)**	**(16,704)**	**(13,132)**
Financial expense	9	(389)	(224)	(388)	(215)
Financial income	9	107	74	113	77
Loss before tax		**(16,936)**	**(13,251)**	**(16,979)**	**(13,270)**
Tax expense	10	(10)	(11)	(1)	(9)
Loss for the period		**(16,946)**	**(13,262)**	**(16,980)**	**(13,279)**
Other comprehensive income		-	-	-	-
Total comprehensive loss for the period		**(16,946)**	**(13,262)**	**(16,980)**	**(13,279)**
Loss per ordinary share					
Basic and diluted loss per share, EUR	11	(0.37)	(0.36)	(0.37)	(0.36)

Balance Sheet

		Group		Parent	
€'000	Note	2020	2019	2020	2019
Assets					
Non-current assets					
Machinery and equipment	12	14	13	14	13
Right-of-use-assets	14	361	386	361	386
Subsidiary shares	24	-	-	18	18
Intangible assets	12	565	529	565	529
Prepayments and other receivables	13	56	77	191	209
Total non-current assets		**996**	**1,005**	**1,149**	**1,155**
Current assets					
Prepayments and other receivables	15	3,263	2,145	3,264	2,145
Cash and cash equivalents	16	4,108	7,059	4,037	7,058
Total current assets		**7,371**	**9,204**	**7,301**	**9,203**
Total assets		**8,367**	**10,209**	**8,450**	**10,358**
Equity and liabilities					
Capital and reserves attributable to the equity holders of the Company					
Share capital		2,691	2,691	2,691	2,691
Reserve for invested unrestricted equity		92,015	78,916	92,015	78,916
Accumulated deficit		(96,557)	(79,997)	(96,598)	(80,003)
Translation difference		2	-	-	-
Total equity	**17, 18**	**(1,849)**	**1,610**	**(1,892)**	**1,604**
Non-current liabilities					
Borrowings	19	2,728	2,263	2,717	2,263
Lease liabilities	14	199	261	199	261
Other liabilities	21	786	-	788	-
Total non-current liabilities		**3,713**	**2,524**	**3,704**	**2,524**
Current liabilities					
Borrowings	19	122	163	122	163
Lease liabilities	14	176	135	176	135
Trade payables	22	4,608	2,967	4,826	3,173
Other current liabilities	22	1,597	2,810	1,514	2,759
Total current liabilities		**6,503**	**6,075**	**6,638**	**6,230**
Total liabilities		**10,216**	**8,599**	**10,342**	**8,754**
Total equity and liabilities		**8,367**	**10,209**	**8,450**	**10,358**

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 2018		**2,691**	**64,464**	**(66,775)**	**380**
Comprehensive loss for the period		-	-	(13,279)	(13,279)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs EUR 1,174 thousand	17	-	14,452	-	14,452
Share-based compensation	7,18	-	-	51	51
		-	**14,452**	**51**	**14,503**
Balance as at 31 December 2019		**2,691**	**78,916**	**(80,003)**	**1,604**
Comprehensive loss for the period		-	-	(16,980)	(16,980)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs EUR 1,004 thousand	17	-	13,098	-	13,098
Share-based compensation	7,18	-	-	386	386
		-	**13,098**	**386**	**13,484**
Balance as at 31 December 2020		**2,691**	**92,015**	**(96,598)**	**(1,892)**

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 2018		**2,691**	**64,464**	**-**	**(66,768)**	**369**
Comprehensive loss for the period		-	-	-	(13,262)	(13,262)
Transactions with equity holders of the Company						
Issue of ordinary shares, net of transaction costs EUR 1,174 thousand	17	-	14,452	-	-	14,452
Share-based compensation	7,18	-	-	-	51	51
		-	**14,452**	**-**	**51**	**14,503**
Balance as at 31 December 2019		**2,691**	**78,916**	**-**	**(79,997)**	**1,610**
Comprehensive loss for the period		-	-	2	(16,946)	(16,944)
Transactions with equity holders of the Company						
Issue of ordinary shares, net of transaction costs EUR 1,004 thousand	17	-	13,098	-	-	13,098
Share-based compensation	7,18	-	-	-	386	386
		-	**13,098**	**-**	**386**	**13,484**
Balance as at 31 December 2020		**2,691**	**92,015**	**2**	**(96,557)**	**(1,849)**

Statement of Cash Flows

As at 31 December		*Group*		*Parent*	
€'000	**Note**	**2020**	**2019**	**2020**	**2019**
Cash flow from operating activities					
Loss before tax		(16,936)	(13,251)	(16,979)	(13,270)
Adjustments for:					
Received grant	5	(587)	-	(587)	-
Depreciation and amortisation	8	283	238	283	238
Interest expense	9	149	158	148	155
Unrealised foreign exchange loss (gain), net	9	117	(7)	129	(16)
Tax expense	10	10	11	1	9
Share-based compensation	18	386	51	386	51
Adjusted loss from operations before changes in working capital		(16,578)	(12,800)	(16,619)	(12,833)
Change in net working capital:					
Prepayments and other receivables		(1,097)	1,173	(1,101)	1,041
Trade payables		1,641	(567)	1,653	(360)
Other liabilities		(1,416)	731	(1,441)	688
Cash used in operations		(17,450)	(11,463)	(17,508)	(11,464)
Taxes paid		(1)	(9)	(1)	(9)
Interest paid		(28)	(51)	(28)	(51)
Net cash used in operating activities		**(17,479)**	**(11,523)**	**(17,537)**	**(11,524)**
Cash flow from investing activities					
Payments for acquisition of shares in subsidiaries	24	-	-	-	(0)
Payments for intangible assets	12	(137)	(100)	(137)	(100)
Payments for equipment	12	(5)	-	(5)	(0)
Net cash used in investing activities		**(142)**	**(100)**	**(142)**	**(100)**
Cash flow from financing activities					
Proceeds from issue of shares	17	14,103	15,627	14,103	15,627
Share issue transaction cost	17	(1,004)	(1,175)	(1,004)	(1,175)
Proceeds from borrowings	20	630	307	630	307
Repayment of borrowings	20	(122)	-	(122)	-
Proceeds from grants	5, 21	1,375	-	1,375	-
Payment of lease liabilities	2.19	(195)	(151)	(195)	(151)
Net cash from financing activities		**14,787**	**14,608**	**14,787**	**14,608**
Net increase (+) / decrease (-) in cash and cash equivalents		**(2,834)**	**2,985**	**(2,892)**	**2,984**
Effect of exchange rate changes on cash and cash equivalents		(117)	7	(129)	16
Cash and cash equivalents at 1 January	16	7,059	4,067	7,058	4,058
Cash and cash equivalents at 31 December	**16**	**4,108**	**7,059**	**4,037**	**7,058**

Notes to the Financial Statement

1. CORPORATE INFORMATION

Faron Pharmaceuticals Ltd (the "Company") is a clinical stage biopharmaceutical company incorporated and domiciled in Finland, with its headquarters at Joukahaisenkatu 6 B, 20520 Turku, Finland. The Company has a pipeline based on the receptors involved in regulation of immune response in oncology, organ damage and bone marrow regeneration.Faron Pharmaceuticals Ltd. is listed on the London Stock Exchange's AIM market since 17 November 2015, with a ticker FARN. On 21 November 2019 the company announced it has submitted an application for the listing of its ordinary shares on Nasdaq First North Growth Market, a multilateral trading facility operated by Nasdaq Helsinki Ltd. The first date of trading at Nasdaq First North was 3 December 2019 (trading code FARON).

The Board of Directors of the Company approved the financial statements on 24 March 2021.

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 financial statements have been prepared on the basis of a full retrospective application of IFRS 15, Revenue from Contracts with Customers, with the adoption date as of 1 January 2017.

The principal accounting policies applied in the preparation of these financial statements are set out below. The Company 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 Ltd, 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 Ltd 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 recognised 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 recognised 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 (the "Group") 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 €16.9 million during the year ended 31 December 2020. At the end of the financial year, it had total equity of €1.8 million negative including an accumulated deficit of €97.0 million. As at that date, the Group had cash and cash equivalents of €4.1 million. In February 2021, the Company raised €15.0 million gross through a directed share issue and at 28 February 2020 Parent Company had EUR 15.5 million cash and an unaudited equity of EUR 10.9 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. 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 fourth quarter of 2021. 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 Company'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.

2.3. Foreign Currency Transactions and Balances

Functional and Presentation Currency

The financial statements are presented in euro, which is the Group'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 recognised in the statement of comprehensive income, within financial income and expenses. 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 adopted IFRS 15 Revenue from Contracts with Customers effective 1 January 2017 and has applied 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. Recognise 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.

Faron Pharmaceuticals Ltd.'s existing license agreements with Maruishi in Japan, with A&B in Greater China and with Pharmbio in Republic of Korea each include only one performance obligation, which is the grant of the license to use of its intellectual property ("IP"). After the Company has granted the license, it does not have an obligation to participate or provide additional services to its customers. The transaction price for the grant of the license to use the Company's IP comprises of fixed and variable payment streams and the grant of the license is considered to be a right to use IP. Upfront

fees earned, are recognised as revenue at a point in time, upon transfer of control over the license to the licensee. Revenue from variable consideration, which are contingent on achievements of future milestones are recognised as revenue when it is highly probable the revenue will not reverse, that is when the underlying contingencies have been resolved. For future royalty payments associated with a license, the Group applies the IFRS 15 exception for sales-based royalties and recognises the revenue only when the subsequent sale occurs.

In addition, there is a potential performance obligation regarding future manufacturing. Faron Pharmaceuticals Ltd. has tentatively agreed on supply and manufacture of the drug product to its licensees. The terms including quantities and commercial terms for the future supply will be subject to separate negotiations.

For further information on revenue recognition, see notes 2.21 and 3.

2.6. Recognition of Government Grants

The direct government grants are recognised as other operating income at the same time as the underlying expenditure is incurred, provided that there is reasonable assurance that the Company 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 recognised as grant income and recorded as other operating income in the same period in which the company recognises 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 Company's research and development activities. The Company's research and development expenses are directly related to the Company's development projects and may therefore fluctuate strongly from year to year.

Capitalization of expenditure on the development of the Company'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 2020, considering the development stage of the Company's drug candidates, no internally developed assets related to Company's development activities had met these criteria and had therefore not been recognised. 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 recognised 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 recognised 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 recognised in the statement of comprehensive income, except for the income tax effects of items recognised in other comprehensive income or directly in equity, which is similarly recognised in other comprehensive income or equity.

Deferred taxes are recognised 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 recognised 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 cost are amortised 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 recognised 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 on hand and at banks.

2.17. Financial Liabilities

The Group's financial liabilities comprise of interest bearing borrowings, trade payables, other non-current and current liabilities.

Borrowings are initially recognised at fair value, less any directly attributable transaction costs. Subsequently borrowings are carried at amortised cost using the effective interest method. 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 derecognised 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.

Borrowings comprise of four government loans with a below-market rate of interest from The Finnish Funding Agency for Technology and Innovation (formerly "Tekes", currently "Business Finland"), of which two have been fully drawn down before the Group's date to transition to IFRS. Accordingly, the Group has utilized the IFRS 1 exemption and not accounted for the below-market grant separately for these two loans, which are carried at amortised cost.

The government loan originated after the date of transition to IFRS was initially recognised and measured at fair value and subsequently at amortised cost over the loan period by using the effective interest method. The grant component of the loan, 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.

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. Non-current liabilities are initially measured at fair value and subsequently at amortised cost.

2.18. Equity

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

The accumulated deficit comprises of the accumulated profits and losses of the Group since the inception.

Under the Finnish Limited Liability Companies Act (624/2006, as amended), if the board of directors of a company notices that the company has negative equity, the board must make a register notification on the loss of share capital. However, if the fair value of the assets of the company is otherwise than temporarily notably higher than their book value, the difference between the probable current price and the book value may be taken into account as an addition to equity. During the Period, the Board noticed that the Company had negative equity. The Board reviewed the situation, carried out a survey of the amount of equity and took measures to remedy the financial position of the Company so that, following the placing announced in February 2021, the Company had at the end of February 2021 positive equity. In ascertaining the financial position of the Company, the Board, exercising special caution, noted that the fair value of the intellectual property assets of the Company related to Clevegen and Traumakine is notably higher than their book value. In making the calculations required under the Limited Liability Companies Act, that difference was taken into account as an addition to equity and, accordingly, no register notification was made.

2.19. Leases

The Company as Lessee

This note explains the impact of the adoption of IFRS 16 Leases on the Group's financial statements. The group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 5.0%.

From 1 January 2019, the Group recognises 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 recognised 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 recognised 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.

Practical expedients applied in applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term lease
- low-value leasing assets are not included

2.20. Provisions and Contingent Liabilities

Provisions are recognised 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. The Group does not have provisions at the end of the reporting periods presented in these financial statements.

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

Revenue Recognition

The Group early adopted IFRS 15 on 1 January 2017 with full retrospective application. In determining the amounts to be recognised as revenue, the Group uses its judgement in the following main issues:

- Identifying the performance obligations in the license agreements and determining whether the license provided is distinct - based on the Group's analysis, the license is distinct as the licensee is able to benefit from the license on its own at its current stage and the licensee has the responsibility for the development in that territory. The management has determined that the provision of data and information generated by the Group in connection with its own development activities to facilitate the licensees' territory-specific development efforts is immaterial (perfunctory) to the grant of the license to the IP and does not constitute a separate performance obligation.
- Management has concluded that the license meets the criteria to be classified as a right to use, as the license granted provides at the outset of the contract all necessary documents and knowhow to utilize the license. The contract does not define activities that would significantly affect the intellectual property to which the licensee has rights after the date of granting.

Share-based Compensation

The Group recognises 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 18.

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 Organisations 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 Company 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 not to yet implemented by the Group:

Amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The purpose of the amendments is to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The amendments clarify that materiality will depend on the nature or magnitude of information, or both.

3. REVENUE

Faron Pharmaceuticals Ltd. has entered into exclusive license agreements with Maruishi in Japan, with A&B in Greater China and with Pharmbio in the Republic of Korea for the development, commercialization and supply of Traumakine and is entitled to related milestone payments. The Company retains rights to Traumakine in the rest of the world. The license partners are responsible for all regulatory activities and needed clinical activities necessary for commercialization in respective territories. Under the license agreements, the Company is also entitled to receive royalty payments based on the product sales in territories, but such royalties have not been earned or recognised to revenue during the periods presented.

License Agreement and Supply Agreement with Maruishi

In 2011, the Company entered into a license agreement with Japanese license partner Maruishi. The Company has not recognised revenue for the Maruishi license agreement during the periods presented but is entitled to receive additional payments upon achievement of certain

development or commercial milestones.

In 2014, the Company entered into a separate supply agreement with Maruishi for the delivery of investigational medicinal products to be used in territory-specific clinical studies. In 2020 the Company has not recognised revenue from deliveries based on this agreement.

License Agreement with Pharmbio

In 2016, the Company entered into license agreement with Korean license partner Pharmbio and met the upfront at signing. In this connection the Company satisfied the performance obligation for the grant of the license and use of its IP and recognised revenue in the amount of EUR 750 thousand. The Company is entitled to receive additional milestone payments from Pharmbio only if certain development or commercial milestones are achieved.

4. SEGMENT REPORTING

Faron Pharmaceuticals Ltd. is a late clinical stage drug discovery and development company. Its operations have been focused on the development of its main drug candidates Traumakine and Clevegen. 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 2020 (EUR 0 thousand in 2019).

All of the Group's non-current assets are located in Finland.

5. OTHER OPERATING INCOME

€'000	Year ended 31 December 2020	2019
Grant from the European Union	587	-
Grant from Business Finland	162	-
Grant component of government loans	152	-
Other income	1,221	185
Total operating income	**2,122**	**185**

Grant from the European Union comprise of direct funding from the European Commission under the Horizon 2020 research and innovaton programme (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. The other income consists of the reimbursement of already occurred legal expenses by the third-party recovery services provider as announced by the Company on 30 December 2019.

6. BREAKDOWN OF EXPENSES BY FUNCTION

Research and Development Expenses

€'000	Year ended 31 December 2020	2019
Materials and services	(5,739)	(5,604)
Employee benefits	(2,894)	(2,099)
Outsourced clinical trials services	(4,393)	(1,906)
Other R&D costs	(628)	(437)
Depreciation and amortization	(225)	(191)
Total research and development expenses	**(13,879)**	**(10,237)**

General and Administration Expenses

€'000	Year ended 31 December 2020	2019
Other G&A costs	(2,820)	(1,615)
Employee benefits	(1,681)	(1,177)
Communication	(338)	(210)
Depreciation and amortization	(58)	(47)
Total general and administrative expenses	**(4,897)**	**(3,049)**

7. EMPLOYEE BENEFITS

€'000	Year ended 31 December 2020	2019
Salaries	(3,593)	(2,711)
Pension expenses – contribution-based plans	(480)	(417)
Social security contributions	(116)	(97)
Share-based compensation	(386)	(51)
Total employee benefit expenses	**(4,575)**	**(3,276)**
Employee benefit expenses by function		
Research and development expenses	(2,894)	(2,099)
General and administrative expenses	(1,681)	(1,177)
Total employee benefit expenses	**(4,575)**	**(3,276)**

The average number of personnel in 2020 was 30 (2019: 24). Share-based compensation information is included in note 18 and management remuneration information in note 24.

8. DEPRECIATION AND AMORTISATION

€'000	Year ended 31 December 2020	2019
Depreciation and amortisation by type of asset		
Depreciation for right-of-use-assets	(178)	(137)
Intangible assets - patents	(98)	(94)
Intangible assets	(3)	(2)
Machinery and equipment	(4)	(4)
Total depreciation and amortisation	**(283)**	**(238)**
Depreciation and amortisation by function		
Research and development expenses	(225)	(191)
General and administrative expenses	(58)	(47)
Total depreciation and amortisation	**(283)**	**(238)**

9. FINANCIAL INCOME AND EXPENSES

€'000	Year ended 31 December 2020	2019
Financial income		
Interest income	9	-
Gains from foreign exchange	98	74
Total financial income	**107**	**74**
Financial expenses		
Interest expenses	(127)	(133)
Losses from foreign exchange	(227)	(66)
Interest expenses from lease liabilities	(22)	(23)
Other financial expenses	(13)	(2)
Total financial expenses	**(389)**	**(224)**
Total financial income and expenses, net	**(282)**	**(150)**

Interest expenses consist of paid and accrued interest expenses. The accrued interest expense relates mainly to the government loans, see note 19. Interest expenses recognised from lease liabilities totalled to EUR 22 thousand (2019: EUR 23 thousand).

The foreign exchange losses relate to euro value changes of cash balances nominated in Pound Sterling.

Unrealised foreign exchange loss is EUR 117 thousand and EUR 7 thousand for the years ended 31 December 2020 and 2019, respectively.

10. TAX EXPENSE

€'000	Year ended 31 December 2020	2019
Tax expense	(10)	(11)
Total tax expense	**(10)**	**(11)**

Income tax consists of foreign corporation tax.

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 2020	2019
Loss before tax	(16,936)	(13,251)
Income tax calculated at Finnish tax rate 20%	3,387	2,650
Tax losses and temporary differences for which no deferred tax asset is recognised	(3,491)	(2,858)
Non-deductible expenses and tax exempt income	104	208
Non-credited foreign withholding taxes	(10)	(11)
Taxes in the statement of comprehensive income	**(10)**	**(11)**

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

€'000	Year ended 31 December 2020	2019
R&D expenses not yet deducted in taxation [1]	54,981	58,606
Tax losses carried forward [2]	38,158	16,053
Total	**93,139**	**74,659**

(1) The Group has incurred research and development costs, that 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	2020	2019
Expiry within five years	13,276	31
Expiry within 6-10 years	24,882	16,022
Total	**38,158**	**16,053**

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 recognising deferred tax assets. The total tax value of unrecognised deferred tax assets is EUR 18,628 thousand (2019: EUR 14,932 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 itemisation of deferred taxes is not provided.

11. 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 2020	2019
Loss for the period	(16,946)	(13,262)
Weighted average number of ordinary shares in issue	45,712,111	36,850,577
Basic and dilutive loss per share (in €)	**(0.37)**	**(0.36)**

As of 31 December 2020, Faron Pharmaceuticals Ltd. had only share options outstanding. Number of potentially dilutive instruments currently outstanding totalled 3,694,000 as of 31 December 2020 (31 December 2019: 1,540,900). 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.

12. INTANGIBLE ASSETS AND MACHINERY AND EQUIPMENT

€'000	Intangible assets	Machinery and equipment
Book value on 1 January 2020	**529**	**13**
Additions	137	5
Disposals	-	-
Depreciation/amortisation	(102)	(4)
Book value 31 December 2020	**565**	**14**
As at 31 December 2020		
Acquisition cost	1,060	44
Accumulated disposals	-	-
Accumulated depreciation/amortisation	(495)	(30)
Book value 31 December 2020	**565**	**14**
Book value 1 January 2019	**525**	**17**
Additions	100	-
Disposals	-	-
Depreciation/amortisation	(96)	(4)
Book value 31 December 2019	**529**	**13**
As at 31 December 2019		
Acquisition cost	923	39
Accumulated disposals	-	-
Accumulated depreciation/amortisation	(394)	(26)
Book value 31 December 2019	**529**	**13**

13. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

€'000	As at 31 December 2020	2019
Production supplies	-	38
Other receivables	55	39
Total non-current prepayments and other receivables	**55**	**77**

Group has written down production supplies due to products' shelf life extinction. Other receivables consist mainly of restricted cash in the form of security deposits for rental agreements.

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

€'000	31 December 2020	1 January 2020
Right-of-use assets		
Office	359	366
Vehicle	2	20
Total right-of-use assets	**361**	**386**
Lease liabilities		
Long-term leasing liability	199	261
Short-term leasing liability	176	134
Total leasing liabilities	**375**	**395**

The Company rented additional office premises during 2020, the addition on Right-of-use assets was EUR 152 thousand .

15. CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	Group		*Parent*	
	As at 31 December			
€'000	2020	2019	2020	2019
Prepayments	1,993	895	1,993	895
Other receivables	740	521	741	521
Receivable for production defects	434	434	434	434
VAT receivable	96	295	96	295
Total current prepayments and other receivables	**3,263**	**2,145**	**3,264**	**2,145**

The majority of prepayments consist of the Clinical Service Agreements with Contract Research Organisations, which are current service providers in different clinical trials. Other receivables include accrued invoices and receivables from the third-party recovery services provider as announced by the Group on 30 December 2019.

16. CASH AND CASH EQUIVALENTS

	Group		Parent	
	As at 31 December			
€'000	2020	2019	2020	2019
Bank accounts	4,108	7,059	4,037	7,058
Total cash and cash equivalents	**4,108**	**7,059**	**4,037**	**7,058**

17. 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 2019	**31,027,894**	**2,691**	**64,464**
Issue of new shares, net of transaction costs	12,262,853	-	14,452
31 December 2019	**43,290,747**	**2,691**	**78,916**
1 January 2020	**43,290,747**	**2,691**	**78,916**
Issue of new shares, net of transaction costs	3,606,000	-	13,098
31 December 2020	**46,896,747**	**2,691**	**92,015**

On 28 March 2019, the number of shares was increased to 35,476,519 following the issue of 4,448,625 new shares, on 13 May 2019 the number of shares was increased to 37,233,894 following the issue of 1,757,375 new shares. On 5 August 2019, the number of shares was increased to 38,175,734 following the issue of 941,840 new shares, on 27 August 2019, the number of shares was increased to 39,355,427 following the issue of 1,179,513 new shares and on 12 November 2019 the number of shares was increased to 43,290,747 following the issue of 3,935,500 new shares.

On 23 April 2020, the number of shares was increased to 45,183,510 following the issue of 1,892,763 new shares, On 24 April 2020, the number of shares was increased to 46,133,510 following the issue of 950,000 new shares, on 28 April 2020, the number of shares was increased to 46,790,747 following the issue of 657,237 new shares. On 22 May 2020, the number of shares was increased to 46,799,747 following the issue of 9,000 new shares. On 23 September 2020, the number of shares was increased to 46,814,747 following the issue of 15,000 new shares, On 30 November 2020, the number of shares was increased to 46,896,747 following the issue of 82,000 new shares.

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

The subscription price for the shares is recorded to the share capital, unless the Board has made a resolution to record the subscription price in the reserve for invested unrestricted equity. If the shares of a Finnish limited liability company have no par value according to its articles of association, the Finnish Limited Liability Companies Act allows companies the recognition of the proceeds from share issuance to the reserve for invested unrestricted equity. In such situations the board of a company can choose on a subscription by subscription basis, how much of the issue, if anything, is recorded in share capital and how much to the reserve for invested unrestricted equity that is distributable. During 2019 and 2020, the Board recognised all relevant transactions in the invested unrestricted equity reserve.

18. 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. 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 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 in 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 market place 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 market place 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 2021	30 September 2021	30 September 2021	30 September 2021
Vesting conditions	Service until the beginning of the subscription period			

	2020 2015 Option Plan				2019 2015 Option Plan			
Number of share options	**A**	**B**	**C**	**D**	**A**	**B**	**C**	**D**
Outstanding at 1 January	385,000	385,900	500,000	500,000	385,000	385,900	500,000	270,000
Granted	-	-	-	-	-	-	-	230,000
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	106,000	-	-	-	-
Outstanding at 31 December	385,000	385,900	500,000	394,000	385,000	385,900	500,000	500,000
Exercisable at 31 December	385,000	385,900	500,000	394,000	385,000	385,900	500,000	500,000
The weighted average fair value of the share options granted, EUR	-	-	-	-	-	-	-	0.20
The weighted average share price at the date of exercise, EUR	-	-	-	3.32	-	-	-	-

	2020 2015 Option Plan		2019 2015 Option Plan	
Determination of the fair value for the share options 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 2020 or 2019 based on share options granted under the 2015 Option Plan. The share based compensation expense for the Option Plan 2015 was EUR 0 in 2020 (EUR 51 thousand in 2019).

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 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. 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 in 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 exercise price for ordinary shares based on plan 2019 granted options in 2020 is €3,80.

Company's board has confirmed the grant of a total of 690,333 options in the company in 2020 under the Option plan 2019. The Options have been allocated under the Share Option Plan 2019 and are exercisable between 23 July 2021 and 23 July 2025 at an exercise price of €3.80 per share, 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	2020
Maximum number of share options	2,000,000
Exercise price, EUR	3.80
Dividend adjustment	No
Beginning of subscription period	23 July 2021
End of subscription period	23 July 2025
Vesting conditions	Service until the beginning of the subscription period

2020
2019 Option Plan

Number of share options	2020
Outstanding at 1 January	2,000,000
Granted	690,333
Forfeited	-
Exercised	-
Outstanding at 31 December	2,000,000
Exercisable at 31 December	-

2020
2019 Option Plan

Determination of the fair value for the share options granted	2020
Share price at grant date, EUR	4.7–5.56
Subscription price, EUR	3.80
Volatility, %(*)	62.76
Interest free rate, %	0.01
Expected dividends yield, %	0
Option fair value, EUR	1.83–3.08

(*) 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.

The share-based compensation expense for the Option Plan 2019 was EUR 386 thousand in 2020 (EUR 0 thousand in 2019).

19. FINANCIAL ASSETS AND LIABILITIES

	Group		Parent	
	As at 31 December			
€'000	2020	2019	2020	2019
Financial assets measured at amortised cost				
Other receivables(*)	151	334	151	334
Cash and cash equivalents	4,108	7,059	4,037	7,058
Total financial assets measured at amortised cost	**4,259**	**7,393**	**4,188**	**7,392**
Financial liabilities measured at amortised cost				
Trade payables	2,115	2,967	2,293	3,173
Borrowings in form of Business Finland R&D loans	2,839	2,426	2,839	2,426
Total financial liabilities measured at amortised cost	**4,954**	**5,393**	**5,132**	**5,599**

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

Due to the short-term nature of the other receivables, their carrying amount is considered to equal their fair values.

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 fair value of all the Business Finland loans was EUR 2,839 thousand (2019 EUR 2,099 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 19. The accrued interest on Business Finland R&D loans amounted to EUR 124 thousand (2019 EUR 107 thousand). Grant payments received in advance of the incurrence of the costs the grant is intended to compensate are deferred at the reporting date and presented under advances received on the balance sheet.

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. Lease liabilities are included in analysis as of 1 January 2019.

	Group		Parent	
	As at 31 December			
€'000	2020	2019	2020	2019
Net debt				
Cash and cash equivalents	4,108	7,059	4,037	7,058
Lease liabilities	(375)	(396)	(375)	(396)
Business Finland R&D loans- repayable within one year	(122)	(163)	(122)	(163)
Business Finland R&D loans- repayable after one year	(2,717)	(2,263)	(2,717)	(2,263)
Net debt	**894**	**4,237**	**823**	**4,236**

	Group			Parent		
€'000	Cash and cash equivalents	Borrowings	Total	Cash and cash equivalents	Borrowings	Total
Net debt as at 1 Jan 2019	**4,067**	**(2,132)**	**1,935**	**4,058**	**(2,132)**	**1,926**
Cash flows	2,985	(307)	2,678	2,984	(307)	2,677
Foreign exchange adj.	7	-	7	16	-	16
Lease liability	-	(396)	(396)	-	(396)	(396)
Other non-cash movements	-	13	13	-	13	13
Net debt as at 31 Dec 2019	**7,059**	**(2,822)**	**4,237**	**7,058**	**(2,822)**	**4,236**
Cash flows	(2,834)	(508)	(3,342)	(2,892)	(508)	(3,400)
Foreign exchange adj.	(117)		(117)	(129)		(129)
Lease liability		(375)	(375)		(375)	(375)
Other non-cash movements		491	491		491	491
Net debt as at 31 Dec 2020	**4,108**	**(3,214)**	**894**	**4,037**	**(3,214)**	**823**

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 notes 2.2 and 16).

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.

Faron Pharmaceuticals Ltd.

has been able to fund its operations with equity, grants 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 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 2020, the contractual maturity of loans and interests was as follows:

€'000	2021	2022	2023	2024-thereafter	Total
R&D loans					
Repayment of loans	122	523	1,153	1,504	3,302
Interest expenses	32	29	21	25	106
Lease liabilities	199	16	0	0	215
Total	**354**	**567**	**1,173**	**1,528**	**3,623**

As at 31 December 2019, the contractual maturity of loans and interests was as follows:

€'000	2020	2021	2022	2023-thereafter	Total
R&D loans					
Repayment of loans	163	257	564	1,811	2,795
Interest expenses	28	26	21	32	107
Lease liabilities	261	138	11	0	411
Total	**452**	**421**	**596**	**1,843**	**3,313**

(b) Market Risk

i. Foreign Exchange Risk

The Group operates internationally but is mainly exposed to translation risk in respect of Pound Sterling ("GBP") denominated cash and cash equivalents balances The Group's policy is not to hedge translation risk. As of 31 December 2020, the Group had cash and cash equivalents of EUR 1,945 thousand, GBP 1,039 thousand, CHF 76 thousand and USD 1,149 thousand (2019: EUR 6,611 thousand and GBP 380 thousand) and the foreign exchange gains and losses recorded arise mainly from the GBP cash balances. The Group is not exposed to significant transaction risk, as the Group mainly operates in its functional currency, the EUR.

ii. Interest Rate Risk

The Group's interest rate risk arises from 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 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. Further, the Group currently derives its revenue from restricted number of reputable licence partners in specific territories. This risk of concentration of creditors is partly mitigated by the fact that these partners are financially solid. These licence agreements are governed by contractual relationships that typically address and describe remedies for situations in which interests of the Group and the partner are no longer aligned.

21. OTHER NON-CURRENT LIABILITIES

€'000	As at 31 December 2020	2019
Advance received	786	-
Total non-current liabilities	**786**	**-**

Group received a grant of EUR 1,375 thousand from the European Union. EUR 587 thousand is recognised as other income and the rest of the grant is posted as advanced received.

22. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	Group		Parent	
	As at 31 December			
€'000	2020	2019	2020	2019
Trade payables	2,115	2,967	2,293	3,173
Clinical trial hospital fees	1,415	849	1,415	849
Accrued research & development costs	1,506	811	1,506	811
Accrued payroll	751	603	722	558
Other liabilities	146	306	132	300
Other accruals	160	166	160	166
Advances received	112	75	112	75
Total	**6,205**	**5,777**	**6,340**	**5,932**

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 2020	2019
No later than 1 year	27	68
Later than 1 year and no later than 5 years	26	131
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 pre-clinical product candidate Clevegen to pay additional milestone payments. Second milestone payment of EUR 460 thousand payable when production system reached certain material yield threshold was charged 2019. The remaining one becomes payable upon the Group receives a certain amount of Net Sales for Clevegen.

As announced by the Group on 2 October 2019 and 30 December 2019, Faron Pharmaceuticals Ltd. has received a letter from Rentschler Biopharma SE in which Rentschler terminates the agreement concerning the API manufacturing. The Company considers that this said termination is without merit and has filed a request for arbitration to seek damages. To fund the proceedings, the Company has entered into a litigation funding agreement with a third-party recovery services provider, which in the event of success would receive a typical portion of any damages awarded. The arbitration is ongoing and the final arbitration award is expected to be issued during the autumn 2021.

24. RELATED PARTY TRANSACTIONS

Parent and subsidiary relations of Faron Pharmaceuticals Group on 31 December 2020:

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

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

Faron Pharmaceuticals Ltd. has not had interests in other entities as at, and for the years ended, December 31, 2019 and 2020.

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 2020	2019
Compensation of key management personnel(*)		
Salaries and other short-term employee benefits	2,025	1,350
Post-employment benefits	268	242
Share-based payments	155	51
Total	**2,448**	**1,643**

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

The Management team was awarded 282,333 share options during 2020 (2019: 265,000 share options). At the end of the 2020, the number of outstanding options and share granted to the Management team amounted to 1,003,013 share options (at the end of 2019: 800,680 share options).

Non-executive Directors were awarded 580,000 share options during 2020, (2019: 120,000 share options). At the end of 2020, the number of outstanding options and share options granted to the non-executive directors amounted to 180,000 share options (at the end of 2019: 400,000 share options).

Management and Board Shareholding

Management(*) shareholding, 31 December 2020	
Number of shares (pcs)	4,725,207
Shareholding, percentage	10.1 %
Board(**) shareholding, 31 December 2020 (excluding the shareholding of CEO)	
Number of shares (pcs)	679 778
Shareholding, percentage	1.4 %
Total number of shares outstanding at 31 December 2020 (pcs)	**46,896,747**

(*) 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 2019 and 2020 than already disclosed.

25. EVENTS AFTER THE BALANCE SHEET DATE

On 11 February 2021 Faron annouced that the Company raised EUR 15.0 million thousand before expenses by way of the placing of 3,521,127 ordinary shares at the Issue Price of EUR 4.26 per share.

Result and Dividends

The statement of comprehensive income is on page 44.

The Group's loss for the accounting period was 16,946,261.84 euro (2019: 13,261,911.93 euro).

The Board of Directors does not recommend the payment of a dividend (2019: nil).

BOARD SIGNATURES

Turku, 24 March 2021

Frank Armstrong
Chairman

Markku Jalkanen
CEO

Gregory Brown

Matti Manner

John Poulos

Leopoldo Zambeletti

THE AUDITOR'S NOTE

A report on the audit performed has been issued today
Helsinki, 24 March 2021
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.

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 2020. The financial statements comprise:

- the consolidated balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes
- the parent company's balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes.

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 on page 7, 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

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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.

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.

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 of the Strategic Report, Directors' Report, Remuneration Report and the Corporate Governance Statement included in the Annual Report, 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.

In connection with our audit of the financial statements, our responsibility is to read the reports mentioned above and, in doing so, consider whether the information included in the reports are 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 in the reports mentioned above, we are required to report that fact. We have nothing to report in this regard.

Helsinki March 24, 2021

PricewaterhouseCoopers Oy
Authorised Public Accountants

Panu Vänskä
Authorised Public Accountant (KHT)

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