FARON

Leading the way in
breakthrough immunotherapies

Annual Report 2023

Faron Pharmaceuticals in brief

Faron (AIM: FARN, First North: FARON) is a global, clinical-stage biopharmaceutical company, focused on tackling cancers via novel immunotherapies. Its mission is to bring the promise of immunotherapy to a broader population by uncovering novel ways to control and harness the power of the immune system. The Company's lead asset is bexmarilimab, a novel anti-Clever-1 humanized antibody, with the potential to remove immunosuppression of cancers through reprogramming myeloid cell function. Bexmarilimab is being investigated in Phase I/II clinical trials (MATINS and BEXMAB) as a potential therapy for patients with hematological and solid cancers in stand alone and combination with other standard treatments. Faron is also progressing plans to investigate *bexmarilimab* in combination with anti-PD-1 therapy in selected advanced solid tumors. In terms of other pipeline assets, Traumakine® is an investigational intravenous (IV) interferon beta-1a therapy for the prevention of complications that arise from cytokine release syndrome, or hyperinflammatory conditions. Faron is headquartered in Turku, Finland with an office in Boston, MA in the United States.

"I am pleased to report that we have made strong progress in 2023 closing MATINS and advancing our BEXMAB study of bexmarilimab, our wholly owned immunotherapy asset. Throughout the course of the year, we have reported highly encouraging data for bexmarilimab, showing a strong overall response rate in both higher-risk frontline MDS patients as well as HMA-failed MDS patients. None of this work would be possible without the ongoing support from our shareholders and our colleagues, to whom I express my sincere thanks."

Dr. Markku Jalkanen

Chief Executive Officer

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

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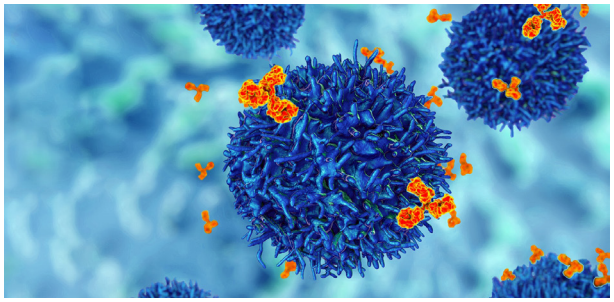
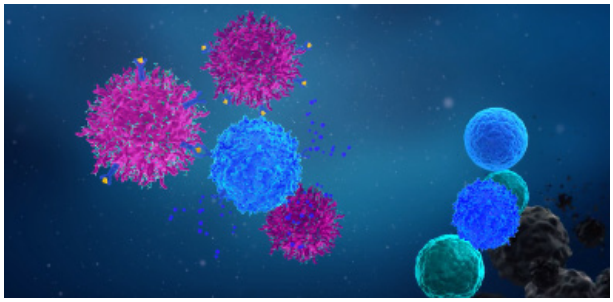
Our Pipeline

Building the future of immunotherapy

Programs	Indication	Phase of Development				2023 Progress
		Preclinical	Phase 1	Phase 2	Phase 3	
Bexmarilimab (anti-Clever-1)	Advanced solid tumors	MATINS (First in Human, single agent)				Completed; Results presented at ESMO 2023 and Cell Reports Medicine
	AML and MDS	BEXMAB		LEUKEMIA & LYMPHOMA SOCIETY		Completed Phase I; Results presented at ASH 2023
	HR MDS	BEXMAB				Phase II on-going
	r/r AML	BEXMAB				Phase II ready for Project Optimus
	Combo with CPIs in solid tumors	BEXCOMBO				Phase II ready and IND approved
Traumakine® interferon beta-1a	Enhance efficacy & prevent toxicities from CAR-T			Fred Hutch Cancer Center		Investigator Initiated, IND submitted
Haematokine® AOC3 inhibitor	Chemotherapy induced neutropenia					





Bexmarilimab – a CLEVER approach to fight cancer

THE TARGET AND PROGRAMME

Bexmarilimab is Faron's wholly owned, investigative precision immunotherapy. Tumor-associated macrophages (TAM) are considered a key source of resistance to current standard of care. Bexmarilimab is a novel humanised anti-CLEVER-1 antibody, that targets a subpopulation of TAMs, and converts the highly immunosuppressive M2-like macrophages to a more pro-inflammatory state to promote immune activation. Bexmarilimab has been shown to successfully alter the scavenging functions of CLEVER-1 in macrophages, which leads to increased antigen presentation and promotion of interferon gamma secretion by leukocytes. Additional preclinical studies have proven that CLEVER-1, encoded by the Stabilin-1 or STAB-1 gene, is a major source of T cell exhaustion and involved in cancer growth and spread. Observations from clinical studies to date indicate that CLEVER-1 has the capacity to control T cell activation directly. This suggests the inactivation of CLEVER-1 as an immune suppressive molecule could be more important than previously thought. Certain blood cancer cells carry significant amounts of cell surface CLEVER-1, which may limit the body's ability to mount an immune response, and research has shown a clear survival benefit among certain blood cancer patients with low CLEVER-1 expression. As an immuno-oncology therapy, bexmarilimab is designed to downregulate CLEVER-1 expression, thereby increasing antigen presentation and allowing the immune system to better identify and kill cancer cells. This could result in a deeper and more durable clinical benefit compared to what most patients experience with currently approved treatments.

CLINICAL DEVELOPMENT

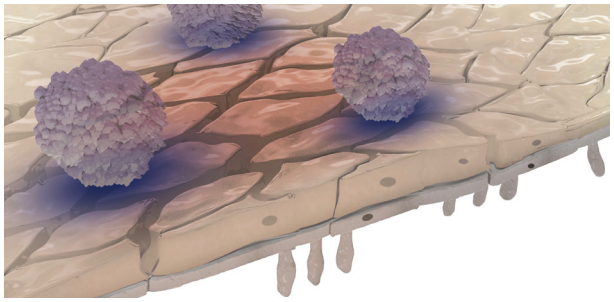
Bexmarilimab is currently being studied in combination with standard of care in patients with hypomethylating agents (HMAs)-refractory or -relapsed myelodysplastic syndrome (MDS), an aggressive myeloid leukemia with very few treatment options. Phase 2 of the BEXMAB study is underway following positive results from Phase 1 which showed a significant overall response rate in both higher-risk frontline, as well as hypomethylating agent (HMA)-failed, MDS patients. The ongoing, randomized parallel-assigned Phase 2 part of the study is enrolling HMA-failed MDS patients at dose levels selected in accordance with the FDA's Project Optimus initiative, which aims to reform the paradigm of dose optimization and selection in oncology drug development. Patients are being randomized 1:1 between the doses before moving into a Phase 2/3 study expansion.

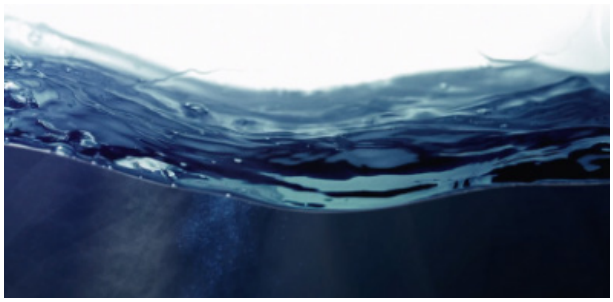
Beyond BEXMAB, planning continues for the Phase 2 BEXCOMBO study, which will evaluate bexmarilimab with PD-1 blockade in head and neck, bladder and non-small cell lung cancers. The Company is also exploring the immunotherapy's potential in low risk MDS as well as chronic myelomonocytic leukaemia (CMML) patients, who are currently treated with HMA-based therapies treatment upon worsening of disease.

BEXMARILIMAB MANUFACTURING

At the end of 2023 Faron, with its partner AGC Biologics, produced the first industrial scale 2000L batch of the active pharmaceutical ingredient (API) of bexmarilimab. During 2024 it will be further manufactured into final drug product to undergo stability and quality testing in order to be ready to be used in a confirmatory registrational trial in 2025 leading to marketing approval. Final clinical testing needs to be done using the product that is produced using a tightly regulated commercial manufacturing process.

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, organ protection in ischemia and inflammation

THE TARGET AND PROGRAMME

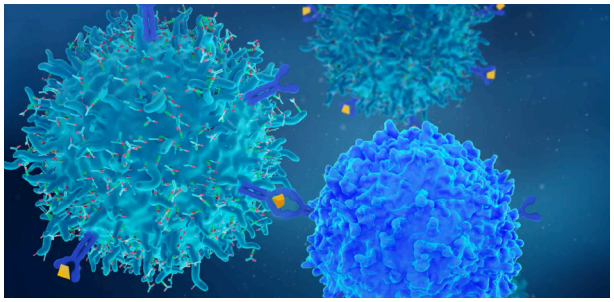
Traumakine® is Faron's investigational intravenous (IV) interferon beta-1a (IFN beta-1a) therapy for the prevention of complications from cytokine release syndrome (CRS), or ischemia and hyperinflammatory conditions. The body's own, natural production of IFN beta-1a, a key anti-inflammatory signaling protein produced in response to infection, is one of the major innate immunity defenses against virus invasion and a vital response to inflammation and cell integrity. IFN beta-1a has previously demonstrated a compelling argument against viral infection. Faron is investigating the potential of Traumakine® treatment to further strengthen this natural defense. In addition to a profound antiviral effect, when given intravenously, IFN beta-1a upregulates the cell surface protein Cluster of Differentiation 73 (CD73) on endothelial cells. CD73 is an enzyme that suppresses pro-inflammatory responses and protects organs from ischemia and inflammation. The integrity of vasculature and capillaries, which maintain the supply of oxygen in various organs, is sustained by endothelial cells covering the inner surfaces of blood vessels and forming a barrier between circulation and tissues. The breakdown of this endothelial barrier results in leakage of blood content to tissues. Inducing CD73 enzyme expression on vascular endothelium can protect vital organs against ischemia and inflammation, offering a new approach to the treatment of several life threatening diseases and conditions.

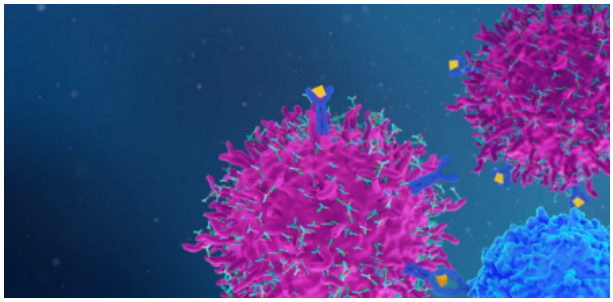
CLINICAL DEVELOPMENT

TThe Company's INFORAAA study shows Traumakine®-induced upregulation of CD73 was associated with 100% survival in surgically operated ruptured abdominal aorta aneurysm (RAAA) patients. These patients are at high risk of ischemia-reperfusion injury, with expected mortality between 30-40% due to multi-organ failure.

Data from the preclinical Salvage, Preservation, and Advanced Resuscitation through Endothelial Stabilization (SPARES) study, coordinated in conjunction with investigators from Wake Forest Health, Duquesne University, the 59th Medical Wing of the US Air Force and with funding from the US Department of Defense, further highlights the promise of IV IFN beta-1a therapy as a potential therapeutic for emergency and trauma patients, especially when given early on. In the study, primates treated with Traumakine® at the time of major inflammation due to ischemia showed lower levels of muscle and liver damage markers indicating total body protection. The full restoration of limb function was seen with no evidence of muscle atrophy or degeneration.

A collaboration with the Fred Hutchinson Cancer Research Center in Seattle, Washington, is ongoing to further investigate the use of IV IFN beta-1a for the prevention of organ damage from cytokine release syndrome (CRS) and other CAR-T therapy side effects, such as neurotoxicity (ICANs).





Haematokine® – haematopoietic stem cell expansion

THE TARGET AND PROGRAMME

Hematopoietic Stem Cell Transplantation (HSCT) is standard of care for many diseases of the blood and bone marrow. However, transplant failure, a result of poor expansion rates from the transplanted cells, is a complication that occurs in over 25% of patients and can be lethal. The AOC3 enzymatic domain, a semi carbazide sensitive amine oxidase, is known to produce hydrogen peroxide (H2O2), a potent inflammatory mediator. In vivo, ex vivo and in vitro studies have revealed that an ACO3 enzymatic end product H2O2 controls expansion of hematopoietic stem cells.

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

CLINICAL DEVELOPMENT

Hematokine is currently undergoing IND-enabling studies.

Highlights

Operational (including post period):

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

Hematological cancer with standard of care (SOC) - BEXMAB

- The Phase 2 part of the BEXMAB study commenced based on guidance from the U.S. Food and Drug Administration (FDA), investigating bexmarilimab in combination with SoC in patients with HMA-refractory or -relapsed MDS. The first patient was dosed in January 2024.
- Data from the completed Phase 1 part of the BEXMAB study demonstrated significant ORR in both previously HMA-failed (5 out of 5) and higher-risk MDS patient (5 out of 5) populations. The vast majority of responses were durable with 7/10 MDS patients achieving CR/mCR and two demonstrating PR, one of whom moved on to receive a stem cell transplantation and the other, hematological improvement without remission (HI-P).
- Further analysis of the patient profiles of those treated in the the completed Phase 1 part of the BEXMAB trial showed that patients had experienced disease progression following previous treatment with azacitidine monotherapy or combinations of up to four therapies that included azacitidine or decitabine + magrolimab, venetoclax and sabatolimab. 3 of the 5 patients were refractory to previous HMA-therapy, with progressive disease (PD) or stable disease (SD) being the best responses achieved from that therapy. 2 had relapsed after treatment with azacitidine or an azacitidine+ venetoclax combination.
- The FDA granted ODD for bexmarilimab for the treatment of AML.
- BEXMAB phase 1/2 clinical data presented at key scientific conferences including American Socitety of Hematology (ASH) and the European Hematology Association Congress 2023.
- Post period, In January 2024, Faron dosed the first patients in the Phase 2 part of its BEXMAB Study, to evaluate the safety and efficacy of bexmarilimab in combination with standard of care (SoC), in hypomethylating agents (HMAs)-refractory or relapsed myelodysplastic syndromes (MDS) patients.
- Post period, in March 2024, the Company has announced that it plans to provide BEXMAB readout to the markets in mid-March.

Single-agent safety and activity in advanced solid tumors - MATINS

- The first in human MATINS study was completed and the full safety and anti-tumor efficacy results from the first-in-human Phase 1/2 MATINS trial of bexmarilimab in patients with treatment-refractory late-stage solid tumors was published in Cell Reports Medicine.
- The Company presented two posters at the American Association for Cancer Research Annual Meeting 2023 on its Phase I/II MATINS study of bexmarilimab in solid tumors and published a manuscript via medRxiv.
- The findings from MATINS, which have established strong foundations for Faron's ongoing development program, showed activation of intratumoral immunity and reprogramming tumor associated macrophages resulting in increase in IFN-gamma signature and changes in tumor microevironment, (TME) resulting in disease control and prolonged survival in late-stage cancer. Furthermore, targeting Clever-1 with bexmarilimab is well-tolerated. *A positive Phase I/II meeting with the FDA supported the potential to continue development of bexmarilimab in solid tumors.*

Combination potential with PD-1 blockade - BEXCOMBO - and further expansion

- Preparations are ongoing for the initiation of the Phase II BEXCOMBO trial evaluating bexmarilimab with PD-1 blockade, aimed at improving the clinical benefits from standard-of-care PD-1 blockade. The first, proof-of-concept cohort under the investigation will be in head and neck cancer, followed by bladder and non-small cell lung cancers. Patient cohorts will comprise between 15 and 40 subjects, with the opportunity for subgroup enrichment.
- Given the positive results to date, the Company is exploring bexmarilimab's potential in low risk MDS as well as chronic myelomonocytic leukaemia (CMML) patients, and considering further development and expansion opportunities with bexmarilimab in hematological cancers in the form of partnerships.

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

- Traumakine is being developed in collaboration with the Fred Hutchinson Cancer Research Center in Seattle, Washington, for the development of neurotoxicity related to cytokine release syndrome associated with CAR-T therapy.

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

CORPORATE HIGHLIGHTS

- In 2023, the Company raised equity capital via three private placements directed to institutional and other investors to raise EUR 25.7 million, in October 2023 (EUR 7.1 million), in June 2023 (EUR 6.6 million), and in January 2023 (EUR 12.0 million).
- James O'Brien, CPA, MBA, joined as Chief Financial Officer. Mr. O'Brien is an accomplished biotech and financial executive with extensive experience in the US capital markets.
- Strengthening of the Board of Directors with the appointments of Dr. Marie-Louise Fjällskog, Ms. Christine Roth and Mr. Tuomo Pätsi, who joined the Board as Non-Executive Directors of the Company. Dr Marie-Louise Fjällskog was previously acting Chief Medical Officer at Faron. In her new position as a Board member she is continuesing to play an integral role in the development of Faron's wholly owned immunotherapy asset, bexmarilimab, by providing her clinical and regulatory expertise to support the Company"s progress. Ms. Christine Roth is a pharmaceutical executive with over three decades of experience in the industry, with expertise across various therapy areas including Oncology, Cardiovascular, Metabolic, and Infectious Diseases. Mr Pätsi is an experienced biotech and pharmaceutical executive who was until recently Executive Vice President for Seagen Inc., a US-based, cancer-focused biotechnology company.

- Mr. Leopoldo Zambeletti, who joined Faron's Board as a Non-Executive Director in September 2015, stepped down from the board, to take on a business development consulting role within Faron. He is a highly respected figure within the life sciences and investment banking industries and, since 2013, has been an independent strategic advisor to life science companies on mergers and acquisitions, out-licensing deals, and financing strategy.
- Dr. Birge Berns, MD, joined Faron as the Company's interim Chief Medical Officer. Dr. Berns is a seasoned senior pharmaceuticals executive with a background in oncology, clinical medicine, rheumatology and immunology. She brings more than 25 years' experience from senior leadership roles in global pharmaceutical companies, including Sanofi Aventis and Johnson & Johnson.
- Dr. Gregory B. Brown and Anne Whitaker stepped down from their positions as a Non-Executive Directors.

FINANCIAL

- On December 31, 2023, Faron held cash balances of EUR 6,9 million (2022: EUR 7,0 million).
- Loss for the period for the financial year ended December 31, 2023, was EUR 30,9 million (2022: EUR 28,7 million).
- Net assets on December 31, 2023, were EUR -15,2 million (2022: EUR -11,5 million).
- In January 2023 the Company successfully raised a total of EUR 12,0 million gross through the issuance of 3,692,308 ordinary shares to investors.
- In June 2023, Faron conducted a placement of 2,601,510 newly issued treasury shares to investors to raise EUR 6,6 million.
- In October 2023, the Company successfully raised EUR 7,1 million gross through the issuance of 2,491,998 ordinary shares to investors.
- The primary reason for conducting the placings were to accelerate and expand the clinical development of the Company's main drug candidate, bexmarilimab, advance bexmarilimab's commercial scale production, support general corporate purposes and other pipeline development, and to strengthen the Company's balance sheet.
- Post period, in February 2024, the Company announced that it is in breach of several undertakings agreed in the Facilities Agreement with IPF and subsequent waiver letters provided by IPF and is therefore in several events of default.
- Post period, in March 2024, the Company successfully raised a total of EUR 3,2 million in convertible loans allowing the Company to secure short-term financing. The company continues active endeavors to secure longer term funding.

CONSOLIDATED KEY FIGURES, IFRS

€'000	Unaudited 7–12/2023 months	Unaudited 7–12/2022 months	1–12/2023 12 months	1–12/2022 12 months
Other operating income	0	318	0	803
Research and Development expenses	(11,024)	(10,683)	(19,542)	(20,730)
General and Administrative expenses	(4,732)	(3,697)	(9,026)	(7,498)
Loss for the period	(15,756)	(14,062)	(28,568)	(28,730)
Loss per share EUR	(0.26)	(0.27)	(0.48)	(0.52)
Number of shares at end of period	68,786,699	59,805,383	68,786,699	59,805,383
Average number of shares	67,137,790	57,230,625	65,055,036	55,229,835

€'000	Unaudited 30 Jun 2023	Unaudited 30 Jun 2022	31 Dec 2023	31 Dec 2022
Cash and cash equivalents	6,315	9,936	6,875	6,990
Equity	(9,483)	(5,194)	(15,160)	(11,476)
Balance sheet total	12,836	16,729	10,220	11,271

Chairman's Statement

During 2023 has been another solid year of clinical tiral progress for Faron. We continue to see bexmarilimab, our novel, wholly owned investigational immunotherapy candidate as the major value driver for Faron, and so our focus has been, and remains, to continue to advance bexmarilimab through clinical development.

We were pleased to conclude the MATINS trial, which provided a huge amount of information around the safety of bexmarilimab in a monotherapy setting and we were honoured to present and publish the data at several conferences and in important scientific Journals. As we have said for a long time, we believe the future of cancer therapy for later-stage treatment is in the combination setting and we strongly believe, reinforced by the remarkable clinical data from the last year, that bexmarilimab will be part of the backbone of a combination setting.

Our most advanced program, and our main focus at Faron, is our Phase 1/2 BEXMAB trial investigating the safety, tolerability and preliminary efficacy of bexmarilimab in combination with standard of care therapies. Over the course of the year, we have seen very encouraging data from the BEXMAB trial with bexmarilimab continuing to show real clinical benefit in specific patient populations. We have consistently provided updates to the market and presented the data at several prestigious scientific conferences where we have had very positive feedback from key opinion leaders as well as from the clinicians in our trials. This has given us continued confidence in the potential of bexmarilimab to provide better patient outcomes and improve the quality of life in patients suffering from these aggressive conditions. We will continue to explore the best options to commercialize bexmarilimab in the combination setting and, as we move to next year, we are looking to have substantial interactions with the US FDA about the best path to market in our chosen indications.

We are very fortunate at Faron to have long-term supportive investors and so, despite the incredibly challenging funding environment seen this past year in both Europe and the US, we were pleased to raise additional capital throughout the period totalling EUR 25.7 million. Amongst other things, these funds have allowed us to accelerate our bexmarilimab program, bringing this much needed potential treatment one step closer to patients. We will look to strengthen our shareholder base as we move into 2024.

We had several Board and management changes over the course of the year. Dr. Gregory B. Brown and Anne Whitaker both stepped down from their positions as a Non-Executive Directors of the Company and Faron Board Member Mr. Leopoldo Zambeletti also stepped down to assume a transactional advisor role within the Company on business development opportunities. We were pleased, however, to welcome Mr. Tuomo Pätsi and Ms. Christine Roth as Non-Executive Directors of the Company. Ms Roth has played key roles in the development and launch of several therapies, including the first immune-oncology therapy and intentionally designed targeted therapy combinations.

Dr. Marie-Louise Fjällskog, moved from Chief Medical Officer to assume a Board position and we are very grateful that when she decided to retire, she had the confidence to continue with the company in this role. We also appointed a new Chief Financial Officer, Mr. James O'Brien, a very experienced US based CFO who has already made a big impact, and Dr. Birge Berns, MD as Interim Chief Medical Officer.

I would like to take this opportunity to thank our outgoing Board members for their service and guidance to Faron during their tenure and to Mr. Toni Hänninen, our previous CFO, for his service to Faron over the years.

As always, I would like to thank the whole management team, led by Dr. Markku Jalkanen, Chief Executive Officer, for their continued dedication and guidance, my colleagues on the Board for their commitment to the Company and our partner organisations and steering committee members for their support and expertise. I would also like to extend thanks to all the employees at Faron for their hard work and dedication. Most importantly, I would like to thank all the patients on our clinical trials, their families, and our trial investigators without whom we would not be where we are today. 2024 is set to be a pivotal for Faron when BEXMAB will deliver key data giving us a clearer direction towards commercialization. I look forward to providing further updates as we continue to progress our innovative pipeline.

Dr Frank Armstrong
Chairman
March 13, 2024

Chief Executive Officer's Review

2023 was a year of significant progress for Faron with momentum building in our ambitious bexmarilimab development program and a continued laser focus on proving the potential of this novel myeloid cell re-programming immunotherapy to treat patients with aggressive hematological malignancies.

Initial promising results emerged early in 2023 from the first part of our Phase 1/2 BEXMAB study, investigating bexmarilimab in combination with standard of care (azacitidine and venetoclax) in relapsed/refractory acute myeloid leukemia (AML) and myelodysplastic syndromes (MDS) patients who had failed hypomethylating agents (HMAs). These early, positive responses in a very difficult to treat refractory setting were extremely exciting, given patients in the trial had failed standard of care and were left with few treatment options.

Through 2023 the trial delivered highly encouraging results which continued to improve over time. And by the time the first part of the trial completed, the data were no less compelling. The bexmarilimab combination therapy had shown a strong overall response rate (ORR) in both higher-risk frontline MDS patients (5/5 patients) as well as HMA-failed MDS patients (5/5 patients). Observed responses were primarily deep and durable with 7/10 MDS patients achieving complete remission/ marrow complete remission (CR/mCR), and two demonstrating partial remission (PR), one of whom moved on to receive a stem cell transplantation and the other, hematological improvement without remission (HI-P).

The combination continued to be well-tolerated and generated strong and durable leukemic blast eradication and immune responses. These were tremendous data, supporting bexmarilimab's unique mechanism of action in the field of myeloid cell re-programming. And provided compelling evidence for us to continue development, at pace.

We rapidly initiated the second phase of the BEXMAB study in November, selecting HMA-refractory or -relapsed MDS as the initial indication, based on guidance from the U.S. Food and Drug Administration (FDA). MDS presents a considerable patient burden given the limited efficacy of the current standard of care, resulting in relatively low response rates and poor overall survival. Our data from the first part of the study underscored the potential of combining bexmarilimab with existing treatments to advance care for patients who so desperately need help. Post period, in January 2024, the first patients were dosed in the second phase of the study and the team secured additional trial sites to speed up its recruitment.

This is an incredibly important stage in bexmarilimab's development as data from this phase of the trial will enable us to discuss a potential registrational study plan with the FDA.

We are thrilled with this progress and our absolute priority is to pursue an accelerated path to approval for bexmarilimab in its initial indication, where we know the need is so great. We also understand the broader opportunities for this immunotherapy. The FDA has granted Orphan Drug Designation (ODD) to bexmarilimab for the treatment of acute myeloid leukemia (AML), another hematological cancer with too few treatment options. And armed with the wealth of data generated so far in the BEXMAB study, we are exploring bexmarilimab's potential in low risk MDS as well as chronic myelomonocytic leukaemia (CMML) patients. These are development and expansion opportunities that we will consider in the form of partnerships as our research continues.

Communicating to the broader healthcare community was an important aspect of our work in 2023 and I am delighted that the team was able to share and discuss the strong data emerging from the BEXMAB program at many of the leading scientific conferences, including the American Association for Cancer Research Annual Meeting, the European Hematology Association (EHA) 2023 Congress and the 65th American Society of Hematology (ASH) Annual Meeting. It was also a significant moment in December of 2023 when the leading scientific journal, Cell Reports Medicine, published the full safety and anti-tumor efficacy results from the Company's first-in-human Phase 1/2 MATINS trial of bexmarilimab monotherapy in solid tumors. That trial achieved disease control and prolonged survival in a proportion of patients with very late-stage cancers who had exhausted all standard treatment options. It formed the bedrock of our understanding of the potential of bexmarilimab.

Alongside bexmarilimab's significant advancements we have continued to strengthen the Company's foundations. The appointment of James O'Brien, CPA, MBA, as Chief Financial Officer, supports our journey to becoming a global pharmaceutical company, given his extensive experience in the US capital markets and strong track record as an accomplished biotech and financial executive. When Dr. Marie-Louise Fjällskog stepped down as Faron's Chief Medical Officer, we were delighted that she agreed to continue playing an integral role in the development of bexmarilimab, by providing clinical and regulatory expertise through her Non-Executive Director role on our Board. Dr. Birge Berns, who we appointed interim Chief Medical Officer, is a seasoned senior pharmaceuticals executive with a background in oncology, clinical medicine, rheumatology and immunology. She brings a wealth of global pharmaceutical experience that is critical to this business.

I am excited for the Company's future in 2024. The latest stage of the BEXMAB trial will provide important data to support our continued discussions with the FDA and, we hope, provide us with a clear pathway to bringing bexmarilimab to patients. Our confidence grows in the potential of this novel therapy to provide better patient outcomes and improve the quality of life of those suffering from aggressive hematological cancers. The excellent BEXMAB data have intensified numerous ongoing partnering discussions and we are looking forward to advancing these discussions over the coming year.

None of this work would be possible without the ongoing support from our shareholders, to whom I express my sincere thanks. And to my colleagues on the management team, and the wider Faron community, thank you for your continued commitment to making this Company's vision a reality and bringing the promise of bexmarilimab to patients.

Dr Markku Jalkanen
Chief Executive Officer
March 13, 2024

Financial Review

Despite continuing challenging market conditions in 2023, the Company was able to conduct three successful fundraising rounds. Combined, these financings raised EUR 25,7 million. As a result of these fundraising efforts, the net cash from financing activities of EUR 23,9 million compared to EUR 23,5 million in 2022. Post period in March 2024, the Company successfully raised a total of EUR 3,2 million in subordinated convertible loan arrangements with existing shareholders.Faron places a strategic emphasis on capital efficiency, a key element of extending our cash runway, without compromising the ability to advance our clinical development program. This capital efficiency has allowed us to achieve more with available resources, while focusing on clinical outcomes. During 2023, nearly 70% of cash expenses were spent directly in support of our bexmarilimab clinical development program including manufacturing. General and administrative expenses were flat in 2023 when compared to 2022 excluding one-time items and financing costs.

RESEARCH AND DEVELOPMENT COSTS

R&D costs were EUR 19,5 million in 2023 compared to 20,7 million in 2022, a decrease of EUR 1,2 million. These costs are attributable to advancing our clinical programs including completion of BEXMAB Phase I and the initiation of Phase II. Clinical trial costs include the cost of patient and site enrollment, CRO service costs including monitoring, investigator fees, and compensation and benefits for personnel directly responsible for R&D activities, and product supply costs. The costs of outsourced clinical trial services were EUR 4,0 million in 2023 compared to EUR 5,1 million in 2022. Compensation and benefits were EUR 3,2 million in 2023 and EUR 5,2 million in 2022 and included stock compensation expense of EUR 0,7 million and EUR 0,3 million in 2023 and 2022, respectively.

GENERAL AND ADMINISTRATION COSTS

G&A expenses were EUR 9.0 million in 2023 compared to EUR 7,5 million in 2022, an increase of EUR 1,5 million. The increase was mainly due to the recognition of the incremental fair value of amending the terms of 2015 option plan of EUR 1,2 million. Compensation and benefits were EUR 5,7 million in 2023 and EUR 4,5 million in 2022 and included stock compensation expense of EUR 1,7 million and EUR 1.0 million in 2023 and 2022, respectively.

TAXATION

The Company's tax credit for the fiscal year 2023 can be recorded only after the Finnish tax authorities have approved the tax report and confirmed the amount of tax-deductible expenses. The total amount of cumulative tax losses carried forward approved by tax authorities on December 31, 2023 was EUR 51,6 million (2022: EUR 47,1 million). The Company estimates that it can utilize most of these during the years 2024 to 2034 by offsetting them against potential future profits. In addition, the Company has EUR 95,2 million of R&D costs incurred in the financial years 2010 - 2023 that have not yet been deducted from taxation. This amount can be deducted over an indefinite period at the Company's discretion.

LOSSES

Loss before income tax and total comprehensive income in 2023 was EUR 30,9 million compared to EUR 28,7 million in 2022, which represents a loss of EUR 0.48 per share and EUR 0.52 per share in 2023 and 2022, respectively.

CASH FLOWS

Net cash flow in each of the year ended December 31, 2023 and 2022 was essentially flat. Cash used for operating activities in 2023 was EUR 23,8 million compared to 2022 of EUR 23,0 million. Net cash inflow from financing activities in 2023 was EUR 24,0 million compared to 2022 of EUR 23,5 million.

FUNDRAISING

In January 2023 the Company successfully raised a total of EUR 12,0 million gross through the issuance of 3,692,308 ordinary shares investors. In June 2023, Faron conducted a placement of 2,601,510 newly issued treasury shares to raise EUR 6,6 million gross. In October 2023, the Company successfully raised EUR 7,1 million gross through the issuance of 2,491,998 ordinary shares to investors. Post period, In March 2024, the Company successfully raised a total of EUR 3,2 million in subordinated convertible loan arrangements with certain existing shareholders.

FINANCIAL POSITION

As of 31 December 2023, total cash and cash equivalents held were EUR 6,9 million compared to 2022 of EUR 7,0 million.

GOING CONCERN

As part of their going concern review, the Directors have followed International Accounting Standard 1, Presentation of Financial Statements (IAS 1). The Company and its subsidiaries are subject to a number of risks similar to those of other development state pharmaceutical companies. These risks include, amongst others, generation of revenues in due course from the development portfolio and risks associated with research, development, testing and obtaining related regulatory approvals of its pipeline products. Ultimately, the attainment of profitable operations is dependent on future uncertain events which include obtaining adequate financing to fulfill the Group's commercial and development activities and generate a level of revenue adequate to support the Group's cost structure.

The Group generated a net loss of EUR 30,9 million and recorded EUR 23,8 million cash outflow from operating activities during the year ended 31 December 2023. At the end of the financial year, it had total negative equity of EUR 15,2 million including an accumulated deficit of EUR 172,2 million. As of that date, the group had cash and cash equivalents of EUR 6,9 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 Director's estimate that the cash held by the Group, together with known receivables will be sufficient to support the current level of activities into the second quarter of 2024. The Group also maintains loan agreements which include financial covenants related to minimum cash balance and thus loan amounts (EUR 9,4 million on December 31, 2023) become due if the Group is not able to maintain minimum cash balances or negotiate a waiver with the lender. The directors are continuing to explore sources of finance available to the Group and they believe that 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 December 31, 2023; they have therefore prepared the financial statements on a going concern basis.

During the financial period ended 31, December 2023, the Group raised EUR 25,7 million in three successful fundraising rounds. Subsequently, in March 2023, the Group received EUR 3,2 million capital loan to secure immediate short-term financing needs until the end of March 2024. The Capital Loan shall be governed by the provisions of Chapter 12 of the Finnish Companies Act (624/2006, as amended) (the "Finnish Companies Act") concerning capital loans (in Finnish: pääomalaina).

The Loans shall be converted to new shares in the Company as a part of (and at the subscription price of) the next investment round where shares or other equity securities are issued by the Company to existing shareholders and/or new third- party investors, with a minimum size of EUR 8,0 million ("Investment Round").

In the event that the subscription price in such Investment Round exceeds EUR 1.50 per share, an Investor shall have the right to postpone the conversion of the Loan until 10 June 2024 ("Due Date"). In the event that there is no Investment Round by the Due Date (or the subscription price of the Investment Round exceeds EUR 1.50 per share and the respective Investor has decided to postpone the conversion of the Loan) and the Loan has not been otherwise repaid prior to the Due Date (subject to a subordination agreement to be entered into between the Investors, the Company and IPF), then the Loan shall be at the request of the Investor converted into new shares in the Company in connection with the Due Date. In such case, the subscription price per share shall be EUR 1.50 per share. However, if then the Investor elects not to exercise its conversion right on the Due Date, (such option being only available if there has not been any Investment Round), the Due Date of the Loan will automatically be extended until 31 December 2024 ("Final Due Date"). On such Final Due Date, the Loan shall be either repaid in full in cash, subject to the terms of the subordination agreement, or converted into new shares in the Company with the subscription price of EUR 1.50 per share, subject to a valid share issue authorization being in place.

In case the Loan is converted before the Due Date, each Investor is entitled to an arrangement fee of 15% of its respective Loan amount. If conversion has not taken place prior to the Due Date, the arrangement fee will be 30% of the Investor's respective Loan amount. No interest shall be payable on the Loan if a conversion takes place before 30 May 2024, and thereafter the interest will be 12% + 3-months Euribor and paid subject to the subordination agreement.

The Group is actively pursuing the following activities during 2024:

- Securing approximately EUR 5,0 million of short-term bridge financing to extend the Group's cash runway until longer-term financing can be obtained.
- Securing longer-term funding of approximately EUR 35,0 million in total. The Directors' intend to propose to the Annual General Meeting on 5 April 2024 an authorization for a larger share issuance contemplated to be launched as a public offering (with planned allocation preferences to existing shareholders and bridge finance lenders, including the Investors to enable the conversion of the Capital Loan and in compliance with the relevant securities markets regulation) as soon as practicable once the required preparations and approvals are in place. The targeted size of the contemplated share issue is planned to be set accordingly, to meet cash runway needs for 2024.
- Evaluating and negotiating several business development alternatives that may result in non-dilutive funding.
- Evaluating new sources of financing from third parties on acceptable terms. With respect to the availability of additional funding from IPF, the respective term allowing the Group to draw on Tranche B and Tranche C has expired and the availability of Funds from IPF would be subject to further negotiations. The Group does not anticipate, at this time, having the ability to draw on Tranche B or Tranche C under favorable terms, in the near future.
- See Notes 19 and 25 for discussion of post balance sheet events including IPF loan covenant breach and waiver on 3 March 2024.

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

HEADCOUNT

Faron's headcount at the end of year was 34 (2022: 40).

SHARES AND SHARE CAPITAL

During the period January 1 to December 31, 2023, the Company, using the share authorities granted at the Extraordinary General Meeting held on July 7, 2022, issued a total of 3,692,308 new ordinary shares at an issuance price of EUR 3.25 per share to investors. During the same period, the Company, using the share authorities granted at the Annual General Meeting held on March 24, 2023, issued a total of 2,601,510 shares at an issuance price of EUR 2.55 per share to investors. During the same period, the Company, using the share authorities granted at the

Annual General Meeting held on March 24, 2023, issued a total of 2,491,998 new ordinary shares at an issuance price of EUR 2.85 to investors. The subscription price net of costs was credited in full to the Company's reserve for invested unrestricted equity, and the share capital of the Company was not increased. The Company has no shares in treasury; therefore at the end of 2023 the total number of voting rights was 68,786,699.

James O'Brien
Chief Financial Officer
March 13, 2024

Risks and Uncertainties

Faron is a clinical stage biopharmaceutical company and, similar to other companies operating in this field, is subject to a number of risks and uncertainties. The principal risks and uncertainties identified by Faron for the year ended December 31, 2023 are below.

RESEARCH AND DEVELOPMENT

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

COMMERCIAL PRODUCTS AND MANUFACTURING

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

DEPENDENCE ON KEY PERSONNEL AND SCIENTIFIC AND CLINICAL COLLABORATORS

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

REGULATORY ENVIRONMENT

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

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

INTELLECTUAL PROPERTY AND PROPRIETARY TECHNOLOGY

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

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

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

FINANCIAL

The Company has incurred significant losses since its inception and does not have any approved or revenue generating products. The Company expects to incur losses for the foreseeable future, and there is no certainty that the business will generate a profit. The Company is highly dependent on equity, public grants and loan financing. The Company may not be able to raise additional funds that will be needed to support its product development programmes or commercialisation efforts, and any additional funds that are raised could cause dilution to existing investors. The Company operates internationally, and it is thus exposed in various currencies and fluctuation in their relative values. Even though the Company seeks to hedge currency positions there is no guarantee that it will be successful. The Company has a loan from IPF Fund II SCA, SICAV-FIAR in the principal amount of EUR 9.38 million. The said loan contains many financial covenants, and it is not certain that the company can comply with the said financial covenants at all times (see Note 25.). Certain covenants are in the control of the Company (e.g. the Minimum Cash Covenant) whereas certain are dependent on external events (e.g. Gearing covenant which is calculated using the Company stock price). Furthermore, the Company may not be able to repay the loan, as agreed with the lender. The Company's IPR, business mortgages and bank accounts are pledged to the lender, giving the lender operational control of the Company in an Event of Default, if the Company is in breach of its obligations towards the lender.

OTHER RISKS RELATED TO OPERATIONS

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

This report was approved by the Board on 13 Match, 2024.

Corporate Governance

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

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

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

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

No significant changes in governance arrangements occurred during the year.

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

Dr Frank Armstrong
Non-Executive Chairman
13 March 2024

Compliance

COMPLIANCE WITH THE PRINCIPLES OF THE QCA CODE

The Principles of the QCA Code	Comply/Explain	Disclosure in the 2023 Report
1. Establish a strategy and business model which promote long-term	Comply	Pages 4, to 7 and 12 to 19
2. Seek to understand and meet shareholder needs and expectations	Comply	Pages 38 to 41
3. Take into account wider stakeholder and social responsibilities and their implications for long-term success	Comply	Pages 38 to 41
4. Embed effective risk management, considering both opportunities and threats, throughout the organisation	Comply	Pages 20 to 23
5. Maintain the board as a well-functioning, balanced team led by the chair	Comply	Pages 26 to 30 and 42 to 43
6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities	Comply	Pages 26 to 30
7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement	Comply	Page 31
8. Promote a corporate culture that is based on ethical values and behaviours	Comply	Page 24
9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board	Comply	Pages 24 and 26
10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Comply	Pages 24 to 43

Board of Directors

On 23 March 2023, the Company held its Annual General Meeting (AGM). At the AGM the number of Directors was confirmed as seven. Frank Armstrong, Markku Jalkanen, Leopoldo Zambeletti, John Poulos, Anne Whitaker and Erik Ostrowski were re-elected to the Board and Tuomo Pätsi was elected as a new member to the Board for a term that ends at the end of the next AGM whereas longterm member of the Board Gregory Brown stepped down from his position. At the meeting of the Board held following the AGM, Frank Armstrong was re-elected Chairman of the Board. On 22 September 2023 the Company held an Extraordinary General Meeting and decided to elect two new members to the Board, Marie-Louise Fjällskog and Christine Roth. They replaced two Board members who had resigned form their positions: On 1 June 2023 Leopoldo Zambeletti resigned from his position as he started as a strategic advisor for the Company and Anne Whitaker resigned on 22 September 2023 due to personal reason.

At the end of year 2023 the Board comprised of six non-executive directors and one executive director. Brief biographical details for the Directors can be found on the following pages. During 2023, the Board held 21 meetings.

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

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

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

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

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

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

Dr Frank Armstrong

Non-Executive Chairman

b. 1957

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

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

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

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

Holdings in the Company: 71,062 shares and 340,000 stock options, entitling to same amount of shares in the Company.

Dr Markku Jalkanen

Chief Executive Officer

b. 1954

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

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

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

Holdings in the Company: 3,313,434 shares (directly and with his spouse) and 540,000 stock options, entitling to same amount of shares in the Company.

John Poulos

Non-Executive Director

b. 1954

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

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

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

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

Holdings in the Company: 10,000 shares and 160,000 stock options, entitling to same amount of shares in the Company.

Erik Ostrowski

Non-Executive Director

b. 1972

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

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

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

Holdings in the Company: 2,009 shares and 60,000 stock options, entitling to same amount of shares in the Company.

Marie-Louise Fjällskog

Non-Ececutive Director

b. 1964

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

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

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

Holdings in the company: No shares and 180,000 stock options, entitling her to the same amount of shares in the company.

Tuomo Pätsi

Non-Executive Director

b. 1964

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

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

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

Holdings in the company: 11,765 shares and 30,000 stock options, entitling him to the same amount of shares in the company.

Christine Roth

Non-Executive Director

b. 1963

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

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

Holdings in the company: No shares and 30,000 stock options, entitling her to the same amount of shares in the company.

BOARD COMMITTEES

In conjunction with being admitted to trading on AIM, the Company has established audit, nomination and remuneration committees of the Board with formally delegated duties and responsibilities.

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

Members of the Board committees were first elected at the Board meeting held following the AGM on 24 March 2023.

During 2023 the Board made the decision to establish a new Business Development Committee. The Committee did not convene during 2023. John Poulos acts as a Chair for this new committee.

REMUNERATION COMMITTEE

The remuneration committee has the task of advising on and making recommendations to the Board in relation to the remuneration paid to the Directors and supervising the development of any other remuneration or reward systems of Faron. Starting 24 March 2023, the remuneration committee comprised of Anne Whitaker as Chair together with Frank Armstrong, John Poulos and Leopoldo Zambeletti. As of 22 September 2023 the Remuneration Committee comprises of John Poulos as Chair together with Christine Roth and Frank Armstrong. During 2023, the remuneration committee held three meetings.

AUDIT COMMITTEE

In the beginnign of year 2023 the Audit Committee comprised Leopoldo Zambeletti, Greg Brown and Erik Ostrowski. As of 22 September 2023 the Committee has comprised Erik Ostrowski as Chair together and Frank Armstrong, Marie-Louise Fjällskog (starting 22 September 2023) and Tuomo Pätsi (starting 8 June 23). The Audit Committee meets not less than twice a year. The audit committee has the task of supervising and developing the internal audit of the Group and advising and making recommendations to the Board on related issues. During 2023, the audit committee held two meetings.

NOMINATION COMMITTEE

As of 22 September 2023 the nomination committee comprises Frank Armstrong as Chair together with Erik Ostrowski and Tuomo Pätsi. 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 2023, 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 2023 the Board held 21 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 2023

	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
Jalkanen Markku	21			
Non-Executive Directors				
Armstrong Frank	16	1	3	3
Ostrowski Erik	19	2		1
Brown Gregory*	4			
Zambeletti Leopoldo***	7	1	2	
Poulos John	20	1	3	
Whitaker Anne****	11		3	
Pätsi Tuomo**	15	1		2
Fjällskog Marie-Louise*****	5			
Roth Christine*****	6			

(*) Board member until March 2023
(**) Board member starting March 2023
(***) Board member until June 2023
(****) Board member until September 2023
(*****) Board member starting September 2023

Remuneration Report

Remuneration Policy for Directors

The Remuneration Committee sets the remuneration policy that aims to align Director remuneration with shareholders' interests and attract and retain the best talent for the benefit of Faron. No Director is involved in discussions relating to their own remuneration. This report sets out Faron's remuneration policy for the Executive and Non-Executive Directors. The remuneration of the Directors during the year ended 31 December 2023 is set out below:

BASIC SALARY

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

BONUSES

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

LONGER TERM INCENTIVES

In order to further incentivise the Executive Directors and employees, and align their interests with shareholders, the Extraordinary General Meeting of the Company on 15 September 2015 approved a share option plan and granted share options to the members of the Board under this option plan. At the AGM held on 28 May 2019, the Company authorised the Board to implement a new share option plan for the employees and Directors of, and persons providing services to, the Group. Rules of that new option plan were approved by the Board on 20 November 2019. The most recent versions of the amendment Option plans 2015 and 2019 were resolved by the general meetings during 2023. Details of these option plans are on pages 35 to 39.

PENSION

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

OTHER BENEFITS

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

EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND TERMINATION PROVISIONS

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

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

	Date of contract	Notice period
Jalkanen Markku, CEO	16.9.2015	6 months

NON-EXECUTIVE DIRECTORS' SERVICE CONTRACTS AND REMUNERATION

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

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

Current contracts are summarised below:

Non-Executive Directors	Independence	Contract	Date of Contract
Armstrong Frank	Independent	Chairman	16.09.2015
Ostrowski Erik	Independent	Member	22.04.2022
Poulos John	Independent	Member	16.05.2017
Pätsi Tuomo	Independent	Member	27.03.2023
Roth Christine	Independent	Member	25.09.2023
Fjällskog Marie-Louise	Independent	Member	25.09.2023

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

The Directors received the following remuneration during the year:

€	Salaries and fees	Bonus	Taxable benefits	Total
Executive Directors				
Jalkanen Markku	398,192	113,299	240	511,730
Non-Executive Directors				
Armstrong Frank	83,978			83,978
Brown Gregory*	22,000			22,000
Ostrowski Erik	42,934			42,934
Poulos John	42,000			42,000
Zambeletti Leopoldo**	34,525			34,525
Whitaker Anne***	46,851			46,851
Pätsi Tuomo****	20,970			20,970
Fjällskog Marie-Louise*****	0			0
Roth Christine*****	0			0

(*) Board member until March 2023
(**) Board member until May 2023
(***) Board member until September 2023
(****) Board member from March 2023
(*****) Board member starting September 2023

THE COMPANY'S OPTION PLANS AND DIRECTORS' SHARE OPTIONS

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

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

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

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

Option tranches under Option Plans 2015 and 2019	Total number of options	Grant date	Exercised period, vesting 25% per annum	Exercise price, €
2015 A options	400,000	16.09.2015	02.11.2015–30.09.2025	3.67
2015 B options	400,000	18.11.2016	08.10.2016–30.09.2025	2.90
2015 C options	500,000	16.11.2017	08.10.2017–30.09.2025	8.39
2015 D options	500,000	21.05.2019	08.10.2018–30.09.2025	1.09
2019 A options	554,333	23.07.2020	23.07.2021–23.07.2025	3.80
2019 B options	590,583	24.03.2021	24.03.2022–24.03.2026	3.99
2019 B *bis* options	0	05.07.2021	05.07.2022–05.07.2026	4.40
2019 B *tertiary* options	147,000	17.11.2021	17.11.2022–17.11.2026	4.47 (4.04€ under US plan)
2019 C options	440,000	24.03.2022	24.03.2023–24.03.2027	3.09 (2.91€ under US plan)
2019 C bis options	129,000	24.08.2022	24.08.2023–24.08.2027	2.50 (2.38€ under US plan)
2019 C tertiary options	16,000	17.11.2022	17.11.2023–17.11.2027	2.09
2019 D options	779,000	08.06.2023	08.06.2024–08.06.2028	3.57 (3.36€ under US plan)
2019 D bis options	34,000	09.11.2023	09.11.2024–9.11.2028	3.53 (3.35€ under US plan)

Total options under 2015 and 2019 Option Plans	At 1 January 2023	Granted during the period	Exercised during the period:	At 31 December 2023	Average subs. price per shares, €
Jalkanen Markku	480,000	60,000	0	540,,000	3.57
Armstrong Frank	280,000	60,000	0	340,000	3.57
Ostrowski Erik*	30,000	30,000	0	60,000	3.36
Brown Gregory**	160,000	30,000	0	160,000	3.36
Poulos John	130,000	30,000	0	160,000	3.36
Zambeletti Leopoldo**	140,000	30,000	0	170,000	3.57
Whitaker Anne**	60,000	30,000	0	90,000	3.36
Pätsi Tuomo	0	30,000	0	30,000	3.57
Fjällskog Marie-Louise	140,000	40,000	0	180,000	3.57
Roth Christine	0	30,000	0	30,000	3.35

(*) Board member since April 2022 (**) Board membership ended during 2023

At 31 December 2023	Issued Share Capital		Share Options	
	Ordinary shares	Percentage held	Options	Average exercise price, €
Executive				
Jalkanen Markku[1]	3,313,434	4.82	540,000	4.35
Non-Executive Directors				
Armstrong Frank	71,062	0.10	340,000	3.90
Ostrowski Erik	2,009	0.01	60,000	2.87
Poulos John	10,000	0.01	160,000	4.21
Pätsi Tuomo*	11,765	0.01	30,000	3.57
Fjällskog Marie-Louise**	0	0.00	180,000	3.64
Roth Christine**	0	0.00	30,000	3.35

(*) Board member since March 2023
(**) Board member since September 2023

(1) of which 2,153,697 are held by Markku Jalkanen directly and 1,138,168 are held by Markku Jalkanen's wife Sirpa Jalkanen

Corporate Governance Statement

COMMUNICATING WITH SHAREHOLDERS

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

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

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

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

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

SHARE DEALING

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

ETHICAL VALUES AND CORPORATE CULTURE

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

The principal risks and uncertainties identified by the Board are set out on pages 20-23 of the 2023 Report. The Board has put in place internal controls and systems which are designed to manage rather than eliminate

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

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

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

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

REGULATED ADVISORS

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

RESPONSIBILITY

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

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

Faron is committed to maintaining and promoting high standards of business integrity. Faron's values, which

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

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

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

Environmental – Prioritizing Sustainability

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

Social – Patients, Employees and Inventions

Unmet medical needs and enhancing patient access

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

Inventions from academia to patients

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

Be an Employer of Choice

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

Governance

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

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

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

STATEMENT OF RESPONSIBILITIES

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

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

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

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

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

WEBSITE PUBLICATION

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

On behalf of the Board

Frank Armstrong
Chairman
13 March 2024

Directors' Report

The Directors present their report together with the audited financial statements for the year ended 31 December 2023.

DIRECTORS

During the year ended 31 December 2023 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 John Poulos | Non-Executive Director
Dr Gregory B Brown | Non-Executive Director
Mr Leopoldo Zambeletti | Non-Executive Director
Ms Anne Whitaker | Non-Executive Director
Mr Erik Ostrowski | Non-Executive Director
Mr. Tuomo Pätsi | Non-Executive Director*
Dr. Marie-LouiseFjällskog | Non-Executive Director**
Mrs. Christine Roth | Non-Executive Director**

(*) Appointed to the Board on March 2023
(**) Appointed to the Board on September 2023

PRINCIPAL RISKS AND UNCERTAINTIES

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

RESULTS AND DIVIDENDS

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

The Group's loss of the financial year after taxation and other comprehensive losses was €30.9 million (2022: €28.7 million).

The Company has no distributable equity and thus the Directors do not recommend the payment of a dividend (2022: nil).

FINANCIAL INFORMATION

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

FINANCIAL KEY PERFORMANCE INDICATORS (KPIS)

For a review of the Group's KPIs please see pages 16-19 Financial Review.

RESEARCH AND DEVELOPMENT

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

FINANCIAL INSTRUMENTS AND MANAGEMENT OF LIQUID RESOURCES

The Group's principal financial instrument comprises

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

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

SUBSTANTIAL SHAREHOLDINGS

On 31 December 2023, the Company had been notified of the following holdings of 3% or more of the issued share capital of the Company.

Timo Syrjälä*	13,410,336	19.50 %
A&B (HK) Company Limited	3,408,409	4.96 %
Markku Jalkanen**	3,313,434	4.82 %
Tom-Erik Lind	3,231,797	4.70%
Varma Mutual Pension Fund	2,837,581	4.13 %
Marko Salmi	2,685,079	3.90%
Fjärde AP Fonden	2,576,184	3.75 %
The European Investment Council Fund, EIC	2,080,437	3.02%

(*) of which 4,604,971 are held directly by Timo Syrjälä and 8,805,365 are held by Acme Investments SPF S.à.r.l., an entity which is wholly owned by Timo Syrjälä / (**) of which 2,175,266 are held by Markku Jalkanen directly and 1,138,168 are held by Markku Jalkanen's wife Sirpa Jalkanen

The information presented in the above table is consistent with the Company's best knowledge as at 31 December 2023.

GENERAL MEETINGS

The Company held the Annual General Meeting on 24 March 2023 and the Extra Ordinary General meeting on 22 September 2023. In 2024, the Annual General Meeting will be held on 5 april 2024. Further details will be provided to shareholders in advance of the meeting.

INDEPENDENT AUDITORS

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

DISCLOSURE AND INFORMATION TO AUDITORS

Each of the current Directors hereby confirms that:
(a) So far as he/she is aware, there is no relevant audit information of which the auditors are unaware; and
(b) He/she has taken all reasonable steps to ascertain any relevant audit information and to ensure that the auditors are aware of such information

On behalf of the Board

Frank Armstrong
Chairman
13 March 2024

Financial Statements 2023

Statement of Comprehensive Income

For the year ended 31 December		*Group*		*Parent*	
€'000 (except per share information)	**Note**	**2023**	**2022**	**2023**	**2022**
Revenue	**3**	**-**	**-**	**-**	**-**
Other operating income	4	-	803	65	868
Research and development expenses	5, 6, 7	(19,542)	(20,730)	(19,019)	(19,958)
General and administrative expenses	5, 6, 7	(9,026)	(7,498)	(9,792)	(8,495)
Operating loss		**(28,568)**	**(27,426)**	**(28,746)**	**(27,585)**
Financial income	8	233	96	317	36
Financial expenses	8	(2 609)	(1,400)	(2,664)	(1,376)
Loss before tax		**(30,944)**	**(28,730)**	**(31,094)**	**(28,924)**
Tax expense	9	-	-	-	-
Loss for the period		**(30,944)**	**(28,730)**	**(31,094)**	**(28,924)**
Other comprehensive income (loss)		2	17	-	-
Total comprehensive loss for the period		**(30,942)**	**(28,713)**	**(31,094)**	**(28,924)**
Loss per ordinary share					
Basic and diluted loss per share, EUR	10	(0.48)	(0.52)	(0.48)	(0.52)

Balance Sheet

As at December 31		*Group*		*Parent*	
€'000	Note	2023	2022	2023	2022
Assets					
Non-current assets					
Machinery and equipment	11	6	13	6	13
Right-of-use-assets	13	198	314	198	314
Subsidiary shares	24	-	-	18	18
Intangible assets	11	1,088	1,154	1,088	1,154
Prepayments and other receivables	12	60	60	544	522
Total non-current assets		**1,352**	**1,541**	**1,854**	**2,021**
Current assets					
Prepayments and other receivables	14	1,992	2,740	2,317	2,845
Cash and cash equivalents	15	6,875	6,990	6,842	6,884
Total current assets		**8,868**	**9,730**	**9,159**	**9,729**
Total assets		**10,220**	**11,271**	**11,013**	**11,750**
Equity and liabilities					
Capital and reserves attributable to the equity holders of Faron					
Share capital		2,691	2,691	2,691	2,691
Reserve for invested unrestricted equity		154,352	129,544	154,346	129,539
Accumulated deficit		(172,208)	(143,713)	(172,649)	(144,008)
Translation difference		4	2	0	-
Total equity	**16, 17**	**(15,160)**	**(11,476)**	**(15,611)**	**(11,778)**
Provisions					
Other provisions	18	0	158	0	158
Total provisions		**0**	**158**	**0**	**158**
Non-current liabilities					
Borrowings	19	9,423	11,102	9,428	11,106
Lease liabilities	13	50	163	50	163
Other liabilities	21	895	853	895	853
Total non-current liabilities		**10,369**	**12,118**	**10,373**	**12,122**
Current liabilities					
Borrowings	19	3,475	1,851	3 475	1,851
Lease liabilities	13	163	153	163	153
Trade payables	22	8,971	6,014	10,585	7,265
Accruals and other current liabilities	22	2,403	2,453	2,028	1,978
Total current liabilities		**15,012**	**10,471**	**16,251**	**11,247**
Total liabilities		**25,380**	**22,748**	**26,624**	**23,528**
Total equity and liabilities		**10,220**	**11,271**	**11,013**	**11,750**

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 2021		**2,691**	**116,507**	**(116,381)**	**2,818**
Comprehensive loss for the period		-	-	(28,924)	(28,924)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs	16	-	13,032	-	13,032
Share-based compensation	6, 17	-	-	1,297	1,297
		-	**13,032**	**1,297**	**14,329**
Balance as at 31 December 2022		**2,691**	**129,539**	**(144,008)**	**(11,778)**
Comprehensive loss for the period		-	-	(31,094)	(31,094)
Transactions with equity holders of the Company					
Issue of ordinary shares, net of transaction costs	16	-	24,808	-	24,808
Share-based compensation	6, 17	-	-	2,450	2,450
Other movements		-	-	2	2
		-	**24,808**	**(28,641)**	**(3,833)**
Balance as at 31 December 2023		**2,691**	**154,346**	**(172,649)**	**(15,611)**

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 2021		**2,691**	**116,507**	**(15)**	**(116,265)**	**2,919**
Comprehensive loss for the period		-	-	17	(28,730)	(28,713)
Transactions with equity holders of the Group						
Issue of ordinary shares, net of transaction costs	16	-	13,037	-	-	13,037
Share-based compensation	6, 17	-	-	-	1,297	1,297
Other movements		-	-	-	(16)	(16)
		-	**13,037**	**17**	**(27,448)**	**(14,395)**
Balance as at 31 December 2022		**2,691**	**129,544**	**2**	**(143,713)**	**(11,476)**
Comprehensive loss for the period		-	-	2	(30,944)	(30,942)
Transactions with equity holders of the Group						
Issue of ordinary shares, net of transaction costs	16	-	24,808	-	-	24,808
Share-based compensation	6, 17	-	-	-	2,450	2,450
		-	**24,808**	**2**	**(28,494)**	**(3,684)**
Balance as at 31 December 2023		**2,691**	**154,352**	**4**	**(172,208)**	**(15,160)**

Statement of Cash Flows

As at 31 December		*Group*		*Parent*	
€'000	Note	2023	2022	2023	2022
Cash flow from operating activities					
Loss before tax		(30,944)	(28,730)	(31,094)	(28,924)
Adjustments for:					
Received grants	4	(33)	(803)	(33)	(868)
Depreciation and amortisation	7	346	300	346	300
Change in provision		(158)	(158)	(158)	(158)
Financial items	8	2,376	1,304	2,348	1,339
Share-based compensation	17	2,450	1,297	2,450	1,297
Operating cash flows before movements in working capital		(25,963)	(26,790)	(26,141)	(27,014)
Change in net working capital:					
Prepayments and other receivables		300	2,864	59	2,887
Trade payables		2,994	719	3,253	4,314
Other liabilities		(50)	1,183	50	(2,126)
Cash used in operations		(22,719)	(22,023)	(22,779)	(21,940)
Transaction costs related to loans and borrowings		-	(165)	-	(165)
Interest received		243	11	243	11
Interest paid		(1,330)	(816)	(1,330)	(816)
Net cash used in operating activities		**(23,806)**	**(22,993)**	**(23,866)**	**(22,909)**
Cash flow from investing activities					
Payments for intangible assets	11	(123)	(385)	(123)	(385)
Net cash used in investing activities		**(123)**	**(385)**	**(123)**	**(385)**
Cash flow from financing activities					
Proceeds from issue of shares	16	26,031	13,445	26,031	13,445
Share issue transaction cost	16	(1,190)	(365)	(1,190)	(365)
Proceeds from borrowings	19	64	10,389	64	10,389
Repayment of borrowings	19	(861)	(105)	(861)	(105)
Transaction and structuring fees of borrowings	19	(400)	-	(400)	-
Proceeds from grants	4, 21	481	231	481	231
Payment of lease liabilities	2, 19	(142)	(116)	(142)	(116)
Net cash from financing activities		**23,983**	**23,478**	**23,983**	**23,478**
Net increase (+) / decrease (-) in cash and cash equivalents		**(114)**	**137**	**(41)**	**250**
Effect of exchange rate changes on cash and cash equivalents		(168)	37	(35)	66
Cash and cash equivalents at 1 January	15	6,990	6,853	6,884	6,634
Cash and cash equivalents at 31 December	**15**	**6,876**	**6,990**	**6,842**	**6,884**

Notes to the Financial Statements

1. CORPORATE INFORMATION

Faron Pharmaceuticals Oy ("Company"), a clinical stage biopharmaceutical company incorporated and domiciled in Finland, with its headquarters at Joukahaisenkatu 6 B, 20520 Turku, Finland, is the parent company for all its subsidiaries ("Faron" or "Group"). The Group has a pipeline based on the receptors involved in regulation of immune response in oncology, organ damage and bone marrow regeneration. Faron Pharmaceuticals Oy is listed on the London Stock Exchange's AIM market since 17 November 2015 and Nasdaq First North Growth Market since 21 November 2019. The Board of Directors of the Company approved the financial statements on 12 March 2024.

2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

2.1. Basis of Preparation

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

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

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

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

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

2.2. Going Concern

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

development activities and generate a level of revenue adequate to support the Group's cost structure.

The Group generated a net loss of €30,9 million and recorded a €23,8 million cash outflow from operating activities during the year ended 31 December 2023. At the end of the financial year, it had total negative equity of €15,2 million including an accumulated deficit of €172,2 million. As of that date, the Group had cash and cash equivalents of €6,9 million.

The Directors have prepared the detailed financial forecasts and cash flows looking beyond 12 months from the date of these financial statements. In developing these forecasts, the Directors have made assumptions based upon their view of the current and future economic conditionsto the Company and the Group that are expected to prevail over the forecast period. The Director's estimate that the cash held by the Group, together with known receivables will be sufficient to support the current level of activities until Q2 2024. The Group also has loan agreements which include financial covenants related to minimum cash balance and thus loan amounts (book value of €9,4 million on December 31, 2023) become due if the Group is not able to maintain minimum cash balances or negotiate a waiver with the lender. The directors are continuing to explore sources of finance available to the Group and the Company and they believe that 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 these financial statements; they have therefore prepared the financial statements on a going concern basis.

During the financial period ended 31, December 2023, the Group raised 25,7 million in three fundraising rounds. Subsequent to 31 December 2023, the Group has received a €3,2 million capital loan to secure immediate short-term financing needs until the end of March 2024. The Capital Loan shall be governed by the provisions of Chapter 12 of the Finnish Companies Act (624/2006, as amended) (the "Finnish Companies Act") concerning capital loans (in Finnish: pääomalaina). The Group is actively pursuing the following activities during 2024:

- Securing approximately €5,0 million of short-term bridge financing to extend the Group's cash runway and meeting the covenant terms until long term financing can be obtained.
- Securing longer-term funding of approximately €35 million in total. The Directors' intend to propose to the Annual General Meeting on 5 April 2024 an authorization for a larger share issuance contemplated to be launched as a public offering (with planned allocation preferences to existing shareholders and bridge finance lenders, including the investors to enable the conversion of the Capital Loan and in compliance with the relevant securities markets regulation) as soon as practicable once the required preparations and approvals are in place. The targeted size of the contemplated share issue is planned to be set accordingly, to meet these cash runway needs for 2024.
- Evaluating and negotiating several business development alternatives that may result in non-dilutive funding.
- Evaluating, to the extent possible, other sources of debt financing on acceptable terms. With respect to the availability of additional funding from IPF, the respective term allowing the Group to draw on Tranche B and Tranche C has expired. The Group does not anticipate, at this time, having the ability to draw further funding from IPF.
- See Notes 19 in relation to IPF facility agreement and Note 25 for discussion of post balance sheet events including IPF loan covenant breach and waiver on 3 March 2024.

Because the additional finance is not committed at the date of issuance of these financial statements, these circumstances represent a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Should the Group and the Company be unable to obtain further financing such that the going concern basis of preparation were no longer appropriate, this may have a consequential impact on the carrying value of the assets and liabilities of the Group and the Company. See further commentary on financial risk management in Note 20.

2.3. Foreign Currency Transactions and Balances

Functional and Presentation Currency

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

Transaction Currency

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

2.4. Segment Reporting

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

2.5. Revenue Recognition

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

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

Revenue from Licensing Agreements

According to IFRS 15, performance obligation is a promise to provide a distinct good or service or a series of distinct goods or services. Goods and services that are not distinct are bundled with other goods or services in the contract until a bundle of goods or services that is distinct is created. A good or service promised to a customer is distinct if the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer and the entity's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract.

2.6. Recognition of Government Grants

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

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

2.7. Research and Development Expenses

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

Capitalization of expenditure on the development of the Group's products commences from the point at which technical and commercial feasibility of the product can be demonstrated and it is probable that future economic benefits will result from the product once completed. As at 31 December 2023, considering the development stage of the Group's drug candidates, no internally developed assets related to Group's development activities had met these criteria and had therefore not been recognized. The uncertainties inherent in developing pharmaceutical products prohibits the capitalization of internal development expenses as an intangible asset until the marketing approval has been received from the relevant regulatory agencies.

2.8. Employee Benefits

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

2.9. Share-based Compensation

The options granted under share-based incentive programs are measured at fair value at earlier of the grant date or the service commencement date, using the Black-Scholes valuation model. The options, for which the option exercise price is determined later, right before the vesting, an estimate is used to determine the fair value at service commencement date and the estimate is subsequently revised until the options become granted. The share-based compensation expense is recognized on

a straight-line basis over the vesting period together with a corresponding increase in equity, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments that are expected to vest and its estimate of the grant date fair value for the options with earlier service commencement date. The exercise price paid by the option or warrant holder to subscribe the Group's shares is recognized in the reserve for invested unrestricted equity.

2.10. Loss per Share

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

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

2.11. Income Tax

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

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

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

2.12. Machinery and Equipment

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

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

2.13. Intangible Assets

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

2.14. Impairment of Non-financial Assets

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

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

2.15. Inventories

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

2.16. Financial Assets

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

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

2.17. Financial Liabilities

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

Borrowings are initially recognized at fair value, less any directly attributable transaction costs. Subsequently borrowings are carried at amortized cost using the effective interest method (EIR). Amortized cost is calculated by taking into account any discount or premium

on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of profit or loss. Borrowings are presented as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Borrowings are not derecognized until the liability has ceased to exist, that is, when the obligation identified in a contract has been fulfilled or cancelled or is no longer effective. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

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

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

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

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

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

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

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

2.18. Equity

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

Under the Finnish Limited Liability Companies Act (624/2006, as amended), if the board of directors of a company notices that the company has negative equity, the board must make a register notification on the loss of share capital. However, if the fair value of the assets of the Company is otherwise than temporarily notably higher than their book value, the difference between the probable current price and the book value may be taken into account as an addition to equity. During Financial Period 2023, the Board notified that the equity of the Company turned negative. After having notified this, the Board decided to further assess the equity amount. In this regard, the Board, exercising special caution, noted that the fair value of the intangible assets related to Traumakine and Bexmarilimab is significantly higher than their respective book values. When making the calculations mandated by the Finnish Limited Liability Companies Act, the difference of the book and fair value of the assets was taken into account, thus the registration has not been filed.

2.19. Leases

The Group as Lessee

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

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

2.20. Provisions and Contingent Liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. At the year end 2022, the Group had recognized a provision on restructuring. A restructuring provision is recognized when the Group has developed a detailed formal plan for the restructuring and has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it. The measurement of a restructuring provision includes only the direct expenditures arising from the restructuring, which are those amounts that are both necessarily entailed by the restructuring and not associated with the ongoing activities of the entity.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of uncertain future events not wholly within the control of the entity. Such present obligation that probably does not require settlement of a payment obligation and the amount of which cannot be reliably measured is also considered to be a contingent liability. Contingent liabilities are disclosed in the notes to the financial statements.

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

Share-based Compensation

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

Clinical Trial Accruals

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

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

New standards implemented by the Group:

The Group has applied the following amendments for the first time in the annual reporting period commencing 1 January 2023:

- Amendments to IAS 12 Income Taxes: Deferred Tax related to Assets and Liabilities arising from a Single Transaction
- Amendments to IAS 1 Presentation of Financial Statements, IFRS Practice Statement 2 and IAS 8 Accounting Policies, Changes in Accounting Policies and Errors: Disclosure of Accounting policies and Definition of Accounting Estimates

The effect of changes required by the adoption of new standards, interpretations and amendments to existing standards and interpretations on 1 January 2023 were considered immaterial for the group.

New standards not yet implemented by the Group:

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2023 reporting periods and have not been early adopted by the group. Those include:

- Supplier finance arrangements – Amendments to IAS 7 and IFRS 7
- Amendments to IAS 21 - Lack of Exchangeability
- Classification of Liabilities as Current or Non-current– Amendments to IAS 1 Non-Current Liabilities with Covenants – Amendments to IAS 1
- These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions
  The group is monitoring potential changes in future accounting standards and assessing any impact thereof on a continuing basis.

3. SEGMENT REPORTING

Faron is a late clinical stage drug discovery and development Group. Its operations have been focused on the development of its main drug candidates Traumakine and Bexmarilimab. The Group's chief operating decision maker has been identified as the Chief Executive Officer (CEO). The CEO manages the Group as one integrated business and hence the Group has one operating and reportable segment. The Group had no revenue in 2023 (EUR 0 thousand in 2022). All of the Group's non-current assets are located in Finland.

4. OTHER OPERATING INCOME

€'000	Year ended 31 December 2023	2022
Grant from the European Union	-	526
Grant from Business Finland	-	273
Grant component of government loans	-	0
Other income	-	4
Total operating income	**-**	**803**

Grant from the European Union is comprised of direct funding from the European Commission under the Horizon 2020 research and innovation program (for research and technological development to support the Matins clinical program). Grant from Business Finland is also direct funding to support Cancer IO research. The grant component of government loans is comprised of indirect financial benefit from the below-market interest of a loan from Business Finland which has been granted to finance Traumakine manufacturing. Those different grants have been concluded in 2022.

The Company had EUR 65 thousand operating income in 2023 and 2022 related to intra-group transactions.

5. BREAKDOWN OF EXPENSES BY FUNCTION

Research and Development Expenses

€'000	Year ended 31 December 2023	2022
Materials and services	(134)	(1,372)
Employee benefits	(3,230)	(5,200)
Outsourced clinical trials services	(3,997)	(5,112)
Drug production	(8,095)	(4,361)
Analytics	(1,288)	(2,237)
Data management	(260)	(499)
Legal and consulting	(1,731)	(830)
IT expenses	(246)	(170)
IPR expenses	(200)	(254)
Travelling	(74)	(85)
Depreciation and amortization	(129)	(214)
Short term rent and premises	(26)	(16)
Other R&D costs	(133)	(381)
Total research and development expenses	**(19,542)**	**(20,730)**

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

General and Administration Expenses

€'000	Year ended 31 December 2023	2022
Employee benefits	(5,686)	(4,525)
Communication	(481)	(315)
Audit fees	(46)	(83)
Legal and consulting	(1,167)	(1,283)
IT expenses	(276)	(257)
Travelling	(225)	(283)
Depreciation and amortization	(217)	(87)
Short term rent and premises	(320)	(114)
Other G&A	(607)	(552)
Total general and administrative expenses	**(9,026)**	**(7,498)**

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

6. EMPLOYEE BENEFITS

€'000	Year ended 31 December 2023	2022
Salaries	(5,540)	(7,153)
Pension expenses – contribution-based plans	(758)	(822)
Social security contributions	(165)	(453)
Share-based compensation	(2,453)	(1,297)
Total employee benefit expenses	**(8,916)**	**(9,725)**
Employee benefit expenses by function		
Research and development expenses	(3,230)	(5,200)
General and administrative expenses	(5,686)	(4,525)
Total employee benefit expenses	**(8,916)**	**(9,725)**

The headcount of personnel at the end of 2023 was 34 (2022: 40). Share-based compensation information is included in note 17 and management remuneration information in note 24.

7. DEPRECIATION AND AMORTISATION

€'000	Year ended 31 December 2023	2022
Depreciation and amortisation by type of asset		
Depreciation for right-of-use-assets	(149)	(163)
Intangible assets - patents	(129)	(99)
Intangible assets	(61)	(31)
Machinery and equipment	(7)	(7)
Total depreciation and amortisation	**(346)**	**(300)**
Depreciation and amortisation by function		
Research and development expenses	(129)	(213)
General and administrative expenses	(217)	(87)
Total depreciation and amortisation	**(346)**	**(300)**

8. FINANCIAL INCOME AND EXPENSES

€'000	Year ended 31 December 2023	2022
Financial income		
Interest income	230	11
Other financial income	-	18
Gains from foreign exchange	3	67
Total financial income	**233**	**96**
Financial expenses		
Interest expenses	(2,166)	(1,362)
Losses from foreign exchange	4	(23)
Interest expenses from lease liabilities	(1)	(11)
Transaction and structuring fees of borrowings	(400)	-
Other financial expenses	(46)	(5)
Total financial expenses	**(2,609)**	**(1,400)**
Total financial income and expenses, net	**(2,376)**	**(1,304)**

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

The foreign exchange gains mainly relate to the cash balance denominated in US Dollars which strengthened against the EUR. Unrealised foreign exchange gain, net is EUR 7 thousand for 2023 and EUR 43 thousand for 2022.

9. TAX EXPENSE

€'000	Year ended 31 December 2023	2022
Tax expense	-	-
Total tax expense	**-**	**-**

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 2023	2022
Loss before tax	(30,944)	(28,730)
Income tax calculated at Finnish tax rate 20%	6,189	5,746
Tax losses and temporary differences for which no deferred tax asset is recognised	(5,950)	(6,587)
Non-deductible expenses, tax-exempt income and other permanent items	(239)	841
Taxes in the statement of comprehensive income	**-**	**-**

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

€'000	Year ended 31 December 2023	2022
R&D expenses not yet deducted in taxation [1]	95,179	91,799
Tax losses carried forward [2]	51,633	56,117
Total	**146,812**	**147,916**

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

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

€'000	2023	2022
Expiry within five years	30,911	26,040
Expiry within 6-10 years	20,722	30,077
Total	**51,633**	**56,117**

The related deferred tax assets have not been recognised in the balance sheet due to the uncertainty as to whether they can be utilized. The Group has a loss history, which is considered a significant factor in the consideration of not recognizing deferred tax assets. The total tax value of unrecognized deferred tax assets is EUR 29,362 thousand (2022: EUR 29,583 thousand).

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

10. LOSS PER SHARE

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

€'000	Year ended 31 December 2023	2022
Loss for the period	(30,942)	(28,713)
Weighted average number of ordinary shares in issue	65,055,036	55,229,835
Basic and dilutive loss per share (in €)	**(0.48)**	**(0.52)**

As of 31 December 2023, Faron Pharmaceuticals Oy had only share options outstanding. Number of potentially dilutive instruments currently outstanding totaled 5,595,966 as of 31 December 2023 (31 December 2022: 3,465,816). Since the Group and the Company has reported a net loss, the share options would have a further dilutive effect and are therefore not taken into account in diluted loss per share-calculation. As such, there is no difference between basic and diluted loss per share.

11. INTANGIBLE ASSETS AND MACHINERY AND EQUIPMENT

€'000	Intangible assets	Machinery and equipment
Book value on 1 January 2023	**1,154**	**13**
Additions	122	-
Disposals	-	-
Depreciation/amortisation	(188)	(7)
Book value 31 December 2023	**1,088**	**6**
As at 31 December 2023		
Acquisition cost	2,031	27
Accumulated disposals	-	-
Accumulated depreciation/amortisation	(943)	(21)
Book value 31 December 2023	**1,088**	**6**
Book value 1 January 2022	**899**	**20**
Additions	387	-
Disposals	-	-
Depreciation/amortisation	(132)	(7)
Book value 31 December 2022	**1,154**	**13**
As at 31 December 2022		
Acquisition cost	1,910	57
Accumulated disposals	-	-
Accumulated depreciation/amortisation	(756)	(44)
Book value 31 December 2022	**1,154**	**13**

12. NON-CURRENT PREPAYMENTS AND OTHER RECEIVABLES

€'000	As at 31 December 2023	2022
Other receivables	60	60
Total non-current prepayments and other receivables	**60**	**60**

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

For the parent company, the other receivables (2023 EUR 544 thousand) consist of intercompany loans that are eliminated at the group level.

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

€'000	31 December 2023	31 Dec 2022
Right-of-use assets		
Office & parking places	198	314
Total right-of-use assets	**198**	**314**
Lease liabilities		
Long-term leasing liability	50	163
Short-term leasing liability	163	153
Total leasing liabilities	**213**	**316**

The office premises remained unchanged in 2023. Lease contracts are valid until further notice and thus lease term is estimated reflecting the period when the Group is reasonably certain not to terminate the lease.

14. CURRENT PREPAYMENTS AND OTHER RECEIVABLES

	Group		*Parent*	
€'000	As at 31 December			
	2023	2022	2023	2022
Prepayments	1,764	1,836	1,761	1,834
Other accrued incomes and other receivables	196	332	524	439
Prepayment for product testing	-	454	-	454
VAT receivable	32	119	32	119
Total current prepayments and other receivables	**1,992**	**2,740**	**2,317**	**2,845**

The majority of prepayments consist of the Clinical Service Agreements with Contract Research Organizations, which are current service providers in different clinical trials. The decrease of the prepayments, other accrued incomes and other receivables is due to the recognition of those costs as those costs accrued during the period.

15. CASH AND CASH EQUIVALENTS

	Group		*Parent*	
€'000	As at 31 December			
	2023	2022	2023	2022
Bank accounts	6,875	6,990	6,842	6,884
Total cash and cash equivalents	**6,875**	**6,990**	**6,842**	**6,884**

16. SHAREHOLDERS' EQUITY

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

€'000	Total registered shares (pcs)	Share capital	Reserve for unrestricted equity
1 January 2022	**53,232,032**	**2,691**	**116,507**
Issue of new shares, net of transaction costs	6,573,351	-	13,037
31 December 2022	**59,805,383**	**2,691**	**129,544**
1 January 2023	**59,805,383**	**2,691**	**129,544**
Issue of new shares, net of transaction costs	8,981,316	-	24,808
31 December 2023	**68,786,699**	**2,691**	**154,352**

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

On 27 January 2023, the number of shares was increased to 63,497,691 shares following the issue of 3,692,308 new shares. On 12 June 2023, the number of shares was increased to 63,559,863 shares following the issue of 62,712 new shares. On 28 June 2023, the number of shares was increased to 66,161,373 shares following the issue of 2,601,510 new shares. On 29 June 2023, the number of shares was increased to 66,246,522 following the issue of 85,149 new shares. On 27 October 2023, the number of shares was increased to 68,786,699 shares following the issue of 2,540,177 new shares.

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

The subscription price for the shares is recorded to the share capital, unless the Board has made a resolution to record the subscription price in the reserve for invested unrestricted equity. If the shares of a Finnish limited liability company have no par value according to its articles of association, the Finnish Limited Liability Companies Act allows companies the recognition of the proceeds from share issuance to the reserve for invested unrestricted equity. In such situations the board of a company can choose on a subscription-by-subscription basis, how much of the issue, if anything, is recorded in share capital and how much to the reserve for invested unrestricted equity that is distributable. During 2022 and 2023, the Company recognised all relevant transactions in the invested unrestricted equity reserve.

17. SHARE OPTIONS

Option Plan 2015

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

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

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

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

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

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

	2023 2015 Option Plan				*2022 2015 Option Plan*			
Number of share options	**A**	**B**	**C**	**D**	**A**	**B**	**C**	**D**
Outstanding at 1 January	385,000	383,900	500,000	320,000	385,000	383,900	500,000	345,000
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	45,500	-	150,000	-	-	-	25,000
Outstanding at 31 December	385,000	338,400	500,000	170,000	385,000	383,900	500,000	320,000
Exercisable at 31 December	385,000	338,400	500,000	170,000	385,000	383,900	500,000	320,000
The weighted average fair value of the share options granted, EUR	-	-	-	-	-	-	-	-
The weighted average share price at the date of exercise, EUR	-	3.19		3.19	-	-	-	2.44

	Incremental Fair Value 2015 Option Plan
Valuation parameters for instruments modified during period	**A-D**
Share price at modification, EUR	3.82
Average Exercise price, EUR	4.02
Expected volatility*	68,0 %
Maturity, years	2,0
Risk-free rate	3,3 %
Expected dividends, EUR	0
Valuation model	Black-Scholes
Incremental Fair Value	1 205 136

(*) Expected volatility was determined as the average volatility of the Company's share in Nasdaq Helsinki First North Marketplace.

Option Plan 2019

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

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

The exercise price for ordinary shares based on 2019 grant options is euro equivalent of the average share price at the London AIM list for the past 90 or 30 days prior to the grant date. For the GBP to EUR price conversion, the exchange rate of the European Central bank on the grant date is used. The weighted average exercise price for ordinary shares based on Plan 2019 granted options in 2023 is EUR 3.45.

The Company's Board has confirmed the grant of a total of 813,000 options under the Option plan 2019 during 2023. The Options have been allocated under the Share Option Plan 2019 and are exercisable between 8 June 2024 and 9 November 2028 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	2023**	2022*
Maximum number of share options	4,350,000	2,000,000
Exercise price, EUR (weighted average if several grant during the year)	3.45	3.04
Dividend adjustment	No	No
Beginning of first subscription period	17 November 2022	17 November 2022
End of the last subscription period	9 November 2028	17 November 2027
Vesting conditions	Service until the beginning of each subscription period	Service until the beginning of each subscription period

(*) In 2022, there were three grants
(**) In 2023, there were two grants

2022–2023
2019 Option Plan

Number of share options	2023	2022
Outstanding at 1 January	1,876,916	1,337,791
Granted	813,000	742,000
Forfeited	76,250	202,875
Exercised	-	-
Outstanding at 31 December	2,613,666	1,876,916
Exercisable at 31 December	904,040	458,374

2022–2023
2019 Option Plan

Valuation inputs for instruments granted during period (weighted average)	2023	2022
Share price at grant date, EUR	2.96 - 3.50	2.05 - 3.44
Subscription price, EUR	3.35 - 3.77	2.06 - 4.04
Volatility, %(*)	65.4	63.92
Risk free rate, %	3.1	0.50
Expected dividends yield, %	0	0
Option fair value, EUR	1.31	1.14 - 2.19

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

The share-based compensation expense for the Option Plan 2019 was EUR 1,259 thousand (EUR 1,296 thousand in 2022).

18. PROVISIONS

€'000	Group	Parent
At 1 January 2023	158	158
Restructuring provision	-	-
Utilization of provision	(158)	(158)
At 31 December 2023	**-**	**-**

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

19. FINANCIAL ASSETS AND LIABILITIES

	Group		*Parent*	
€'000	As at 31 December			
	2023	2022	2023	2022
Financial assets measured at amortised cost				
Other receivables(*)	72	137	169	252
Cash and cash equivalents	6,875	6,990	6,842	6,884
Total financial assets measured at amortised cost	**6,948**	**7,127**	**7,011**	**7,136**
Financial liabilities measured at amortised cost				
Lease liabilities	213	316	213	316
Account payables	8,971	6,014	10,585	7,265
Borrowings in form of Business Finland R&D loans	3,520	3,401	3,520	3,401
Borrowings in form of IPF Tranche A	9,383	9,557	9,383	9,557
Total financial liabilities measured at amortised cost	**22,087**	**19,288**	**23,701**	**20,538**
Financial liabilities measured at FVTPL (category 2)				
Other liabilities	895	853	895	853
Total financial liabilities measured at FVTPL	**895**	**853**	**895**	**853**

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

Borrowings in the Form of Business Finland R&D Loans

Fair value for the Business Finland R&D loans is calculated by discounting estimated future cash flows for the loans using appropriate interest rates at the reporting date. The discount rate considers the risk-free interest rate and estimated margin for the Company's own credit risk. Discounted future cash flows are derived from the terms containing the repayment amounts and repayment dates for the principal and the cash payments for interest. Given that some of the inputs to the valuation technique rely on unobservable market data, loan fair values are classified in Level 3. The carrying amount of all the Business Finland loans was EUR 3,520 thousand (2022 EUR 3,401 thousand).

Business Finland R&D loans are granted to a defined product development project and cover a contractually defined portion of the underlying development projects' R&D expenses. The below-market interest rate for these loans is the base rate set by the Ministry of Finance minus three (3) percentage points, subject to a minimum rate of 1%. Repayment of these loans shall be initiated after 5 years, thereafter loan principals shall be paid back in equal instalments over a 5-year period, unless otherwise agreed with Business Finland. For more information on contractual maturities of the Business Finland R&D loans and interests is provided in the note 20. The interest on Business Finland R&D loans amounted to EUR 329 thousand (2022 EUR 210 thousand).

Loan facilities and related warrant agreements with IPF

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

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

The first tranche (Tranche A) of EUR 10 million was drawn down upon signing the agreements in 2022. Faron pays cash interest on drawn amounts of the above facilities plus a pay-in-kind interest (PIK) for drawn amounts in Tranche A. In addition, Faron has paid a structuring fee of the committed facility on the utilization date of the respective facility. Tranche A has been measured at amortised cost using the effective interest method. The carrying amount of the Tranche A was EUR 9,383 thousand. With respect to the availability of additional funding from IPF, the respective term allowing the Group to draw on Tranche B and Tranche C has expired. The Group does not anticipate, at this time, having the ability to draw further funding from IPF.

The interest on Tranche A facility amounted to EUR 1,874 thousand. The loan facility is subject to financial covenants. The covenants measure the Group's gearing ratio and cash runway. Given that some of the inputs to the valuation technique rely on unobservable market data, loan fair values are classified in Level 3.

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

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.

€'000	Group		Parent	
	As at 31 December			
	2023	2022	2023	2022
Cash and cash equivalents	6,875	6,990	6,842	6,884
Lease liabilities	(213)	(316)	(213)	(316)
IPF Tranche A	(9,383)	(9,557)	(9,383)	(9,557)
Business Finland R&D loans	(3,520)	(3,401)	(3,520)	(3,401)
Net debt	**(6,241)**	**(6,284)**	**(6,274)**	**(6,390)**

€'000	Borrowings	Lease liabilities	Other liabilities	Total
Opening balance as at 1 Jan 2022	**3,347**	**200**	**151**	**3,698**
Financing cash flows	10,119	(116)		10,003
Fair value adjustments			853	853
New lease liability		232		232
Other movements (*)	(513)		(151)	(664)
Balance as at 31 Dec 2022	**12,953**	**316**	**853**	**14,123**
Financing cash flows	(692)	(142)		(834)
Fair value adjustments			42	42
Other movements (*)	637	39		676
Balance as at 31 Dec 2023	**12,898**	**213**	**895**	**14,007**

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

20. FINANCIAL RISK MANAGEMENT

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

(a) Capital Management and Liquidity Risks

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

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

The Company has been able to fund its operations with equity, grants, debt and R&D loans. While equity financing has generally been available in the past, there can be no assurance that sufficient funds can be secured in order to permit the Group to carry out its planned activities. In general, capital market conditions are volatile.

The prevailing financial market situation and overall investor sentiment dictate whether the Group is able to secure additional financing in the future, which can be considered a risk. To partly manage this risk, the Group and its management is in constant dialogue with financial investors, investment banks, debt providers and other market participants.

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

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

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

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

As at 31 December 2023, the contractual maturity of non-derivative liabilities excluding other payables and accruals was as follows. The Company had additional EUR 1,464 thousand (EUR 1 264 thousand as at 31 December 2022) trade payables to subsidiaries:

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

As at 31 December 2022, the contractual maturity of non-derivative liabilities and interests excluding other payables and accruals was as follows. Trade payable are presented to align with 2023 presentation:

€'000	2023	2024	2025	2026-thereafter	Total
Borrowings	1,892	4,300	4,419	7,975	18,586
Trade payables	6,014	-	-	-	6,014
Lease liabilities	169	169	-	-	338
Total	**8,075**	**4,469**	**4,419**	**7,975**	**24,938**

(b) Market Risk

i. Foreign Exchange Risk

The Group operates internationally but is mainly exposed to translation risk in respect of US Dollar ("USD") denominated cash and cash equivalents balances. The Group's policy is not to hedge translation risk. As of 31 December 2023, the Group had cash and cash equivalents of EUR 6,460 thousand, USD 342 thousand, CHF 2 thousand and GBP 90 thousand (2022: EUR 6,862 thousand, GBP 7 thousand, CHF 27 thousand and USD 109 thousand) and the foreign exchange gains and losses recorded arise mainly from the USD cash balances. The Group is not exposed to significant transaction risk, as the Group mainly operates in EUR.

ii. Interest Rate Risk

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

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

(c) Credit and Counterparty Risk

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

21. OTHER NON-CURRENT LIABILITIES

€'000	As at 31 December 2023	2022
FV of warrants	895	853
Advance received	-	-
Total non-current liabilities	**895**	**853**

The fair value of warrants issued to IPF (see note 19) is recognized in Other liabilities.

22. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	Group		*Parent*	
€'000	As at 31 December			
	2023	2022	2023	2022
Account payables	8,971	5,142	10,585	6,385
Clinical trial site fees	794	621	794	621
Accrued payroll	1,718	1,841	1,567	1,490
Accrued general and administration	114	195	109	195
Other liabilities and accruals	550	667	352	551
Total	**12,147**	**8,467**	**13,407**	**9,243**

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	
	2023	2022
No later than 1 year	54	70
Later than 1 year and no later than 5 years	-	1
Later than 5 years	-	-

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

Contractual Contingencies

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

24. RELATED PARTY TRANSACTIONS

Parent and subsidiary relations of Faron Pharmaceuticals Group on 31 December 2023:

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

At the end of period, the Company has EUR 491 thousand in long term receivables from subsidiaries, which contains intercompany loans and the interests associated with them. The parent Company trade payables to subsidiaries at the end of the period were EUR 1,464 thousand.

During the period the profit and loss relevant bookings are EUR 11 thousand for the interest of the intercompany loans, management fee charges to subsidiaries of EUR 33 thousand and the invoices for administrative services by the subsidiaries of EUR 2,167 thousand.

The Group identifies the following related parties:

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

The Company has not had interests in other entities as at, and for the years ended, December 31, 2023 and 2022.

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 2023	2022
Compensation of key management personnel(*)		
Salaries and other short-term employee benefits	2,929	2,374
Post-employment benefits	134	260
Share-based payments	1,409	801
Total	**4,472**	**3,435**

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

The Management team was awarded 211,000 share options during 2023 (2022: 230,000 share options). At the end of the 2023, the number of outstanding options and shares granted to the Management team amounted to 888,270 share options (at the end of 2022: 1,003,936 share options).

Non-executive Directors were awarded 220,000 share options during 2023, (2022: 120,000 share options). At the end of 2023, the number of outstanding options and share options granted to the non-executive directors amounted to 800,000 share options (at the end of 2022: 770,000 share options).

Management and Board Shareholding

Management(*) shareholding, 31 December 2023	
Number of shares (pcs)	5,319,934
Shareholding, percentage	7.73%
Board(**) shareholding, 31 December 2023 (excluding the shareholding of CEO)	
Number of shares (pcs)	94,836
Shareholding, percentage	0.14 %
Total number of shares outstanding at 31 December 2023 (pcs)	**68,786,699**

(*) 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 2022 and 2023 than already disclosed.

25. SUBSEQUENT EVENTS

As announced by the Group on 19 February 2024, the Company was in breach of several undertakings agreed in the Facilities agreement with IPF, and as a result of such Events of Default, IPF blocked the Group's bank accounts which are pledged to IPF. Since the announcement, the Group has negotiated and received €3,2 million convertible loans from existing shareholders (in Finnish pääomalaina) to secure immediate short-term financing needs until the end of March 2024 (Capital Loan). On 8 March 2024, the Group received the proceeds on the EUR 3,2 million of commitments and regained control of its bank accounts from IPF. Receipt of the EUR 3.2 million pursuant to the secures immediate short-term financing needs until the end of March 2024. The Company continues active endeavors and is in discussions to secure additional short and longer-term financing needs, including additional short term bridge financing of approximately EUR 5,0 million, to continued compliance with the Facilities Agreement.

The Capital Loans are fully subordinated to the Facilities Agreement. As part of the Waiver the minimum cash covenant was lowered to EUR 4,5 million until 30 April 2024 and thereafter returns to the previously agreed level (higher of: EUR 6.0 million or three months cash runway). In accordance with the Waiver, the Group shall issue to IPF additional special rights which entitle them to subscribe for new ordinary shares in the Company ("Warrants"), with an exercise price equal to the volume-weighted average price of the Group's share during the three trading days preceding the warrantholder agreement ("Strike Price"). The number of Warrants is calculated by dividing 10% of the original loan amount (EUR 10 million) by the Strike Price. The Warrants are exercisable for a period of seven years. The Company and IPF also agreed on certain amendments to the fee structure under the Facilities Agreement.

The Loans shall be converted to new shares in the Company as a part of (and at the subscription price of) the next investment round where shares or other equity securities are issued by the Company to existing shareholders and/or new third- party investors, with a minimum size of EUR 8 million ("Investment Round").
In the event that the subscription price in such Investment Round exceeds EUR 1.50 per share, an Investor shall have the right to postpone the conversion of the Loan until 10 June 2024 ("Due Date"). In the event that there is no Investment Round by the Due Date (or the subscription price of the Investment Round exceeds EUR 1.50 per share and the respective Investor has decided to postpone the conversion of the Loan) and the Loan has not been otherwise repaid prior to the Due Date (subject to a subordination agreement to be entered into between the Investors, the Company and IPF), then the Loan shall be at the request of the Investor converted into new shares in the Company in connection with the Due Date. In such case, the subscription price per share shall be EUR 1.50 per share. However, if then the Investor elects not to exercise its conversion right on the Due Date, (such option being only available if there has not been any Investment Round), the Due Date of the Loan will automatically be extended until 31 December 2024 ("Final Due Date"). On such Final Due Date, the Loan shall be either repaid in full in cash, subject to the terms of the subordination agreement, or converted into new shares in the Company with the subscription price of EUR 1.50 per share, subject to a valid share issue authorization being in place.

In case the Loan is converted before the Due Date, each Investor is entitled to an arrangement fee of 15% of its respective Loan amount. If conversion has not taken place prior to the Due Date, the arrangement fee will be 30% of the Investor's respective Loan amount. No interest shall be payable on the Loan if a conversion takes place before 30 May 2024, and thereafter the interest will be 12% + 3-months Euribor and paid subject to the subordination agreement.

On March 12, 2024, Faron is in compliance with all financial covenants as agreed in the waiver letter.

Result and Dividends

The Company's comprehensive loss for the period was 31,093,581 Euro (2022: 28,924,250 Euro). The Board of Directors proposes to the Annual General Meeting 2024 not to pay dividend.

BOARD SIGNATURES

Turku, 12 March 2024

Frank Armstrong
Chairman

Markku Jalkanen
CEO

Erik Ostrowski

John Poulos

Tuomo Pätsi

Marie-Louise Fjällskog

Christine Roth

THE AUDITOR'S NOTE

A report on the audit performed has been issued today

Helsinki, 12 March 2024
PricewaterhouseCoopers Oy
Authorised Public Accountants

Panu Vänskä
Authorised Public Accountant (KHT)

Auditor's Report (Translation of the Finnish Original)

To the Annual General Meeting of Faron Pharmaceuticals Oy

Report on the Audit of the Financial Statements

Opinion

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

What we have audited

We have audited the financial statements of Faron Pharmaceuticals Oy (business identity code 2068285-4) for the year ended 31 December, 2023. The financial statements comprise the group's and the parent company's balance sheet, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, which include material accounting policy information and other explanatory information

Basis for Opinion

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

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

Independence

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

Material Uncertainty Related to Going Concern

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

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

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

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,

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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 the information included in the Annual Report 2023, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Helsinki 12 March 2024

PricewaterhouseCoopers Oy
Authorised Public Accountants

Panu Vänskä
Authorised Public Accountant (KHT)

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