

PROPOSALS OF THE BOARD OF DIRECTORS OF FARON PHARMACEUTICALS LTD (“COMPANY”) TO THE ANNUAL GENERAL MEETING (“AGM”) CONVENING ON 18 MAY 2020

Resolution on the use of the profit shown on the balance sheet and the payment of dividend

The board of directors (the “**Board**”) proposes that no dividend for the financial year 2019 will be paid and that the losses of the Company for the financial year, amounting to EUR 13,261,911.93 (IFRS), will be carried forward to the reserve for invested unrestricted equity.

Resolution on the remuneration of the members of the Board

The Board proposes, on the basis of the proposal of the remuneration committee, that an annual remuneration of EUR 35,000 will be paid to the Board members, in addition to which an annual remuneration of EUR 35,000 will be paid to the chair of the Board. In addition, a further annual remuneration of EUR 11,000 will be paid to the chair of the audit committee, a further annual remuneration of EUR 9,000 will be paid to the chair of the remuneration committee and a further annual remuneration of EUR 6,000 will be paid to the chair of the nomination committee. In addition, a further annual remuneration of EUR 6,000 will be paid to the audit committee members, a further annual remuneration of EUR 5,000 will be paid to the remuneration committee members and a further annual remuneration of EUR 3,000 will be paid to the nomination committee members.

The Board furthermore proposes that meeting fees will be paid to the Board members as follows:

- a meeting fee of EUR 1,000 will be paid to Board members per Board meeting where the Board member was physically present, and which was held on another continent than the member’s place of residence; and
- no meeting fees will be paid to Board members who were attending a Board meeting but not physically present or for Board meetings held on the same continent than the member’s place of residence.

In addition, it is proposed that all reasonable and properly documented expenses incurred in the performance of duties of the members of the Board would be compensated.

The Board also proposes, on the basis of the proposal of the remuneration committee, that no remuneration will be paid based on the Board membership of the CEO of the Company or a person serving the Company under a full-time employment or service agreement.

Resolution on the number of members of the Board

The Board proposes, on the basis of the proposal of the nomination committee, that six (6) members be elected to the Board.

Election of members of the Board

The Board proposes, on the basis of the proposal of the nomination committee, that Frank Armstrong, Markku Jalkanen, Matti Manner, Leopoldo Zambeletti, Gregory Brown and John Poulos be re-elected to the Board for a term that ends at the end of the next AGM.

Descriptions of the Board member candidates are available on the Company’s website at <https://www.faron.com/faron/our-people>.

The proposed Board members have informed the Company that in the event they are elected, they intend to elect Frank Armstrong as chair of the Board and Matti Manner as vice-chair of the Board.

Resolution on the remuneration of the auditor

The Board proposes, on the basis of the proposal of the audit committee, that the auditor be remunerated in accordance with the invoice presented.

Election of the auditor

The Board proposes, on the basis of the proposal of the audit committee, that PricewaterhouseCoopers Oy (“PwC”), a firm of authorised public accountants, continue to act as the Company’s auditor.

PwC has informed the Company that it will appoint Panu Vänskä, authorised public accountant (KHT), as the key audit partner.

Resolution on the amendment of the option programmes

A. The Company’s extraordinary general meeting has on 15 September 2015 adopted the terms and conditions of an option programme which have later been amended by the decision of the AGM held on 16 May 2017 (the “**Option Plan 2015**”). The options cannot currently be transferred or pledged before the subscription of shares without the consent of the Board. The Board proposes, on the basis of the proposal of the remuneration committee, that the AGM resolves to amend the terms and conditions of the Option Plan 2015 so that the options may be transferred or pledged after the conditions for share subscription have been fulfilled under the terms and conditions of the Option Plan 2015. The Board deems that the proposed amendment will 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 consolidated terms and conditions of the Option Plan 2015, incorporating the amendments proposed herein, are attached hereto.

B. The Company’s AGM has on 28 May 2019 decided to authorise the Board to resolve on issuances of options or other special rights entitling to shares referred to in chapter 10, section 1 of the Finnish Limited Liability Companies Act. Pursuant to the decision of the AGM, the authorisation may be used for implementing an option plan for the employees and directors of, and persons providing services to, the group, substantially in the form of the rules attached to that decision (the “**Share Option Plan 2019**”). The options cannot currently be transferred or pledged before the subscription of shares. The Board proposes, on the basis of the proposal of the remuneration committee, that the AGM resolves to approve implementing a change corresponding the aforementioned in the rules of the Share Option Plan 2019 so that the options may be transferred or pledged after the conditions for share subscription have been fulfilled. The Board deems that the proposed amendment will enhance the usability of the options and thereby significantly increase the desired benefits of the incentive system for the management and personnel of the Company.

The consolidated rules of the Share Option Plan 2019, incorporating the amendments proposed herein, are attached hereto.

Authorising the Board to decide on the issuance of shares, options or other special rights entitling to shares

The Board proposes that the AGM authorise the Board to resolve by one or several decisions on issuances of shares, options or other special rights entitling to shares referred to in chapter 10, section 1 of the Finnish

Limited Liability Companies Act, which authorisation contains the right to issue new shares or dispose of the shares in the possession of the Company. The authorisation would consist of up to 8,650,000 shares in the aggregate (including shares to be received based on options or other special rights), which corresponds to approximately 20 per cent of the existing shares and votes in the Company.

The authorisation would not exclude the Board's right to decide on the issuance of shares, options or other special rights entitling to shares in deviation from the shareholders' pre-emptive rights. The authorisation is proposed to be used for material arrangements from the Company's point of view, such as financing or implementing business arrangements, investments or for other such purposes determined by the Board in which case a weighty financial reason for issuing shares, options or other special rights entitling to shares, and possibly deviating from the shareholders' pre-emptive rights, would exist.

The Board would be authorised to resolve on all other terms and conditions of the issuance of shares, options or other special rights entitling to shares.

The authorisation will be effective until 30 June 2021. This authorisation shall not replace the authorisation referred to in item 15 of the AGM notice.

Turku, [•] April 2020

FARON PHARMACEUTICALS LTD

Board of Directors