FARON

Pharmaceuticals

FARON PHARMACEUTICALS OY

Admission Document

Cairn

RX SECURITIES

WHITMAN HOWARD

LONDON

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THIS ADMISSION DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or what action you should take you are recommended to seek your own financial advice immediately from your stockbroker, solicitor, accountant or other independent adviser authorised under the Financial Services and Markets Act 2000, as amended ("FSMA"), who specialises in advising on the acquisition of shares and other securities, if you are in the United Kingdom, or any appropriately authorised person under applicable laws, if you are located in any other jurisdiction. This document, which is an AIM admission document prepared in accordance with the AIM Rules for Companies, has been issued in connection with the application for Admission. Admission will not constitute an offer to the public requiring an approved prospectus under section 85 of FSMA or the Prospectus Rules published by the Financial Conduct Authority ("**FCA**") (as amended) and accordingly this document does not constitute a prospectus for these purposes and has not been pre-approved by the United Kingdom Listing Authority pursuant to section 85 of FSMA. The Company (whose registered office appears on page 17 of this document) and the Directors (whose names appear on page 17 of this document) accept responsibility, both individually and collectively, for the information contained in this document, including individual and collective responsibility for compliance with the AIM Rules. To the best of the knowledge and belief of the Directors and the Company, who have taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information. In connection with this document no person is authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied upon as having been so authorised. **AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the United Kingdom Listing Authority or to any other regulated market. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on Admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document**. Application has been made to the London Stock Exchange for the Enlarged Ordinary Share Capital to be admitted to trading on AIM. It is expected that Admission will be effective and that dealings in the Ordinary Shares will commence on 17 November 2015.

FARON Pharmaceuticals

Incorporated and registered in Finland with registered number 20682854

Placing and Subscription of 3,846,154 new Ordinary Shares each at a price of 260p per share and Admission of the Enlarged Ordinary Share Capital to trading on AIM

Nominated Adviser	Broker	Equity Adviser
Cairn	WHITMAN HOWARD LONDON	RX SECURITIES
Cairn Financial Advisers LLP	Whitman Howard Limited	Rx Securities Limited
Authorised and regulated by the Financial Conduct Authority	Authorised and regulated by the Financial Conduct Authority	

ORDINARY SHARES IMMEDIATELY FOLLOWING ADMISSION
23,111,704 issued and fully paid Ordinary Shares of no par value

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Cairn Financial Advisers LLP and Whitman Howard Limited, which are both regulated in the UK by the FCA, are acting as the Company's nominated adviser and broker, respectively, in connection with the proposed Admission. Cairn Financial Advisers LLP's responsibilities as the Company's nominated adviser under the AIM Rules for Nominated Advisers and Whitman Howard Limited responsibilities as the Company's broker under the AIM Rules for Companies are owed solely to the London Stock Exchange and are not owed to the Company or to any Director, or to any other person in respect of his decision to acquire Ordinary Shares in reliance on any part of this document without limiting the statutory rights of any person to whom this document is issued. No representation or warranty, express or implied, is made by Cairn Financial Advisers LLP or Whitman Howard Limited as to, and no liability whatsoever is accepted by Cairn Financial Advisers LLP or Whitman Howard Limited for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document for which the Company and the Directors are solely responsible. Neither Cairn Financial Advisers LLP nor Whitman Howard Limited will be offering advice and will not otherwise be responsible for providing customer protections to recipients of this document in respect of any acquisition of Ordinary Shares. Copies of this document will be available free of charge during normal business hours on any day (except Saturdays and public holidays) at the offices of Cairn Financial Advisers LLP, 61 Cheapside, London EC2V 6AX from the date of this document and shall remain available for a period of one month from Admission. This document will also be available on the Company's website, www.faronpharmaceuticals.com, from Admission.

IMPORTANT INFORMATION

The information below is for general guidance only and it is the responsibility of any person or persons in possession of this document to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. No person has been authorised by the Company to issue any advertisement or to give any information or to make any representation in connection with the contents of this document and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorised by the Company. This document should not be forwarded or transmitted to or into any Restricted Jurisdiction or to any resident, national, citizen or corporation, partnership or other entity created or organised under the laws thereof or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement. The distribution of this document may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions.

Prospective investors should inform themselves as to: (a) the legal requirements of their own countries for the purchase, holding, transfer or other disposal of the Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein. Statements made in this document are based on the law and practice currently in force in the UK and are subject to change. This document should be read in its entirety. All holders of Ordinary Shares are entitled to the benefit of, and are bound by and are deemed to have notice of, the provisions of the Articles, further details of which are set out in paragraph 6 of Part VII of this document.

The delivery of this document or any subscriptions or purchases made hereunder and at any time subsequent to the date of this document shall not, under any circumstances, create an impression that there has been no change in the affairs of the Company since the date of this document or that the information in this document is correct.

PROSPECTIVE INVESTORS SHOULD READ THE WHOLE TEXT OF THIS DOCUMENT AND SHOULD BE AWARE THAT AN INVESTMENT IN THE COMPANY IS HIGHLY SPECULATIVE AND INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE INVESTORS ARE ADVISED TO READ, IN PARTICULAR, THE INFORMATION ON THE COMPANY SET OUT IN PART I AND THE RISK FACTORS SET OUT IN PART II OF THIS DOCUMENT.

The distribution of this document outside the UK may be restricted by law. No action has been taken by the Company, the holders of the Ordinary Shares, Cairn Financial Advisers LLP or Whitman Howard Limited that would permit a public offer of Ordinary Shares or possession or distribution of this document where action for those purposes is required. Persons outside the UK who come into possession of this document should inform themselves about and observe any restrictions on the holding of Ordinary Shares and/or the distribution of this document in their particular jurisdiction. Failure to comply with these restrictions may constitute a violation of the securities laws of such jurisdiction.

The information below is for general guidance only and it is the responsibility of any person or persons in possession of this document and wishing to make an application for Ordinary Shares to inform themselves of, and to observe, all applicable laws and regulations of any relevant jurisdiction. No person has been authorised by the Company to issue any advertisement or to give any information or to make any representation in connection with the contents of this document and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorised by the Company.

This document does not constitute an offer to sell or an invitation to subscribe for, or a solicitation of an offer to subscribe or buy, Ordinary Shares to any person in any jurisdiction to whom it is unlawful to make such an offer, invitation or solicitation. In particular, this document is not for distribution (directly or indirectly) in or into any Restricted Jurisdiction, and should not be forwarded or transmitted to or into any Restricted Jurisdiction or to any resident, national, citizen or corporation, partnership or other entity

created or organised under the laws thereof or in any other country outside the United Kingdom where such distribution may lead to a breach of any legal or regulatory requirement. The distribution of this document may be restricted and accordingly persons into whose possession this document comes are required to inform themselves about and to observe such restrictions.

United States

This document is not, for distribution (i) to any U.S. persons (as defined in Regulation S under the Securities Act); or (ii) in or into the U.S. The Ordinary Shares have not and will not be registered under the Securities Act or the securities laws of any state of the U.S. and, may not be offered, sold, resold, delivered or transferred directly or indirectly to or within the U.S. or to, or for the account or benefit of, any U.S. persons (as defined in Regulation S under the Securities Act) except in accordance with or pursuant to an exception to the Securities Act and any applicable state securities laws. The Ordinary Shares will only be offered and sold outside the U.S. to persons who are not U.S. Persons (within the meaning of Regulation S) in transactions complying with Regulation S, which provides an exemption from the requirement to register the offer and sale under the Securities Act. The Admission Document and other offering materials have not been reviewed by the U.S. Securities and Exchange Commission, any state securities authority or any other U.S. regulatory authority, nor have any of the foregoing passed upon or endorsed the merits of this document. Any representation to the contrary is unlawful.

Hong Kong

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Accordingly, this document may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. No invitation may be made to the public in Hong Kong to subscribe for or purchase any of the Ordinary Shares.

You are advised to exercise caution in relation to the offer. If you are in doubt about any of the contents of this document, you should obtain independent legal advice. This document is delivered to the recipient solely for the purpose of evaluating a possible investment in the Company and may not be used, copied, reproduced or distributed in whole or in part, to any other person (except if permitted to do so under the securities laws of Hong Kong).

This document may not be passed on and applications from any person other than the person to whom it is addressed will not be accepted. The arrangements for the issue of the Ordinary Shares have not been authorised by the Securities and Futures Commission of Hong Kong ("SFC"), nor has this document been approved by the SFC pursuant to section 105(1) of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") or section 342C(5) of the Companies (Winding up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong) ("Companies (Winding up and Miscellaneous Provisions) Ordinance") or registered by the Registrar of Companies of Hong Kong pursuant to section 342C(7) of Companies (Winding up and Miscellaneous Provisions) Ordinance or been prepared in accordance with the requirements of Companies (Winding up and Miscellaneous Provisions) Ordinance. Accordingly, the content and use of this document must comply with each of the following SFO and Companies (Winding up and Miscellaneous Provisions) Ordinance restrictions, namely:

(a) under the SFO: this document is not and does not contain contrary to section 103 of SFO, an invitation to the public of Hong Kong to acquire or subscribe for Ordinary Shares, other than (1) an invitation only to professional investors (as defined in SFO) to do so, or (2) to the extent that this document is not a prospectus (as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance) by virtue of any of the maximum offer number, minimum investment amount or other exclusions set out in the 17th schedule to the Companies (Winding up and Miscellaneous Provisions) Ordinance ("Prospectus Exclusions"); and

(b) under the Companies (Winding up and Miscellaneous Provisions) Ordinance: this document must not, contrary to section 342 and 342C of Companies (Winding up and Miscellaneous Provisions) Ordinance, be issued, circulated or distributed to any person in Hong Kong other than (1) to persons whose ordinary business is to buy or sell shares or debentures, whether a principal or agent, or (2) to professional investors (as defined in the SFO), or (3) in circumstances in which this document

is not a prospectus (as defined in the Companies (Winding up and Miscellaneous Provisions) Ordinance) by virtue of any of the Prospectus Exclusions, or (4) otherwise in circumstances that do not constitute an offer to the public.

Persons not falling within the restrictions set out in (a) and (b) above may not use or otherwise act upon this document.

Finland and Sweden

The regulatory authority in Finland nor in Sweden has not reviewed the contents of this document. The proposed Placing would be made pursuant to the private placement exemption under the Prospectus Directive, as implemented in the member states of the European Economic Area, from the requirement to produce a prospectus under the Prospectus Directive (and amendments thereto) for offers of securities. This document may not be distributed in any such circumstances that would require a prospectus to be prepared or in which the delivery of the document would be subject to any other restrictions or obligations imposed by law. No action has been or will be taken by the Company to permit the possession or distribution of this document in any jurisdiction where such distribution may lead to a breach of any law or regulatory requirement or constitute an offer to the public or trigger a prospectus requirement. The Company has not taken any action, nor will it take any action, to offer the Placing or any other documents relating to the Placing to the public in Finland and Sweden, or in any other jurisdiction in any form which would constitute an offer to the public.

Neither this document nor any advertisement or any other material related to the Placing may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. It is not the responsibility of the Company to acquire appropriate information regarding the above restrictions or to comply with the above restrictions. The Company does not accept any legal responsibility for persons who have obtained this document in violation of these restrictions, irrespective of whether these persons are prospective subscribers or purchasers of the Placing Shares or Subscription Shares. This document does not constitute an offer to sell the Placing Shares or Subscription Shares to any person in any jurisdiction in which it is unlawful to make such offer to such person, or a solicitation of an offer to buy the Placing Shares or Subscription Shares from a person in a jurisdiction in which it is unlawful to make such solicitation. The Company reserves the right, in its sole and absolute discretion, to reject any subscription or purchase of the Placing Shares or Subscription Shares that the Company or its representatives believe may give rise to a breach or violation of any law, rule or regulation.

FORWARD-LOOKING STATEMENTS

This document includes forward-looking statements. These statements relate to, among other things, analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. These statements also relate to the Company's future prospects, developments and business strategies.

These forward-looking statements are identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will" or the negative of those variations, or comparable expressions, including references to assumptions. These statements are contained in all sections of this document. The forward-looking statements in this document, including statements concerning projections of the Company's future results, operating profits and earnings, are based on current expectations and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied by those statements.

Certain risks relating to the Company are specifically described in Part II "Risk Factors". If one or more of these risks or uncertainties arises, or if underlying assumptions prove incorrect, the Company's actual results may vary materially from those expected, estimated or projected. Given these uncertainties, potential Shareholders should not place over-reliance on forward-looking statements.

These forward-looking statements speak only as at the date of this document. The Company undertakes no obligation to update forward-looking statements or risk factors other than as required by the AIM Rules or applicable law, whether as a result of new information, future events or otherwise.

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DEFINITIONS

The following words and expressions shall have the following meanings in this document, unless the context otherwise requires:

"2015 Option Plan"	the share option plan adopted by the Company on 15 September 2015, details of which are set out in paragraph 19 of Part I of this document;
"A&B (HK)"	A&B (HK) Company Ltd, a company existing under the laws of Hong Kong, having its registered address at Unit 2016,21/F Island Place Tower No.510 King's Rd North Point, Hong Kong, which is related to CMS by virtue of each of A&B (HK) Company Ltd and CMS having a common controlling shareholder;
"A&B Agreement"	the asset transfer and supply agreement entered into on 8 May 2015 between the Company and A&B (HK), further details of which are set out in paragraph 15.11 of Part VII of this document;
"A&B Share Subscription"	the subscription by A&B (HK) for 302,764 new Ordinary Shares at an aggregate cost of €5.0 million pursuant to the A&B Subscription Agreement;
"A&B Subscription Agreement"	the share subscription agreement entered into on 8 May 2015 between the Company and A&B (HK), further details of which are set out in paragraph 15.12 of Part VII of this document;
"Act"	the UK Companies Act 2006, as amended;
"Admission"	the admission of the Enlarged Ordinary Share Capital to trading on AIM becoming effective in accordance with the AIM Rules for Companies;
"AGM"	the Annual General Meeting of the Company;
"AIM"	the market of that name operated by the London Stock Exchange;
"AIM Rules"	the AIM Rules for Companies and the AIM Rules for Nominated Advisers;
"AIM Rules for Companies"	the rules which set out the obligations and responsibilities in relation to companies whose shares are admitted to AIM as published by the London Stock Exchange from time to time;
"AIM Rules for Nominated Advisers"	the rules which set out the eligibility, obligations and certain disciplinary matters in relation to nominated advisers as published by the London Stock Exchange from time to time;
"Appointed CRO"	Gaea Clinical Ltd;
"Articles"	the articles of association of the Company for the time being;
"Board" or **"Directors"**	the current directors of the Company, whose names are set out on page 17 of this document;
"Business Day"	any day which is not a Saturday, Sunday or a public holiday in the U.S. or UK;
"Cairn"	Cairn Financial Advisers LLP, the Company's nominated adviser;
"CEO" or **"Managing Director"**	the chief executive officer of the Company;

"CMS" or **"CMS Group"**	CMS Medical Systems Holdings Limited, a company existing under the laws of the Cayman Island and listed on the Hong Kong stock exchange and the CMS Affiliates;
"CMS Affiliate"	any company, partnership or other business entity which controls, is controlled by or is under common control with CMS;
"CMS Agreement"	the agreement entered into by the Company, A&B (HK) and CMS Pharma Co. Ltd on 19 May 2015, further details of which are set out in paragraph 15.13 of Part VII of this document;
"CMS Related Agreements"	the A&B Agreement, the A&B Subscription Agreement and the CMS Agreement;
"Company" or **"Faron"**	Faron Pharmaceuticals Oy, a company registered in Finland with registered number 2068285-4;
"Consortium"	the Company (as a co-ordinator) and three research parties (University College London Hospital, Turin University and Turku University);
"Control"	(i) the possession, directly or indirectly, of the power to direct the management or policies of an entity, whether through ownership of voting securities, by contract or otherwise; (ii) ownership of 50 per cent. or more of the voting securities entitled to vote for the election of directors in the case of a corporation, or of 50 per cent. or more of the equity interest in the case of any other type of legal entity; (iii) status as a general partner in any partnership, or other arrangement whereby a party controls or has the right to control the board of directors or equivalent governing body of a corporation or other entity;
"CREST"	the computerised settlement system to facilitate the transfer of title of shares in uncertificated form operated by Euroclear UK & Ireland Limited;
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended;
"Dealing Day"	any day the London Stock Exchange is open for the transaction of business;
"Depositary"	Computershare Investor Services PLC of the Pavilions, Bridgwater Road, Bristol, BS13 8AE;
"Depositary Interests" or **"DIs"**	the depositary interests representing Ordinary Shares which may be traded through CREST in uncertificated form, details of which are set out in paragraph 15 of Part I and paragraph 20 of Part VII of this document;
"DI Holders"	the holders of Depositary Interests from time to time;
"Disclosure and Transparency Rules"	the rules and regulations made by the FCA in its capacity as the UKLA under Part VI of FSMA, as amended, and contained in the UKLA publication of the same name;
"EEA"	the European Economic Area;
"EIS"	the Enterprise Investment Scheme as set out in Part 5 of the Income Tax Act 2007 and sections 150A-150C and Schedule 5B to the Taxation of Chargeable Gains Act 1992;

"EIS Shares"	the Placing Shares to be issued by the Company under EIS;
"Enlarged Ordinary Share Capital"	the number of Ordinary Shares of the Company upon Admission, comprising the Existing Ordinary Share Capital and the Placing Shares and Subscription Shares;
"EU"	the European Union;
"Euroclear Finland"	Euroclear Finland Ltd;
"Existing Ordinary Shares"	the 19,265,550 Ordinary Shares of no par value in issue as at the date of this document (excluding any Treasury Shares);
"Existing Ordinary Share Capital"	the number of Existing Ordinary Shares of the Company at the date of this document, comprising 19,265,550 Existing Ordinary Shares;
"First Tranche Shares"	the EIS Shares and the VCT Shares;
"Faron Ventures"	Faron Ventures Oy, a company incorporated in Finland with company number 845025;
"Financial Conduct Authority" or **"FCA"**	the United Kingdom Financial Conduct Authority;
"Finnish Companies Act"	the Finnish Companies Act (624/2006) as amended;
"FSMA"	the Financial Services and Markets Act 2000 of the United Kingdom, as amended;
"General Meeting"	a general meeting of the Shareholders called in accordance with the Company's Articles and Finnish law;
"General Placing Shares"	Placing Shares which are not EIS Shares or VCT Shares;
"Greater China Area" or **"CMS Territory"**	mainland China, Hong Kong, Macau and Taiwan;
"Historical Financial Information on the Company"	the Company's historical financial information for the three years ended 31 December 2014 and the six months ended 30 June 2015 as set out in Part IV of this document;
"HMRC"	Her Majesty's Revenue & Customs;
"IFRS"	International Financial Reporting Standards as adopted by the European Union;
"Intellectual Property Rights" or **"IPR"**	intellectual property rights;
"ISIN"	international security identification number;
"Jalkanen Concert Party"	Markku Jalkanen, Maija-Leena Hollmén, Juho Jalkanen, Sirpa Jalkanen, Katriina Peltola, Aaro Juho Artturi Jalkanen, Oliver Hollmen, Albert Hollmen, Julia Hollmen, Enna Jalkanen, Heikki Jalkanen, Arttu Peltola, Eemil Peltola, Otto Peltola;
"Japanese Licensing Agreement"	the licensing agreement dated 9 February 2011 and made between Faron and Maruishi Pharmaceuticals Co., Ltd, a summary of which is set out in paragraph 15.9 of Part VII of this document;
"Lancet"	the Lancet Respiratory Magazine (Bellinham et al. 2014);

"Lancet Article"	the Lancet Respiratory Medicine (Bellingham et al., 2014, 2:98-107, www.thelancet.com/journals/lanres/article/ PIIS2213-2600(13)70259-5/abstract);
"Lock-in Arrangements"	the lock-in arrangements entered into by the Locked-in Persons, described in paragraph 17 of Part I and paragraph 15.7 of Part VII of this document;
"Locked-in Persons"	the Directors who held Ordinary Shares prior to the date of Admission (being Markku Jalkanen, Juho Jalkanen, Yrjö Wichmann and Matti Manner) and Sirpa Jalkanen, Maija-Leena Hollmén, Katriina Peltola, Marko Salmi, Rolf Lind, Tom-Erik Lind and A&B (HK);
"London Stock Exchange"	London Stock Exchange plc;
"Maruishi"	Maruishi Pharmaceutical Co., Ltd;
"Official List"	the list maintained by the UKLA in accordance with section 74(1) of FSMA for the purposes of Part VI of FSMA;
"Options"	options to subscribe for Ordinary Shares, pursuant to the 2015 Share Option Plan, further details of which are set out in paragraph 5 of Part VII of this document;
"Ordinary Shares"	ordinary shares in the issued share capital of the Company from time to time;
"Panel"	the UK Panel on Takeovers and Mergers;
"Patent Law of Japan"	the statutory patent law of Japan (in Japanese, *Ka-ri-Sennyou Jitushi Ken* and *Sennyou Jitushi Ken*);
"Placees"	investors to whom Placing Shares are issued pursuant to the Placing;
"Placing"	the conditional placing by Whitman Howard on behalf of the Company of the Placing Shares at the Placing Price pursuant to the Placing Agreement;
"Placing Agreement"	the conditional agreement dated 11 November 2015 between the Company, Whitman Howard, Cairn and the Directors relating to the Placing, details of which are set out at paragraph 15.4 of Part VII of this document;
"Placing Price"	260 pence, being the price at which the Placing Shares are to be issued;
"Placing Shares"	44,044 new Ordinary Shares to be issued and 2,417,113 Treasury Shares to be transferred to the Placees pursuant to the Placing, comprising the VCT Shares, the EIS Shares and the General Placing Shares;
"QCA Guidelines"	the corporate governance code for Small and Mid-Size Quoted Companies published by the Quoted Companies Alliance from time to time;
"Regulation S"	Regulation S of the Securities Act;
"Rentschler"	Rentschler Biotechnologie GmbH, Laupheim, Germany;

"Restricted Jurisdiction"	any U.S. person (as defined in Regulation S) or any address in the U.S., Canada, Australia, the Republic of South Africa, the Republic of Ireland, Japan or any other country outside of the United Kingdom where a distribution may lead to a breach of any applicable legal or regulatory requirements;
"Rx Securities" or **"RXS"**	Rx Securities Limited, the Equity Adviser to the Company whose details are set out at page 17 of this document;
"Second Tranche Shares"	means the Subscription Shares and the General Placing Shares;
"Securities Act"	the U.S. Securities Act of 1933, as amended;
"Shareholders"	the persons who are registered as holders of Ordinary Shares and, for the purpose of this document unless specified otherwise, the persons who are registered as DI Holders;
"Share Split"	the share split of each Ordinary Share in the Company, such that 9 new Ordinary Shares were issued for each existing Ordinary Share, further details of which are set out in paragraph 4.8(J) of Part VII;
"Significant Shareholder"	any person holding 3 per cent. or more of the issued share capital from time to time;
"Subscribers"	investors who have agreed to subscribe for the Subscription Shares at the Subscription Price pursuant to the Subscription Application Forms;
"Subscription"	the proposed subscription by the Subscribers of the Subscription Shares at the Subscription Price pursuant to the Subscription Application Forms;
"Subscription Application Forms"	the forms of application entered into by the Company and each of the Subscribers, further details of which are set out in paragraph 15.5 of Part VII;
"Subscription Price"	260 pence, being the price at which the Subscription Shares are to be issued;
"Subscription Shares"	the 1,384,997 new Ordinary Shares which the Company is proposing to issue pursuant to the Subscription;
"Sterling" or **"£"**	the legal currency of the UK;
"Takeover Code"	the City Code on Takeovers and Mergers;
"TEKES"	the Finnish Funding Agency for Technology and Innovation;
"TIDM"	tradable instrument display mnemonic;
"Treasury Shares"	the 2,417,113 treasury shares (with no voting rights attached for so long as they are held in treasury by the Company) to be issued by the Company to itself to assist in the Placing as further described in paragraph 15 of Part I;
"Turun Patenttitoimisto"	Turun Patenttitoimisto Oy;
"UCL"	University College London;
"UCLH"	University College London Hospitals;
"UK" or **"United Kingdom"**	the United Kingdom of Great Britain and Northern Ireland;

"UKLA"	the United Kingdom Listing Authority, being the FCA acting in its capacity as the competent authority for the purposes of Part VI of FSMA;
"Uncertificated" or **"in Uncertificated Form"**	a share or other security recorded on the relevant register of the relevant company concerned as being held in uncertificated form in CREST and title to which, by virtue of the CREST Regulations, may be transferred by means of CREST;
"U.S."	the United States of America, its territories and possessions, any state of the United States of America and the District of Columbia;
"U.S Dollars" or **"US$"** or **"USD"** or **"cents"**	United States Dollars, the formal currency used in the U.S.;
"VAT"	Value Added Tax;
"VCT"	the Venture Capital Trust Scheme as set out in Part 6 of the Income Tax Act 2007 and sections 151A and 151B of the Taxation of Chargeable Gains Act 1992;
"VCT Shares"	the Placing Shares to be issued by the Company under VCT;
"Whitman Howard" or **"Whitman"** or **"WH"** or **"Broker"**	Whitman Howard Limited, the broker to the Company whose details are set out at page 17 of this document; and
"Whitman Howard Warrants"	the warrants granted by the Company to Whitman Howard, the details of which are set out in paragraph 4.8(K) of Part VII.

GLOSSARY OF TECHNICAL TERMS AND MEASUREMENTS

The following table provides an explanation of certain technical terms and abbreviations used in this document. The terms and their assigned meanings may not correspond to standard industry meanings or usage of these terms.

"AFPI"	Association of Finnish Pharmaceutical Industry;
"ALI"	acute lung infection, a less severe form of ARDS;
"AMP"	adenosine monophosphate, a nucleotide used as a monomer in DNA;
"AOC3"	Amine Oxidase, Copper Containing 3, an ectoenzyme. Diseases associated with AOC3 include coronary artery vasospasm and obesity;
"API"	Active Pharmaceutical Ingredient;
"ARDS"	acute respiratory distress syndrome;
"BLA"	Biological License Application;
"CD73"	a cell surface molecule that is an ectoenzyme capable of converting AMP into adenosine;
"clinical development"	human testing (healthy volunteers and patients) of pharmaceutical products;
"Clevegen"	a human antibody against Clever-1 to control tumour immunity and cancer spread (in preclinical development);
"Clever-1"	a human receptor which mediates lymphocyte (white blood cell) transmigration through vascular and lymphatic endothelium;
"CRO"	clinical research organisation;
"CTA"	Clinical Trial Application;
"Ectoenzyme"	an enzyme situated on the outer surface of a cell's membrane. An enzyme is a protein which catalyses chemical reactions of other substances;
"EFPIA"	European Federation of Pharmaceutical Industries Association;
"EMA"	the European Medicines Agency;
"FDA"	the US Food and Drug Administration;
"FP-1201"	Company code name for the product branded Traumakine®;
"FP-1201-lyo"	Company code name for the product branded Traumakine® in a lyophilised form;
"Humanised antibody"	a tolerable form of an antibody for pharmaceutical use in man (e.g. Clevegen);
"ICU"	Intensive Care Unit;
"IND"	Investigational New Drug applications;
"IMP"	Investigational Medicinal Product;
"IFN beta-1a" or **"interferon beta"**	Human recombinant interferon beta-1a, the API of Traumakine®;

"ITU"	Intensive Therapy Unit;
"lead compound"	the compound or molecule selected from a series or family of compounds based on specific qualities that are expected to translate into the best potential for a successful medicine;
"lymphocyte"	A type of white blood cell (leukocyte) that is important in the immune system because lymphocytes are the cells that determine the specificity of the immune response;
"M2 macrophages"	one of the most popular classifications divides activated macrophages into 2 categories: M1 macrophages also known as classically activated macrophages, and M2 macrophages often referred to as alternatively activated macrophages. M2 macrophages do not constitute a uniform population and often are further subdivided in sub-classes including which supress T-cell response;
"MAA"	Marketing Authorisation Approval;
"mechanism"	the specific way a medicine works to produce a pharmacological effects;
"MHRA"	Medicines & Healthcare products Regulatory Agency;
"MxA"	Interferon induced human MxA protein;
"MS"	Multiple Sclerosis;
"NDA"	new drug application;
"NIH"	National Institute of Health;
"ODD" or **"Orphan Drug Designation"**	a designation applied to medicines intended for the treatment of rare diseases. Such designation is accompanied by incentives offered by regulatory bodies such as providing a period of market exclusivity;
"PCC"	pre-clinical candidate;
"PMDA"	Pharmaceuticals and Medical Devices Agency, being the Japanese regulatory agency responsible for approving new medicines in Japan;
"Phase I study"	first stage of testing in healthy volunteers to consider the safety of a product;
"Phase II study"	clinical trials in a small number of patients (usually 20-30) to determine safety and efficacy of a new medicine and the nature of any side effects;
"Phase III study"	the final stage of clinical trials prior to seeking regulatory approval, to determine efficacy and safety in a large number of patients (usually several hundred);
"preclinical stage programme"	laboratory and animal testing prior to being allowed to test the product in humans;
"R&D"	research and development;
"T-cell"	a type of lymphocyte that plays a key role in cell mediated immunity;

"Traumakine®"	trade mark name of Faron's lead technology program to develop FP-120-1-lyo treatment for ARDS;
"Type B Meeting"	a formal meeting between a "sponsor" (usually a pharmaceutical company) and the FDA to agree on specific aspects of drug development; and
"UNIDO"	United Nations Industrial Development Organisation.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

	2015
Publication of this document	11 November
Admission effective and dealings in the Ordinary Shares commence	17 November
Expected date for CREST accounts to be credited with Depositary Interests in respect of new Ordinary Shares or book-entry accounts to be credited with new Ordinary Shares (as applicable)	17 November

The above dates are indicative only and are subject to change. All references to time in this document are to London time unless otherwise stated.

KEY STATISTICS

Placing Price and Subscription Price (per Ordinary Share)	260 pence
Existing Ordinary Shares	19,265,550
Placing Shares[1]	2,461,157
Subscription Shares	1,384,997
Enlarged Ordinary Share Capital	23,111,704
Placing Shares and Subscription Shares as a percentage of the Enlarged Ordinary Share Capital	16.6 per cent.
Gross proceeds of the Placing and Subscription	£10.0 million
Number of Ordinary Shares under option or warrant following the Placing and Subscription and Admission	1,751,400
Number of Ordinary Shares on a fully diluted basis following the Placing and Subscription and Admission[2]	24,863,104
Market capitalisation of the Company on Admission	£60.1 million
ISIN for the Ordinary Shares	FI4000153309
AIM Symbol	**FARN**

[1] To be satisfied by the issue of new Ordinary Shares and the transfer of the Treasury Shares to Placees as described in Paragraph 15 of Part 1

[2] On the basis that all options and warrants in existence on Admission have been exercised.

EXCHANGE RATES

For reference purposes only, the following exchange rates were prevailing on 9 November 2015 (being the latest practicable day prior to the publication of this document):

€1.404 per £1.00

US$1.512 per £1.00

All amounts in this document expressed in the above currencies have, unless otherwise stated, been calculated using the above exchange rate.

DIRECTORS AND ADVISERS

Directors	Dr Frank Murdoch Armstrong – *Non-executive Chairman* Matti Esa Manner – *Non-executive Vice-Chairman* Dr Markku Tapani Jalkanen – *Chief Executive Officer* Yrjö Erik Kristian Wichmann – *Chief Financial Officer* Dr Huaizheng Peng – *Non-executive Director* Professor Jonathan Kenneth Charles Knowles – *Non-executive Director* Dr Juho Markku Jalkanen – *Non-executive Director* Leopoldo Giampaolo Zambeletti – *Non-executive Director*
all of	Joukahaisenkatu 6 FIN-20520 Turku Finland
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PART I

INFORMATION ON THE COMPANY

1. Introduction

Faron is a drug discovery and development company focussed on creating novel treatments for medical conditions with significant unmet needs. The Company is based in Turku, Finland. The Company currently has a pipeline of clinical stage products focusing on acute organ traumas, cancer immunotherapy and vascular damage.

The Company's lead candidate is FP-1201-lyo (branded Traumakine®), a patent protected use of interferon beta which has been developed to treat acute respiratory distress syndrome ("ARDS"). ARDS is a rare, severe, life threatening medical condition characterised by widespread inflammation in the lungs, most often as a result of sepsis, pneumonia or significant trauma. There is currently no approved pharmaceutical treatment for ARDS. Typically, one third or more of patients suffering from the condition die during their first month of suffering from it despite ventilation-assisted supportive care.

The Company completed a Phase I/II trial in respect of Traumakine® in 2011 where treatment with Traumakine® was associated with an 81 per cent. reduction in the 28 day mortality rate in patients with ARDS. The Lancet Respiratory Medicine (Bellingan et al. 2014) ("the Lancet") a leading medical journal, published a peer reviewed article on the Phase I/II trials in respect of Traumakine® in February 2014. Subject to the completion of successful pan-European Phase III trials and achievement of regulatory approvals, this suggests that Traumakine® could be the first effective, mechanistically-targeted, disease-specific pharmacotherapy for patients suffering from ARDS.

Traumakine® has been granted Orphan Drug Designation in Europe which allows a period of 10 years of market exclusivity following marketing approval by the EMA. The Directors believe this will provide a competitive advantage in Europe in respect of the treatment of ARDS.

To date, the Company has entered into agreements with two pharmaceutical companies to carry out the clinical development and commercialisation of Traumakine® in Japan and the Greater China Area. Faron entered into an agreement with a Japanese pharmaceutical company, Maruishi, in 2011 pursuant to which Faron has licensed to Maruishi the rights to develop and commercialise Traumakine® in Japan. In May 2015, Faron entered into a licence and asset transfer agreement with A&B (HK), a company which aims to develop pharmaceutical products for commercialisation in the Greater China Area. It is intended that A&B (HK)'s commercialisation activities in respect of Traumakine® will be conducted by a member of the CMS Group, a rapidly growing pharmaceutical group listed on the Hong Kong Stock Exchange. Alongside this agreement, in May 2015, A&B (HK) provided equity funding to the Company of €5 million in aggregate. In May 2015 certain assets assigned to A&B (HK) were transferred to CMS Pharma Co. Ltd, a subsidiary of the CMS Group and accordingly CMS Pharma Co. Ltd owns the right to import, register, market, distribute, promote and sell Traumakine in the Greater China Area. Further details of these agreements are set out in paragraph 5 of Part I of this document. Faron owns the IPR and marketing rights in respect of Traumakine® in all other territories.

The Company also owns a pre-clinical immunotherapy candidate, Clevegen, an antibody designed to prevent tumour growth and metastasis which targets the tumour immune suppressor molecule, Clever-1. Immunotherapy leverages the patient's own natural immune response to combat cancer. It offers enormous potential in the treatment of cancer and is one of the most actively pursued areas of research by biotechnology and pharmaceutical companies. A further product, an AOC3 inhibitor, is in lead optimisation and could potentially be used to prevent vascular deformations in several disease conditions (such as diabetes).

To date, the Company has been funded with a total of approximately €17.2 million, made up of a combination of equity, debt and grant funding, which has been used to develop the Company's products and intellectual property. The Company has also generated revenues of €3.3 million to date through the receipt of milestone payments pursuant to certain of its licensing arrangements and the sale of surplus

API of interferon beta and IMP. In addition, in November 2012 the Consortium led by the Company received a EU grant totalling €6 million in aggregate, of which the Company has recorded €0.8 million as grant income to 30 June 2015.

The Company is seeking Admission to AIM in order to gain access to funding, to progress the Company's pipeline of products and accelerate the clinical development of its main therapeutic candidates. The Company has conditionally raised £10.0 million through the Placing and Subscription. Further details of the Placing and Subscription are set out in paragraph 15 of this Part I. The net proceeds of the Placing and Subscription of £8.3 million will be used primarily to fund the Company's initial pan-European Phase III clinical trial in respect of Traumakine® for which recruitment of patients is expected to commence in Q4 2015.

2. Business and Investment Opportunity

The Company has a portfolio of products which are at various stages of development and the Directors believe that this portfolio offers significant opportunities for the Company and Shareholders. The Directors believe that the Company's lead product, Traumakine®, has the potential to create significant value for the Company given its stage of development.

The Company is carrying out an initial pan-European Phase III trial in respect of its lead drug candidate, Traumakine®. In May 2015 the Company secured investment of €5 million from A&B (HK) which allowed the Company to appoint Gaea Clinical Ltd as CRO in respect of the pan-European Phase III trial. Following the advice it has already received from the EMA, the Company, in conjunction with the Appointed CRO, has set up an initial pan-European Phase III trial (called INTEREST) which is expected to be carried out at approximately 50 sites across seven European countries. As at the date of this document, the Company has received Clinical Trail Application ("CTA") approvals in Belgium, Finland, France and Italy and expects to get approvals in the last three countries (UK, Germany and Spain) by the end of 2015. The clinical site activations are ongoing and the Company expects to have recruited the first patients during Q4 2015.

Although there is no guarantee, the Directors believe that, subject to a successful outcome of the first pan-European Phase III trial in respect of Traumakine® regulatory approvals not being unduly delayed and the Company being able to file for a conditional marketing approval (as described in paragraph 6.1 of this Part I), Traumakine® could potentially be commercialised, at least in Europe, in under 36 months by the Company (or a commercial partner) thereby creating significant value for Shareholders. Additionally, based on their research and data gathering to date, the Directors believe that it may be possible to expand Traumakine®'s use to other indications in the future.

While the Company's main focus is on developing its existing pipeline, the Directors believe that the Company's links to academia and arrangements with several world class laboratories and clinics as further described in paragraph 8 below, should ensure that the Company continues to have access to new innovations in the future. The Company seeks to operate opportunistically, entering into collaborative agreements with third parties such as academic institutions and inventors, as and when required. Accordingly, the Company typically avoids restricting itself to exclusive long term commitments with particular third parties. This approach is demonstrated by the recent collaboration between the Company and a cancer imaging network which the Directors believe will provide valuable information for the future use of Clevegen on patients.

The Company seeks to operate on a relatively low cost basis through employing only key members of staff and outsourcing where possible. Typically all development work up to the proof-of-concept stage of drug development is outsourced to the innovators' laboratories, allowing the Company to maintain what the Directors consider to be a lean operating structure and ensuring that fixed costs and cash outflows are kept to a minimum.

Key reasons why the Directors believe Traumakine® presents a commercially attractive business opportunity for the Company include:

- Although ARDS is rare, there are approximately 170,000 annual patients in Europe alone and the reported mortality rate is currently approximately 30 to 45 per cent;

- Currently there is no approved pharmacological treatment of ARDS;
- Treatment of ARDS with Traumakine® in the Company's Phase I/II clinical trials was associated with an 81 per cent. reduction in 28-day mortality rate;
- Anticipated attractive pharmaco-economics of Traumakine®, taking into account an expected highly favourable cost benefit analysis;
- Traumakine®'s ODD status in Europe provides a significant opportunity for the Company's product to be the only pharmacological treatment available for ARDS for a period of 10 years;
- Patent protection has been obtained in Europe, the U.S. and Japan. Patent protection in China has been acquired by A&B (HK) pursuant to the A&B Agreement;
- The Directors are aware of only one other potential treatment for ARDS which is currently at a significantly earlier stage of clinical development than Traumakine®, further details in respect of this treatment is set out in paragraph 6.1 of this Part I;
- Initial licensing arrangements are already in place which provide a source of income for the Company through upfront and milestone payments. These existing licence agreements are anticipated to facilitate clinical development in territories outside of Europe with development costs being funded by the commercial partner directly. In the event of the commercial launch of Traumakine® in Japan, the Japanese Licensing Agreement is expected to provide a royalty income stream for the Company;
- The Company's initial focus for Traumakine® is on the European market, however, the Directors consider that there is significant potential to progress clinical development and seek regulatory approvals in other key geographical territories particularly in the U.S.;
- In the event of regulatory approval, the Directors initially intend to target the hospital market for Traumakine®; and
- The Directors believe there may be additional opportunities for the application of Traumakine® to treat other indications which they intend to explore further in due course.

The Company's second most advanced drug candidate, Clevegen, is in the area of immunotherapy. Immunotherapy is a form of cancer treatment that uses a patient's own immune system to combat cancer. Immunotherapy is currently one of the most actively pursued areas of research by biotechnology and pharmaceutical companies. Interest in immunotherapy is largely driven by recent compelling efficacy data in cancers with historically bleak outcomes and by the potential to achieve a cure or functional cure for some patients. The Directors believe the opportunity for Clevegen as a potential treatment for certain types of cancers is significant.

In October 2015, Five Prime Therapeutics Inc ("Five Prime") and Bristol Myers Squibb announced a licensing and collaboration deal worth up to US$1.74 billion in relation to Five Prime's Phase I immuno-oncology therapy product which is currently in Phase I clinical trials. This license agreement included an upfront payment of US$350 million to be made to Five Prime. The Directors of Faron believe that this recent deal demonstrates the commercial potential to Faron for the successful development and commercialisation of Clevegen. The Directors believe that Clevegen is well differentiated from competing immunotherapy products through its specific targeting of M2 tumour-associated macrophages ("TAMs") which facilitate tumour growth, while leaving intact the M1 TAMs which support immune activation against tumours.

Faron has recently entered into an agreement with Swiss-based Selexis SA to facilitate the continued preclinical development of Clevegen as it moves towards clinical development. Under the agreement, Faron will have access to the Selexis SUREtechnology Platform™ and SURE CHO-M Cell Line™ for the production of high-expressing and stable clonal cell lines for use in the development and production of Clevegen.

Given the relatively early stage of clinical development of Clevegen and the absence of a technical peer reviewed article such as is the case for Traumakine, the Company commissioned a report on Clevegen for the purpose of Admission, a summary of which is provided in paragraph 6.2 of this Part I. The report concluded that there is proof, in principle, that targeting tumour-associated macrophages, as is the case with Clevegen, may have antitumour activity in human cancer. Furthermore the report concludes that the anti-Clever-1 approach is unique and original and not repetitive of other ongoing research and development efforts and that its therapeutic value alone, and in combination with conventional strategies and immunotherapy, deserves to be explored further in a clinical translation perspective.

The Directors believe that the combination of links with academia and the management team's ability to identify and progress inventions will lead to the Company bringing a number of commercialised products to the market in the future. The Directors and management team have experience in identifying high quality innovations and opportunities and progressing them through the development stages successfully to commercialisation. The Company will consider all options available to it to advance the clinical development of its products, including Clevegen. This may include raising further equity investments or may be in the form of licensing deals or grant funding.

3. History

Faron is based in Turku, Finland. Its business activities, being drug discovery and drug development, commenced in 2003 within a company called Faron Pharmaceuticals Oy. Faron Pharmaceuticals Oy was founded by a group of eight individuals including Markku Jalkanen, Sirpa Jalkanen, Matti Manner, Juha Peltola, Marko Salmi, Katriina Peltola, Juho Jalkanen and Maija-Leena Hollmén. This entity changed its name to Faron Ventures Oy in October 2006. Markku Jalkanen was appointed as President and CEO of the Company in 2007.

The Company was incorporated in 2006 as a wholly owned subsidiary of Faron Ventures Oy. The name "Faron Pharmaceuticals Oy" was transferred to the newly formed subsidiary. The purpose of creating a wholly owned subsidiary was to spin out the most advanced pharma projects from Faron Ventures Oy, being those focussed on cancer metastasis, inflammation and trauma, into the newly formed subsidiary in order to attract new capital investment for these projects. A reorganisation, including a demerger in 2012 and a merger in 2013, resulted in the Company becoming a standalone entity with the shareholders of Faron Ventures Oy becoming direct shareholders in the Company.

To date, innovations for the business have primarily been sourced from academia through the Company's strong links with academic institutions including, but not limited to Turku University, Finland. The inventions behind both Traumakine® and Clevegen were sourced from scientists working at Turku University (Professor Sirpa Jalkanen, wife of Markku Jalkanen, the Company's CEO and currently the head of the research laboratory of the Medical Faculty of University of Turku and Professor Marko Salmi). Faron Ventures Oy carried out the initial *in-vivo* proof-of-concept and drug development work on Traumakine® and Clevegen before they were transferred as pharmaceutical projects to the Company together with the IPR. The Company has since filed additional patent applications, further details of which are set out in Part III of this document, and has sought out ways to achieve market exclusivity in respect of its products. In this respect, the Company filed a European Orphan Drug Designation application for the use of interferon beta to treat acute lung injuries in April 2007. Orphan Drug Designation was granted by EMA/EC in December 2007.

In November 2007, the Company completed a private placing of common shares which raised €1 million before expenses.

The original proprietary Clever-1 antibodies were humanised in a collaboration with Antitope Limited, a service company based in Cambridge, United Kingdom ("Antitope"). Antitope has the technology to minimise immune reaction against administrated antibody-drugs. During the period 2007 to 2009, the Company was granted European and U.S. patents in relation to anti-Clever-1 antibodies. Further applications and filings have since been made to protect other Clever-1 related materials, e.g. Clever-1 positive tumour associated macrophages.

From 2009 to 2012, the Company was granted loans of €1.7 million from TEKES. These loans were applied towards the costs associated with carrying out the initial Phase I/II clinical trial of Traumakine®. In 2009, the Company raised a further €1.27 million of capital investment and was awarded Young Innovative Status and a further €1 million grant by TEKES.

In January 2011, Faron entered into a manufacturing and supply agreement with Rentschler, an independent pharmaceutical contract manufacturer. This agreement governs the development, manufacture and supply of interferon beta, the API of Traumakine®. It also regulates the supply of the final drug product.

In February 2011, Faron entered into the Japanese Licensing Agreement with Maruishi, a Japanese pharmaceutical developer and manufacturer. Under the agreement, the Company granted Maruishi an exclusive license to develop and commercialise Traumakine® in Japan. Maruishi is obliged to fund Tramakine®'s development and commercialisation in Japan. To date, the Company has received both upfront and milestone payments from Maruishi totalling €2.3 million in aggregate in respect to the Japanese Licensing Agreement. Faron is entitled to receive further milestone payments as the development of Traumakine® advances in Japan. Further details in relation to the Japanese Licensing Agreement are set out at paragraph 5 of this Part I.

In November 2012, the Consortium was awarded a grant of €6 million in aggregate from the European Commission to support the pan-European Phase III trials with respect to Traumakine®. Only 10 per cent. of grant applications at the time were approved by the European Commission. To date, the Consortium has received €3.2 million in aggregate with respect to this grant, which is expected to cover approximately 75 per cent. of the costs of certain areas of the trials, including *inter alia*, the trial design and protocol creation for site selection etc. The Consortium members have been actively involved in the design of the clinical trial and will be involved in generating information from the trial material and trial results. Further details in respect to the European grant are set out in paragraph 9 of this Part I.

In February 2014, a peer reviewed article in respect of Traumakine® was published in The Lancet. This article (the "Lancet Article") discussed the findings of the Phase I/II trials. Further detail on Lancet and the Lancet Article are set out in paragraph 6 of this Part I.

In December 2014, Maruishi confirmed that their clinical application to the Japanese Regulatory Agency had been accepted and a Phase II trial had been initiated in Japan accordingly, with the first patient recruited in February 2015. It is expected that the results of this trial will be reported in Q4 2015 to Q1 2016.

The Company filed an application for U.S. Orphan Drug Designation in respect of Traumakine® in April 2015.

The Company established an office in London in May 2015. The Company will initially have one employee at this location who coordinates the clinical trials of the Company across the UK and Europe. The Company intends to employ additional UK based employees as required.

In May 2015, the Company entered into the A&B Agreement, CMS Agreement and A&B Subscription, securing an investment of €5 million in aggregate from A&B (HK) as further described in paragraph 5 of this Part I. Additionally, the Company formally appointed Gaea Clinical Ltd as its CRO for the pan-European Phase III trial in May 2015 having already had a preliminary agreement in place prior to such formal appointment.

4. Strategy and Structure of Operations

The Company's strategy is to collaborate with strategic partners early in the drug development cycle in order to bring new pharmaceutical products to market in a timely and cost effective manner.

To date, the Company has operated on a relatively low cost basis by employing only key members of staff and outsourcing where possible. Typically all development work up to the proof-of-concept stage of drug development is outsourced to the innovators' laboratories, allowing the Company to maintain what the Directors consider to be a lean operating structure by seeking to ensure that fixed costs and cash outflows are kept to a minimum. Following the proof of concept stage, the Company's strategy is to

pursue the operational model which the Directors collectively consider to be optimal for that specific therapeutic candidate taking into account the nature of the indication, the market and the regulatory environment. This has historically involved the inventors of the Company's drug development portfolio working with the Company either on a consultancy or employment basis in order to develop the drug.

For its development activities the Company has formed a core team of leading scientists in capillary biology and diseases arising from vascular leakage. The Company has established links with leading laboratories and clinics based at Turku University in Finland, University College London and other institutions.

The Company outsources all of its manufacturing activities in relation to its products to third parties and collaborates with CROs to carry out the Company's clinical development programs.

The Company retains regulatory and other specialised consultants in order to obtain the necessary regulatory approvals and registrations and to protect its IPR.

The Directors seek to maximise the funding opportunities available to the Company and have historically been successful in achieving funding from a variety of sources including license income, grant funding, revenue from sales of Traumakine®'s API (interferon beta) as well as traditional equity funding and investments from strategic investors such as A&B (HK) as detailed below.

Details of the Company's Directors, key management, scientific and clinical collaborators are set out below in paragraphs 12 and 13 of this Part I. An active project typically requires a significant number of experts in addition to the Company's core team. In this respect, paragraphs 12 and 13 of this Part I do not provide an exhaustive list of the experts who may be drawn upon during the pan-European Phase III trials in respect of Traumakine®.

5. Commercialisation Strategy, Licensing and Development Agreements

The Company's policy to date on the licensing of its lead drug, Traumakine®, has been to maintain full marketing and sales rights in Traumakine®'s main target markets, being Europe and the U.S, whilst seeking to out-license Traumakine® in other geographical territories.

The Company's aim is to maximise the financial benefit to the Company and its Shareholders arising from the development and commercialisation of its products. To date, the Company has sought to achieve this by entering into a number of licensing or other forms of development agreements which provide a combination of upfront payments, milestone payments, ongoing royalty payments and supply pricing. Moving forward, in the event that regulatory and marketing approvals are obtained for the Company's products the Directors will consider the benefits of any licensing opportunities which arise against retaining certain of its intellectual property and marketing rights by establishing its own sales force in certain territories.

Where appropriate the Company will also consider including research collaboration and related R&D investments in a form of licensing or other commercial agreement with a suitable third party such as a pharmaceutical company.

Japanese Licensing Agreement

The Company entered into the Japanese Licensing Agreement with Maruishi in 2011. Maruishi, an Osaka-based company which commenced operations in 1888, has a strong presence in the Japanese market as a specialty company which develops, manufactures and markets a number of pharmaceutical products – including Sevofrane®, an inhalational anaesthetic. Under the terms of the Japanese Licensing Agreement, Maruishi has exclusive rights to develop and commercialise Traumakine® in Japan and Maruishi will fund the clinical development programme of Traumakine® in Japan.

The Company has worked alongside Maruishi to map out the clinical program expected to be followed in Japan and to assist with the preparation of an Orphan Drug Designation application within Japan. In 2014, Maruishi's clinical application to the Japanese regulatory agency (PDMA) in respect of Traumakine® was accepted and a Phase II clinical trial commenced in Japan in November 2014. The Company is updated by Maruishi as to the progress of the clinical program for Traumakine® in Japan.

The Phase II study is intended to confirm the optimal dosing of FP-1201-lyo in Japanese ARDS patients using the same pharmacodynamics markers as used by the Company. The Phase II study will also seek to identify possible safety concerns arising in Japanese patients. So far, no such concerns have been raised and the trial is expected to be completed in Q4 2015 to Q1 2016.

It is expected that Maruishi will file an ODD application in Japan subject to the successful completion of the safety study.

Under the terms of the Japanese Licensing Agreement, the Company is entitled to a share of Maruishi's net profit on sales of Traumakine® through milestones, royalties and other payments. To date the Company has received €2.3 million in milestone payments pursuant to the Japanese Licensing Agreement and is due to receive up to an additional €2.7 million subject to certain key development milestones being met (subject to foreign exchange adjustments).

Chinese Asset Transfer Agreements

The Company entered into the CMS Related Agreements in May 2015. Pursuant to the Subscription Agreement, A&B (HK) subscribed in May 2015 (prior to the Share Split) for 219,565 new Ordinary Shares in the Company at a discounted subscription price of €15.41 per share and in June 2015 an additional 83,199 new Ordinary Shares at a subscription price of €20.03 per share, with an aggregate value of €5 million. A&B (HK) is a company wholly owned by Dr Lam Kong. A&B (HK) is affiliated to CMS through its owner Dr Lam Kong. CMS is a large China based pharmaceutical services company which listed on the main board of the Hong Kong Stock Exchange in 2010. Dr Lam Kong is the Chairman, CEO and majority shareholder of CMS. Under the terms of the A&B Agreement and the CMS Agreement, the Company has transferred and licensed to CMS Pharma Co. Ltd the patents and trademark exclusivity related to Traumakine® in the Greater China Area such that CMS Pharma Co. Ltd will own the right to import, register, market, distribute and sell Traumakine® in the CMS Territory.

Pursuant to these agreements, CMS, through A&B (HK) or another affiliated company, will pursue the development and commercialisation of Traumakine® in the Greater China Area. A&B (HK) will fund the development costs.

Under the terms of the A&B Agreement, in the event of the commercial sale of Traumakine by the CMS Group the Company will be entitled to a margin over the base cost of the product and subject to meeting agreed minimum pricing levels, the Company will be entitled to payments based on a percentage of the price per dose above the minimum pricing level. Further details of this are set out in paragraph 15.11 of Part VII of this document.

6. Current Drug Pipeline

6.1 *Traumakine®*

Traumakine® is the Company's lead drug development program. The primary indication Faron is focusing on in respect of Traumakine® is the treatment of ARDS.

Clinical Background of ARDS

ARDS is a severe life threatening medical condition characterised by widespread inflammation in the lungs and sudden failure of the respiratory system. ARDS is characterised by injury to the endothelial barriers and to the alveolar epithelium of the lung, acute lung inflammation and protein rich pulmonary oedema leading to acute respiratory failure. It is characterised by rapid breathing, difficulty getting enough air into the lungs and low blood oxygen levels. Common causes of ARDS are sepsis, pneumonia, aspiration of fumes, food or stomach contents going into the lung or significant trauma. The condition was first described in 1967 and gained wide attention during the Vietnam War when it was nicknamed "white lung" as X-rays presented the lungs of the patients as white.

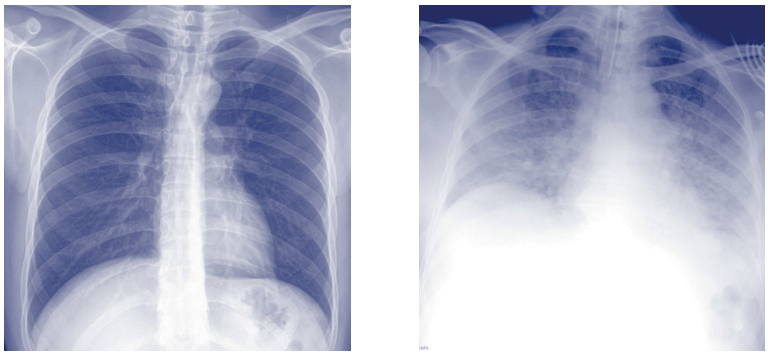

Figure 1: Chest X-ray of ARDS patient i.e. "white lung"

ARDS is the leading cause of respiratory failure in ICU patients requiring mechanical ventilation and oxygen therapy. Despite progress in critical care medicine, ARDS is currently associated with a mortality rate of 30 per cent. to 45 per cent., depending on the severity of the condition. Mortality from ARDS remains high despite improvements in supportive care and treatment of the underlying conditions.

Currently, patients suffering from ARDS are generally treated with lung-protective mechanical ventilation. This treatment is accompanied by ancillary support such as positioning, fluid management and food restrictions. Extra corporeal support may also be provided depending on the severity of the condition. Complications which can arise whilst a patient is being treated for ARDS include: the development of infections, pneumothorax, lung scarring and blood clots which can develop into a pulmonary embolism. Patients who recover from ARDS may suffer other consequences of ARDS after being discharged from the ICU. A recovering patient's quality of life may be adversely affected by permanent damage to the lungs, respiratory problems, scar tissue, muscle weakness and depression.

Scientific background of Traumakine®

Traumakine® is based on a patent-protected use of interferon beta to prevent leakage of vascular beds in acute lung injuries. The active pharmaceutical ingredient in Traumakine® is IFN beta-1a.

The mechanism behind Traumakine®'s action was invented by scientists at Turku University during the period 1995 to 2003. Through extensive research and ex-vivo studies, it was identified that a molecule called CD73 is an essential entity needed to maintain endothelial barrier function. CD73 is an ectoenzyme capable of breaking down extracellular AMP to produce locally active adenosine. Adenosine maintains the endothelial barrier and down regulates inflammation escalation, preventing both early vascular leakage and escalation of inflammation, which are the two early patho-physiological events leading to ARDS.

One of the key findings that led to the development of Traumakine®, was a discovery that interferon beta could enhance CD73 expression and therefore could be used to treat a range of vascular leakage conditions including ARDS. Traumakine® works by enhancing lung CD73 expression and increasing production of anti-inflammatory adenosine such that vascular leaking and escalation of inflammation are reduced.

IFN beta-1a is an approved treatment for patients with relapse remitting MS and the safety profile of IFN beta-1a in such patients is well characterised. However, prior to development by the Company, IFN beta-1a had never before been identified as a CD73 activator.

Traumakine® clinical development

Drug development is a well-controlled industry regulated by community and supranational authorities. The main aim of this regulation is to ensure that a drug is safe and that it is effective for the indication it has been licensed for.

For these reasons, a drug development pathway typically consists of several highly controlled human experimental studies, often regarded as Phase I-III clinical studies. Authorities are, however, encouraging drug developers to contact them as early as possible to agree on individual needs of each particular drug candidate. This is especially true for compounds targeting the treatment of rare and/or life threatening diseases such as ARDS. Accordingly, the Company has been in contact with the regulatory authorities (MHRA in the UK and EMA at the European level) throughout the clinical development of Traumakine®.

Following ex-vivo studies which established that FP-1201 induced CD73 up-regulation in cultured human lung tissue samples, the safety, tolerability and efficacy of intravenous FP-1201 was tested during a Phase I/II Open Label Study (FPCLI001) in the UK following approval of the study design by MHRA in 2008. A total of 37 patients were treated at 9 hospitals in the UK during the trial.

A quasi-control group of 59 patients was used to assess the outcome of the trial. These patients did not receive treatment during the trial because they were screened during the safety windows after dose escalation. Accordingly, there was no placebo controlled element to this trial.

The trial was associated with a reduction of all cause mortality at day 28 (the primary end point) following FP-1201 administration from an expected rate of mortality of 30 per cent. to 45 per cent. to a mortality rate of below 10 per cent (i.e. a statistically significant 81 per cent. reduction in the odds of 28 day mortality).

The results of the pan-European Phase I/II trial were published in the Lancet Article which the Directors consider further validates the significance of the findings of the Phase I/II trial.

The Lancet Respiratory Medicine is a journal published by the Lancet, one of the world's leading medical journals. The Lancet was founded in 1823 and publishes a weekly journal and nine monthly specialty journals in the fields of global health, diabetes and endocrinology, oncology, haematology, neurology, psychiatry, respiratory medicine, infectious diseases and HIV. The Lancet is an independent organisation without affiliation to a medical or scientific organisation and seeks to publish high-quality clinical trials that are expected to alter medical practice. Every article published by the Lancet first undergoes a review by the journal's staff of physicians and scientists and if selected to proceed is then subject to a peer review. The paper is already among the highly cited articles.

The pan-European Phase I/II trials in respect of Traumakine® are registered with ClinicalTrials.gov, number NCT00789685, and the EU Clinical Trials Register EudraCT, number 2008-000140-13. The clinical trials website is maintained by the National Library of Medicine ("NLM") at the National Institutes of Health ("NIH").

Dosage and manufacturing of Traumakine®

The Company entered into a manufacturing agreement with Rentschler Biotechnologie GmbH (based in Laupheim, Germany) in 2011 to finalise the development of both the API in Traumakine® and the end product for use in the pan-European Phase III clinical trials and product roll out. Rentschler has been producing interferon beta since the 1980s and therefore has significant experience in the field. Under the terms of the contract, Rentschler is the sole supplier of interferon beta to the Company and the Company has the exclusive right to market and sell the API product globally as an intravenous product for vascular-endothelial diseases.

Subject to regulatory approvals being granted, the Directors believe that Traumakine® will be the only licensed interferon beta treatment for ARDS and also the only intravenous product among current interferon beta preparations.

The Company has developed a room temperature stable lyophilised formulation of Traumakine®, FP-1201-lyo, for use intravenously, allowing the product to be readily available for use by critical care doctors. This formulation is expected to be the final product used for the pivotal clinical trial(s) and global markets. The Company plans to provide a kit for end users that contains a 10 microgram daily dose, a prefilled syringe, and a device for solubilisation, to make daily bed-side administration as easy as possible.

In the event of obtaining marketing approval for Traumakine®, no further significant capital investment in production and manufacturing is anticipated in respect of Traumakine®.

Orphan Drug Designation

The Company was granted ODD status in Europe for treatment of acute lung injuries with interferon beta in November 2007, entitling the Company to 10 years of marketing exclusivity in the EU following the date of marketing approval of Traumakine®, with a further 2 years exclusivity in the event that the Company successfully makes a paediatric application for ODD status. ODD status requires an incidence/prevalence of a disease of less than 5/10,000 population based patients and provides incentives from the EU to pharmaceutical companies to develop medicines for rare diseases.

In addition, the Company made an application for ODD status for treatment of moderate to severe ARDS with interferon beta in the USA in April 2015. The Directors have advised that discussions in respect of this application are ongoing and a decision will be received in due course.

Pan-European Phase III Trials

The Company is seeking to undertake an initial pan-European Phase III trial for the treatment of moderate to severe ARDS with Traumakine®. The UK Phase I/II study on Traumakine® was conducted under MHRA/UK clinical trial applications ("CTA") but the pan-European Phase III trial requires input from the centralised authority (being the EMA) as is required for all biological medicines. To date, the Company has received advice from the EMA concerning the manufacture and formulation of Traumakine®, establishing a clinical development plan for the new and final formulation of Traumakine® for treatment of ARDS and the filing of CTA applications in each of the seven European host countries for the trial.

In December 2013, the EMA accepted the Company's proposal in relation to the next steps in Traumakine®'s clinical development. Subject to formal approval of the Company's clinical trial applications by the national authorities of the countries in which the initial trial is anticipated to take place (who normally follow the advice of EMA), it has been agreed that the Company will conduct a 300 patient randomised placebo controlled and double-blinded pan-European Phase III trial which is intended to reach significant p-values with a 50 per cent. reduction in mortality between the groups. This would allow the Company to file for a conditional marketing approval but additional results from a second pan-European Phase III trial would be required for full approval by the EMA.

The Company intends to combine the results from the second pan-European Phase III trial and the initial pan-European Phase III trial via meta-analysis. If each study provides statistical evidence of treatment efficacy, it is expected to be acceptable to EMA for final approval. Providing that the results of the first pan-European Phase III trial are compelling, meaning a significant decline in all cause mortality at day 28 (a drop from the typical 30 to 45 per cent. to less than 10 per cent.), the Directors expect that the Company would be able to discuss the possibility of an expedited approval with EMA, as further placebo-controlled studies may become unethical.

The Company has appointed Gaea Clinical Ltd (the "Appointed CRO") in respect of the pan-European Phase III trial. It will be the Appointed CRO's responsibility to manage the recruitment of patients to the trial and the clinical trial itself. The Company has selected study sites for the initial Phase III trial across 7 European countries including the UK, France, Germany, Italy, Spain, Belgium and Finland. As at the date of this document, the Company has received Clinical Trail Application ("CTA") approvals in Belgium, Finland, France and Italy and expects to get approvals in the last three countries (UK, Germany and Spain) by the end of 2015. The clinical site activations are on going and the Company expects to have recruited the first patients during Q4 2015. The planned recruitment time for 300 patients is expected to be approximately 12 to 18 months from first patient treatment.

As there is significant unmet medical need for the treatment of ARDS, the progress of Traumakine®'s clinical development is expected to have a high profile among critical care clinicians. To date, the Company has been able to attract several key opinion leaders ("KOL") to the steering committee of the pan-European Phase III (FPCLI002) trial which the Directors believe will assist in publishing the results in medical journals to raise awareness of the Traumakine® treatment and create market demand for the product.

As described in paragraph 9 of this Part I, the Consortium, which is co-ordinated by the Company, has been awarded an EU grant of €6 million in aggregate to support the commencement of the pan-European Phase III trial.

Clinical development of Traumakine® outside of Europe

As described in paragraph 5 of this Part I, Faron's development partner in Japan, Maruishi, is currently conducting a pilot study for an efficacy and safety evaluation of Traumakine® with Japanese ARDS patients.

The Company has also initiated discussions with the FDA in order to gain an understanding of the development process in the U.S. Discussions have included both clinical issues and the Company's filing of an ODD application in the U.S. These talks are underway and are expected to be an important part of Traumakine®'s global development once approval to begin patient recruitment for the first pan-European Phase III trial has been obtained. The Company plans to keep the FDA informed of the progress of the pan-European Phase III trials in order to obtain its advice in relation to U.S. development and for the possible use of European study reports in the U.S. Based on a Type B meeting with the FDA, the Directors believe that Traumakine® could be entitled to a regulatory package called a biologics license application (BLA), which could allow 12 years of data exclusivity for Traumakine® in the U.S., reducing the risk of biosimilar penetration to the U.S. market. If the Company's application for ODD of Traumakine® is successful, marketing exclusivity in the U.S. is normally for seven years.

Target market for Traumakine® and product pricing

The Company estimates, based upon clinical experience, that 70 per cent. of all ARDS patients are considered to have moderate or severe forms of ARDS and are therefore eligible for Traumakine® treatment. As the product is a speciality drug which is intended to be administered in ICUs of hospitals, subject to gaining the necessary regulatory and market approvals, the Company and / or its licensing partners would market Traumakine® directly to hospitals with ICU facilities.

Within the EU there are approximately 170,000 incidents of ARDS per annum and within the U.S. there are approximately 200,000 incidents of ARDS per annum. The incidents recorded include mild, moderate and severe forms of ARDS. Patients suffering from ARDS are treated at high-cost specialist centres such as an ICU or an ITU ward located in major regional or academic hospitals. Associated financial, mortality and morbidity burdens are substantial: healthcare costs are estimated to be approximately US$5,000 per patient per day spent in intensive care. Due to survivors having impaired functional capacity, increased healthcare costs extending up to five years or more after discharge from hospital is common.

Due to the centralised marketing approval system in Europe, should marketing approval be granted by the EMA for Traumakine® the marketing authorisation would be valid in all EU countries and EEA-EFTA states (Iceland, Liechtenstein and Norway). In the event of receipt of EMA marketing approval, the Company or its commercial partners would apply for national reimbursements from government bodies and it is at this stage that the Company and / or its development partners would propose a treatment price. Pricing will be determined by the regulatory authorities in each country in which Faron markets the drug.

The Directors believe the most important aspect of pricing a drug is the pharmacoeconomic justification. Whilst pricing the products the Directors will take into account the patient benefits in terms of reduced mortality and enhanced quality of life following treatment (due, in the case of Traumakine®, to the shorter period in ICU under ventilation) as well as the cost savings to the hospital on the basis of the reduced amount of days spent in ICU care. The Directors believe that Traumakine® will allow for cost efficiencies when compared to the cost of hospitalisation. The Company will use consultants to assist in determining the pricing and pricing sensitivities within each country it intends to market the drug.

Subject to regulatory approvals, the Directors intend to initially target the major European countries (the UK, France, and Germany) and agree pricings there before targeting other countries.

The Directors estimate that, subject to regulatory approvals, Traumakine® could be marketed to up to 3,500 significant hospital ICUs across Europe and 5,000 significant hospital ICUs within the U.S. There is no centralised price control in the U.S. Rather, there are a number of different reimbursement programs (such as insurance agencies) which will analyse the benefits of the proposed treatment before agreeing the reimbursement price (in this case, for hospitals).

If the efficacy of the drug is as suggested in the Phase I/II trials, the Directors believe that Traumakine® could become part of the standard of care for all eligible ARDS cases which the Directors believe would lead to very high market penetration.

The Company may consider entering into further licensing agreements with global or regional partners for the purpose of sales and distribution in the event of regulatory approvals being given for marketing of Traumakine®, or alternatively, the Company may consider recruiting a sales team.

Potential application of Traumakine® to other indications

Following clinical trial authorisation in Traumakine® trial countries, it is expected that the same dossier will become eligible for additional indications. The Directors intend to consider the application of Traumakine® for the treatment of other indications including Rupture of Abdominal Aortic Aneurysm ("RAAA") and Single Organ Injury. It is not expected that there would be a requirement to do early clinical phase studies on these new indications, instead the Directors believe that approval could be sought for Phase II efficacy studies in the most suitable locations.

D-ARDS (diagnostics for disease severity and Traumakine® treatment efficacy)

Faron has developed a new diagnostic tool to estimate ARDS severity and to follow ARDS outcome by measuring MxA, (an interferon beta related biomarker), CD73 and several other inflammatory markers from ARDS patients plasma. The Directors believe that the combined use of these assays gives a strong correlation to ARDS patient's outcome and the efficacy of the treatment with Traumakine®.

The results from the pan-European Phase I/II trials have allowed Faron to model the D-ARDS technology and it aims to verify the usefulness of D-ARDS using samples from these trials. Faron estimates that the D-ARDS measurements could become a significant part of ICU practice.

Traumakine® competitive environment

No successful pharmacological treatment for ARDS has been found to date. Accordingly, the Company's Traumakine® project has attracted significant interest from the medical community. The Directors believe that there is currently only one serious competitive threat to Traumakine® being the recombinant human soluble Angiotensin Converting Enzyme 2 (ACE-2), which was licensed to GSK by Aperion in 2011. This project is, however, still in early clinical development. The Directors believe that the development of this product is significantly behind the development of Traumakine® and in order for it to be approved as a first line of treatment of ARDS, it is likely that it would have to demonstrate an even higher decline in patient mortality than Traumakine®.

6.2 ***Clevegen***

One of the Company's key areas of focus is to develop a cancer treatment which aims to support host immune defences, which often are suppressed in cancer patients, against tumours. Promising results have been obtained in this field by third parties in recent years, for example with an anti-CTLA-4 antibody, an immune checkpoint inhibitor, targeting the treatment of patients with melanoma. The Company's second most advanced drug development project, Clevegen, revolves around Clever-1, an endothelial cell surface molecule involved in cancer growth and spread. A recent Clinical Cancer Research article by Karikoski et al. 2014, positions the Clever-1 molecule as one of the gate keepers for the suppression of tumour immunity by the host.

Clever-1 mediates transmigration of blood-born monocytic cells via vasculature of growing tumours. Prevention of this traffic by blocking both the endothelial and monocytic Clever-1 prevents further tumour growth as the host's immune profile changes from suppressive to immune activation, and subsequently decreases the number of tumour-associated macrophages (TAMs).

TAMs have been linked to poor prognosis in many types of cancers. TAMs are drivers of tumour progression in established tumours, promoting cancer cell proliferation and survival, angiogenesis and lymphoangiogenesis, skewing and taming effective T cell responses.

Clevegen, an anti-Clever-1 antibody, not only controls the function of regulatory T-cells, like anti-CTLA-4 but also converts the whole immune environment around a tumour from immune suppressive to immune stimulating.

Technical report on Anti-Clever-1 antibody ("Clevegen")

The Company commissioned Professor Alberto Mantovani from Humanitas University in Milan, Italy, to prepare a technical report on Clevegen for the purpose of the Admission. Professor Mantovani is a highly cited Italian scientist. He has had over 69,000 citations and recent rankings indicate that he is one the 10 most quoted immunologists worldwide. The Directors believe Professor Mantovani's pioneering breakthroughs over the past 40 years have set new standards and paradigms in the fields of tumour immunology, innate immunity and inflammation.

Set out below in this paragraph 6.2 is a summary of the technical report produced by Professor Mantovani on Clevegen.

Discovery of Clever-1 molecule

In order to find new lympho-endothelial surface molecules, intact human lymphatic vessels were isolated from human lymph nodes and used to create monoclonal antibodies. Those hybridomas producing antibodies recognizing endothelial surfaces were further tested in functional bioassays to find inhibition of leukocyte binding to vasculature. Antibodies inhibiting the binding were identified and revealed a novel new molecule, which was then named Common Lymphatic and Vascular Endothelial Receptor-1 (CLEVER-1) as it recognized lymphatic vessels and a subset of blood vessels as sites of inflammation. Following cloning Clever-1 showed an identical amino acid sequence to the already known scavenger receptor – Stabilin-1. Both names are in use today for this molecule.

Anti-Clever-1 antibodies control cell trafficking

The original discovery of Clever-1 assumed that it mediates leukocyte-endothelial interactions and therefore controls cell trafficking. This has been confirmed in a number of studies but the most important finding is the novel expression of Clever-1 on the surface of endothelial cells of developing tumours. The Clever-1 pathway is critical for the regulation of various inflammatory cell pools within a tumour, suggesting a role in tumour immunity.

Clever-1 positive tumour associated macrophages (TAMs)

One major observation has been the identification of Clever-1 positive monocytes/macrophages, both in normal and malignant tissues. Out of all tumour associated macrophages, Clever-1 is expressed only in a fraction of TAMs.

Humanisation of Clever-1 antibodies

In order to make anti-Clever-1 antibodies suitable for pharmaceutical use, a process known as humanization was carried out for the Company by Antitope. Antitope not only humanised the antibody but also deimmunised, meaning the Faron drug candidate FP-1304 should have minimal tendency to create an immune reaction against itself, a phenomenon, which can eventually reduce the drug's efficacy. Antitope is well-known for carrying out this application. As a result of this work the Company has generated tools to make safe, high-affinity humanised antibodies for further drug development in humans.

Summary of the Development Program to date and forward

Clevegen only recognises human Clever-1.This means that pre-clinical toxicology studies are limited to primates only. Initial studies have shown that animals treated with anti-Clever-1 maintain their capacity to generate cell-mediated immune response, which can be expected from its physiological presence during pregnancy.

Currently ongoing analysis of human tumour materials by the Company's network of advisers is expected to determine the first cancer groups to be selected for proof-of-concept studies in humans.

Rationale for Engaging in Further Development

The evidence and consensus regarding the role of TAMs in tumour promoting inflammation raises the issue of their involvement in current treatment modalities and of their potential as therapeutic targets. In general, two main approaches have been used: direct depletion of macrophages or inhibition of monocyte recruitment and re-stimulation of their cytotoxic function (re-education of TAMs). Cancer cell-centered therapeutic strategies and immunotherapy profoundly influence the function of TAMs by directly modulating their function or by affecting components of the tumour microenvironment (e.g. effective adaptive immune responses). In turn, TAMs can contribute to the ultimate efficacy of anticancer strategies or retain and amplify their tumour promoting function by orchestrating a misdirected tissue repair response. The role of TAMs in anticancer therapy has recently been reviewed. Evidence suggests that in conventional cytotoxic therapeutic strategies (chemotherapy and radiotherapy) TAMs can have a dual role. Chemotherapy and radiotherapy can elicit a misdirected macrophage-orchestrated tissue repair response and thus rescue and protect tumour cells including cancer stem cells. On the other hand TAMs can contribute to the antitumour activity of selected anti-cancer drugs and low dose radiotherapy. Moreover, TAMs may play a role in targeted therapies and in checkpoint blockade inhibiting antibodies. Finally, following extensive preclinical testing, there is now proof of principle that targeting TAMs can have antitumouractivity in human tumours. In particular there is evidence that Trabectedin, approved for clinical use in Europe for sarcomas and ovarian carcinoma, acts at least in part by depleting tumour-promoting monocytes.

Thus, TAMs have emerged as an essential constituent of the tumour microenvironment. TAMs influence essentially all aspects of cancer, including tumour cell intrinsic properties (proliferation and survival; cancer stem cells; metabolism; genetic instability) as well as interaction with surrounding elements (angiogenesis, tissue remodeling, escape from antitumour specific immunity). There is now strong evidence in preclinical systems indicating that targeting TAMs can result in antitumour activity and synergize with conventional cytoreductive therapies. Moreover, there is early proof-of-principle evidence that targeting TAMs can be effective in human neoplasia. Collectively, available information provides a strong rationale for developing innovative TAM-centered therapeutic strategies.

Clevegen targets tumour activated macrophages (TAMs), the best known immune suppressive cells overruling T-cells

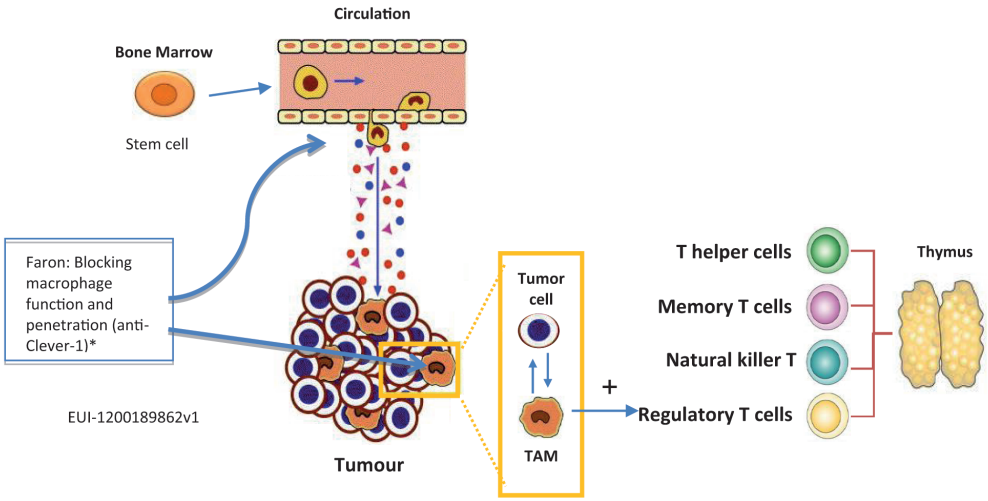

figure 2: Karikoski et al. (2014) Clin. Cancer Res. 20:6452-64

TAMs are derived from bone marrow monocytes, which through circulation are attracted to tumour following chemo-attractant secretion by cancer cells. Macrophages may represent up to half of the tumour mass and give the known strong inflammatory phenotype in some tumours (e.g. melanoma). Once in a tumour, the reciprocal interactions between cancer cells and TAMs guide macrophages to change their behaviour to start to promote tumour growth through a number of mechanisms. One of the key features of this accumulation of TAMs results in promotion of regulatory T-cells

colonisation leading to strong immune suppression within the vicinity of a tumour. This helps tumours to hide in the host immune system. The presence of TAMs may actually be a challenging block to all immune therapies focusing on activation of T-cells as their function may be suppressed locally. Targeting TAMs accumulation in tumours and TAMs function within the tumour is a new and scientifically sound way to obtain new powerful ways to fight against tumour growth. Clever-1 is a unique target molecule in this fight and could also lead to less severe side effects, as it is known to be active in the placenta of pregnant women.

Clever-1 as a therapeutic target

Efforts have been made to identify molecules in M2 or M2-like polarized macrophages as candidate therapeutic targets. Among these, a multifunctional molecule with scavenging ability was identified as expressed in a subset of M2 macrophages and referred to as Clever-1 or Stabilin-1 or Fell-1. Clever-1 was found to mediate scavenging and intracellular trafficking of diverse molecules. Among leukocytes, Clever-1 is restricted to cells of the monocyte-macrophage lineage. In addition, lymphatic endothelial cells and selected vascular endothelial cells (e.g. liver sinusoids; high endothelial venules) express Clever-1. Inflammatory signals induce expression of Clever-1 and this molecule plays an important role in mediating the trafficking of leukocyte populations from the blood compartment to sites of inflammation.

Clever-1 is expressed by host cells in the tumour microenvironment. In particular, in human tumours Clever-1 expressing lymphatics and macrophages are present. Colorectal cancer has served as a paradigm of the connection between inflammation and cancer, with increased risk of developing tumours in patients with inflammatory bowel disease. TAMs in colorectal cancer were found to be diverse. Notably, high members of Clever-1 positive lymphatics and TAMs were found to be associated with a worse outcome in advanced colorectal cancer.

Recent studies by Faron's scientific network have provided a strong basis for targeting Clever-1 in cancer using a genetic approach. Genetic inactivation of Clever-1 resulted in reduced growth of transplanted murine tumours. Moreover, an anti-Clever-1 monoclonal antibody ("mAb") had antitumour activity in two models of metastatic cancer. Interestingly, anti-Clever-1 treatment was associated with reduced frequency of M2-like polarised macrophages and T regulatory cells. The anti-Clever-1 mAb did not affect macrophage polarisation per se. Circumstantial evidence suggested that anti-Clever-1 differentially affected the accumulation of M2-like macrophages and T regulatory cells. Thus, Clever-1 blockade may represent a novel strategy to unleash the potential of effective anti-tumour immune responses.

Conclusion: Assets, Paths Forward and Risks

Immunotherapy is an established and yet to be fully exploited tool in the anti-cancer armamentarium. Targeting pro-tumour macrophages is being tested in preclinical and clinical systems using a variety of single chemicals.

There is proof of principle that targeting TAMs may have antitumour activity in human cancer. The anti-Clever-1 approach is unique and original and is not believed to be repetitive of other ongoing third party R&D efforts.

Regarding clinical evaluation of anti-Clever-1, given the diversity of cancer-related inflammation in different tissues it will be important to identify tumour types which have a higher chance of responding to anti-Clever-1 therapy. In the same vein, the Clever-1 counter-receptor expressed on selected leukocyte populations involved in trafficking remains to be identified and it may represent an alternative or complementary therapeutic target.

Myeloid cell mediated immunosuppression in cancer may limit the efficacy of conventional therapeutic strategies and immunotherapy. Therefore, the synergistic anti-tumour potential of anti-Clever-1 with conventional therapy and checkpoint blockade inhibitors (e.g. anti-CTLA4) may provide an important perspective to be explored for translation. Targeting TAMs by interfering with Clever-1 has distinctive characteristics which in the opinion of Professor Mantovani make it interesting and worth pursuing. Inhibition of single pathways of immunosuppression by myelomonocytic cells

(e.g. arginase), while attractive for drug development, is confronted with the complexity and multiplicity of immunoregulatory mechanisms. Redundancy of immune suppression pathways may offset inhibition of a single mechanism, a limitation which may be overcome by targeting TAMs.

Immune checkpoint blockade inhibitors (anti-CTLA4 and OD1/PDL1) and adoptive cell transfer of activated or targeted T cells, and gene transfer are approved or promising therapeutic strategies being pursued by third parties, respectively. Immune suppression mediated by myelomonocytic cells may limit the efficacy of T cell-centred therapeutic strategies. A Clever-1-directed therapeutic agent targets a cellular pathway involved in progression of diverse tumours. It is therefore reasonable to expect non-overlapping actions compared with T cell-centred therapies. Moreover, T cell and TAM-targeted therapies may well be complementary, exert synergistic activity and be active on a broader spectrum of tumours and individual patients.

In conclusion, targeting Clever-1 represents an original strategy to target tumour-associated macrophages and pathways of cancer-related immune suppression. It is the Directors' belief that its therapeutic value alone and in combination with conventional strategies and immunotherapy deserves to be further explored in a clinical translation perspective.

7. Additional Portfolio Plans

The Company's third target molecule, AOC3, is still at an early stage of development. This target, however, is one of the molecules Faron's network is exploring.

The Directors believe that the Company has a good chance of gaining access to a number of other inventions and innovations which may be pursued in the future.

8. Links with Turku University and Other Academic Institutions

The Company maintains close links with scientists at Turku University. The Company's offices are situated in the same technology venue as the University (being Turku Technology Centre) and Professor Sirpa Jalkanen, one of the Company's scientific collaborators, is head of the Medicity Research Center at Turku University.

Except for two data evaluation studies, there are no general arrangements in place between the Company and Turku University in relation to new inventions generated by the university. However, both parties have co-operated over the years to facilitate the research interests of both parties. Agreements entered into are in respect of particular development tasks which allows the Company to maintain flexibility in respect of the development of its pipeline. An example of this collaboration is in relation to the Consortium (which includes Turku University), who are exploring new biomarkers for the analysis of ARDS severity and treatment efficacy in conjunction with the Company's pan-European Phase III trial, supported by the EU grant described in paragraph 9 below.

When outsourcing innovations from academia the Company will liaise with the inventor to arrange for the transfer of the inventors intellectual property to the Company. Whilst each transfer of intellectual property from the inventor to the Company is assessed on a case by case basis the inventor will typically seek approval for the transfer from their employer and/or the University.

The Company has executed several service for fee activities with various universities on a similar basis to other service companies and in these instances all rights remain with the Company.

Following any asset transfer to the Company from a particular inventor, further collaborations with the inventor and their laboratories are based on case by case agreements. The Company may make joint applications to funding sources alongside the inventors in order to retain their involvement in the project. For example, the Company has been awarded a grant from the EU for €6 million in aggregate in respect of Traumakine®. However, the Company will retain the rights to the intellectual property generated under the Consortium grant and at the point a product of interest has been developed, its intellectual property is transferred directly to the Company at no cost to the Company.

9. The EU Grant

The Consortium (which includes Faron as a co-ordinator) received a grant from the European Commission for approximately €6 million in aggregate under the 7th Framework Programme for Research and Technological Development of the Cooperation Work Programme: Health -2012.

The grant was provided to support both preclinical and clinical studies of EU medicinal drugs with ODD status and was specifically provided to the Consortium to support the clinical pan-European Phase III trials for Traumakine®, with the aim of achieving European marketing authorisation of Traumakine® for the treatment of ARDS.

10. Intellectual Property

The Company's intellectual property portfolio consists of a portfolio of a combination of patents, trademarks and trade secrets in relation to its three target molecules, two enzymes (AWC3/SSAO) relating to vasculopathies, inflammatory diseases and cancer metastasis, CD/3/5' nuclotidase relating to inflammatory diseases and one adhesion receptor Clever-1 relating to inflammatory diseases and cancer metastasis.

The Company's core IPRs comprise of six patent families of which two are regarded as pivotal for the Company's drug candidates – Traumakine and Clevegen. These patents cover certain methods associated with the Company's technology as well as composition of matter patents which protect the Company's new chemical candidates for its current drug development programmes. In addition, trade secrets form an important part of the Company's strategy to enhance and protect its technological advantage within the pharmaceutical industry. The Company intends to maintain the critical features of its technology as trade secrets meaning the Company's patent portfolio alone is insufficient for the purpose of a competitor using the portfolio as a basis for reconstructing Faron's products and development pipeline.

The Company has made all of its patent applications directly in cooperation with the relevant inventor(s) listed within the application. All inventors have assigned their patent rights to the Company.

The trademark Traumakine® has been registered by the Company in the European Union, Switzerland, India, Japan and China. The trademark registration has lapsed in the U.S., however, the Company has made a further trade mark application for Traumakine in the U.S. which is currently pending. The Company also has applications pending for the registration of other trademarks in the European Union, the U.S., China and Japan.

In considering the Company's freedom to operate in relation to patents held by third parties, the Company has identified a patent filed by Biogen Idec MA Inc ("Biogen") in May 1995 for the use of interferon beta for immunomodulation or treatment of viral conditions, a viral disease or tumours. Biogen has commenced patent litigation against certain other third parties on the basis that they have infringed upon their patent. In the event that Biogen were to make a claim against the Company for infringement of Biogen's patent in the future, the Company would likely defend its position or at worst enter into a licence agreement with Biogen for the use of the patent. The Directors believe that the patent in question may not be fully enabled as the specification of the patent does not support the full breadth of claims. In addition, the patent cites hybridixation language which the Directors believe might no longer be considered as patentable in the U.S. Patent and Trademark Office as they believe that there is an argument that this type of language fails to demonstrate that the inventors were in possession of the full scope of the claimed invention at the time the patent application was filed.

The Company uses the services of a patent agent, Turun Patenttitoimisto, to make patent and trademark applications on its behalf and ensure that the Company's current patents and trademarks are adequately maintained by making payment in respect to any fees on the Company's behalf.

Part III of this document contains a report by Turun Patenttitoimisto on the Company's intellectual property.

11. Summarised Historical Financial Information

Set out below are extracts from the comprehensive income statement and statement of financial position for the three years ended 31 December 2014 and the six months ended 30 June 2015. Full historical financial information for this period is set out in Part IV of this document.

	12 months ended 31 Dec 2012 (Audited) €'000	*12 months ended 31 Dec 2013 (Audited) €'000*	*12 months ended 31 Dec 2014 (Audited) €'000*	*6 months ended 30 Jun 2015 (Audited) €'000*
Revenue	—	200	906	454
Gross profit	—	100	506	404
(Loss) before tax	(2,460)	(1,508)	(1,358)	(2,391)
Net assets/(liabilities)	(837)	(949)	(1,188)	1,430
Cash and cash equivalents	—	—	242	2,276

Revenue generated by the Company in 2013 and 2014 was in relation to the sales of API material. In 2015, revenue related to a milestone payment under the Japanese Licensing Agreement. In May 2015, the Company raised €5 million in aggregate pursuant to the CMS Related Agreements which had the effect of strengthening the Company's balance sheet and providing working capital to support the launch of the Company's initial pan-European Phase III clinical trial in respect of Traumakine.

12. Directors and Key Management

The Company has what the Directors consider to be a lean operating structure comprising an executive management team, non-executive directors and a small team of key senior management based primarily in Finland. In addition, Faron has retained, a senior clinical research associate within the UK to assist the Company in running the pan-European Phase III trial as the principal investigators are situated at UCLH.

Further details on the Directors are set out in Part VII of this document.

Dr Frank Armstrong – Non-executive Chairman, aged 58

Dr Armstrong has held Chief Executive roles with five biotechnology companies including most recently Fulcrum Pharma PLC an AIM listed professional services company. He led Medical Science and Innovation (MSI) at Merck Serono and was previously Executive Vice President of Product Development at Bayer and Senior Vice President of Medical Research and Communications at Zeneca. Dr Armstrong is currently the Chairman of Xceleron Inc, Summit Therapeutics (AIM and NASDAQ) and Redx Pharma (AIM) and a non executive Director of Actino Pharma, Juniper Therapeutics (NASDAQ) and Mereo Pharma. He is a member of the Scientific Advisory Board for Healthcare Royalty Partners. Dr Armstrong is a physician and a Fellow of the Royal College of Physicians (Edinburgh). Dr Armstrong was appointed as a non-executive Director of the Company in September 2015.

Matti Manner – Non-executive Vice-Chairman, aged 62

Mr Manner was appointed as a partner of Brander & Manner Attorneys Ltd in 1980 having previously sat as a junior judge at Turku Appeal Courts. Mr Manner has significant experience in national and international business deals, corporate law and mergers and acquisitions having held a number of board memberships throughout his career. Mr Manner joined the board of the Company as Chairman in 2007 having previously been the Chairman of Faron Ventures Oy from 2002. Mr Manner is currently the Chairman of Turun Osuuskauppa and Ruissalo Foundation and a member of the board of Marva Media Ltd, Satatuote Ltd, YH VS-Rakennuttaja Ltd and Kauppakeskus Mylly Ltd.

Mr Manner holds several trustee posts including the Presidency of the Finnish Bar Association during the period 2001 to 2004.

Mr Manner obtained a Master of Laws from the University of Turku in 1975. Mr Manner became an honorary Chief Justice in Finland in 2013. Mr Manner has been a non-executive Director of the Company since 2007.

Dr Markku Jalkanen PhD – Chief Executive Officer, aged 60

Dr Jalkanen has more than 25 years of experience within biomedical research, biotech development and the biopharmaceutical industry. He was a founding member of the Company and is the Company's CEO. In addition to his role as CEO of the Company, Dr Jalkanen is an advisor for the only active Finnish Life Sciences Fund – Inveni Capital. Prior to becoming CEO of the Company in 2007, Dr Jalkanen was the founding CEO and President of BioTie Therapies Corp, the first publically traded biotech company in Finland having listed on NASDAQ, New York in June 2015.

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

Dr Jalkanen has held several board memberships during the course of his career for both public and private companies including Inveni Capital Management, Meddia Ltd and Priaxon AG.

Dr Jalkanen obtained a Masters in Medical Biochemistry from the University of Kuopio in 1977 and subsequently received a PhD in Medical Biochemistry from the University of Turku in 1982. Dr Jalkanen completed a side-laudatur examination in Molecular Biology from the University of Turku in 1981 and completed his post doctoral training at Stanford University, California between 1983 and 1986. Dr Jalkanen obtained the position of docent in Biochemistry from the University of Helsinki and the same qualification in Molecular and Cell Biology from the University of Turku in 1987 and 1992 respectively. Dr Jalkanen became a Professor at the University of Turku in January 1992.

Yrjö E K Wichmann M.Sc (econ.) – Chief Financial Officer, aged 57

Mr Wichmann has a career spanning over 20 years in the financing and investment banking sector and was appointed as Chief Financial Officer of the Company in March 2014. Prior to his appointment at the Company, Mr Wichmann has held a number of senior positions within the life sciences and biotechnology sector including most recently at IP Finland Oy, Biohit Oyj, Capman Oyj, FibroGen Europe Oyj and D. Carnegies & Co AB. Whilst carrying out these roles Mr Wichmann has participated in healthcare IPOs on the London, Stockholm and Helsinki stock exchanges as both an investment banker and as a member of the board.

Mr Wichmann is a member of Investment Committee at Dasos Timberland Fund I and II and since January 2012 has been a member of the Innovation Board of Helsinki University, which advises the rector and the board of the university in research commercialisation. The Innovation Board also oversees the venture capital portfolio of Helsinki University Funds valued at approximately €30 million. Mr Wichmann is also a member of the board of Bioretec Oy.

Mr Wichmann obtained a Masters in Economics from Helsinki University in 1991. Mr Wichmann was appointed as an executive Director of the Company in September 2015.

Dr Huaizheng Peng – Non-executive Director, aged 52

Dr Peng is a General Manager of China Medical System Holdings, a specialty pharmaceutical company listed on the Hong Kong Stock Exchange. He is in charge of international operations for the Company, including pharmaceutical asset acquisition/product licensing-in/out, international business development, outbound investment and asset management among others. Dr Peng served as an independent non-executive director of China Medical System Holdings Ltd. from May 2010 to October 2013. The company was admitted to trading on AIM between 2007 and 2010.

Between October 2010 and November 2012, Dr Peng was a partner of Northland Bancorp, a private equity firm. Before he joined Northland Bancorp, he was the head of life sciences and a director of corporate finance at Seymour Pierce, a London-based investment bank and stockbroker. From 1999 to 2006, Dr Peng was a senior portfolio manager, specialising in global life science and Asian technology investment at Reabourne Technology Investment Management Limited.

Dr Peng received his bachelor's degree in medicine from Hunan Medical College (now Central South University Siangya School of Medicine) in Changsha, Hunan Province, China in 1984, and subsequently, obtained a master's degree in medicine from Hunan Medical College in 1989. He was awarded his PhD in molecular pathology from University College London (UCL) Medical School in 1998 and subsequently

practiced as a clinical lecturer at the UCL Medical School. In addition, from 2006 to 2008, he was a non-executive director of China Medstar, an AIM listed medical device company. He obtained his M.D. degree from Hunan Medical University in China and a PhD from UCL Medical School.

Dr Peng was appointed as a non-executive Director of the Company in September 2015.

Jonathan Knowles – Non-executive Director, aged 67

Dr Jonathan Knowles has a career spanning over 40 years in the biotech industry. During his career Dr Knowles has held a number of research and teaching positions in the early part of his career before founding the molecular biology group within the Biotechnical Laboratory, Helsinki in 1980.

Dr Knowles is currently the Chairman of Adaptimmune Therapeutics Plc (NASDAQ) and Immunocore Ltd and serves on the boards of a number of biotech companies in Europe and the USA. He is a trustee of CRUK and chairman of the Genomics England Access committee. Jonathan Knowles is a visiting Professor at the University of Oxford, a Research Director at FIMM University of Helsinki (20010-2014 FiDiPro Distinguished Professor), and Professor Emeritus at EPFL, Lausanne. He is a member of EMBO and a member of the Board of A*Star in Singapore.

Dr Knowles was the Head of the Glaxo Institute for Molecular Biology in Geneva and subsequently the Research Director for Glaxo Wellcome Europe. He was appointed as the President of Global Research at F. Hoffman-La Roche Ltd and subsequently the President of Group Research. Prof Knowles was a member of the Genentech Board for 12 years and a member of the Chugai Board for seven years. He was also the chairman of the Corporate Governance Committee of Genentech. Under his leadership, the company developed and implemented a strategy of highly effective therapies based on personalised healthcare. Dr Knowles retired from his position at F. Hoffman-La Roche Ltd at the end of 2009.

Dr Knowles was, for 5 years, the chairman of the Hever Group and the Chairman of the Research Directors' Group of EFPIA (European Federation of Pharmaceutical Industry Associations) and was the first chairman of the Board of the Innovative Medicines Initiative, a unique public-private partnership between 28 pharmaceutical companies and the European Commission with the participation of over 200 academic institutions in Europe with a budget of more than 5 billion euros over ten years.

Dr Knowles obtained a Bachelor of Science in Biological Sciences from the University of East Anglia, Norwich in 1969 and subsequently received a PhD in Mitochondrial Genetics from the University of Edinburgh in 1973. Dr Knowles was appointed as a non-executive Director of the Company in September 2015.

Juho Jalkanen – Non-executive Director, aged 37

Dr Jalkanen is currently a consultant in vascular surgery at Turku University Hospital, having previously held positions as Resident in Surgery at Hospital District of South West Finland, General Hospitals of Raisio and Salo and Turku University Hospital.

For the period January 2009 to December 2012 Dr Jalkanen was a board member of Duodecim Medical Association of South-West Finland and subsequently joined the board of the Company in June 2013.

Dr Jalkanen has published 6 articles to date in various publications including the International Journal of Biotechnology.

Dr Jalkanen obtained a M.D in 2007 and subsequently became a General Practitioner in March 2009. In May 2013 Dr Jalkanen obtained a specialist degree in vascular surgery. Dr Jalkanen holds a MSc in Economics and Business Administration obtained from Turku School of Economics in 2005. At present Dr Jalkanen is conducting his PhD on the molecular mechanisms of atherosclerosis.

Dr Jalkanen has been a non-executive Director of the Company since June 2013.

Dr Juho Jalkanen is the son of Dr Markku Jalkanen.

Leopoldo Zambeletti – Non-executive Director, aged 47

During a 19 year career as an investment banker, Mr Zambeletti led the European Healthcare Investment team at JP Morgan for eight years before taking up the same position at Credit Suisse for a further five years. Since 2013 he has been an independent strategic advisor to life science companies on merger and acquisitions, out-licensing deals and financing strategy. He is a non-executive director at Advanced Accelerator Applications, Qardio, Summit Therapeutics plc (NASDAQ and AIM) and Nogra Pharma. Mr Zambeletti started his career at KPMG as an auditor.

Mr Zambeletti received a BA in Business from Bocconi University in Milan, Italy. He serves as a trustee to Barts and the London Charity, which helps to fund the hospitals of the Barts NHS Trust including St Bartholomew, the Royal London and the London Chest Hospitals. He is the founder of the cultural initiative 5x5 Italy. Mr Zambeletti was appointed as a non-executive Director of the Company in September 2015.

Key Management

Dr Ilse Piippo MD, M.Sc (Pharm) – Chief Medical Officer, aged 66

Dr Piippo has a career spanning over 30 years in drug development both with new chemical entities and biologics and after joining the Company in 2006 she was appointed as vice president of Drug Development of the Company in 2007 following which she became Chief Medical Officer in 2015. Prior to working for the Company Dr Piippio held a number of senior positions within the biotechnology sector including most recently at Sanofi-Aventis, FIT Biotech Oyj and BioTie Therapies Oy. Whilst carrying out these roles Dr Piippio has led the development of a number of other drug candidates to clinical trial and has developed good working relationships with regulatory bodies.

During her career Dr Piippio has been awarded an honour by the International Association of Business Leaders and has been recognised as an expert within her field by the EFPIA, AFPI and UNIDO. In addition Dr Piippio held a position within the GMP Steering group for the period 1999 to 2000.

Dr Piippo obtained a MSc in pharmaceutical chemistry from the University of Helsinki in 1973 and subsequently gained a M.D from the University of Kuopio in 1979. Dr Piippo obtained a special competence in pharmaceutical medicine in 1998.

Dr Mikael Maksimow PhD – Research Director, aged 39

Dr Maksimow was appointed as Project Manager within the Research and Development department at the Company in 2006 and was subsequently appointed as Research Director at the Company in 2008. Prior to working for the Company Dr Maksimow held positions as research assistant within the Medical Faculty and the Biochemistry and Food Chemistry Department at Turku University.

During his career Dr Maksimow has been awarded an honour by The Association of Finnish Chemical Studies in 2001 and was subsequently awarded with the Venture Cup in 2001–2002 and again in 2004–2005.

Dr Maksimow obtained a Masters in Biochemistry in 2002 from Turku University and subsequently a PhD in Immunology from Turku University in 2006 and is therefore very familiar with the Company's core technologies.

13. Scientific and Clinical Collaborators

The following parties have been contracted to collaborate with the Company pursuant to the EU Grant entered into by the Consortium. The agreement in respect to the EU Grant (further details of which are set out in paragraph 15.15 of Part VII of this document) defines each of the Consortium member's roles and responsibilities during the development and clinical trial phases of Traumakine®.

Dr Geoff Bellingan

Dr Bellingan is the Chairman of the steering committee for the pan-European Phase III trial in respect of Traumakine®.

Dr Bellingan's career in Medicine spans over 20 years and he was appointed as the Medical Director of the Surgery and Cancer Board at UCLH and Reader in Intensive Care Medicine at UCL in 2009. Dr Bellingan has previously held a number of other senior positions at UCLH and UCL. Dr Bellingan holds a number of other appointments both nationally and internationally including but not limited to being appointed as General Secretary and Executive Board Member of the ESICM and being appointed to the Patient Safety Committee at the Royal College of Physicians.

Over the course of his career, Dr Bellingan has been involved in generating grant income totalling approximately £7.6 million in respect to various clinical programs including the Traumakine program.

Dr Bellingan has forged a strong relationship with the Company having chaired the steering committee for the Phase I/II trial in respect to the Company's lead candidate Traumakine®.

Dr Bellingan has published articles in various publications including the Lancet Journal. In addition, Dr Bellingan has been invited to speak at over 60 international lectures.

Dr Bellingan obtained a Bachelor of Science in Physiology and Biochemistry with Chemistry from the University of Reading in 1981. He subsequently studied Medicine at MBBS Charing Cross and Westminster Medical School for the period 1981 to 1986 and gained a PhD from the University of Edinburgh in 1995. Dr Bellingan joined the FRCP (Royal College of Physicians UK), the FRCP(Edin) (Royal College of Physicians in Edinburgh) and the FFICM (Foundation Fellowship of the Faculty of Intensive Care Medicine) in 2002, 2011 and 2011 respectively.

Dr Marco Ranieri

Dr Ranieri forms part of the steering committee in respect of the pan-European Phase III trial in respect of Traumakine.

Dr Ranieri's career spans over 20 years and he was appointed as a Professor and Chair of the Anesthesia Department at the University of Rome, Italy in March 2013 having previously held the same positions at the University of Turin, Italy since November 2001.

Over the course of his career, Dr Ranieri has been involved in generating grant income totalling approximately €1.4 million in respect of various clinical programs.

Dr Ranieri is currently a member of the European Society of Intensive Care Medicine and the Italian Society of Intensive Care Medicine positions he has held since 1990 and 1993 respectively. Dr Ranieri is also currently a reviewer for Critical Care Medicine, JAMA and Lancet positions which he has held since 2005. During his career Dr Ranieri has sat on a number of Editorial Boards within the Medicine sector.

Dr Ranieri obtained a degree in medicine and surgery from the University of Bari, Italy in 1985 and subsequently specialised in Anaesthesia and Intensive Care in 1988. In addition, Dr Ranieri also completed a Post graduate fellowship in 1991 at McGill University, Montreal, Canada.

Professor Sirpa Jalkanen

Professor Jalkanen is the head of the MediCity Research Laboratory at the University of Turku.

She co-founded the Company in 2003 having previously co-founded BioTie Therapeutics Corp, the first publically traded biotech company in Finland which listed on NASDAQ, New York in June 2015. In 2001, Professor Jalkanen became a Professor of Immunology at Turku University. Professor Jalkanen is also currently a Research Professor of the National Institute for Health and Welfare and an Academy Professor positions which she has held since 2006 and 2014 respectively. Professor Jalkanen has previously held a number of other positions within various Universities and also the Finnish Academy.

Professor Jalkanen has significant experience within the biotechnology field having been actively involved in 10 patent applications in relation to her research findings. Professor Jalkanen has published over 270 articles in various publications including the Lancet Journal. In addition, Professor Jalkanen is considered an expert within the field by her peers and in this respect has been invited to speak at over 120 international scientific meetings.

Professor Jalkanen has received a number of prizes and honours during the course of her career including most recently the Datta Medal in 2011, the Klossner Medal in 2009 and the Äyräpää Prize in 2008.

Professor Jalkanen is a member of the board of Emil Aaltonen Foundation, Sigrid Juselius Foundation, Foundation of the Finnish Cancer Institute, Tampere University of Technology and Orion Oyj which is the largest pharmaceutical company in Finland.

Professor Jalkanen obtained a M.D from Turku University in 1979 and subsequently received a PhD in Immunology from Turku University in 1983 and undertook post-doctoral training at Stanford University between 1983 to 1986. Professor Jalkanen became a specialist in Clinical Microbiology in 1990.

Professor Sirpa Jalkanen is the wife of Dr Markku Jalkanen.

Dr Marko Henrikki Salmi

Dr Salmi has a career spanning over 20 years in the Biotechnology sector and is currently a Professor of Molecular Medicine and a Professor of Immunologya at the University of Turku positions which he has held since 2009. Dr Salmi has previously held a number of senior positions at the National Public Health Institute and the National Institute of Health and Welfare and has also completed a twelve month secondement as a visiting scientist as University College London.

Dr Salmi has received a number of scientific awards and honours including most recently the Elias Tillandz prize in both 2005 and 2012 and the Medix Prize for the best biomedical publication in 2012.

Dr Salmi has published over 121 original articles in various publications.

Dr Salmi obtained an M.D from Turku University in 1990 and subsequently received a PhD from Turku University in 1995. Following this Dr Salmi received docents in Immunology from the University of Helsinki and the University of Turku in 1997 and 2003 respectively.

14. Reasons for the Placing and Subscription and Admission

The Directors believe that Admission will assist the Company in its development by:

- providing access to development capital to progress the current and future pipeline;
- strengthening the Company's balance sheet which may give the Company a stronger position in the event that future licensing negotiations arise;
- raising the Company's profile within the life sciences sector; and
- providing a market on which the Ordinary Shares of the Company can be traded, in order to provide increased liquidity and a market valuation for the Company's equity which, in conjunction with the employee option schemes, will assist the Company in attracting, retaining and incentivising high calibre employees.

The net proceeds of the Placing and Subscription will be used to accelerate the Company's current drug development programme and provide working capital. In particular, the net proceeds will be used to fund an initial pan-European Phase III clinical trial for Traumakine®, progress clinical development of Traumakine® in the U.S. and accelerate the clinical development of Clevegen.

15. Details of the Placing and Subscription

The Placing and Subscription will raise approximately £10.0 million before expenses through the issue of 2,461,157 Placing Shares at the Placing Price and 1,384,997 Subscription Shares at the Subscription Price. The Placing Shares and the Subscription Shares will represent approximately 16.6 per cent. of the Enlarged Ordinary Share Capital.

Details of the Placing

Under Finnish company law, new shares must, *inter alia*, be paid for in full before they may be issued. As a result of this and in order to facilitate settlement of the Placing Shares on a delivery versus payment basis, new shares will be issued by the Company without payment into treasury and on this basis the

General Placing Shares to be received by Placees on Admission may be transferred to the Placees out of treasury by the Company. As treasury shares do not constitute new shares under Finnish company law, the requirement for new shares to be paid for in full before they can be issued will not apply to such Placing Shares.

Whitman Howard has conditionally agreed, pursuant to the Placing Agreement to act as broker for the Company and to use its reasonable endeavours to procure subscribers for the Placing Shares at the Placing Price. The Placing Shares are being placed with institutional and other investors. The Placing has not been underwritten and is conditional, *inter alia,* on:

- The EIS Shares and the VCT Shares having been issued; and
- Admission occurring by 31 December 2015 and on the Placing Agreement not being terminated in accordance with its terms. Further details of the Placing Agreement are set out in paragraph 15.4 of Part VII of this document.

The VCT Shares and the EIS Shares will be issued to investors seeking to benefit from the tax advantage pursuant to VCT and/or EIS legislation. Further details on the advanced assurance received from HMRC in respect of the VCT Shares and EIS Shares is set out in paragraph 26 below. The Placing of the Placing Shares will be conducted in two separate tranches to assist investors in the EIS Shares and VCT Shares to claim tax reliefs available to EIS and VCT investors.

It is intended that the Company will issue the EIS Shares and VCT Shares to the persons nominated to the Company in accordance with the Placing Agreement with effect from no later than 14:00 on 16 November 2015. It is intended that the Company will issue the General Placing Shares to the persons nominated to the Company in accordance with the Placing Agreement with effect from no later than 7:00 a.m. on 17 November 2015. The issue of the General Placing Shares will be conditional on Admission. The issue of the VCT Shares and the EIS Shares will therefore not be conditional on Admission.

Investors should be aware of the possibility that the EIS Shares and VCT Shares might be issued and that none of the remaining General Placing Shares are issued. Investors should also be aware that Admission might not take place. Consequently, even if the EIS Shares and VCT Shares have been issued, there is no guarantee that the placing of the General Placing Shares will become unconditional.

EIS and VCT investors should be aware that, whilst advance assurance has been obtained from HMRC, that assurance is based on certain assumptions and the Directors cannot guarantee that the EIS Shares and VCT Shares will be able to be treated as qualifying for relief under EIS or VCT (as applicable).

It is expected that the appropriate CREST accounts of the Placees to whom EIS Shares and VCT Shares are issued will be credited on or around 17 November 2015 and that the appropriate CREST accounts of Placees to whom General Placing Shares are issued will be credited on or around 17 November 2015.

Details of the Subscription

The Company is proposing to issue to Subscribers 1,384,997 Subscription Shares in aggregate at 260 pence per Subscription Share pursuant to the Subscription to raise £3.6 million. Applications have been received by Subscribers in respect of all the Subscription Shares.

The Subscription, which has not been underwritten or guaranteed, will occur no later than 7:00 a.m. on 17 November 2015. The Subscription Shares will rank, on issue, *pari passu*, in all respects with the Existing Ordinary Shares including the right to receive all dividends and distributions paid or made in respect of the Ordinary Shares following Admission.

The Subscription Shares will be issued free from all liens, charges and encumbrances.

It is expected that the appropriate CREST accounts or book-entry accounts, as applicable, of Subscribers will be credited on or around 17 November 2015.

16. Admission, Settlement, Trading and Crest

General

Application has been made to the London Stock Exchange for the Enlarged Ordinary Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and dealings in the Enlarged Ordinary Share Capital will commence at 8.00 a.m. on 17 November 2015. No application has been or will be made for any warrants or options to be admitted to trading on AIM.

CREST

CREST is a computerised share transfer and settlement system. The CREST system allows shares and other securities to be held in electronic form rather than paper form, although a Shareholder can continue dealing based on share certificates and notarial deeds of transfer. For private investors who do not trade frequently, this latter course is likely to be more cost-effective.

Trading through CREST using Depositary Interests

Shares in non-UK companies cannot be held and transferred directly into the CREST system.

Shareholders who wish to hold and transfer Ordinary Shares in uncertificated form may do so pursuant to a Depositary Interest arrangement established by the Company in conjunction with Computershare Investor Services PLC.

Trading Depositary Interests by holders in Euroclear Finland

Holders of Ordinary Shares (as opposed to DI Holders) will be required to obtain Depository Interests in order to facilitate the trading and settlement of Ordinary Shares, further details of which are set out in paragraph 20 of Part VII of this document.

The Nature of Depositary Interests

Depositary Interests facilitate the trading and settlement of shares in non-UK companies into CREST. The Ordinary Shares will not themselves be admitted to CREST. Instead, the Depositary will issue Depositary Interests in respect of the Ordinary Shares. The Depositary Interests are independent securities constituted under English law that may be held and transferred through CREST.

Depositary Interests have the same international security identification number (ISIN) and TIDM Code as the underlying Ordinary Shares. The Depositary Interests are created and issued pursuant to a deed poll with the Depositary, which governs the relationship between the Depositary and the holders of the Depositary Interests. Ordinary Shares represented by Depositary Interests are held on bare trust for the holders of the Depositary Interests. Each Depositary Interest is treated as one Ordinary Share for the purposes of determining eligibility for dividends, issues of bonus stock and voting entitlements.

Depositary Interest Holders' voting procedures and attendance at General Meetings

A holder of nominee-registered Ordinary Shares, including any DI Holder, who has the right, based on the shares, to be entered in the Company's shareholder register on the record date of the General Meeting and who wishes to attend and vote at the General Meeting or authorise a representative to do so on his or her behalf, must seek a temporary registration in the shareholder register of Euroclear Finland. The registration must be made no later than on the date specified in the notice to the General Meeting, which must be after the record date. Full details and deadlines will be provided to DI Holders ahead of each meeting either in writing from the Depositary or through the CREST bulletin service.

Dividends

Shareholders who hold their Ordinary Shares in the form of Depositary Interests will be able to have dividends declared on Ordinary Shares paid to them by the Depositary. The Company will put the Depositary in funds for the payment and the Depositary will transfer the money to the holders of the Depositary Interests.

In respect of any bonus stock, the Company will allot any bonus stock to holders of Ordinary Shares and to the Depositary (in respect of DI Holders) who will issue such bonus stock to the holder of the Depositary Interest (or as such holder may have directed) in registered form.

Further Information

Further details of the depositary arrangements are set out in paragraph 20 of Part VII of this document.

Information regarding the depositary arrangement and the holding of Ordinary Shares in the form of Depositary Interests is available from the Depositary, Computershare Investor Services PLC. The Depositary may be contacted at The Pavilions, Bridgwater Road, Bristol, BS13 8AE, or by telephone on +44 (0)370 702 0003.

For more information concerning CREST, Shareholders should contact their stockbroker or Euroclear UK & Ireland Limited at 33 Cannon Street, London, EC4M 5SB or by telephone on +44 (0)20 7849 0000.

17. Lock-Ins and Orderly Market Arrangements

Lock-in and orderly market agreements have been entered into by the Locked-in Persons, who in aggregate will, on Admission, hold 15,923,040 Ordinary Shares (representing 68.9 per cent. of the Enlarged Ordinary Share Capital).

The Company has entered into lock-in and orderly marketing agreements with Cairn, Whitman Howard and each of the Locked-in Persons, pursuant to which each of the Locked-in Persons has agreed with the Company, Cairn and Whitman Howard not to dispose of any interest he holds in the Ordinary Shares for a period of 360 calendar days from Admission, except in certain limited circumstances, including with the prior written consent of Cairn and Whitman Howard. Each of the Locked-in Persons has also agreed that, for a further period of 180 calendar days thereafter, they will only dispose of their Ordinary Shares through Whitman Howard (except in certain limited circumstances, including with the prior written consent of Cairn and Whitman Howard) in order to maintain an orderly market, unless (in each case) agreed otherwise in advance with Cairn and Whitman Howard. Cairn and Whitman Howard's rights under these agreements may be assigned by Cairn and Whitman Howard to any successor nominated adviser or nominated broker duly appointed by the Company, or to any member of their respective groups.

Whitman Howard also entered into a lock-in and orderly marketing agreement with Cairn and the Company on 11 November 2015 pursuant to which it has agreed not to dispose of any Whitman Howard Warrants, or any Ordinary Shares held pursuant to the exercise of such Whitman Howard Warrants, for a period of 360 calendar days from Admission, except in limited circumstances, including with the prior written consent of Cairn and the Company. Whitman Howard has also agreed that, for a further period of 180 calendar days thereafter, it will only dispose of such Whitman Howard Warrants, or any Ordinary Shares held by pursuant to the exercise of such Whitman Howard Warrants, in order to maintain an orderly market, unless (in each case) agreed otherwise in advance with Cairn and the Company.

Further details of the lock-in and orderly market arrangements are set out in paragraph 15.7 of Part VII of this document.

18. Dividend Policy

Following Admission, when it is commercially prudent to do so and subject to the availability of distributable reserves, the Directors may approve the payment of dividends. However, at present, the Directors consider that it is more prudent to retain cash to fund the expansion of the Company and, as a result, feel it is inappropriate to give an indication of the likely level or timing of any future dividend payments.

19. Options

The Company has adopted the 2015 Share Option Plan which will be administered by the Board. Participation in the Option Plan will be limited to the Directors, key management and employees of the Company.

At the date of this document the Company has a total of 1,600,000 Existing Ordinary Shares representing 6.92 per cent. of the Enlarged Ordinary Share Capital under option. Of these, 250,000 options have been granted to the Directors as described in paragraph 11.2 of Part VII. The Directors

have the right to subscribe for the remaining options (conditional on them remaining in their respective director roles at the time of commencement of the relevant subscription period) as set out in paragraph 11.3 of Part VII.

Further details of the 2015 Share Option Plan are set out in paragraph 5 of Part VII of this document.

20. Corporate Governance and Internal Controls

As a private company incorporated in Finland, the Company is governed through its Articles and through the provisions of the Finnish Companies Act (see Part VI of this document for a summary of certain applicable provisions of Finnish company law).

The Directors recognise the importance of sound corporate governance and, following Admission, have undertaken to take account of the requirements of the QCA Guidelines, to the extent that they consider it appropriate having regard to the Company's size, board structure, stage of development and resources.

The QCA Guidelines recommend that the board of directors should include a balance of executive and non-executive directors, such that no individual or small company of individuals can dominate the board's decision taking. In the case of a smaller company, such as the Company, the QCA Guidelines recommends that the board should include at least two non-executive directors who are independent.

The Company will hold regular board meetings and the Directors will be responsible for formulating, reviewing and approving the Company's strategy, budget and major items of capital expenditure. The Directors have, conditional on Admission, established an audit committee, a remuneration committee and a nomination committee with formally delegated roles and responsibilities. Each of these committees will meet as and when appropriate save in the case of the remuneration and audit committees which will meet at least twice a year.

Pursuant to the AIM Rules, the Company must consult with Cairn in advance of any proposed changes to the Board (subject always to the Shareholders' ultimate discretion to appoint and remove Directors).

Remuneration Committee

The Remuneration Committee, which will comprise Frank Armstrong as Chairman together with Huaizheng Peng and Leopoldo Zambeletti, will meet not less than twice each year. The committee will be responsible for the review and recommendation of the scale and structure of remuneration for senior management, including any bonus arrangements or the award of share options with due regard to the interests of the Shareholders and the performance of the Company.

Audit Committee

The Audit Committee, which will comprise Leopoldo Zambeletti as Chairman together with Frank Armstrong and Huaizheng Peng, will meet not less than twice a year. The committee will be responsible for making recommendations to the New Board on the appointment of auditors and the audit fee and for ensuring that the financial performance of the Company is properly monitored and reported. In addition, the Audit Committee will receive and review reports from management and the auditors relating to the interim report, the annual report and accounts and the internal control systems of the Company.

Nomination Committee

The Nomination Committee will comprise of Matti Manner as Chairman together with Frank Armstrong and Jonathan Knowles. The Nomination Committee will monitor the size and composition of the Board and the other Board committees and be responsible for identifying suitable candidates for Board membership.

21. Share Dealing Code

The Company will, with effect from Admission, adopt a share dealing code for the Directors and certain employees, which is appropriate for a company whose shares are admitted to trading on AIM (particularly relating to dealing during close periods in accordance with Rule 21 of the AIM Rules) and the Company will take all reasonable steps to ensure compliance by the Directors, related parties and any relevant employees.

22. Takeover Regulation

As a non-UK domiciled company, the Company is not subject to the Takeover Code even though the Company's securities will be admitted to trading on AIM. As a result, neither a takeover of the Company nor certain stakeholding activities of a Shareholder would be governed by the Takeover Code.

In addition, the Finnish Securities Market Act (746/2012, as amended), which governs the takeover of Finnish listed companies, does not apply to the Company because it will not be listed on the Helsinki Stock Exchange. As a result, a takeover of the Company would be unregulated by the UK and the Finnish takeover authorities. However, the Directors have incorporated certain Takeover Code provisions into the Articles which mirror the equivalent provisions of the Takeover Code. Further details on the Articles are set out in paragraph 6 of Part VII of this document.

In particular, Article 17 of the Articles seeks to replicate Rule 9 of the Takeover Code. Except with the consent of the Board of Directors in consultation with the Company's Nominated Advisor, if a Shareholder (or person acting in concert with such Shareholder, as defined in the Articles) acquires an interest in shares whether by a single transaction or a series of transactions over a period of time which, when taken together with any interest in shares in the capital of the Company already held by him or any interest in shares in the capital of the Company held or acquired by persons acting in concert with him (as defined in the Articles), in aggregate carries 30 per cent. or more of the voting rights of the Company, that Shareholder is normally required to make a general offer to all the remaining Shareholders to acquire their shares in the capital of the Company.

Similarly, except with the consent of the Board of Directors in consultation with the Company's Nominated Advisor, when any Shareholder, together with persons acting in concert with him (as defined in the Articles), is interested in shares in the capital of the Company, which, in aggregate, carry not less than 30 per cent. of the voting rights of the Company but does not hold shares in the capital of the Company carrying more than 50 per cent. of such voting rights, a general offer will normally be required to be made by such Shareholder if any further interests in shares are acquired by any such person.

Except with the consent of the Board of Directors in consultation with the Company's Nominated Adviser, such an offer must be in cash or be accompanied by a cash alternative and at the highest price paid by the person required to make the offer, or any person acting in concert with him (as defined in the Articles), for any interest in shares of the Company during the 12 months prior to the date when such offer should have been announced.

A key difference between the provisions in the Articles and the relevant Takeover Code provisions is that the Panel does not have any jurisdiction to exercise its discretion in waiving any of the provisions of the Articles. This discretion is therefore vested in the Board.

Following Admission, certain Shareholders (the "Jalkanen Concert Party") are deemed to be acting in concert pursuant to the provisions of the Articles in relation to their shareholdings in the Company.

23. Relationship Agreement

At the date of Admission, the members of the Jalkanen Concert Party are together expected to control the exercise of voting rights in respect of approximately 26.5 per cent. of the Ordinary Shares.

This means that the Jalkanen Concert Party will have the ability to exercise significant influence on the business of the Company and may cause or take actions that are not in, or may conflict with, the best interests of the Company or its Shareholders as a whole.

Accordingly, a relationship agreement has been entered into between Markku Jalkanen, Sirpa Jalkanen, Juho Jalkanen, Maija-Leena Hollmén, Katriina Peltola, the Company, Whitman Howard and Cairn to ensure that the Company is able to carry on its business independently and to regulate the relationship between them on an arm's length and normal commercial basis. Further details of the relationship agreement are set out in paragraph 15.6 of Part VII of this document.

24. Disclosure of Shareholdngs

Rule 17 of the AIM Rules for Companies requires, *inter alia*, that a company which is admitted to trading on AIM must notify the market of any changes of which it is aware to its shareholders' interests in three per cent. or more of the shares in the company, and changes thereto (of any movements through a percentage point upwards or downwards).

As the Company is incorporated in Finland, Shareholders are not obliged under Finnish Law to disclose their interest in the Company in the same way as shareholders of certain companies incorporated in the UK. In particular, the relevant provisions of Rule 5 of the Disclosure and Transparency Rules do not apply. However, the Company has adopted Articles which provide equivalent provisions, as summarised in paragraph 6 of Part VII of this document.

25. Finnish Private Company

As the Company is a private Finnish company, Finnish company law and the Articles of Association will apply to govern the rights and obligations of Shareholders.

A summary of the key provisions of Finnish company law and the Articles of Association relevant to Shareholders is set out in Parts VI and VII of this document.

26. Taxation

Your attention is drawn to Part V of this document. These details are intended only as a general guide to the current tax position under UK and Finnish taxation law and practice. If an investor is in any doubt as to his or her tax position he or she should immediately consult his or her own independent financial advisor.

Investors subject to tax in other jurisdictions are strongly urged to contact their tax advisers about the tax consequences of holding Ordinary Shares.

The Company has received provisional notification from HMRC that the new Ordinary Shares to be issued pursuant to the Placing will rank as "eligible shares" for the purposes of EIS and are capable of being a "qualifying holding" for the purposes of investment by Venture Capital Trusts. However, neither the Company nor the Directors nor any of the Company's advisers give any warranties or undertakings that such reliefs will continue to be available and are not withdrawn at a later date. Further, it should be noted that the advance assurance referred to above is based on certain assumptions and does not cover all aspects of EIS or VCT.

27. Further Information and Risk Factors

Shareholders should read the whole of this document, which provides additional information on the Company and the Placing and Subscription and should not rely on summaries of, or individual parts only of, this document. Your attention is drawn, in particular, to the Risk Factors set out in Part II, the Report on Intellectual Property set out in Part III, the Accountants Report on the Company in Part IV, the Information on Taxation set out in Part V, the Summary of Applicable Finnish Company Law in Part VI and the Additional Information in Part VII of this document.

PART II

RISK FACTORS

There are significant risks associated with the Company. Prior to making an investment decision in respect of the Ordinary Shares, prospective investors should consider carefully all of the information within this document, including the following risk factors. The Directors believe the following risks to be the most significant for potential investors. However, the risks listed do not necessarily comprise all those associated with an investment in the Company. In particular, the Company's performance may be affected by changes in market or economic conditions and in legal, regulatory and/or tax requirements. The risks listed are not set out in any particular order of priority. Additionally, there may be risks not mentioned in this document of which the Directors are not aware or believes to be immaterial but which may, in the future, adversely affect the Company's business and the market price of the Ordinary Shares.

If any of the following risks were to materialise, the Company's business, financial condition, results or future operations could be materially and adversely affected. In such cases, the market price of the Ordinary Shares could decline and an investor may lose part or all of his investment. Additional risks and uncertainties not presently known to the Directors, or which the Directors currently deem immaterial, may also have an adverse effect upon the Company and the information set out below does not purport to be an exhaustive summary of the risks affecting the Company.

Before making a final investment decision, prospective investors should consider carefully whether an investment in the Company is suitable for them and, if they are in any doubt, should consult with an independent financial adviser authorised under FSMA which specialises in advising on the acquisition of shares and other securities, if you are in the United Kingdom, or any appropriately authorised person under applicable laws, if you are located in any other jurisdiction.

Risks Relating to the Company's Business

Stage of Operations

Any Company in the pharmaceutical sector needs to demonstrate both the efficacy and safety of its products. The Company has entered the last clinical stage of development in the EU with its lead product Traumakine® which is anticipated to complete clinical development in under 36 months. In this respect, Faron has generated limited revenues to date and has therefore incurred net losses in each year since its inception.

To date, Faron has largely devoted its financial resources to the development activities of its pipeline, in particular Traumakine® and Clevegen. Faron has partially funded these activities and its operations to date through obtaining various grants, milestone payments in relation to its license with Maruishi and the sale of Traumakine®'s surplus API of interferon beta and IMP. However, the operating cash flow generated from these sources is not currently sufficient to cover all of the costs associated with conducting the pan-European clinical trial in respect of Traumakine® and product commercialisation, therefore, the Company is reliant on other sources of funding such as equity fundraisings.

The Company's ability to generate revenues and achieve profitability depends on its ability, together with its strategic partners, to successfully complete the commercial development of the products within its portfolio. The Company's ability to generate significant sales revenue is therefore dependent on its success in:

- Completing research, preclinical and clinical development of its drug candidates;
- Seeking and obtaining the necessary regulatory market approvals for its drug candidates;
- Launching and commercialising products it obtains regulatory and market approvals for either through collaboration with a partner or through establishing an internal sales force, marketing and distribution infrastructure;
- Obtaining market acceptance of its pharmaceutical products as a viable treatment option;

- Addressing any competing technological and market developments;
- Implementing infrastructure as required in a timely manner;
- Negotiating favourable terms in respect to collaborations, licensing agreements, distribution agreements and other agreements entered into by the Company;
- Controlling the overall costs of clinical trials;
- Maintaining, protecting and expanding its portfolio of intellectual property rights and protecting its confidential business know how; and
- Attracting and retaining skilled key personnel.

Whilst Faron may achieve success in the above areas, no assurance can be provided in relation to the success of the clinical trials conducted by the Company. Further, no assurance can be provided that the successful completion of the clinical trials will lead to the Company obtaining the regulatory and marketing approval required to allow the commercialisation of its products in order to commence significant revenue generating activities. The Company will not generate significant income until commercialisation of its lead product Traumakine® has occurred and until this point the Company will continue to deplete its cash reserves.

Furthermore, the Company's ability to commercialise its pharmaceutical products and generate revenue depends on the extent to which reimbursement for the cost of the pharmaceutical products and any related treatment can be obtained from government health departments, private health care providers and other organisations. There may be uncertainty surrounding the reimbursement status of a newly approved pharmaceutical product, and therefore no assurance can be provided that adequate, or indeed any, health administration or third party coverage will be available to the Company to obtain satisfactory price levels.

Clinical development risk in respect to Traumakine®

The success of the Company will depend in part on its ability to conduct the required clinical trials in respect of its lead pharmaceutical products.

The pan-European Phase I/II clinical trials for Traumakine were associated with an 81 per cent. reduction in the 28 day mortality rate in patients with ARDS. However, particularly given the relatively small sample size of the trial, it is possible that other factors may have affected the outcome of the trial. There is no gurantee that the planned pan-European Phase III clinical trial will result in a similar reduction in mortality rate.

Whilst the Directors are optimistic about the prospects of the pan-European Phase III trial, there is no guarantee that the Company will obtain regulatory approvals to commence patient recruitment, in all 7 countries in which it intends to carry out its pan-European Phase III clinical trial. In the event that regulatory approvals are received and patients are recruited, the outcome of the pan-European Phase III clinical trial in respect to the Company's lead asset Traumakine® is uncertain. It is possible that either the expected reduction in mortality does not occur or that 1 or more patients suffer unexpected severe adverse reactions to treatment.

Material delays, material regulatory issues or significant adverse reactions by patients may increase the costs relating to the Company's Traumakine® clinical development program or result in the development programme being halted and the likelihood of any successful commercialisation may decrease significantly.

The minimum number of patients required for conducting the initial Traumakine® pan-European Phase III trial is approximately 300. There is no guarantee that the Company or the Appointed CRO operating on behalf of the Company will be able to recruit sufficient number of patients suffering from ARDS to complete the trials in order to gain regulatory approval.

Commercialisation in different territories is likely to require additional clinical trials. The outcome of other trials being conducted may have a negative effect on the commercialisation in other territories.

The Company will not be able to commercialise the results of its development work until the clinical trials have been successfully completed in the relevant territory. In this respect, no assurances can be given regarding the potential success of the Company's proposed operations.

Product development timelines

Product development timelines are at risk of delay as the timing of regulatory approval are uncertain and it is not always possible to predict the rate of patient recruitment into clinical trials. There is therefore a risk that product development could take longer than presently expected by the Directors. If such delays occur the Company may require further working capital and may incur losses for a prolonged period of time.

In addition, as the Company has limited resources, it may choose to delay the pursuit of certain opportunities in respect of certain of its drug candidates or other indications in relation to Traumakine® which could later prove to have greater commercial potential.

Orphan Drug Designation

There is no guarantee that the Company will be successful in its application for ODD in the U.S. or in any other territory. Additionally, there is no guarantee that Traumakine® will be able to retain its ODD in Europe. ODD is assigned based on a number of criteria which includes, *inter alia*, the incidence of a medical condition. In the event that this criteria was to change or, for example, in the event that incidence of ARDS were to increase, Traumakine® may not be eligible for ODD.

ODD allows companies a period of marketing exclusivity which reduces the risk of a competing product entering the market. In the event that ODD is not achieved in one or more territories including the U.S., or is withdrawn in Europe, this could have a material adverse effect on the level of sales of Traumakine® achieved.

Research and development risk

The Company is operating in the biopharmaceutical development sector and has a number of drug candidates in various stages of clinical development. In addition, the Company may continue to exploit other opportunities within the sector in order to expand its present development pipeline. The Company and its research partners will therefore continue to be involved in complex scientific research. Industry experience indicates that there may be a very high incidence of delay or failure to produce valuable scientific results. Further to this, the Company may not be successful in developing new products based on the scientific discoveries developed by the Company and its research partners. There is no guarantee that the Company will be able to identify specific market needs that can be addressed by its technology. The ability of the Company to develop new products relies on the recruitment of sufficiently qualified research and development partners with expertise in the biopharmaceutical sector. The Company may not be able to develop its relationships and recruit research partners of a sufficient calibre to satisfy its growth rate and develop its future pipeline.

The Company's resource allocation decisions and its ability to accurately evaluate the commercial potential of a particular pharmaceutical candidate may result in the Company failing to pursue and capitalise on products which have profitable market opportunities.

Intellectual property and proprietary technology

The Company relies and will rely on intellectual property laws and third party non-disclosure agreements to protect its patents and other proprietary rights. The IPR on which the Company's business is based is a combination of patent applications and confidential business know-how. 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 can 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. In addition, a defendant could counterclaim that the patent covering the Company's IPR is invalid or unenforceable. Any unfavourable outcomes in respect of patent litigation could limit the Company's IPR and activities moving forward. Any claims made against the Company's Intellectual Property Rights by a third party, even without merit, could be time consuming and expensive to defend and could have a materially detrimental effect on the Company's resources.

The Directors do not believe that its lead pharmaceutical drug candidates, future drug candidates in development, and proprietary processes for generating those candidate compounds infringe the IPR of any third parties although shareholders should note the risk factor headed "US Patent owned by Biogen". However, it is impossible to be aware of all third party intellectual property. The Company's research has included searching and reviewing certain publicly available resources which are examined by senior levels of management in order to keep abreast of developments in the field. A third party asserting infringement claims against the Company could require the Company to cease the infringing activity and/or require the Company to enter into a licensing or royalty arrangement in respect to the infringing activity. There can be no assurance that such claims would not have a material adverse effect on the Company's business, financial condition or results.

Protection of intellectual property rights throughout the world

Filing, prosecuting and defending patents on drug candidates in all countries throughout the world would be prohibitively expensive. The Company's IPR in some countries may be less extensive than those in place in other countries. In addition, the laws of some foreign countries do not protect IPR to the same extent as those laws in Europe and the U.S. Consequently, it may prove difficult for the Company to prevent third parties from utilising and/or using their inventions in countries outside of Europe and the U.S. Many companies encounter significant problems in protecting and defending their intellectual property rights in foreign jurisdictions and it is unlikely that the Company will be immune to this threat.

It is possible that the Company's competitors will use the Company's technologies in jurisdictions where the Company has not yet obtained patent protection in order to develop its own products which will then directly compete against the Company's product in the market place as the Company's patents or other intellectual property rights are not effective or sufficient to prevent these third parties from competing directly with the Company in that jurisdiction.

Enforcing the Company's patent rights in foreign jurisdictions could result in substantial costs and may divert management's efforts and attention from other aspects of its business. In addition, it could put the Company's patents at risk of being invalidated or interpreted narrowly and pending or future patent applications at risk of not being issued to the Company. Enforcing patent rights could also provoke other third parties to assert claims against the Company.

The Company may not prevail in any lawsuits it may initiate in the future and the damages or other remedies awarded, if any, may not be commercially meaningful or represent acceptable compensation in respect to the infringement. The Company's ability to enforce its IPR and patents around the world may be inadequate in obtaining significant commercial advantage from the intellectual property that it develops or licences to strategic partners, therefore, the high expense of applying for and maintaining the Company's patents may not lead to increased revenues.

US Patent owned by Biogen

Biogen, a company incorporated in the U.S., was issued a patent (US7588755) by the U.S. patent office in September 2009. The patent comprises of one independent claim which focuses on the methods of using recombinantly produced interferon beta for the immunomodulation or treatment of viral conditions, viral diseases, cancers or tumours. Biogen filed the application for this patent in May 1995 which claimed

priority to British patent applications GB8011306 (filed in April 1980) and GB8018701 (filed in June 1980). The patent granted a 17 year term from the date of issue as the patent application was filed prior to a change in U.S. patent law in June 1995.

In May 2010, Biogen filed a patent infringement lawsuit against Novartis, Merck, Serono and Pfizer in respect of the production and sale of interferon beta products used in the treatment of MS. The lawsuit was filed at the U.S. District Court for New Jersey and the case is presided over by Judge Claire C. Cecchi. It is the Directors' understanding that the pre-trial discovery in respect of the factual issues of this claim closed in March 2013; however, a trial has not been heard or scheduled to date. Furthermore, it is the Directors understanding that the parties involved are currently awaiting Judge Cecchi's ruling on the scope of the claim in respect of US7588755. It is also understood by the Directors of the Company that as the parties involved are currently conducting court-ordered mediation, settlement in respect of this lawsuit may be agreed ahead of a final judgement being handed down.

Until an outcome in respect of the ongoing patent infringement lawsuit between Biogen, Novartis, Merck, Serono and Pfizer is published, the Directors of the Company are unable to assess how it will impact the Company. Should Biogen decide to pursue a similar claim of infringement against the Company, it may have a material adverse effect on the Company in the future, either in relation to legal fees incurred in defending the claim or in relation to the cost of entering into a licence arrangement with Biogen. A similar patent held by Biogen in Europe (EP0041313) was revoked following a decision of the Board of Appeal of the European Patent Office in April 1997. However, no assurance can be provided to confirm that the same approach will be taken in respect of US7588755.

Should the lawsuit being undertaken in respect to US7588755 find in favour of Biogen, the Company may be forced to enter into a licence with Biogen in order to overcome any potential infringement issues which may affect the financial position of the Company.

Risk of non-compliance with requirements imposed by governmental patent agencies

The Company is liable for periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on its patents and/or patent applications which will be due to be paid to various governmental patent agencies at several stages over the lifetime of the patents and/or patent applications made by the Company. The Company has systems in place to remind it to pay these fees and the Company also uses the services of a patent agent, Turun Patenttitoimisto, to make patent applications on its behalf and ensure that its current patents are maintained.

Patent agencies typically require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. The Company uses the services of a reputable law firm, a patent specialist and other professionals to assist it in complying with the procedures in place. In many cases, an inadvertent lapse can be resolved by payment of a late fee or by other means in accordance with the applicable rules. However, there are situations in which non-compliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of the patent rights in the relevant jurisdiction. In such an event, the Company's competitors might be able to enter the market with a therapeutic product that is a copy of or highly similar to one or more of the affected product candidates and such a circumstance would have a material adverse effect on its business.

Dependence on key personnel and scientific and clinical collaborators

The Company's success is highly dependent on the expertise and experience of the Directors, the key Management, its research partners and its consultants and scientific collaborators. 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 condition and/or results of operations may be materially adversely affected.

To develop new products and commercialise its current pipeline of products, 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.

In addition, if the Company fails to succeed in pre-clinical or clinical studies, it may make it more challenging to recruit and retain appropriately qualified personnel. The Company's inability to recruit key personnel or the loss of the services of key personnel or consultants may impede the progress of the Company's research and development objectives as well as the commercialisation of its lead and other products.

Reliance on key opinion leaders

The Company is reliant upon treatment guidelines recommended by key opinion leaders and there is no guarantee that these guidelines will be favourable to the Company. The treatment guidelines for ARDS do not currently take account of Traumakine® and therefore the treatment guidelines will require amending if and when Traumakine® is licensed. There is no guarantee that the key opinion leaders will support the use of Traumkine® in the treatment of ARDS patients or that an amendment will be made to the treatment guidelines in respect to ARDS.

Reliance on third parties

The Company's business model is based on the extensive use of external resources wherever possible to conduct the research, development, manufacture, clinical testing and registration of its products. The future development of the Company's products will partly depend upon the performance of these third parties. The Company cannot guarantee that the relevant third parties will be able to carry out their obligations under the relevant arrangements.

In the future the Company may depend on external resources in marketing, sales and distribution of its products. The Company cannot guarantee that it will be able to assign competent partners to conduct these tasks or that these tasks can be completed on the basis of terms which are beneficial to the Company. Additionally, whilst the Directors are responsible for making decisions on behalf of the Company, the Directors will rely to a certain extent on the advice of external professional advisors. There is no guarantee that the Company will receive the correct advice from such advisers.

Disagreements between the Company and any third parties could lead to delays in the Company's research and development programme and/or commercialisation plans. If any third parties were to terminate their relationships with the Company, the Company would be required to obtain development and/or commercialisation services from other third parties or develop the relevant functions internally.

The process of entering into similar third party relationships or developing these functions internally may require a significant amount of expenditure which the Company does not currently budget for. No assurance can be provided that the Company will be able to enter into arrangements with other third parties within a reasonable period of time, on commercially reasonable terms and in compliance with applicable regulatory requirements. Should the Company fail to enter into an alternative third party arrangement or not do so in a timely manner, it could have a material adverse effect on the Company's business, operating results and financial resources.

Licence, Development and Supply Agreement with Rentschler

Under the licence, development and supply agreement entered into between the Company and Rentschler, the Company agreed to purchase the Traumakine® API exclusively from Rentschler. In addition, the Company agreed to ensure that any current or future development partner would also purchase Traumakine® API directly from Rentschler. Restrictions of this type could inhibit the Company from entering into future licensing agreements.

Reliance on clinical research organisations

The Company will rely on its Appointed CRO and clinical study sites to ensure its clinical studies are conducted properly and within the required timescales. Whilst the Company will have an agreement in place with the Appointed CRO, it will have limited control over the CRO's activities and costs. It is important to note that having a CRO in place does not remove the regulatory responsibilities of the trial from the Company. In this respect, the Company will be responsible for ensuring that any clinical trials are conducted in accordance with the applicable protocol and that all legal, regulatory and scientific standards are followed.

If the Company's CRO does not successfully carry out its contractual duties or obligations or fails to meet expected deadlines, or if the quality or accuracy of the clinical data it obtains is compromised due to its failure to adhere to clinical protocols or regulatory requirements, or for any other reason, the Company's clinical studies may be extended, delayed or terminated and the Company may be unable to obtain regulatory approval or successfully commercialise its product candidates. As a result, the Company's financial results and the commercial prospects for its product candidates may be harmed, its costs may increase, and its ability to generate significant revenues could be delayed or adversely affected.

Clinical testing

The Company's business depends to a significant extent on the successful commercialisation of its lead drug candidates Traumakine® and Clevegen together with the ongoing development and commercialisation of other drugs in its pipeline. Faron's pipeline drug candidates are in various stages of development and a number of milestones must be passed before the drug candidates will reach regulatory and market approval. There are a number of clinical testing phases which each drug candidate must satisfy together with other safety and efficacy tests before the drug candidate obtains regulatory and marketing approval. In order to satisfy the standards associated with drug development, the Company must allocate its resources amongst its various development programmes and will also be required to engage in expensive and lengthy testing of its product candidates.

Despite its efforts, the Company's product candidates may not:

- offer therapeutic or other improvement over existing care available or competing drugs;
- be proven as safe and effective in clinical trials;
- meet applicable regulatory standards;
- be capable of being produced in commercial quantities at acceptable costs; or
- be successfully marketed as pharmaceutical products.

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.

Uncertainty related to regulatory approvals

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. These regulations vary from country to country and the time required for regulatory review can be lengthy, expensive and uncertain. While efforts have been and will be made to ensure compliance with government standards, 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.

Despite positive feedback received to date from the EMA in relation to the Company's pan-European Phase III clinical trials in relation to Traumakine®, there is no certainty that the national regulatory authorities will allow the Company to conduct the planned Phase III clinical trials and commence recruitment of patients.

The Company has entered into discussions with the FDA in relation to conducting clinical trials of Traumakine® in the U.S., however, these discussions are not complete and the outcome is currently uncertain. The Company has been advised to follow the BLA pathway.

TEKES Loans

The Company is responsible for paying the loans received from TEKES back in line with a specified timetable. Although, the Directors believe that TEKES may provide an extension to the loan whilst development remains ongoing there is however no guarantee that any such extensions will be provided to the Company.

In addition, under the terms of the TEKES loan agreement the Company is required to seek prior approval from TEKES in certain situations, if it undertakes significant business changes or reorganisation or if it transfers its business or moves its business abroad. Should the Company not seek prior approval in respect to these activities the State Treasury may, without giving notice, terminate the loan. If the loan is terminated, it will become repayable immediately which is likely to place a significant strain on the Company's cash flow.

Under the terms of the TEKES loan agreement TEKES may issue a decision to order the claw back of monies provided to the Company should it be determined that the Company has utilised the funding for an essentially different purpose from which it was granted, provided TEKES with false or misleading information or if the Company is otherwise found to have contravened certain terms of the TEKES loan agreement.

EU Grant

Under the terms of the EU Grant agreement the Company is required to inform the EU Commission and other parties of any changes to the legal, financial, organisational or technical situation of the Company, including a change in control. The EU Grant Agreement may be terminated by the Commission should any such change call into question the decision of the EU Commission to accept its participation or the decision to grant the contribution, or substantially affect the implementation of the project or the interests of the EU. In addition, the EU Grant agreement may be terminated by the Commission in a situation of a non-performance of the work or in a breach of any substantial obligation imposed by the Grant agreement, if the situation is not remedied within 30 days following a written request to the Consortium, in which case only eligible costs incurred up to the date of the EU Commission's written request will be funded. In addition, the EU Commission may seek repayment for all or part of the funding under the EU Grant agreement if the Consortium is found to have deliberately or through negligence committed an irregularity in the performance of the EU Grant agreement, has contravened fundamental ethical principles, has failed to submit the required reports or is found guilty of an offence involving its professional conduct

Future funding requirements

The Company will likely need to raise additional funding to undertake development work beyond that being funded by the Placing and Subscription. In particular it is likely that the Company will need to fund a second pan-European Phase III trial (on the basis set out in paragraph 6.1 of Part I). There is no certainty that this will be possible at all or on acceptable terms. Any additional equity financing may be dilutive to shareholders, and debt financing, if available, may place restrictions on the financing and operating activities of the Company. If the Company is unable to obtain additional financing as required, it may be required to reduce the scope of its operations or anticipated expansion.

Existing and new license agreements with pharmaceutical or biotechnology companies

The Company has entered into and may in the future consider following a strategy for commercialisation of its drug candidates which includes the negotiation of a strategic relationship with one or more major pharmaceutical or biotechnology company. Such strategic relationships may involve the out-licensing of one or more of the drug candidates in the Company's current or future pipeline or collaborative agreements for development or marketing. Negotiations with major pharmaceutical or biotechnology companies are generally time-consuming and uncertain and there can be no guarantee that any such agreement can be negotiated in a timely fashion, on favourable terms to the Company, or at all. To the extent that the Company is unable to consummate an agreement for such a strategic relationship or if excessive delay is encountered in consummating such a transaction, the Company's ability to begin to produce revenues will be adversely affected, especially in light of the Company's lack of internal manufacturing capabilities. In addition, if such an agreement is entered into, there can be no assurance that the strategic partner will adequately perform and lead to commercialisation of the Company's pipeline products.

There is a risk that existing or new licensees or strategic partners may not remit the agreed revenue amounts when they fall due which may lead to the Company experiencing funding difficulties. In addition, any agreement entered into may be terminated without notice and the Company may be liable to reimburse certain costs in respect of the agreement on termination. Furthermore, the Company does not in the case of some of its existing licensing agreements and may not in the case of future licensing agreements have reciprocal termination rights.

Supplier agreements

The Company has entered into and may in the future consider entering into further supplier agreements in order to carry on the development of its drug candidates. Negotiations with such suppliers may be time consuming and there can be no guarantee that any such agreement can be negotiated in a timely fashion on terms which are favourable to the Company, or at all. Should the Company not be able to consummate an agreement for the supplier services required it may have an adverse effect on the Company's ability to generate revenues. In addition, there can be no assurance that the supplier the Company enters into an agreement with will be able to adequately perform in the future.

In the event that the supplier is unable to meet the demand of the Company it may have an adverse effect on the Company's ability to generate revenues in respect of its product candidates. In addition, existing supplier agreements and any future supplier agreements entered into may be terminated without notice and there may be a delay in the Company being in a position to negotiate an agreement with an alternative supplier which again may have an adverse effect on the Company's ability to generate revenues. In addition, the Company does not in the case of existing supplier agreements and may not in the case of future supplier agreements have reciprocal termination rights.

Sharing of trade secrets with third parties

The Company relies on the Appointed CRO to conduct the pan-European Phase III clinical trials in respect of Traumakine®, and on Rentschler to manufacture Traumakine®'s API. In addition, the Company may in the future rely on other third parties to manufacture its future drug candidates and to conduct clinical trials in respect of these candidates. This means that the Company must, at times, share one or more trade secrets with these current and potential future partners. The Company seeks to protect its proprietary technology in part by entering into confidentiality agreements and, if applicable, material transfer agreements, collaborative research agreements, consulting agreements or other similar agreements with its collaborators, advisors, employees and consultants prior to beginning research or disclosing proprietary information. These agreements typically limit the rights of the third parties to use or disclose the Company's confidential information, such as trade secrets. Despite the contractual provisions employed when working with third parties, the need to share one or more trade secrets and other confidential information increases the risk that such trade secrets become known by the Company's competitors. In addition, it is possible that the Company's technology or trade secrets are inadvertently incorporated into the technology of others, or are disclosed or used in violation of the agreements put in place by the Company.

Any party which has executed an agreement with the Company may breach that agreement and disclose confidential information in respect to the Company's business know-how and trade secrets and the Company may not be able to obtain adequate remedies for these breaches. Enforcing a claim of this nature is difficult and often can be time consuming and expensive especially given the unpredictable outcome of such claims.

Given that the Company's proprietary position is based, in part, on its know-how and trade secrets, a competitor's discovery of one or more of its trade secrets or other unauthorised use or disclosure of the Company's know-how or trade secrets would impair Faron's competitive position and may have a material adverse effect on its business.

If a competitor was to independently develop the same technology as is contained within the Company's business know-how and trade secrets the Company would have no ability to prevent them, or those to which they disclose their independently developed business know-how and trade secrets from using the

technology or information to compete with the Company. In this respect, if the Company's business know-how or trade secrets were unlawfully disclosed or independently developed by a competitor or third party, it is likely that the Company's competitive position would be harmed.

Links with Turku University and other academic institutions

Whilst the Company has close links with Turku University, in particular through Sirpa Jalkanen, and other academic institutions, no agreements exist in relation to the ongoing research collaboration between the parties in relation to certain projects. Whilst in the past the terms and conditions relating to collaborations have been mutually agreed it may not be possible to mutually agree such terms and conditions in the future. Any deterioration in links with Turku University and other academic institutions could limit the Company's ability to develop it existing pipeline of products or to identify new potential products.

Challenges to the inventorship or ownership of patents and other intellectual property

Faron may be subject to claims that former employees, collaborators or other third parties have an ownership interest in its patents or other intellectual property due to their involvement in inventing the drug candidates which are developed by the Company. As noted in Part I of this document, Faron utilises research from academia developed by its university partners, including Turku University. No assurance can be provided that disputes will not arise in the future from, for example, conflicting obligations of consultants or others who are involved in developing the Company's product candidates. Should a dispute arise, litigation may be necessary to defend against these and other claims challenging inventorship or ownership.

If the Company fails in defending any such claims, in addition to paying monetary damages, it may lose valuable IPR, such as exclusive ownership of, or right to use, valuable intellectual property. Such an outcome could have a material adverse effect on the Company's business. Even if the Company is successful in defending against such claims, litigation is likely to result in substantial costs and may also be a distraction to management and other employees meaning focus is not placed on the development activities in relation to the pipeline.

Liability and insurance

The nature of the Company's business means that the Company may be exposed to potentially substantial liability for damages in the event of product failure or side effects. Any such liability could have a material adverse effect on the Company's business and financial condition. Whilst the Company has certain insurance policies in place, there can be no assurance that future insurance cover will be available to the Company at an acceptable cost, if at all, nor that in the event of any claim, the level of insurance carried by the Company now or in the future will be adequate or that a product liability or other claim would not materially and adversely affect the business of the Company.

The Company's suppliers may not have insurance in place or may have inadequate insurance to cover any liability which may arise from the products supplied therefore the Company itself may become liable in whole or in part for claims resulting from negligence of the supplier. In addition, in the case of certain existing supplier agreements the Company has indemnified the supplier for any excess liability over and above its insurance cover.

Competition

The Company is likely to face technological competition from pharmaceutical companies, bio technology companies and universities in the future. Although the Company's current analysis suggests there are currently no competing drugs (which are in an advanced statement of development) for the Company's lead candidate, Traumakine®, the presently used non-drug-based treatment options will continue to be a competing alternative to drug based treatments. The development of new technologies and drugs could give rise to significant new competitors that may have a material effect on the Company's business.

The Company may face significant competition, including from those competitors with greater capital resources and who may be able to provide alternative products before the Company reaches commercialisation. There is no assurance that the Company will be able to compete successfully in such a marketplace.

There can be no assurances that the research and development conducted by competitors will not render the Company's products obsolete or uncompetitive either ahead of commercialisation or in the future.

Risks Relating to the Markets in which the Company Operates

Economic, political, judicial, administrative, taxation or other regulatory factors

The Company may be adversely affected by changes in economic, political, judicial, administrative, taxation or other regulatory factors, in the areas in which the Company will operate.

General legal and regulatory issues

The Company's operations are subject to numerous laws, regulatory restrictions and certain government directives, recommendations and guidelines relating to, amongst other things, occupational safety, laboratory practice, the use and handling of hazardous materials, prevention of illness and injury, environmental protection and animal and human testing. Whilst the Company has outsourced most of its research, testing and production activities, there can be no assurance that future legislation will not impose further government regulation, which may have an indirect adverse impact the business or financial condition of the Company.

There can be no guarantee that the Company will be able to comply with all necessary rules and regulations. Any failure to comply with applicable rules and regulations could have a material adverse effect on the Company.

Pricing environment

As is common with pharmaceutical companies, the ability of the Company and any of its licensees or collaborators to market its products successfully depends partly on the extent to which reimbursement for the cost of such products and related treatment will be available from government health administration authorities, private health coverage insurers and other organisations. There is always uncertainty as to the reimbursement status of newly approved healthcare products, and there is no assurance that adequate health administration or third party coverage will be available for the Company or its licensees or collaborators to obtain satisfactory price levels to realise an appropriate return on the Company's investment.

Furthermore, even if regulatory approvals are given to allow the marketing of Traumakine to commence, there is no guarantee that the price sought for the treatment will be acceptable to the market or that a significant amount of sales will be achieved by the Company or its partners.

Additionally, it is possible that generic interferon beta will be commercially available in the future and the price of current branded interferon beta products will reduce. This may impact on the ability of the Company to charge a premium price for Traumakine® in the event that marketing approval of Traumakine® is achieved.

Adverse public opinion

Government bodies and regulatory agencies require that potential pharmaceutical products are subject to preclinical studies, including animal testing, prior to conducting human trials. Such work can be subject to adverse public opinion and has attracted the attention of special interest groups, including animal rights activists.

There is a risk that such groups may, in the future, focus on the Company's activities or on those of its licensees or collaborators and that adverse public opinion may adversely affect the Company's operations.

The pharmaceutical industry is frequently subject to adverse publicity on many topics, including corporate governance or accounting issues, product recalls and research and discovery methods, as well as to political controversy over the impact of novel techniques and therapies on humans, animals and the environment. Adverse publicity about the Company, its collaborators, its products, or any other part of the industry may adversely affect the Company's public image, which could harm its operations, impair its ability to gain market acceptance for its products or cause the Company's share price to decrease.

Risks Relating to the Placing and Subscription

Transition to publicly quoted company

The consequence of the Company becoming a publicly quoted company whose shares are admitted to trading on AIM is that certain changes in operations or controls will be required. In addition, an increased awareness is needed of the requirements of being a publicly quoted company and a requirement to ensure that staff satisfy a number of new requirements, including the AIM Rules, disclosure and financial reporting requirements and enhanced corporate governance. While the Board will make every effort to successfully manage the transition, there can be no assurance that the Company will be able to successfully manage the transition, and its failure to do so could have a material adverse effect on the Company's business, financial condition and/or operating or financial results.

Investment in AIM Securities

Although the Company is applying for the admission of its Ordinary Shares to trading on AIM, there can be no assurance that an active trading market for the Ordinary Shares will develop, or if developed, that it will be maintained. An investment in shares traded on AIM may be less liquid and is perceived to involve a higher degree of risk than an investment in a company whose shares are listed on the Official List. Prospective investors should be aware that the value of the Ordinary Shares may go down as well as up and that the market price of the Ordinary Shares may not reflect the underlying value of the Company. Investors may therefore realise less than, or lose all of, their investment.

AIM Rules for Companies

The AIM Rules for Companies are less onerous than those of the Official List. Neither the FCA nor the London Stock Exchange has examined or approved the contents of this document. Shareholders and prospective investors (as appropriate) should be aware of the risks of investing in AIM quoted shares and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser.

Volatility of share price

The trading price of the Ordinary Shares may be subject to wide fluctuations in response to a number of events and factors, announcements of innovations or new services by the Company or its competitors, variations in operating results, changes in financial estimates and recommendations by securities analysts, the share price performance of other companies that investors may deem comparable to the Company, news reports relating to trends in the Company's markets, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, legislative or regulatory changes and market conditions in the industry, the industries of customers and the economy as a whole. These fluctuations may adversely affect the trading price of the Ordinary Shares, regardless of the Company's performance.

In addition, if the stock market in general experiences loss of investor confidence, the trading price of the Ordinary Shares could decline for reasons unrelated to the Company's business, financial condition or operating results. The trading price of the Ordinary Shares might also decline in reaction to events that affect other companies in the industry, even if such events do not directly affect the Company. Each of these factors, among others, could harm the value of the Ordinary Shares.

Application of Finnish Law

The Company is a private company incorporated under the laws of the Republic of Finland, and the rights of shareholders are governed by Finnish company law and by the Company's Articles . These shareholder rights differ from the typical rights of shareholders in the United Kingdom and other jurisdictions. In addition, the Company's shares are not listed on any Finnish stock exchange and for this reason, certain investor protection rules afforded by the Finnish Securities Market Act will not apply with respect to the Company. Therefore, takeover regulation and disclosure obligations are provided for in the Articles (further detail of which is set out in paragraph 6 of Part VII of this document), which may be amended in the future by a two thirds (2/3) majority of the votes and the Ordinary Shares represented at a General Meeting.

A summary of key applicable Finnish Law is set out in Part VI of this document.

Enforcement of judgements and service of process

The Company is incorporated under the laws of the Republic of Finland, and a substantial part of its assets are located outside the UK. Whilst the service of UK process upon and the enforcement of UK judgments against the Company can nevertheless occur under Council Regulation (EC) No. 44/2001, there may be added logistical factors which could delay or complicate such service or enforcement.

Conduct of potential takeovers

Neither the Takeover Code nor the takeover regulations contained in the Finnish Securities Markets Act currently apply to the Company and therefore a takeover of the Company would be unregulated by the UK and the Finnish takeover authorities. The Articles contain certain takeover protections designed to ensure that any person who acquires 30 per cent. or more of all of the securities of the Company or, if they already hold 30 per cent. or more (but not more than 50 per cent.) of such securities, acquires any additional securities, will be required, unless the Board otherwise determines, to purchase the shares of all other shareholders who so request. The relevant provisions of the Articles are summarised in paragraph 6 of Part VII of this document. These provisions will not, however, provide the full protections afforded by the Takeover Code and/or the Finnish Securities Markets Act. They will also be dependent on the Company being able to enforce the relevant provisions against third parties, which may prove difficult.

The Board will also use reasonable endeavours (in so far as it is able and subject to applicable law and its fiduciary duties at the relevant time) to ensure compliance, in the context of an offer which is recommended by the Board, with the principles specified in the section headed "Takeover Regulation" in paragraph 22 of Part I of this document, which are derived from certain of the General Principles of the Takeover Code. There can be no assurance that the Board will, having regard to its fiduciary duties and other obligations at the relevant time, be able to comply with these intentions in the future.

Exercise of voting rights and other rights by DI holders

The rights of holders of DIs will be governed by arrangements between CREST, the Euroclear Finland and the Company (see paragraph 20 of Part VII of this document). These rights are different from those of holders of Ordinary Shares, including with respect to receipt of information, the receipt of dividends or other distributions, the exercise of voting rights and attending Shareholders' meetings. Due to Finnish legal restrictions on exercising voting rights attaching to Ordinary Shares held through a nominee, the voting process differs to that of Shareholders who hold their Ordinary Shares in an individual account in the Finnish book-entry system. Holders of DIs will have the ability to register as Shareholders on a temporary basis in order to attend and/or vote at general meetings. Details of voting procedures are set out in paragraph 20 of Part VII of this document.

Shareholders requisition for a divided distribution

Under the Finnish Companies Act and irrespective of any proposal which may be made by the Board of Directors, Shareholders who hold at least 10 per cent. of the of the Ordinary Shares in the Company may request at the Annual General Meeting of Shareholders before the resolution on the use of profits is made that a dividend distribution is made to the Shareholders of the Company. The distribution of dividends on the demand of the shareholders in this manner shall not exceed the amount equivalent to eight per cent. of the Company's total Shareholders' equity.

Should the Shareholders requisition a dividend on this basis it may not be with regard to the Company's financial position and it may result in the Company being unable to carrying out their previously stated development plans.

Foreign currency exchange rate risk

The Company expects to present its financial information in Euros although a small part of its business may be conducted in other currencies. The Company's Ordinary Shares will be traded in Sterling. As a result, the investors in the Company's Ordinary Shares will be indirectly subject to foreign currency exchange risk due to exchange rate movements, which could affect the Company's transaction costs and the translation of the Company's results. In addition, it may be more difficult to compare the Company's financial performance against the performance of its peers.

Impact of research on share price

The trading market for the Ordinary Shares will depend, in part, on the research and reports that securities or industry analysts publish about the Company or its business. The Directors may be unable to sustain coverage by well-regarded securities and industry analysts. If either none or only a limited number of securities or industry analysts maintain coverage of the Company, or if these securities or industry analysts are not widely respected within the general investment community, the trading price for the Ordinary Shares could be negatively impacted. In the event that the Company obtains securities or industry analyst coverage, if one or more of the analysts who cover the Company downgrade the Ordinary Shares or publish inaccurate or unfavourable research about the Company's business, the share price would be likely to decline.

If one or more of these analysts cease coverage of the Company or fail to publish reports regularly, demand for the Ordinary Shares could decrease, which might cause the share price and trading volume to decline.

EIS and VCT status

The Company has received advance assurance from HMRC that the EIS Shares and VCT Shares to be issued pursuant to the Placing will rank as "eligible shares" for the purposes of EIS and are capable of being a "qualifying holding" for the purposes of VCT, as described in paragraph l of Part V of this document. However, in particular, the advance assurance does not take into account any changes to the structure of the Company since the date of the advance assurance on 4 August 2015 or the structure of this Placing (with Placing Shares being issued in two consecutive tranches). In addition, although it is intended that the Company will be managed so that this status continues, there is no guarantee that such status will be maintained. Changes in the Company's circumstances may result in such status being withdrawn, in which case investors who had participated in the Placing as an EIS or VCT investment may lose the tax benefits associated with such an investment and any tax relief that has been claimed may be reduced or withdrawn. Further it should be noted that the conditions for EIS and VCT relief are complex and depend not only on the qualifying status of the Company but also on the circumstances of individual EIS investors or the characteristics of the Venture Capital Trust concerned (as applicable).

It is not expected that the issue of Second Tranche Shares will give rise to relief under EIS or VCT. Investors who wish to benefit from relief under EIS or VCT should therefore subscribe for EIS Shares and VCT Shares.

Further information on taxation for UK taxpayers is given in paragraph 2 of Part V of this document.

Unconditional issue of EIS Shares, VCT Shares and Subscription Shares

EIS and VCT investors and Subscribers should be aware of the risk that the First Tranche Shares might be issued and that none of the remaining General Placing Shares are issued or that Admission might not take place.

Accordingly, even if the First Tranche Shares have been issued, there is no guarantee that the placing of the Second Tranche Shares will become unconditional.

While the Company could in principle consider undertaking a buy back of such First Tranche Shares in the event that Admission does not take place, there can be no guarantee that such a buyback will occur, as such a buy back would, among other things, require that the Company has distributable funds, that such a buyback would be in the best interests of the Company and all of its shareholders and that a resolution is passed by a two thirds (2/3) majority of the votes cast and the Ordinary Shares represented at a General Meeting supporting such a buy back.

EIS and VCT investors should be aware that, whilst advance assurance has been obtained from HMRC, that assurance is based on certain assumptions and the Directors cannot guarantee that the First Tranche Shares will be able to be treated as qualifying for relief under EIS or VCT (as applicable).

Future payment of dividends

There can be no assurance as to the level of future dividends (if any). The declaration, payment and amount of any future dividends of the Company are subject to the discretion of the Directors and will depend upon, *inter alia*, the Company's earnings, financial position, cash requirements and availability of profits as well as the provisions of relevant laws and/or generally accepted accounting principles from time to time.

Valuation of shares

The Placing Price and Subscription Price has been determined by the Company and may not relate to the Company's net asset value, net worth or any established criteria or value. There can be no guarantee that the Ordinary Shares will be able to achieve higher valuations or, if they do so, that such higher valuations can be maintained.

Market perception

Market perception of the Company may change, potentially affecting the value of investors' holdings and the ability of the Company to raise further funds by the issue of further Ordinary Shares or otherwise.

Suitability

Prospective investors should inform themselves as to: (a) the legal requirements of their own countries for the purchase, holding, transfer or other disposal of the Ordinary Shares; (b) any foreign exchange restrictions applicable to the purchase, holding, transfer or other disposal of the Ordinary Shares which they might encounter; and (c) the income and other tax consequences which may apply in their own countries as a result of the purchase, holding, transfer or other disposal of the Ordinary Shares. Prospective investors must rely upon their own representatives, including their own legal advisers and accountants, as to legal, tax, investment or any other related matters concerning the Company and an investment therein. Statements made in this document are based on the law and practice currently in force in the UK and Finland and are subject to change. This document should be read in its entirety. All holders of Ordinary Shares and DI Holders are entitled to the benefit of, and are bound by and are deemed to have notice of, the provisions of the Articles, a summary of which are set in paragraph 6 of Part VII.

Disapplication of pre-emption rights

Pursuant to a resolution of the Extraordinary General Meeting held on 15 September 2015, and in addition to the authorities granted to issue Options and Whitman Howard Warrants, the Directors have been granted authority valid until 30 June 2016, to allot up to 3,000,000 new Ordinary Shares, or options or other rights entitling the holder to Ordinary Shares, other than on a pre-emptive basis. Accordingly, potential additional investors should consider the risk that, following Admission, Shareholders may be diluted if new Ordinary Shares are issued.

Forward looking statements

This document contains forward-looking statements that involve risks and uncertainties. The Company's results could differ materially from those anticipated in the forward-looking statements as a result of many factors, including the risks faced by the Company, which are described above and elsewhere in the document. Additional risks and uncertainties not currently known to the Board may also have an adverse effect on the Company's business.

The specific and general risk factors detailed above do not include those risks associated with the Company which are unknown to the Directors.

Investors should therefore consider carefully whether investment in the Company is suitable for them, in light of the risk factors outlined above, their personal circumstances and the financial resources available to them.

PART III

REPORT ON THE COMPANY'S INTELLECTUAL PROPERTY

Turun Patenttitoimisto Oy
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The Directors
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11 November 2015

Dear Sirs,

Report on IP Assets of Faron Pharmaceuticals Oy

We have prepared this report to the directors of Faron Pharmaceuticals Oy ("Faron") and for Faron's nominated adviser, Cairn Financial Advisers LLP, and to the directors of Whitman Howard Limited for inclusion in the admission document issued by Faron in connection with admission of Faron's entire issued and to be issued ordinary share capital to trading on AIM, a market operated by the London Stock Exchange (the "Purpose").

1 Executive Summary

Faron is a Finnish drug discovery and development company based in Turku. Faron has drug development projects focusing on acute traumas, metabolic syndrome related vasculopathies, inflammatory diseases, and cancer metastasis. Faron's intellectual property relates to Faron's three target molecules, two enzymes (AWC3/SSAO) relating to vasculopathies, inflammatory diseases, and cancer metastasis, CD/3/5'-nuclotidase relating to inflammatory diseases and one adhesion receptor CLEVER-1 relating to inflammatory diseases and cancer metastasis.

Faron has granted patents, pending patent applications, registered trademarks and pending trademark applications.

Faron has entered into two agreements relating to the development of the drug candidate TRAUMAKINE in Asia.

We are not aware of any challenge by any third party to any of Faron's patents or trademarks, nor are we aware of any assertion against Faron of infringement of a third-party's IP. The directors of Faron are not aware of any infringement of any of Faron's patents, nor any challenge by any third party to any of Faron's patents or patent applications. The directors of Faron are aware of one patent (US 7,588,755) issued to Biogen Idec Ma Inc., in respect of which Biogen has commenced patent litigation against certain other third parties.

2 Introduction

2.1 *Turun Patenttitoimisto Oy*

Turun Patenttitoimisto Oy is a full-service IP-House and a member of Berggren Group which comprises a total of 150 IP professionals. Berggren Group has a high level of expertise in a range of IP services extensively in Finland and selectively abroad.

The analysis set out in this report was performed by the following professionals of Turun Patenttitoimisto Oy:

- Kim Roering, Finnish Patent Attorney, 17 year career in Turun Patenttitoimisto Oy
- Katja Mäkelä, European Patent Attorney, 9 year career in the Berggren Group
- Päivi Salonen, EU Trademark Attorney, 20 year career in Turun Patenttitoimisto Oy

2.2 *IP Report*

For the purpose of paragraph (a) of Schedule Two of the AIM Rules for Companies, we declare that we are responsible for this report, which forms part of the Admission Document, and that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge and belief, in accordance with the facts and contains no omission likely to affect its import. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone for any purpose other than the Purpose, for our work, for this report, or for any opinions which we have formed.

This report gives factual details of IP assets which are owned by Faron and which the directors of Faron believe are relevant to Faron's business.

This report is a general review by Turun Patenttitoimisto Oy and should not be relied upon as being a comprehensive or formal legal opinion in relation to any matter referred to in it. We have not independently verified the correctness or completeness of fact or the basis of opinions supplied to us by the Faron directors. We have assumed that all opinions, beliefs, and views provided by and in relation to Faron are honestly held by the Faron directors and when made were and continue to be based on reasonable assumptions. In some cases, we have relied on orally presented facts and opinions without documentary verification for the purpose of this Report. We have assumed that facts and opinions provided were presented by persons competent to answer our queries. We can accept no responsibility for omissions or inaccuracies in the Report caused by the fact that pertinent information or documents were not made available to us.

3 Faron's Patent and Trademark Policy

We understand Faron's intellectual property strategy is to patent inventions with strong scientific background, where there is a strong likelihood of securing patent (or other) protection and where the Faron directors believe there is market potential.

We believe Faron's policy is to have direct contact with leaders of academia within the scope of Faron's interest giving Faron the opportunity to promptly build its business based on recent scientific discovery.

We understand Faron's aim is also to secure trademark protection for its drug candidates.

4 Intellectual Property Assets

Faron's patent portfolio comprises six patent families, i.e. cases relating to the same invention. Two of them are regarded as pivotal for the Company's drug candidates TRAUMAKINE and CLEVEGEN. The pivotal patent family of TRAUMAKINE is the family related to Interferon, more particularly **Interferon beta**, and titled: *Method for treating or preventing multi-organ failure*. The pivotal patent family of CLEVEGEN is the family referred to as **CLEVER-1** and titled: *Common lymphatic endothelial and vascular endothelial receptor-1 (CLEVER-1) and uses thereof*. The other patent families are referred to as: the **CD73** patent family, titled: *Method of treating inflammatory conditions*; the **serumCD73** patent family, titled: *A new biomarker for monitoring development of diseases and assessing the efficacy of therapies*; the **D ARDS** patent family, titled: *A bioaffinity assay for determining ARDS related biomarkers*; and the **T3 Macro** patent family, titled: *A novel cell and therapeutical and diagnostical methods based thereon*.

Faron has registered the trademark TRAUMAKINE in the European Union, Switzerland, India, Japan and China, and a further application is pending for the registration of the trademark TRAUMAKINE in the U.S. Faron has registered the trademark CLEVEGEN in the European Union, and further applications are pending for the registration of the trademark CLEVEGEN in the U.S., Japan, China, Switzerland and Canada.

4.1 *Background of Patent System*

A patent is the grant of a property right to the patentee for a specific duration of time. During the term of the patent, the patentee is generally given the right to prevent others from making, using, selling, or offering for sale the claimed invention. A patent, however, does not give the patentee an automatic right to practise the claimed invention, as doing so may still infringe the patent rights of a third party. Also, there may be other pre-requisites for practising particular patents, such as marketing authorisations. In return for the rights of a granted patent, the inventor(s) must provide a full description of the invention in the patent application, which is ultimately published and disclosed to the public. This description must be sufficiently detailed for a skilled person to be able to carry out the invention. In addition to this description, a patent contains one or more claims. The claims define the scope of invention and in turn, the scope of the property grant.

A patent is a national right, enforceable only in the country for which it has been granted. Patent applications are searched and examined by Patent Offices, and the process of patent examination is known as "prosecution." In addition to individual country patent offices, there are a series of international conventions regulating patents internationally. The Patent Cooperation Treaty ("PCT") allows applicants to obtain patents in a number of countries following the filing of a single patent application in one country. A number of European countries are also signatories to the European Patent Convention ("EPC"), and protection can be obtained via a centrally operated examination carried out by the European Patent Office ("EPO"). On grant, the EPC application is transformed into a bundle of national patents in each of the designated countries, provided certain formalities are complied with; this procedure is referred to as "validating" the European patent. A European patent can only be enforced in those EPC member states where the validation procedure has been carried out.

Published PCT applications can be viewed on-line at the web-site of WIPO. For PCT applications, a search is carried out in the international phase by the international searching authority. In order to continue the application in a specified country, the applicant must take certain steps at the national or regional patent offices. Those steps, which take the PCT application into what is referred to as the national phase must be carried out at the latest 30 or 31 months (depending on the country) from the first priority date. The separate national and regional patent applications are then typically searched and examined further by the national and regional patent offices.

Grant of a patent follows after the applicant for the patent has successfully dealt with all the objections raised by the examining authority, either by argument, by amendment of claims, or both. Once a patent is granted it will remain in force for a specified period, subject to payment of the appropriate renewal fees. Typically, a patent has a term of 20 years from the filing date of the application.

Just because a patent has been granted does not necessarily mean that it is valid and will be enforced by the court. Details vary from country to country, but in most countries the validity of the granted patent may be challenged by a third party throughout the life of the patent, on the grounds for example that it is not new or that it is not inventive.

4.2 ***Background of trademark system***

A trademark is a word, name, symbol, or device that is used in trade with goods and services to distinguish the goods and services from those of others and to indicate the source of the goods and services. The terms "trademark" and "mark" are commonly used in connection with goods as well as with services.

Trademark rights may be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods or services under a dissimilar mark. In general, a registered trademark carries a presumption of validity, ownership, and in some countries, use of the mark. Once the mark is registered, the owner can seek to prevent the use in that nation or territory, without its consent, of identical or similar marks for identical or similar goods and/or services in circumstances where there would be a likelihood of confusion. In certain countries including Finland, the UK and the U.S., enforceable (albeit possibly weaker) rights in a mark can also be acquired through use without registration.

Trademark protection is generally obtained by filing registration applications on a country-by-country basis, although there are some applications that can provide protection in multiple countries. For example, it is possible to seek registration by way of a European Community trademark ("CTM") which confers unitary protection on a trademark throughout the 28 member states of the European Union. In addition, an international treaty commonly referred to as the Madrid Protocol permits the owners of trademark applications and/or registrations in the owner 'home' jurisdiction to seek protection of the same mark for the same goods and/or services in other member countries without the need to file separate applications directly in each country. Each extension of protection filed pursuant to the Madrid Protocol, however, is examined as an application by the individual country pursuant its law.

Trademark applications are typically examined by national or territorial offices on the assessment of numerous grounds for registration, such as whether the mark is distinctive for the relevant goods and services and that it is not descriptive (for example, international non-proprietary names for pharmaceutical compounds), and some countries may require correction of informalities.

In the majority of European Community member states, national offices will not refuse registration on the basis of pre-existing marks, it being left to the owners of earlier rights to lodge opposition if they wish to prevent registration. The position in many countries outside Europe (including the U.S.), by contrast, is that the national office will, *ex officio*, refuse registration of a mark contained in a later-filed application if it feels that it is in conflict with an earlier-filed application or registration. The applicant can attempt to overcome or obviate the refU.S.l. In some countries, such as the U.S. and Canada, it is necessary to provide evidence of use before a mark can be registered, although there are exceptions to this requirement for applications based on foreign application or registrations where the applicant has a *bona fide* intent to use the mark in the country.

In most countries, including the UK, CTM registrations and trademarks are registered for 10 years from filing and may be renewed indefinitely upon payment of a fee, usually for 10-year terms. In some countries, such as Finland and the U.S., the renewal date is calculated from the date of registration. The U.S. also requires a declaration after six years from registration and each subsequent 10-year renewal period showing that the mark is in commercial use in the U.S. in connection with each of the goods and services listed in the registration.

Subject to the laws of particular countries, registered trademarks may be challenged by a third party before the national trademark offices or courts on numerous bases, including non-use of the mark, earlier rights, or that the registered mark has become generic or misleading.

Trademark legislation in most countries, including CTM registrations, establishes an 'obligation' for the owner of a registered trade mark to use that mark in a genuine manner. The obligation of use is not applicable immediately after registration of the earlier mark. Instead, the owner of a registered mark has a so-called 'grace period' during which it is not necessary to demonstrate use of the mark in order to rely upon it. After this grace period, the owner may be required to demonstrate use of the mark in connection with the goods and services in respect of which it is registered.

5. Summary of Patent Families

A detailed status of patent families relating to Interferon beta and CLEVER-1 is presented below in paragraphs 5.1 and 5.2. The details of Faron's other patent families are summarised in paragraph 5.3. According to our understanding these other patent families are not pivotal to the drug candidates TRAUMAKINE and CLEVEGEN related to the Interferon beta and CLEVER-1 patent families, respectively.

The patents and patent applications are grouped as patent families. It should be noted that any one family may include patent applications which claim more than one invention, which means that the individual patent application may need to be divided (without loss of priority) during prosecution in order to properly protect the different inventions. Thus, one application may lead to two or more patents in the same family.

The patents and pending patent applications identified below are currently (since 14 November 2014) prosecuted by Turun Patenttitoimisto Oy, and maintained by the patent annuity service of Patrafee AB. The bibliographic details of Faron's patents and patent applications in this Report have been obtained from Turun Patenttitoimisto Oy's database as well as from publicly available databases. The status of granted patents and pending applications has been checked from the patent annuity service to ensure that any necessary maintenance fees have been paid and to establish when forthcoming maintenance fees are to be paid.

This Report is not intended as a substitute for reviewing the publicly available prosecution files that, in the case of the US Patent & Trademark Office ("USPTO") and European Patent Office ("EPO"), are available online. Reports from the Patent Cooperation Treaty ("PCT") procedure are also available online from the World Intellectual Property Organization ("WIPO"). Additional information on each of the patent families listed below, including more detailed information on prosecution, can be obtained in the publicly available files available online.

5.1 *Patent family related to Interferon beta*

Title: Method for treating or preventing multi-organ failure

Applicant/Assignee: Faron Pharmaceuticals Oy

Inventor: Sirpa Jalkanen

Right of ownership: Originally by assignment (7 October 2005) of priority application FI20051003 to Faron Ventures Oy (at that time Faron Pharmaceuticals Oy). Faron Ventures Oy assigned the rights to Faron 31 December 2006. All rights were assigned to Faron by a contract dated 10 September 2014 with the inventor. A confirmatory assignment has been recorded with the USPTO. Patents CN101282741 and HK1125048 were assigned to A&B (HK) Company Limited, Hong Kong (A&B Ltd.) by an agreement dated 8 May 2015.

Patent family Details:

US Patent No.	7,727,521
European Patent No.	1933861
Australia Patent No.	2006301186
Canada Patent No.	2,623,518
China Patent No.	101282741
Hong Kong Patent No.	HK1125048
Japan Patent No.	5523707
PCT Application No.	PCT/FI2006/000308

Summary:

The patent family related to Interferon beta includes granted patents in Australia, Canada, China, Hong Kong, Japan, the U.S. and granted European Patent, which has been validated in all of the member states, namely Austria, Belgium, Bulgaria, Switzerland, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, Great Britain, Greece, Hungary, Ireland, Iceland, Italy, Latvia, Lithuania, Luxembourg, Monaco, Netherlands, Poland, Portugal, Romania, Sweden, Slovenia, Slovakia and Turkey. There are no pending patent applications in this family.

The US patent, US 7,727,521, is based on an application which is a continuation-in-part of US application 10/546,653, and it claims priority from Finnish patent application FI20030467, filed on 28 March 2003. The other patents are all based on the International patent application PCT/FI2006/000308 published as WO 2007/042602 and filed on 22 September 2006. The international patent application claims priority from Finnish patent application FI20051003, filed on 7 October 2005.

US patent US 7,727,521 was granted on 1 June 2010.
European patent EP1933861 was granted on 8 August 2012.
Australian patent 2006301186 was granted on 17 November 2011.
Canadian patent 2,623,518 was granted on 18 November 2014.
Chinese patent 101282741 was granted on 15 August 2012.
Japanese patent 5523707 was granted on 18 April 2014.
Hong Kong patent HK1125048 was granted on 3 May 2013, and it is based on the Chinese patent mentioned above.

With the exception of the US patents, subject to all renewal fees being paid, all patents will expire on 22 September 2026. This date is the end of the normal 20 years' term of the patent calculated from the filing date of the International patent application.

Subject to all renewal fees being paid, US patent 7,727,521 will expire on 30 November 2024 as the patent is subject to a terminal disclaimer defining its expiry to be that of the expiry of US patent 7,534,423 (US application No. 10/546,653), if renewal fees are paid.

All renewal fees up to 21 September 2016 have been paid on time by the external patent annuity service and the patents are in force in all countries mentioned above.

The invention disclosed relates to prevention or treatment of multi-organ failure in an individual administering a therapeutically effective amount of interferon beta.

5.2 ***Patent family related to CLEVER -1***

Title: Common lymphatic endothelial and vascular endothelial receptor-1 (CLEVER-1) and uses thereof

Applicant/Assignee: Faron Pharmaceuticals Oy

Inventors: Sirpa Jalkanen, Heikki Irjala and Marko Salmi.

Right of ownership: Originally by contract (14 November 2003) to Faron Ventures Oy (at that time Faron Pharmaceuticals Oy). Faron Ventures Oy assigned the rights to Faron on 31 December 2006. Sirpa Jalkanen and Marko Salmi assigned all rights to Faron by contract dated 10 September 2014. Heikki Irjala has the right to an inventor royalty of 0.125 per cent. of net sales of the invention's commercial utilisation based on the original contract dated 14 November 2003. A confirmatory assignment has been recorded with the USPTO.

Patent family Details:

US Patent No.	7,354,577
US Divisional Patent No.	7,910,097
European Patent No.	1463760
Canada Patent No.	2,468,888
Japan Patent No.	4387797
PCT Application No.	PCT/FI2003/000010

Summary:

The patent family related to CLEVER-1 includes granted patents in Canada, Japan, the U.S. and a granted European patent, which has been validated in UK, Germany, France, Italy, Spain, Switzerland, Belgium, Ireland, Finland, Sweden and Netherlands. The Canadian, European, Japanese and US patents are all based on the International patent application PCT/FI2003/00010 published as WO 03/057130 and filed on 8 January 2003. The international patent application claims priority from US patent application US 60/346288, filed on 9 January 2002. There are no pending patent applications in this family.

US patent US 7,354,577 was granted on 8 April 2008.
European patent EP1463760 was granted on 5 September 2007.
Canadian patent 2,468,888 was granted on 12 March 2013.
Japanese patent 4387797 was granted on 9 October 2009.
The divisional application of US 7,354,577 was filed on 5 March 2008 and it was granted on 22 March 2011, namely US patent US 7,910,097.

With the exception of US patents, subject to payment of all renewal fees all patents will expire on 8 January 2023. This date is the end of the normal 20 years' term of the patent calculated from filing date of the International patent application.

Subject to payment of all renewal fees, US patent US 7,354,577 will expire on 22 March 2023 and the divisional US patent US 7,910,097 will expire on 25 March 2023. The normal patent term would have expired on 8 January 2023, but the US patents obtained patent term adjustments.

All renewal fees up to 8 January 2016 have been paid in time by the external patent annuity service and the patents are in force in all counties mentioned above.

The invention disclosed relates to protein Common Lymphatic Endothelial and Vascular Endothelial Receptor-1 (CLEVER-1). The use of antibodies or fragments thereof raised to CLEVER-1, or CLEVER-1 or fragments thereof in soluble form, and for treating inflammation or preventing metastasis is disclosed. In addition, diagnostic methods of in vitro diagnosing inflammatory diseases in a patient are disclosed.

5.3 ***Other patent families***

In addition to the above mentioned patent families Faron has four other patent families related to Interferon beta and CLEVER-1. According to our understanding these other patent families are not pivotal to the drug candidates TRAUMAKINE and CLEVEGEN related to the Interferon beta and CLEVER-1 patent families, respectively.

5.3.1 *The CD73 patent family*

Title: Method of treating inflammatory conditions

Applicant/Assignee: Faron Pharmaceuticals Oy

Inventor: Sirpa Jalkanen

Right of ownership: Originally The Academy of Finland (employer of the inventor) assigned (13 May 2003) its rights to the inventor, and then by assignment (22 September 2003) of priority application FI20030467 to Faron Ventures Oy (at that time Faron Pharmaceuticals Oy).

Faron Ventures Oy assigned the rights to Faron on 31 December 2006. All rights were assigned to Faron by contract dated 10 September 2014 with the inventor. A confirmatory assignment has been recorded with the USPTO.

Patent family Details:

US Patent No.	7,534,423
European Patent No.	1608400
Japan Patent No.	4809762
Canada Application No.	2519465
PCT Application No.	PCT/FI2004/000158

Summary:

The European, Japanese and US patents and Canadian application are all based on the international patent application PCT/FI2004/000158 published as WO 2004/084933. International PCT application claims priority from FI application No. 20030467, filed on 28 March 2003.

The European patent EP1608400 was granted on 23 June 2010 and it has been validated in all the designated states, namely Austria, Belgium, Bulgaria, Switzerland, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, Great Britain, Greece, Hungary, Ireland, Italy, Luxembourg, Monaco, Netherlands, Poland, Portugal, Romania, Sweden, Slovenia, Slovakia and Turkey. Subject to payment of all renewal fees it will expire on 19 March 2024.

The US patent, US 7,534,423, was granted on 19 May 2009 and subject to payment of all renewal fees it will expire on 30 November 2024. The normal term would have expired on 19 March 2024, but the US patent obtained a patent term adjustment.

The Japanese patent 4809762 was granted on 26 August 2011 and subject to payment of all renewal fees it will expire on 19 March 2024.

All renewal fees up to 19 March 2016 have been paid in time by the external patent annuity service and the patents are in force in all counties mentioned above and the Canadian patent application is pending.

5.3.2 *The serumCD73 patent family*

Title: A new biomarker for monitoring development of diseases and assessing the efficacy of therapies

Applicant/Assignee: Faron Pharmaceuticals Oy

Inventors: Sirpa Jalkanen, Marko Salmi, Markku Jalkanen and Mikael Maksimow (US 8,975,081 only)

Right of ownership: Originally by assignment (24 October 2007) of priority application FI20070795 from the inventors to Faron Pharmaceuticals Oy. All rights were assigned to Faron by contract dated 10 September 2014 with the inventors Sirpa Jalkanen, Marko Salmi and Markku Jalkanen. Mikael Maksimow's rights have been assigned to Faron by employment. A confirmatory assignment has been recorded with the USPTO.

Patent family Details:

European Patent No.	2201376
European Divisional Patent No.	2503338
Japan Patent No.	4982610
Japan Divisional Patent No.	5619810
US Patent No.	8,975,081
Canada Application No.	2702635
Korea Application No.	2010-7006430
PCT Application No.	PCT/FI2008/050576

Summary:

The European and Japanese patents and the pending Canadian, South Korean and US patent applications are all based on the international patent application PCT/FI2008/050576 published as WO 2009/053523. International PCT application claims priority from FI application No. 20070795, filed on 24 October 2007.

The European patent EP2201376 was granted on 8 August 2012 and it has been validated in all the member states, namely Austria, Belgium, Bulgaria, Switzerland, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, Great Britain, Greece, Hungary, Croatia, Ireland, Italy, Iceland, Lithuania, Latvia, Luxembourg, Monaco, Malta, Netherlands, Norway, Poland, Portugal, Romania, Sweden, Slovenia, Slovakia and Turkey. The patent relates to a method for monitoring the development of a disease in a patient.

The European Divisional patent no. EP2503338 was granted on 24 December 2014 and it has been validated in all member states, namely Austria, Belgium, Bulgaria, Switzerland, Cyprus, Czech Republic, Germany, Denmark, Estonia, Spain, Finland, France, Great Britain, Greece, Hungary, Croatia, Ireland, Italy, Iceland, Lithuania, Latvia, Luxembourg, Monaco, Malta, Netherlands, Norway, Poland, Portugal, Romania, Sweden, Slovenia, Slovakia and Turkey. The patent relates to a method for assessing the efficacy of a cytokine therapy or a statin therapy.

Subject to payment of all renewal fees the European patents will expire on 15 October 2028.

The Japanese patent 4982610 was granted on 27 April 2012 and Japanese divisional patent 5619810 was granted 29 June 2014. Subject to payment of all renewal fees they will expire on 15 October 2028.

The US patent, US 8,975,081, is based on an application which is a continuation-in-part of US application 12/679,785, and it claims priority from Finnish patent application FI20070795, filed on 24 October 2007. The US patent No. 8,975,081 was granted 10 March 2015, and subject to payment of all renewal fees the patent will expire on 27 October 2028. The normal term would have expired on 15 October 2028, but the US patent obtained a patent term adjustment.

All renewal fees up to 27 April 2016 have been paid in time by the external patent annuity service and the European and Japanese patents are in force and all patent applications mentioned above are pending.

5.3.3 *The D ARDS patent family*

Title: A bioaffinity assay for determining ARDS related biomarkers

Applicant/Assignee: Faron Pharmaceuticals Oy

Inventors: Sirpa Jalkanen, Marko Salmi, Mikael Maksimow, Markku Jalkanen

Right of ownership: Originally by assignment (14 February 2013) of priority application FI20130049 from the inventors to Faron Pharmaceuticals Oy. All rights were assigned to Faron by contract dated 10 September 2014 with the inventors Sirpa Jalkanen, Marko Salmi and Markku Jalkanen. Mikael Maksimow's rights have been assigned to Faron by employment.

Patent family Details:

European Application No.	14752032.4
US Application No.	14/767464
Korea Application No.	10-2015-7019483
Japan Application No.	N/A*)
China Application No.	201480008939.0
Canada Application No.	2898111
Brazilia Application No.	112015018213-5
Australia Application No.	2014217753
PCT Application No.	PCT/FI2014/050051

*) The official filing number of the Japanese application has not yet been received from the Japan Patent Office.

Summary:

The pending applications are all based on the international patent application PCT/FI2014/050051 published as WO 2014/125164. International PCT application claims priority from FI patent application No. 20130049, filed on 14 February 2013.

All renewal fees up to 21 January 2016 have been paid in time by the external patent annuity service and the all patent applications mentioned above are pending.

5.3.4 *The T3 Macro patent family*

Title: A novel cell and therapeutical and diagnostical methods based thereon

Applicant/Assignee: Faron Pharmaceuticals Oy

Inventors: Sirpa Jalkanen, Marko Salmi, Markku Jalkanen

Right of ownership: Originally by assignment (22 April 2009) of priority application FI20090161 from the inventors to Faron Pharmaceuticals Oy. All rights were assigned to Faron by contract dated 10 September 2014. A confirmatory assignment has been recorded with the USPTO.

Patent family Details:

US Patent No.	8,722,045
US Divisional Application No.	14/224374
European Application No.	10766694.3
Canada Application No.	2757706
Japan Patent No.	5819285
Japan Divisional Application No.	150694/2015
PCT Application No.	PCT/FI2010/050266

Summary:

The Canadian, European, Japanese and US patent applications are all based on the International patent application PCT/FI2010/050266 published under the number WO 2010/122217. The international PCT application claims priority from FI patent application No. 20090161, filed on 22 April 2009.

Subject to payment of all renewal fees the US patent US 8,722,045 will expire on 9 June 2030.

All renewal fees up to 16 April 2016 have been paid in time by the external patent annuity service and the US patent is in force and all patent applications mentioned above are pending.

6. Summary of Trademarks

Faron owns two trademarks, i.e. the mark TRAUMAKINE relating to Interferon beta and the mark CLEVEGEN relating to CLEVER-1.

The company name "Faron Pharmaceuticals Oy" was registered in the Trade Register of the Finnish Patent and Registration Office on 24 October 2006.

6.1 ***TRAUMAKINE***

Description of the trade mark: a word mark "TRAUMAKINE"

Recorded proprietor: Faron Pharmaceuticals Oy

Registered rights in the following countries/territories:

European Union: Community Trademark Registration No. 5830278, registered on 28 January 2008 for the goods "Pharmaceutical, veterinary and sanitary preparations" in International Class 5, due for renewal on 3 May 2017.

Switzerland: Registration No. 581707, registered on 15 January 2009 for the goods "Pharmaceutical, veterinary and sanitary preparations" in International Class 5, due for renewal on 29 August 2018.

India: Registration No. 1668967, registered on 6 October 2010 for the goods "Pharmaceutical and veterinary preparations" in International Class 5, due for renewal on 26 March 2018.

China: Registration No. 6699995, registered on 14 May 2010 for the goods "Pharmaceutical and veterinary preparations" in International Class 5, due for renewal on 13 May 2020. An assignment deed is signed on 8 May 2015 between Faron and A&B (HK) Company Limited for the transfer of ownership, entitlement, right and interest to the registration No. 6699995, the registration of the assignment in the Chinese Trademark Office is under process.

Japan: Registration No. 5180840, registered on 14 November 2008 for "Pharmaceutical and veterinary preparations" in International Class 5, due for renewal on 14 November 2018. An exclusive license has been granted to Maruishi Pharmaceutical Co., Ltd on 9 February 2011. The license has not yet been registered in the Japan Patent Office as the use of the mark has not yet commenced.

Registration application:

U.S.: Application No. 86/605,996, filed on 22 April 2015 for the goods "Pharmaceutical preparations for treatment or prevention of traumas, inflammation or organ damages resulting from tissue traumas, reperfusion injuries, cancer, cancer metastasis, inflammatory conditions or allergic conditions; pharmaceutical preparations for treatment or prevention of multi-organ failure, and acute lung injury or acute respiratory distress syndrome in adults and newborn babies; veterinary preparations for treatment of cattle, horses, dogs and cats for treatment or prevention of traumas, inflammation or organ damages resulting from tissue traumas, reperfusion injuries, cancer, cancer metastasis, inflammatory conditions or allergic conditions; veterinary preparations for treatment of cattle, horses, dogs and cats for treatment or prevention of multi-organ failure, and acute lung injury or acute respiratory distress syndrome in adult and newborn animals", the application is based on the applicant's home country registration (CTM No.5830278) as well as on the applicant's *bona fide* intent to use the mark in the U.S.

6.2 ***CLEVEGEN***

Description of the trade mark: a word mark "CLEVEGEN"

Recorded proprietor: Faron Pharmaceuticals Oy

Registered rights in the following countries/territories:

European Union: Community Trademark Registration No. 13974068, registered on 5 August 2015 for the goods "Medical and veterinary preparations and articles; pharmaceutical preparations for the treatment of cancer; tumor suppressing agents; antineoplastics; anti-cancer preparations; compounds for treating cancer; antibodies" in International Class 5.

Registration applications:

U.S.: Application No. 86/605,939, filed on 22 April 2015 claiming priority of the CTM application No. 13974068 filed on 22 April 2015, for the goods "Medical and veterinary preparations and articles; pharmaceutical preparations for the treatment of cancer; tumor suppressing agents; antineoplastics; anti-cancer preparations; compounds for treating cancer; antibodies", the application is based on the applicant's home country application (CTM No. 13974068) as well as on the applicant's *bona fide* intent to use the mark in the U.S.

China: Application No. 16820941, filed on 28 April 2015 for the goods "Medical, pharmaceutical and veterinary preparations; pharmaceutical preparations for the treatment of cancer; tumor suppressing agents; antineoplastics; anti-cancer preparations; compounds for treating cancer; antibodies" in International Class 5.

Japan: Application No. 2015-039830, filed on 23 April 2015 for the goods "Medical and veterinary preparations and articles; pharmaceutical preparations for the treatment of cancer; tumor suppressing agents; antineoplastics; anti-cancer preparations; compounds for treating cancer; antibodies" in International Class 5.

Switzerland: Application No. 62551/2015, filed on 13 October 2015 claiming priority of the CTM application No. 13974068 filed on 22 April 2015, for the goods "Medical and veterinary preparations and articles; pharmaceutical preparations for the treatment of cancer; tumor suppressing agents; antineoplastics; anti-cancer preparations; compounds for treating cancer; antibodies" in International Class 5.

Canada: Application No. 1749939, filed on 9 October 2015 claiming priority of the CTM application No. 13974068 filed on 22 April 2015, for the goods "Medical and veterinary preparations and articles; pharmaceutical preparations for the treatment of cancer; tumor suppressing agents; antineoplastics; anti-cancer preparations; compounds for treating cancer; antibodies", the application is based on a proposed use of the mark in Canada.

The duration of a process of an application for registration of a national trademark varies in different countries between half a year and four years.

6.3 ***Details of any challenges or disputes relating to trademarks***

The use of the marks TRAUMAKINE and CLEVEGEN has not yet commenced.

In the European Union a registration may be revoked upon request of a third party if the mark has not been put in genuine commercial use during the last five years in the European Union in connection with the goods or services in respect of which it is registered, or if such use has been suspended during an uninterrupted period of five years unless there are proper reasons for such non-use.

In the U.S. an affidavit must be filed in the U.S. Patent and Trademark Office within the sixth year following the date of registration showing that the mark is in use in commerce that may be regulated by the U.S. Congress. A registration will become vulnerable to cancellation by a third party on the basis of abandonment if the owner ceases use of the registered mark with no intention to resume use for more than three years.

A trademark registration is subject to non-use cancellation, if a registered mark has not been used for a prescribed period. The use requirement period is three years in China, five years in India, three years in Japan and five years in Switzerland.

7. Freedom to Operate Review

Our IPR analysis is focused on granted US and EP patents in the field of interferon beta and Clever-1 products by Faron.

The process of IPR analysis comprised the following phases:

- Phase I – Background Study
- Phase II – Analysis of the background documents
- Phase III – Detailed analysis of the filtered documents
- Phase IV – Summary

The analysis was performed in April 2015. The only possible relevant later published patent publications that could have an implication for Faron would be so called submarine patents issued in the U.S., i.e. patents granted to applications filed prior to 8 June 1995, such as US 7,588,755 referred to in paragraph 7.3, due to that the priority of Faron's present patents would be far earlier than any other patent publications published after April 2015. No recent relevant submarine patents have been issued up to 3 November 2015. The status of the Biogen patent litigation referred to in paragraph 7.3.2 was updated on 3 November 2015.

7.1 *Background study in Phase 1*

7.1.1 *Execution of the Work in Phase 1*

The search plan focused on finding patents that might limit and applications that could lead to patents that could limit Faron's freedom to operate (FtO) in relation to inventions covered by Faron's Interferon beta patent family and CLEVER-1 patent family. Initially, several exploratory searches were made directed at inventions possibly relevant with regard to both the Interferon beta patent family and the CLEVER-1 patent family. The aim was to arrive at search results that could be managed (i.e. at searches with a reasonable number of hits) and would be sufficiently relevant for assessing possible relevant prior rights.

The initial searches demonstrated that searches relating to interferon beta needed to be significantly refined to result in a manageable amount of hits, whereas searches relating to CLEVER-1 did not need to be refined; instead a rather broad search resulted in a manageable number of hits.

All searches were limited to patents and applications with a priority date up to the date of the publication of the Interferon beta patent family and CLEVER-1 patent family, respectively, PCT-applications.

Additionally, patents and patent applications of potential interest that had been cited in the prosecution of CLEVER-1 and commonly known patents relating to interferon beta were reviewed.

7.1.2 *Database searches in Phase 1*

The searches chosen for comprehensive review were carried out as follows:

Two interferon beta related searches were chosen for comprehensive review. One search was limited to interferon beta 1a and alternative indications: multi-organ failure, acute respiratory distress syndrome (ARDS), respiratory distress syndrome (RDS), acute lung injury (ALI), adult respiratory distress syndrome, shock lung and ischemic reperfusion injury. The other search was limited to interferon and adenosine level. The searches resulted in 152 and 50 hits, respectively; 199 altogether, i.e. the searches comprised only 3 common hits.

One CLEVER-1 related search was chosen for comprehensive review. The search was limited to CLEVER-1 and alternative terms STAB-1, STAB1, FEEL-1, FELE-1 and FEX1 that could be considered synonyms to CLEVER-1. The search resulted in 52 hits.

All hits were reviewed based on abstracts and claims.

Based on the initial review of the 199 hits relating to interferon beta, it appeared that none of the hits seemed at all relevant with respect to the FtO of the foreseeable business to be based on Faron's interferon beta patent family. Nevertheless, two patents and three applications were downloaded for a more detailed review before conclusive evaluation.

Based on the initial review of the 52 hits relating to CLEVER-1, none of the hits appeared relevant with respect to the FtO of the foreseeable business to be based on Faron's CLEVER-1 patent family.

In addition, two patents of Biogen (US7588755 and US7635466) were noted, which relate to interferon beta.

The publications referred to in the International Search Report (ISR) of the PCT-stage of CLEVER-1 were reviewed. Cited references included references to publications of the CLEVER-1 sequence. However, the only patents referred to in the ISR were assessed as not relevant to the FtO of Faron.

7.1.3 *Conclusion of Phase 1*

The conclusion of the Phase 1 was that there are many patents within the area of interferon beta, but most of them were considered to not relate to Faron's products. A small number of patents relating to interferon beta were considered in further detail under Phase 2 of our review.

None of the documents reviewed seemed relevant with respect to Faron's CLEVER-1 product.

7.2 ***Analysis of the background documents in Phase 2***

The documents found in Phase 1 were reviewed by Turun Patenttitoimisto Oy and Faron.

The US patent 6,221,851 of Feldman, Arthur was selected for more detailed analysis, but it was noted that it has expired due to non-payment of maintenance fees. The corresponding EP application (EP1045636) has been withdrawn and therefore detailed analysis was not required.

Patent application WO 03/075944 of Maxygen APS and H. Lundbeck A/S related to interferon beta, but it was directed to a type of interferon beta not employed by Faron, and accordingly possible rights resulting from the application would not be expected to be limiting. Moreover, it was noted that the corresponding EP application (EP1487478) has been withdrawn and the corresponding US application (US 10/506,954) has been abandoned.

Biogen patents US 7,588,755 and US 7,635,466 were reviewed. US 7,635,466 was not considered relevant as it was directed to the treatment of cancers or tumours. However, US 7,588,755 was considered to be potentially relevant as it was directed to the treatment of for example, viral conditions and viral diseases.

In conclusion, only US patent 7,588,755 of Biogen was considered sufficiently relevant for further analysis with respect to Faron's interferon beta product. Detailed analysis of this patent was undertaken as set out below in paragraph 7.3.

7.3 ***The detailed analysis of selected patents in Phase 3***

Based on the initial analysis in Phase 1 and Phase 2 it was concluded that a more detailed analysis was needed in relation to patent US 7,588,755.

7.3.1 *US patent 7,588,755 by Biogen Idec MA Inc. ("Biogen")*

This Biogen patent was filed on 25 May 1995 and it claims priority to British patent applications GB8011306 (filed on 30 April 1980) and GB8018701 (filed on 6 June 1980).

The patent comprises one independent claim (claim 1), focusing on methods of using recombinantly produced interferon beta for immunomodulation or treating viral conditions, a viral disease, cancers or tumours.

Claim 1 is as follows:

A method for immunomodulation or treating a viral conditions, a viral disease, cancers or tumors comprising the step of administering to a patient in need of such treatment a therapeutically effective amount of a composition comprising:
a recombinant polypeptide produced by a non-human host transformed by a recombinant DNA molecule comprising a DNA sequence selected from the group consisting of:
(a) DNA sequences which are capable of hybridizing to any of the DNA inserts of G-pBR322(Pst)/HFIF1, G-pBR322(Pst)/HFIF3 (DSM 1791), G-pBR322(Pst)/HFIF6 (DSM 1792), and G-pBR322(Pst)/HFIF7 (DSM 1793) under hybridizing conditions of 0.75 M NaCl at 68 °C and washing conditions of 0.3 M NaCl at 68 °C., and which code for a polypeptide displaying antiviral activity, and (b) DNA sequences which are degenerate as a result of the genetic code to the DNA sequences defined in (a);
said DNA sequence being operatively linked to an expression control sequence in the recombinant DNA molecule.

The patent was issued on 15 September 2009. The patent grants a 17 year term starting on the issue date, because the application was filed prior to 8 June 1995 (i.e. prior to the change of US patent law), resulting in a patent term that will not expire until 15 September 2026. Although the change of US patent law in 1995 harmonised the US patent system to better correspond with foreign patent systems, it did not alter the possibility of the applicant who had filed its application before the change of the law to be granted a patent that would be in force 17 years from grant, i.e. according to the stipulations of the old law. Accordingly applications resulting in a grant of a patent after delayed prosecution have been and might still be issued which are in force 17 years from grant.

It might be regarded that Faron's product (TRAUMAKINE) could be relevant to the Biogen patent, as it could be argued that the indications defined by the claims of the Biogen patent overlap with the indication of Faron's product.

7.3.2 *Biogen patent litigation*

Faron is aware that Biogen has commenced patent litigation against certain other third parties in respect of the claims of US 7,588,755. As part of Phase 3 of our review, we have therefore sought to investigate the basis for those claims.

The following facts and views regarding the litigation of the Biogen patent have been provided by James C. Lydon (Attorney at Law, P.O.Box 1406, North Springfield, Virginia 22151, U.S.).

In the lawsuit filed on 27 May 2010 Biogen alleges the claims of US patent 7,588,755 are infringed by Bayer's BETASERON® product, Novartis' EXTAVIA® product, and Serono and Pfizer's REBIF® product, and seeks money damages. The defendants deny infringement and contend the Biogen patent is invalid and unenforceable.

The litigation is in the U.S. District Court of New Jersey, and has been assigned to Judge Claire C. Cecchi. Patent cases are often filed in this court, and thus its judges are generally familiar with patent infringement and validity issues. Pre-trial discovery is scheduled to continue until 6 May 2016. The parties exchanged more than 4 million pages of documents and took more than 65 depositions. However, to date a trial has not occurred and has not been scheduled. Instead, the parties currently are awaiting Judge Cecchi's ruling on the scope of claim 1 of US 7,588,755.

The defendants argue the Biogen patent claims are invalid for obviousness over various prior art references. These prior art references included Knight et al., 207 Science 525-26 (1980); Nagata et al., 284 Nature 316-20 (1980); Tanaguchi et al., 285 Nature 547-49 (1980) and Weissenbach et al., 98 Eur. J. Biochem. 1-8 (1979). The defendants also allege that the Biogen patent is unenforceable due to Biogen's failure to bring to the attention of the U.S. Examiner allegedly contradictory sworn statements by the Biogen patents inventor (Dr. Fiers) which were submitted to the Canadian Patent Office in a counterpart application. Presumably one or both of these defences will be heard during trial, assuming a trial is ultimately held.

It is impossible to predict when Judge Cecchi will issue her decision regarding the scope of claim 1. Once she makes her decision, the parties are likely to proceed to trial on the invalidity and unenforceability defences. Alternatively, the trial court may grant summary judgment on the infringement issue, which would allow the parties to immediately appeal to the Court of Appeals for the Federal Circuit.

Finally, the parties are conducting court-ordered mediation. It is possible that a settlement will be reached before a final judgment is reached.

The potential implications of the results of this ongoing litigation have been explained in the summary paragraph 7.4.

7.3.3. *Status in Europe*

Corresponding EP patent application EP0041313 of Biogen was revoked (8 April 1997) in Appeal of an Opposition at the EPO.

The prior art references cited in the EPO Decision are admissible evidence in the U.S. district court litigation, i.e. in the US Biogen patent litigation. Moreover, Schering AG's arguments relating to patentability (enabling disclosure, novelty and inventive step) discussed in the EPO Decision are relevant to the patentability issues raised in the US Biogen patent litigation. It is to be expected that versions of these arguments are raised at the trial of the US Biogen patent litigation.

7.3.4 *Conclusion of Phase 3*

In conclusion the only patent publication that could have an implication for Faron identified in the FtO was the Biogen patent US 7,588,755. Faron will monitor the ongoing Biogen litigation in respect of this patent to assess the risks to Faron's operation and intellectual property.

7.4 ***Summary of Freedom to operate review***

The detailed risk analysis was carried out in relation to the patents of Interferon beta and CLEVER-1 of Faron. The analysis was limited to Europe and the U.S.

7.4.1 *INF beta*

In the U.S., the risk to Faron presented by Biogen patent US 7,588,755 was considered to be potentially largely dependent on the outcome of the ongoing Biogen litigation actions.

When considering the implications of the Biogen patent to the FtO of Faron, two possibilities are envisioned. The best case scenario would be that the Biogen patent is revoked in the ongoing litigation in the U.S. This alternative is possible because of, for example, the issues referred to above relied on when the EP counterpart of the Biogen patent was revoked as set out in paragraph 7.3.3. The worst case scenario would be that the Biogen patent remains in force unamended. If it does, it might be regarded that Faron's product (TRAUMAKINE) could be relevant to the Biogen patent, as it could be argued that the indications defined by the claims of the Biogen patent overlap with the indication of Faron's product, even if only to a minor extent. If the latter scenario occurs, if required, Faron would likely be able to acquire a licence to the Biogen patent for Faron's product or consider other IP risk mitigation actions such as preparing further arguments and initiating action to invalidate the Biogen patent or narrow its scope to make it irrelevant for Faron.

Both licencing and invalidating actions will have clear cost impact to Faron if these actions will be needed to perform. Any licence entered into would have an ongoing cost impact if the licence will be based on the annual US revenue of Faron. A licence negotiation phase will also incur costs. The cost impact of invalidating actions can also be significant, however, this would likely be over a shorter time frame, if invalidating action were to be successful. In Europe no relevant patents of others could be identified.

7.4.2 *CLEVER-1*

The searches carried out and the analysis of the results of the searches did not reveal patents of others considered relevant with respect to the FtO of the foreseeable business based on Faron's CLEVER-1 patent family in the U.S. or Europe.

8. Agreements and licenses

Apart from the agreements and licences made between the inventors and Faron, referred to above, Faron has licensed IP rights in Japan relating to TRAUMAKINE to Maruishi Pharmaceutical Co., Ltd. (Maruishi), Japan, subject to an agreement dated 9 February 2011, and entered into an agreement with A&B (HK) Company Limited, Hong Kong (A&B Ltd.), dated 8 May 2015, including assignment of IP rights relating to TRAUMAKINE in China, Hong Kong, Macao and Taiwan.

Maruishi's licenses to patents JP 5523707 (IFNbeta), JP 4809762 (CD73), JP 4982610 (serumCD73) and JP 5619810 (serumCD73) have been registered at the Japan Patent Office. An exclusive license in Japan to the trademark TRAUMAKINE has been granted to Maruishi on 9 February 2011, the license has not yet been registered at the Japan Patent Office.

Faron's agreement with A&B Ltd. assigns patents CN101282741, HK1125048, and the trademark TRAUMAKINE in China to A&B Ltd.

Yours faithfully,

Turun Patenttitoimisto Oy

PART IV

HISTORICAL FINANCIAL INFORMATION ON THE COMPANY

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Finland

The Partners
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11 November 2015

Dear Sirs

Introduction

We report on the financial information of Faron Pharmaceuticals Oy ("Faron" or the "Company") set out in Part VI as at and for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 and the six months ended 30 June 2015. This financial information has been prepared for inclusion in the AIM Admission Document dated 11 November 2015 (the "Document"), on the basis of the accounting policies set out in note 1 to the financial information. This report is required by paragraph (a) of Schedule Two to the AIM Rules for Companies (the "AIM Rules") and is given for the purposes of complying with the AIM Rules and for no other purpose.

Responsibilities

The directors of the Company (the "Directors") are responsible for preparing the financial information on the basis of preparation set out in note 1 to the financial information and in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS").

It is our responsibility to form an opinion on the financial information as to whether the financial information gives a true and fair view, for the purposes of the Document and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any person other than the addressees of this letter for any loss suffered by any such person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Document.

Basis of Opinion

We conducted our work in accordance with Standards of Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of significant estimates and judgments made by those responsible for the preparation of the financial statements underlying the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement, whether caused by fraud or other irregularity or error.

Opinion

In our opinion, the financial information gives, for the purposes of the Document, a true and fair view of the state of affairs of the Company as at the dates stated and of the results, financial position, cash flows and changes in equity for the periods then ended in accordance with International Financial Reporting Standards ("IFRS").

Declaration

For the purposes of paragraph (a) of Schedule Two of the AIM Rules for Companies, we are responsible for this report as part of the Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Document in compliance with Paragraph (a) of Schedule Two of the AIM Rules.

Yours faithfully

Crowe Clark Whitehill LLP
Chartered Accountants

Statements of Comprehensive Income

	Note	*12 months ended 31 Dec 2012 (Audited) €'000*	*12 months ended 31 Dec 2013 (Audited) €'000*	*6 months ended 30 June 2014 (Unaudited) €'000*	*12 months ended 31 Dec 2014 (Audited) €'000*	*6 months ended 30 June 2015 (Audited) €'000*
Revenue	3, 4	—	200	406	906	454
Cost of sales		—	(100)	(200)	(400)	(50)
Gross profit		—	100	206	506	404
Other operating income	5	448	890	84	111	—
Administrative expenses	6, 7	(184)	(199)	(237)	(349)	(1,074)
Research and development expenses	6, 7	(2,618)	(2,031)	(657)	(1,496)	(1,681)
Operating loss		(2,354)	(1,240)	(604)	(1,228)	(2,351)
Financial income	2, 8	1	3	—	16	—
Financial expenses	2, 8	(107)	(271)	(39)	(146)	(40)
Net financial expenses		(106)	(268)	(39)	(130)	(40)
Loss before income taxes		(2,460)	(1,508)	(643)	(1,358)	(2,391)
Income tax expense	9	—	—	—	(6)	(42)
Loss for the financial year/period		(2,460)	(1,508)	(643)	(1,364)	(2,433)
Other comprehensive income		—	—	—	—	—
Total comprehensive loss for the financial year		(2,460)	(1,508)	(643)	(1,364)	(2,433)
Total comprehensive loss, attributable to:						
Equity holders of the Company		(2,460)	(1,508)	(643)	(1,364)	(2,433)
Loss per share attributable to equity holders of the Company						
Basic and diluted* loss per share (€)	10	(1.74)	(1.04)	(0.43)	(0.91)	(1.44)

* In accordance with IAS33 "Earnings per share", where the entity has reported a loss for the period, the shares are not diluted

Statements of Financial Position

	Note	*31 Dec 2012 €'000*	*31 Dec 2013 €'000*	*31 Dec 2014 €'000*	*30 Jun 2015 €'000*
Assets					
Non-current assets					
Property, plant and equipment	11	—	—	—	—
Intangible assets	11	1,076	1,093	1,184	1,180
		1,076	1,093	1,184	1,180
Current assets					
Inventories	12	546	1,099	699	649
Trade and other receivables	13	314	45	40	647
Cash and cash equivalents	14	—	—	242	2,276
		860	1,144	981	3,572
Total assets		1,936	2,237	2,165	4,752
Equity and liabilities					
Capital and reserves attributable to equity holders of the Company					
Share capital		1,295	1,416	2,691	2,691
Unregistered share capital		—	1,275	—	—
Reserve for invested non-restricted equity		5,328	5,328	6,453	11,503
Retained earnings		(7,460)	(8,968)	(10,332)	(12,764)
Total equity	15	(837)	(949)	(1,188)	1,430
Non-current liabilities					
Interest-bearing financial liabilities	16	1,821	1,445	1,691	1,446
Other liabilities	16	—	—	—	—
		1,821	1,445	1,691	1,446
Current liabilities					
Interest-bearing financial liabilities	17	777	588	—	245
Trade payables	17	89	45	10	320
Other current liabilities	17	86	1,108	1,652	1,311
		952	1,741	1,662	1,876
Total liabilities		2,773	3,186	3,353	3,322
Total equity and liabilities		1,936	2,237	2,165	4,752

Statement of Changes in Equity

	Share capital €'000	*Unregistered share capital[1] €'000*	*Reserve for invested non-restricted equity €'000*	*Retained earnings €'000*	*Total equity €'000*
Balance at 1 January 2012	5	—	5,328	(5,000)	333
Total comprehensive loss for the financial the year	—	—	—	(2,460)	(2,460)
Transactions with equity holders of the Company, recognised directly in equity					
Issue of ordinary shares	1,290	—	—	—	1,290
	1,290	—	—	(7,460)	(1,170)
Balance at 31 December 2012	1,295	—	5,328	(7,460)	(837)
Total comprehensive loss for the financial the year	—	—	—	(1,508)	(1,508)
Transactions with equity holders of the Company, recognised directly in equity					
Issue of ordinary shares	121	1,275	—	—	1,396
	121	1,275	—	(1,508)	(112)
Balance at 31 December 2013	**1,416**	**1,275**	**5,328**	**(8,968)**	**(949)**
Total comprehensive loss for the financial year	—	—	—	(1,364)	(1,364)
Transactions with equity holders of the Company, recognised directly in equity					
Increase of share capital	1,275	(1,275)	—	—	—
Issue of ordinary shares	—	—	1,125	—	1,125
	1,275	(1,275)	1,125	(1,364)	(239)
Balance at 31 December 2014	**2,691**	**—**	**6,453**	**(10,332)**	**(1,188)**
Total comprehensive loss for the financial period	—	—	—	(2,433)	(2,433)
Transactions with equity holders of the Company, recognised directly in equity					
Issue of ordinary shares	—	—	5,050	—	5,050
	—	—	5,050	(2,432)	2,618
Balance at 30 June 2015	**2,691**	**—**	**11,503**	**(12,764)**	**1,430**

For further information on the convertible notes and other equity transactions see Note 15.

1) Unregistered increase in share capital at 31 December 2013.

Statements of Cash Flow

	Note	*12 months ended 31 Dec 2012 (Audited) €'000*	*12 months ended 31 Dec 2013 (Audited) €'000*	*6 months ended 30 June 2014 (Unaudited) €'000*	*12 months ended 31 Dec 2014 (Audited) €'000*	*6 months ended 30 June 2015 (Audited) €'000*
Cash flow from operating activities						
Loss attributable to equity holders of the Company		(2,460)	(1,508)	(643)	(1,364)	(2,433)
Adjustments for						
Depreciation and amortisation	7	52	56	72	60	74
Financial items		106	268	39	130	40
Income taxes in income statement		—	—	—	6	42
Change in net working capital						
Trade and other receivables		(64)	269	(345)	6	(607)
Inventories		124	(553)	150	400	50
Trade and other payables		68	978	20	510	(30)
Interest and other financial costs paid		(96)	(282)	(39)	(146)	(40)
Interest and other financial income received		2	4	—	15	—
Income taxes paid	9	—	—	—	(6)	(42)
Net cash used in operating activities		(2,268)	(768)	(746)	(389)	(2,946)
Cash flow from investment activities						
Acquisition of machinery and equipment and intangible assets	11	(618)	(73)	(76)	(151)	(70)
Net cash used in investing activities		(618)	(73)	(76)	(151)	(70)
Cash flow from financing activities						
Proceeds from issue of share capital	15	1,411	1,275	930	1,125	5,050
Proceeds from current borrowings		777	(434)	(108)	(343)	—
Net cash from financing activities		2,188	841	822	782	5,050
Net decrease in cash and cash equivalents		(698)	—	—	242	2,034
Cash and cash equivalents at beginning of period		698	—	—	—	242
Cash and cash equivalents at end of period	14	—	—	—	242	2,276
Overdraft	17	(777)	(343)	(235)	—	—
Net cash and cash equivalents at end of period	14	(777)	(343)	(235)	242	2,276

Notes to the Financial Information

1. Summary of significant accounting policies

1.1 ***Corporate information***

Faron Pharmaceuticals Oy ("Faron" or the "Company") is a Finnish limited liability company organised under the laws of Finland and domiciled in Turku, Finland. The Company's registered address is Joukahaisenkatu 6, FIN-20520 Turku, Finland.

The former parent company of Faron Pharmaceuticals Oy., Faron Holding Oy, merged into Faron Pharmaceuticals Oy. as at 31 December 2013. The financial information of the Company is presented as a continuation of the financial information of Faron Holding Ltd and the Company from the date of the merger, which was a group reorganisation and outside the scope of IFRS3. Faron has no interests in other entities. The shares of Faron Pharmaceuticals Oy. are held by multiple shareholders.

The principal accounting policies applied in the preparation of this financial information are set out below.

1.2 ***Basis of preparation***

The financial information has been prepared in accordance with the requirements of the AIM Rules for Companies and in accordance with this basis of preparation. This basis of preparation describes how the financial information has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU).

The financial information is prepared under the historical cost convention, except as disclosed in the accounting policies below. The figures in the financial statements are presented in thousands of euro unless otherwise stated. All figures presented have been rounded, and consequently the sum of individual figures may deviate from the presented aggregate figure.

The preparation of financial information under IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the end of the reporting period as well as the reported amounts of income and expenses during the reporting period. These estimates and assumptions are based on historical experience and other justified assumptions that are believed to be reasonable under the circumstances at the end of the reporting period and the time when they were made. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates. The estimates and underlying assumptions are reviewed on an on-going basis and when preparing financial information. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognised in the period in which the estimate is revised. The key assumptions about the future and key sources of estimation uncertainty that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 12 months are described in more detail at 1.20.

1.3 ***Foreign currency transactions and balances***

The Company's presentation and functional currency is the euro. Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement within financial items. The impact of foreign currency transactions and balances on Faron is very minor.

1.4 ***Revenue recognition***

Pharmaceutical companies collect revenues in many ways depending on the stage of the drug development process. The Company's main sources of revenue have been upfront payments (one-off license payments), revenues from product sales and milestone payments. Revenue is recognised

when the amount of revenue can be measured reliably; when it is probable that the future economic benefits will flow to the Company; and when specific criteria have been met for each of the Company's activities as described below.

1.4.1 *Revenue from sales of goods*

Revenue from the sale of goods is recognised when the significant risks, rewards and actual control usually associated with ownership of the goods have been transferred to the buyer. In 2013 and 2014 Faron generated revenues from sales of excess inventory (interferon-beta).

1.4.2 *Recognition of revenue from upfront payments*

Upfront license fees, including signing fees, are usually received when a license is granted. They are deferred and recognised as revenue over the relevant contract period on a basis that is consistent with the services delivered over the relevant contract period.

1.4.3 *Recognition of revenue from milestone payments*

Revenue associated with performance milestones is recognised based on achievement of the deliverables as defined in the respective agreements. Refundable milestone payments are recorded as deferred income and recognised as revenue at the point of time when the underlying performance obligations have been fulfilled. Non-refundable milestone payments are recognised as revenue when:

- customer has verifiably accepted that the milestone has been reached
- Faron has no further performance obligations; and
- there is a reasonable assurance that these receivables can and will be collected.

1.5 ***Other operating income***

Other operating income includes income from activities outside the ordinary business of Faron, such as recognition of government grants, service charge income and gains from disposals of non-current assets.

1.6 ***Research and development costs***

All costs related to research activities are presented under research and development expenses in the income statement. Research and development expenses include salaries and other expenditure directly attributable to Faron's research and development activities. Furthermore, costs attributable to supporting the research and development activities, such as rental expenses for facilities, are included. Research and development expenses are directly related to the development phases of Faron's projects and may therefore fluctuate strongly from year to year.

The Company will not capitalise internal development expenses relating to the Company's products and product candidates as management considers that the uncertainties inherent in developing pharmaceutical products prohibits the capitalisation of internal development expense as an intangible asset until marketing approval has been received from the relevant regulatory agencies.

The Company has capitalised internally generated documentation assets.

Costs incurred on internal development projects are recognised as intangible assets as of the date that the internal development project meets the criteria for recognition. See 1.11.2 Intangible assets.

1.7 ***Employee benefits***

Faron's employee benefits currently consist of short-term employee benefits and post-employment benefits (defined contribution pension plans).

Short-term employee benefits, i.e. salaries, social security contributions, paid annual leave and sick leave, bonuses and non-monetary benefits, are accrued in the year in which the related service is provided. A liability is recognised for the amount expected to be paid if Faron has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A defined contribution plan is a pension plan under which Faron pays fixed contributions into a separate entity. 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. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

1.8 ***Operating loss***

IFRS allow the use of additional line items and subtotals in the income statement. Faron has defined operating loss to be a relevant subtotal in understanding the Company's financial performance. In Faron, operating loss is the net sum which is formed by adding other operating income to revenue and then deducting research and development expenses as well as administrative expenses. All other items of the income statement are presented below the operating loss.

1.9 ***(Loss) per share***

Basic loss per share is calculated by dividing the net loss attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding assuming conversion of all dilutive potential ordinary shares.

1.10 ***Income taxes***

The income tax expense for the period consists of current and deferred taxes. Tax is recognised in the income statement, except for the income tax effects of items recognised in other comprehensive income or directly in equity, which is similarly recognised in other comprehensive income or equity. The current income tax charge is calculated on the basis of the tax rates and laws enacted or substantively enacted in the countries where Faron operates and generates taxable income. Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities. Deferred tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Faron's major temporary differences arise from tax losses carried forward and research expenditure incurred but not yet deducted for tax purposes.

Deferred tax liability tax is generally provided for in full. Deferred tax assets are recorded up to the amount that represents probable taxable income received in the future and against which temporary differences can be utilised. The amount and probability of the utilisation of deferred tax assets are reviewed at the end of each reporting period.

Deferred taxes are determined using tax rates (and laws) 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.

1.11 ***Equipment and intangible assets***

1.11.1 *Equipment*

Currently Faron does not own any land or buildings. Equipment that Faron owns comprises mainly machinery and technical equipment used in research and development activities. Equipment is stated at historical cost less depreciation and any impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Repairs and maintenance costs are expensed as incurred.

Depreciation is calculated using the straight-line method to allocate each item's cost to its residual value over its estimated useful life. The depreciation expense is included in the costs of the functions using the asset.

1.11.2 *Intangible assets*

Faron's intangible assets include patents and internally developed intellectual property ("documentation-related assets"). An intangible asset is recognised only if it is probable that the future economic benefits attributable to the asset will flow to Faron and the cost of the asset can be measured reliably. All other expenditure is expensed as incurred. These intangible assets are initially recognised at cost. Cost comprises the purchase price and all costs directly attributable to bringing the asset ready for its intended use. Subsequently intangible assets are carried at cost less amortisation and any accumulated impairment losses.

Internally generated intangible assets arising from development are recognised if, and only if, all the criteria for recognition are fulfilled:

- it is technically feasible to complete the intangible asset so that it will be available for use;
- there is an ability to use or sell the intangible asset;
- it can be demonstrated how the intangible asset will generate probable future economic benefits,
- adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and
- the expenditure attributable to the intangible asset during its development can be reliably measured.
- The internally developed documentation asset is related to the re-development of the active pharmaceutical ingredient, API ("API documentation") The development activities and documentation relate to stability testing of a drug substance (API), that is sellable as such, but the quality and value of which improves as the stability is proven and documented. In addition to its own use, Faron may also, for a fee, license the documentation to companies that can utilise documentation in their own drug candidate approval and registration documentation. Provision of such access does in no way limit Faron's ability to use the documentation in its own application processes or ability to give such access to additional users.

Intangible assets are amortised over their expected or known useful lives on a straight-line basis beginning from the point they are available for use. The estimated useful life is the lower of the legal duration and the economic useful life. The estimated useful lives of intangible assets are regularly reviewed. The estimated useful life for intangible assets is currently 10 years. The effect of any adjustment to useful lives is recognised prospectively as a change of accounting estimate. Intellectual property-related costs for patents are included within research and development expenditure.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each financial year.

Internal research costs are those costs incurred for the purpose of gaining new scientific or technical knowledge and understanding. Such costs are always expensed as incurred. Internal development costs are those costs incurred for the application of research findings or other knowledge to plan and develop new products for commercial production. As the drug product development projects undertaken by Faron are subject to technical feasibility, regulatory approval and other uncertainties, these criteria are considered to be met only after Faron has filed its submission to the regulatory authority for final approval after which all subsequent development costs will be capitalised. Before this trigger point all drug product related development costs are typically expensed as incurred. Faron has not capitalised any drug product related development expenditure as the related criteria have not been met yet. Development costs expensed in prior financial years are not capitalised at a later date.

1.12 ***Impairment of non-financial assets***

Assets that are subject to depreciation/amortisation are reviewed for impairment whenever there are any indications that the carrying amount may not be recoverable. As a clinical stage drug discovery and development company Faron pays attention to the following factors, among others: changes in the legal framework covering patents, rights or licences, change in the useful lives of similar assets, relationship with other intangible or tangible assets and, other factors that indicate that the value of a tangible or an intangible asset has been impaired.

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use represents the discounted future net cash flows expected to be derived from an asset. Any reductions are reported in the income statement as an impairment loss.

1.13 ***Government grants***

Faron has received government grants from both Tekes (The Finnish Funding Agency for Technology and Innovation) and from the EU (Commission's FP7 program).

Grants from governments or similar organisations to support certain projects are accounted for as grants related to income. They are initially recognised at their fair value. Those grants are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate, when management has reasonable assurance that the grant will be received and Faron will comply with the conditions attached to that grant. Such grants are presented as other operating income.

Grants for the acquisition of equipment and intangible assets would be deducted from the cost of the asset in question. So far Faron has not received any such grants.

If, at the balance sheet date, the conditions are believed to be fulfilled and the related grant payments are outstanding, grant receivables are shown in the balance sheet.

1.14 ***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods comprises purchase price and other directly attributable costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Inventories consist of GMP manufactured drug ingredient acquired primarily for research and development purposes to be processed into API (active pharmaceutical ingredient). However, it also has alternative use, i.e. the ingredient is traded by other companies and consequently may be sold in the market. Faron has sold API over the reporting periods to pharmaceutical companies.

1.15 ***Financial assets***

Faron's financial assets consist principally of cash and cash equivalents.

The classification of a financial asset depends on the purpose for which the financial asset was acquired. Management determines the classification of its financial assets at initial recognition. All financial assets are catagorised as loans and receivables.

Cash and cash equivalents are recognised at cost. They include cash in hand and bank balances if they are readily convertible to known amounts of cash, are not subject to significant changes in value and have a maturity of three months or less from the date of acquisition. Any bank overdrafts are shown within borrowings in current financial liabilities.

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market nor held by the Company for trading. Trade receivables and other financial receivables are included in this category. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period.

Trade receivables are amounts due from customers for signing fees, milestone payments or services performed (including reimbursable costs) in the ordinary course of business. Trade receivables are carried at the original invoice amount less allowances made for doubtful receivables, discounts and rebates and similar allowances, when applicable. Impairment is recognised on doubtful receivables based on individual assessment of potential identified credit risk where there is objective evidence that Faron will not be able to collect all amounts due. Credit losses are recognised in the income statement and presented under costs allocated to functions. Interest income is recognised using the effective interest method and recorded in financial income. Faron did not have trade receivables at the balance sheet dates of 2014, 2013 and 2012.

Financial assets are derecognised when Faron loses the rights to receive the contractual cash flows on the financial asset or it transfers substantially all the risks and rewards of ownership outside Faron.

1.16 ***Financial liabilities and equity***

Faron classifies an instrument, or its component parts, on initial recognition as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

1.16.1 *Bank borrowings*

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

Borrowings are presented as current liabilities unless Faron has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period. Borrowings (or part of the liability) are not derecognised until the liability has ceased to exist, that is, when the obligation identified in a contract has been fulfilled or cancelled or is no longer effective.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

1.16.2 *Government loans*

Faron has two government loans with a below-market rate of interest from Tekes. Based on the exemption under IFRS 1, Faron has measured the government loans using the previous FAS book value as the carrying amount of the loan and as such has not accounted for the below-market grant separately. Subsequently, the loans are carried at amortised cost using the effective interest rate.

1.16.3 *Convertible notes*

Faron analyses the contractual terms and substance of convertible notes to classify each instrument, or its component parts, as a financial liability or an equity instrument.

If the instrument does not contain a contractual obligation to deliver cash or other financial assets, and it can be converted to a fixed amount of the Company's shares, it is classified as equity. If the conversion option is to a variable amount of the Company's shares, and it includes contractual obligation to deliver cash, the instrument is a liability that contain embedded derivatives, and it is classified as a financial liability at fair value through profit or loss in its entirety.

If the instrument is classified as equity, it is recognised at cost and it is not re-measured subsequently. If the instrument is classified as a financial liability at fair value through profit or loss, it is measured initially and subsequently at fair value, and fair value changes are recognised in the income statement as finance income or costs in the period in which they occur. On conversion to equity, the liability is transferred to equity.

All convertible notes have been converted into ordinary shares by 30 June 2015.

1.16.4 *Equity*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the share issue.

Reserve for invested unrestricted equity is credited with other equity inputs as well as that part of the subscription price of the shares that according to the explicit decision is not to be credited to the share capital.

1.17 ***Leases***

Leases of equipment, where Faron has substantially all the risks and rewards of ownership, are classified as finance leases. Assets leased under finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Lease obligations are included in current and non-current financial liabilities based on their maturity, net of finance charges. The interest element of the payments is expensed. An asset recognised under a finance lease is depreciated over its useful life. Faron's assets leased under finance leases were insignificant during the financial years presented.

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the lease term.

1.18 ***Provisions and contingent liabilities***

A provision is recognised when Faron 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. Faron had no provisions at the end of the reporting periods presented in these financial statements.

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

1.19 ***Critical accounting estimates and management judgments made in applying accounting policies***

1.19.1 *Revenue recognition*

Due to the nature of the pharmaceutical development business, Faron's collaboration and licence contracts are complex and these contracts often require significant analysis and judgement by management in order to determine the appropriate method of revenue recognition.

Contracts may consist of multiple components with the underlying services and goods delivered at different times over a contract's lifetime representing separate earnings processes. Revenue is allocated to the separate components on a relative fair value basis and revenue is recognised when the criteria for revenue recognition is met for each component. Non-refundable milestones are recognised as revenue when the milestone has been achieved and the Company does not have future obligations. This is normally when the Company is informed by the contract party that the milestone has been achieved. Any milestone payments that have been received but for which the earnings process has not been completed are reported as deferred revenue in the balance sheet/statement of financial position and

recognised as revenue when the service/goods has been delivered is complete and there are no remaining obligations or contingencies. For some transactions this may result in recognising cash receipts initially as deferred income and then with the balance being released to income over subsequent financial years on the basis of meeting the conditions further specified in each individual agreement.

1.19.2 *Research and development expenses*

Faron follows IFRS guidance to determine whether development costs qualify for capitalisation. This determination requires significant judgement. When an internal development project fulfills the criteria for capitalisation, costs incurred are capitalised from that point forward. The in-process development project is then tested for impairment annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. It is Faron's view that drug product related development expenses may not be capitalised until marketing approval has been received from the relevant regulatory agencies, as this is considered to be the first point at which it may be concluded that that future revenues can be generated.

According to management's judgement, the internally developed documentation asset that is related to the re-development of the active pharmaceutical ingredient, API ("API documentation"), fulfills the criteria of IFRS for capitalising costs of internally developed intangible assets despite the nature of the Company's operations where capitalisation criteria is traditionally met at the receipt of regulatory approval. The development activities and documentation relate to stability testing of a drug substance (API) that is sellable as such, even though it is primarily used in the development process. The quality and value of the drug substance improves as the stability is proven and documented. In addition to its own use, Faron may also, for a fee, license the documentation to companies that can utilise documentation in their own drug candidate approval and registration documentation. The costs of this internally developed intangible asset have been capitalised as of the criteria for capitalisation was fulfilled.

1.19.3 *Deferred taxes*

Recognition and measurement of deferred tax assets and deferred tax liabilities include management estimates, especially for deferred tax assets arising from tax losses carried forward. Deferred tax assets are recognised for deductible temporary differences to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Various internal and external factors may have favorable or unfavorable effects on the deferred tax assets and liabilities. These factors include, but are not limited to, available tax strategies, changes in tax laws, regulations and/or rates dealing with e.g. recoverability periods for tax loss carry-forwards, changing interpretations of existing tax laws or regulations, future levels of research and development spending and changes in overall levels of pre-tax earnings. Such changes that arise could impact the assets and liabilities recognised in the balance sheet in future periods. All tax liabilities and assets are reviewed at the end of the reporting period and changes are recognised in the income statement. Faron has not recorded any deferred tax assets on tax losses carried forward.

1.19.4 *Inventories*

Measurement of inventories includes some management estimates. Inventories are measured at lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Net realisable value is used in testing the recoverable amount of inventories in order to avoid the inventories being carried in excess of amount expected to be realised from their sale or use.

Management has assessed, that GMP manufactured drug ingredient also fulfills the criteria of IFRS to be classified as inventory. Even though it has been acquired mainly for research and development purposes to be processed into API (active pharmaceutical ingredient) and

it is not currently Faron's core business to actively market the ingredient, as it also has alternative use, i.e. the ingredient is traded by other companies and Faron has also traded API, management has recorded the API in its inventory.

1.19.5 *Adoption of new and amended standards and interpretations applicable in future financial years*

Faron has not yet adopted the new and amended standards and interpretations already issued by the IASB but that are not effective for financial year 2014. The Company will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year. The Company has presented below only the standards that are relevant to the Company and might have impact on its financial statements in its current operations.

- *Annual Improvements to IFRSs* (*2010-2012 and 2011-2013 cycles**) (effective for financial years beginning on or after 1 July 2014): The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. These amendments cover several standards and their impacts vary standard by standard but the Company considers that they do not have a significant impact on the financial statements of Company.

- *Amendments to IAS 1 Presentation of financial statements* (effective for financial years beginning on or after 1 January 2016): The amendments clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The Company is still assessing the possible impact of the amendments to its financial statements.

- IFRS 15 *Revenue from contracts with customers** (effective for financial years beginning on or after 1 January 2017): The standard covers revenue recognition and will supersede current revenue recognition standards, IAS 18 and IAS 11. The Company is still to assess the impacts of the standard.

- IFRS 9 *Financial Instruments** (effective for financial years beginning on or after 1 January 2018): The standard will replace IAS 39 fully (even though some areas are moved from IAS 39 to IFRS 9 unchanged). Main changes are: Financial assets are classified based on entity's business model. Impairment will be recognised based on expected losses from the first reporting date that the assets measured at amortised cost are on the balance sheet. Hedge accounting will be aligned more closely with risk management. The Company is still to assess the impacts of the standard.

* = not yet endorsed for use by the EU as of 31 December 2014.

2. Financial risk management

2.1 ***Principles of financial risk management***

Faron's activities expose it to a variety of financial risks as follows:

- liquidity risk
- credit risk, and
- market risk

Faron's overall approach to risk management is to seek to minimise potential adverse effects on the Company's financial performance. Risk management is carried out by the senior management of Faron. The senior management identifies, evaluates and hedges financial risks. So far Faron has not used derivative financial instruments to hedge any risk exposures. Faron's risk management focuses on liquidity risk.

2.1.1 *Liquidity risk*

Liquidity risk is the risk that Faron will encounter difficulty in meeting obligations associated with financial liabilities that are to be settled by delivering cash or another financial asset.

Management forecasts the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs. Such forecasting takes into consideration Faron's financing plans and expected cash flow. In 2012 the European Commission awarded a EUR 5,963,000 grant to the Faron network (Consortium) to support the FP-1201-lyo clinical phase III program ("Traumakine"). The Consortium consists of the European Commission as a granting agency, Faron as a coordinator and three other participating partners of the Traumakine program; University College London Hospital (UCLH), University of Torino and University of Turku. The first payment under the grant for the consortium received in 2013, amounted to EUR 2,299,000 of which the share of the other consortium members was EUR 1,090,000, which has been forwarded to the other consortium members, and Faron's share was 1,209,000. Of this EUR 661,000 was recognised as income for the financial year 2013. The second prepayment to the consortium of EUR 1,018,000 was received by Faron at the end of 2014, of which the share of the other consortium members was EUR 483,000 and Faron's share was EUR 535,000. An additional EUR 111,000 of the accumulated prepayments was recognised as income by Faron for the financial year 2014.

The Company has negotiated with Tekes for the postponement of the instalments of the first government loan (R&D loan from Tekes), for which the first instalment was due in 2014. Tekes provided Faron an additional two years for the payment of the first instalment which is therefore due in 2016. Faron also has a committed credit limit available of, up to EUR 800,000. These financing sources, in addition to expected milestone payments from Maruishi, the next one which is anticipated to be received in 2015, is expected to enable Faron to fund its operating expenses as planned, i.e. to proceed to the pivotal study in 2015.

A) Goverment loans (R&D loans from Tekes)

Tekes has granted two loans to the Company. The total amount was drawn down by the Company by the end of 2011. Both loans are government loans with a below-market rate of interest. The total loan periods are 10 years from the draw-down. The interest rate for these loans is the base rate set by the Finnish Ministry of Finance less 1 per cent., however, at least 3 per cent.. Repayment of these loans shall be initiated after 5 years, thereafter loan principals shall be paid back in equal instalments over the remaining loan period. In certain circumstances Tekes may, at its own discretion, extend the loan terms, convert the loans into capital loans or exempt the Company from repayment following the general terms of the loans. The loans do not include any covenants.

B) Convertible notes

Faron issued convertible notes in 2012, 2013 and 2014 to strengthen its financial position. The total amount issued was EUR 2,535,120.

All notes have been converted by 30 June 2015. The total number of shares issued due to the conversion was 121,534.

C) Bank overdraft facility

Faron has an overdraft facility with a bank. The total amount of the facility is EUR 800,000 and the related interest 4.4 per cent.

Contractual maturity of loans and interest at 30 June 2015

	2015	*2016*	*2017*	*2018*
Non-current financial liabilities				
Government loans				
Repayment of loans	—	245	338	338
Interest expenses	16	16	13	9
Current financial liabilities				
Government loans, current portion	—	—	—	—
Interest expenses	—	—	—	—
Bank overdraft facility	—	—	—	—
Trade payables	320	—	—	—
	336	261	351	347

2.1.2 *Credit risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for Faron by failing to discharge an obligation.

Credit risk arises from cash and cash equivalents as well as credit exposures to external parties, including amounts to be invoiced and outstanding receivables. Credit risk is managed on a company basis.

Currently Faron does significant business with one external counterparty, Maruishi. Over the coming years, Maruishi funding (milestone payments and reimbursable research expenses) remains critical for Faron's product development programs and is considered the main credit risk. However, this risk is partly mitigated by the fact that Faron's current collaboration partner is a large and internationally reputable pharmaceutical company that is believed to be financially solid. These collaborations are normally governed by contractual relationships that typically address and describe remedies for situations in which interests of Faron and the partner are no longer in line.

Faron's cash and cash equivalents are invested primarily in saving and deposit accounts with original maturities of three months or less. Those accounts generate a small amount of interest income. Faron seeks to work with partners with good credit ratings.

The Company has not incurred any credit losses over the reporting periods and management does not expect losses from non-performance by counterparties (for example, Maruishi). Thus, at the time being, credit risk is considered minor.

As Faron had no trade receivables at 30 June 2015, the ageing analysis of trade receivables is not presented.

2.1.3 *Market risk*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk:

- currency risk
- interest rate risk; and
- other price risk

A) Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument, e.g. a trade receivable, will fluctuate because of changes in foreign exchange rates.

Faron is exposed to foreign exchange risk arising from currency exposure, currently mainly with respect to the Japanese Yen. Faron's functional currency is the euro, but the Company receives payments from its Maruishi (based in Japan) in Japanese Yen. However, the impact of the foreign exchange risk arising from the Yen exposure is not considered significant in average. The borrowings and other liabilities of Faron are denominated in euro, the amount of any foreign currency denominated trade payables is insignificant. Foreign currency denominated trade receivables (and trade payables, if any) are short term in nature. As a result foreign exchange rate movements during the financial years presented had an immaterial effect on the financial statements. As currency risk is not considered significant, no formal practice has been established to manage the foreign exchange risk against the functional currency of the Company.

B) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings. Faron's borrowings are denominated in euro. The non-current borrowings issued at fixed rates expose the Company to interest rate risk. Interest rate is partially offset by cash held at variable rates. However, those borrowings are government loans with a below-market rate of interest. Thus the impact of interest rate risk on Faron is currently minor, and consequently any remaining interest rate risk is not hedged.

C) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer or by factors affecting all similar financial instruments traded in the market.

Price risk is not considered as being significant to Faron. The Company is not exposed to commodity price risk.

Faron does not hold investments classified as available-for-sale or at fair value through profit or loss, therefore it is not exposed to equity securities price risk.

2.2 ***Capital risk management***

Faron's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital. The total amount of equity as recognised in the balance sheet is seen and managed as capital by Faron. In order to maintain or adjust the capital structure, Faron may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

To advance the drug development programs into commercialised pharmaceutical products requires significant financial resources. Faron relies on its ability to fund its operations through three major sources of financing:

1) Equity financing: Faron's funding is partly organised through equity financing. Management monitors liquidity on the basis of the amount of funds. These are reported to the Board regularly.

2) Commercialisation, collaboration and licensing agreements: by entering into said agreements with larger pharmaceutical companies Faron is entitled to receive upfront and milestone-dependent payments from these partners. Activities in the area of business development are targeted at securing such agreements. These activities are an integral part of the duties of the management and are monitored by the Board of Directors, which ultimately decides whether to enter into such agreements.

3) Research and development grants and loans: In addition to the sources of funding described above. Faron also relies on different sources of R&D grants and loans. Various regional, national or EU level institutions provide these funds with the aim of fostering economic and technological progress in the region in which Faron operates. Such funds have been historically available to Faron at substantial levels. Faron is in regular contact with the funding agencies. The availability of such funds in the future cannot be guaranteed.

Faron's Board of Directors approves the operational plans and budget of the Company. The Board regularly follows up the implementation of these plans and the financial status.

2.3 ***Fair value estimation***

A number of the Faron's accounting policies and disclosures require the measurement of fair values. For Faron this applies primarily to financial assets and liabilities.

For financial instruments that are measured in the balance sheet at fair value, IFRS requires disclosure of fair value measurements by level of the fair value measurement hierarchy. Fair value hierarchy is based on the source of inputs used in determining fair values (used in the valuation techniques) as follows:

- Level 1: fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: fair values are based on market rates and prices, discounted future cash flows etc. Thus inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) are used.
- Level 3: for assets and liabilities in level three, there is no reliable market source available and thus fair value measurement cannot be based on observable market data (unobservable inputs).

When measuring the fair value of an asset or a liability, Faron uses market observable data as far as possible.

3. Revenue

In 2013 all revenues were generated from sales of API materials and derived from a single external customer. In 2014 and the six month period ended 30 June 2015 revenue consisted of income generated from sale of both API and IMP materials.

4. Segment reporting

Faron's chief operating decision maker has been identified as the Chief Executive Officer (CEO). The CEO manages Faron as one integrated business and hence Faron has one operating and reportable segment. Currently Faron operates only in Finland.

5. Other operating income

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Grants from EU	—	661	111	—
Grant from Tekes	439	226	—	—
Other items	9	3	—	—
Total other operating income	448	890	111	—

At the end of 2012, the pan-European "Traumakine" consortium for which Faron is the Coordinator, signed a grant agreement in respect of a EUR 5,963,000 research grant awarded by the European Commission from the seventh framework program (FP7) to support the FP-1201-lyo clinical phase III program ("Traumakine"), focusing on the development of a first pharmacological treatment for acute respiratory distress syndrome (ARDS). The first payment under the grant, received in 2013, by Faron on behalf of the consortium amounted to EUR 1,693,000, of which EUR 660,000 has been recognised as other operating income. The second grant payment, EUR 1,018,000 was received in the end of 2014, of which EUR 111,000 has been recognised as other operating income.

The Company will defer elements of the grants to the point in which the respective milestones are completed (i.e. the milestones which are set out within the EU Grant agreement). Once these milestones are met the amount due to the Company is recognised as other operating income.

6. Employee benefit expense

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Salaries	(290)	(430)	(446)	(281)
Contributions to defined contribution post-employment plans	(42)	(58)	(69)	(29)
Social security contributions	(11)	(9)	(15)	(10)
Total employee benefit expenses	(343)	(497)	(530)	(320)
Average number of personnel				
Finland	4	4	5	5
Total	4	4	5	5

For further information on management remuneration see Note 20. Related party transactions.

7. Depreciation and amortisation

Depreciation and amortisation allocated to functions

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Research and development	(46)	(50)	(60)	(74)
Administration	(6)	(6)	—	—
Total depreciation and amortisation	(52)	(56)	(60)	(74)
Depreciation and amortisation by asset categories				
Machinery and equipment	(1)	—	—	—
Total depreciation	(1)	—	—	—
Intangible assets				
Patents	(51)	(56)	(60)	(29)
Documentation assets	—	—	—	(45)
Total amortisation	(51)	(56)	(60)	(74)
Total depreciation and amortisation	(52)	(56)	(60)	(74)

The Company has not recorded any impairment losses in 2012 to 30 June 2015.

8. Financial income and expenses

Faron has received two government loans for research and development purposes with below-market interest rate from Tekes. Both loans were drawn down before the date to transition to IFRS (i.e. prior to 1 January 2012). Thus, based on the exemption under IFRS 1, Faron has measured the government loans using the previous FAS carrying amount as the carrying amount of the loan. Subsequently, both loans are carried at amortised cost using the effective interest rate. The other financial expenses comprise of interest of credit limit, expenses of loan guarantees and interests on late payments.

See Notes 2 Financial risk management for further details.

Financial income

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Other financial income	1	3	16	—
Total financial income	1	3	16	—
Financial expenses				
Interest on government loans (Tekes)	(17)	(14)	(15)	(13)
Fair value changes on convertible notes	(10)	11	—	—
Interest expenses on convertible notes	(21)	(18)	(67)	(9)
Other financial expenses	(59)	(250)	(64)	(18)
Total financial expenses	(107)	(271)	(146)	(40)
Total financial income and expenses	(106)	(268)	(130)	(40)

9. Income taxes

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Current income taxes	—	—	—	—
Tax at source	—	—	(6)	(42)
Total income taxes	—	—	(6)	(42)

Tax at source related to payment of advisory fees to the non-Finnish members of the Clinical trial steering group.

Reconciliation of effective tax rate

The Finnish corporate tax rate applied was 24.5 per cent. for 31 Dec 2012, 31 Dec 2013 and 31 Dec 2014 and 20 per cent. for the 6 months ended 30 June 2015

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Loss before income tax	(2,460)	(1,508)	(1,358)	(2,391)
Tax using Faron's domestic corporate tax rate	(621)	(371)	(333)	(486)
Tax at source	—	—	(6)	(42)
Current-year losses for which no deferred tax asset is recognised	621	371	333	486
Taxes in the income statement	—	—	(6)	(42)

Items for which Faron has not recognised a deferred tax asset

R&D expenses not yet deducted in taxation[1]	2,816	2,816	2,816	2,816
The tax losses carried forward approved by tax authorities[2]	3,164	3,164	3,164	4,328
Deductible temporary differences for which no deferred asset has been recognised	5,980	5,980	5,980	7,144

1) Faron has incurred research and development costs in the financial years 2010 and 2011 that have not yet been deducted in its taxation. The amount can be deducted over an indefinite period with amounts that the Company may freely decide.

2) These losses expire over the years 2018 to 2022. The amount presented for the year-end 2014 and the six month period ended 30 June 2015 does not include the deductible temporary difference arisen from the net loss for the financial year 2014 and the six month period ended 30 June 2015 as the related loss has not been approved by tax authorities by the time of preparation of these financial statements.

The related deferred tax assets have not been recognised due to the uncertainty as to whether they can be utilised.

10. Loss per share

Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Loss attributable to equity holders of the Company (EUR 1,000)	(2,460)	(1,508)	(1,364)	(2,433)
Weighted average number of ordinary shares in issue	1,414,876	1,456,361	1,493,559	1,684,393
Basic (and dilutive) loss per share, EUR	(1.74)	(1.04)	(0.91)	(1.44)
Weighted-average number of ordinary shares				
Issued ordinary shares at the beginning of the period	1,413,700	1,453,380	1,457,068	1,576,893
Effect of shares issued	1,176	2,981	36,491	107,500
Weighted-average number of ordinary shares at the end of the period	1,414,876	1,456,361	1,493,559	1,684,393

Diluted

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

In the financial year 2012, 2013 and 2014 Faron issued convertible notes that in principle are dilutive instruments, since their conversion into shares increases the number of ordinary shares. However, as Faron's net result for the years presented in these financial statements has been negative, the convertible notes are not considered dilutive instruments as their impact on loss per share, through the adjustment of the related interest expenses (net of taxes), is positive (i.e. antidilutive). These notes were converted into shares in 2013, 2014 and June 2015.

Thus, for Faron, diluted loss per share is equal to basic loss per share.

11. Machinery and equipment and intangible assets

	Machinery and equipment				*Patents*				*Documentation assets*				*Total intangible assets*				*Total machinery and equipment and intangible assets*			
	31 Dec 2012	*31 Dec 2013*	*31 Dec 2014*	*30 June 2015*	*31 Dec 2012*	*31 Dec 2013*	*31 Dec 2014*	*30 June 2015*	*31 Dec 2012*	*31 Dec 2013*	*31 Dec 2014*	*30 June 2015*	*31 Dec 2012*	*31 Dec 2013*	*31 Dec 2014*	*30 June 2015*	*31 Dec 2012*	*31 Dec 2013*	*31 Dec 2014*	*30 June 2015*
Cost																				
Balance at beginning of period																				
Cost	2	2	2	2	474	559	602	646	237	770	800	907	711	1,329	1,402	1,553	713	1,331	1,404	1,555
Additions	—	—	—	—	85	43	44	70	533	30	107	—	618	73	151	70	618	73	151	70
Disposals	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Transfers	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Balance at end of period	2	2	2	2	559	602	646	716	770	800	907	907	1,329	1,402	1,553	1,623	1,331	1,404	1,555	1,625
Accumulated depreciation/amortisation																				
Balance at beginning of period	(1)	(2)	(2)	(2)	(202)	(253)	(309)	(369)	—	—	—	—	(202)	(253)	(309)	(369)	(203)	(255)	(311)	(371)
Depreciation/amortisation	(1)	—	—	—	(51)	(56)	(60)	(29)	—	—	—	(45)	(51)	(56)	(60)	(74)	(52)	(56)	(60)	(74)
Balance at end of period	(2)	(2)	(2)	(2)	(253)	(309)	(369)	(398)	—	—	—	(45)	(253)	(309)	(369)	(443)	(255)	(311)	(371)	(445)
Net book value at beginning of period	1	—	—	—	272	306	293	277	237	770	800	907	509	1,076	1,093	1,184	510	1,076	1,093	1,184
Net book value at end of period	—	—	—	—	306	293	277	318	770	800	907	862	1,076	1,093	1,184	1,180	1,076	1,093	1,184	1,180

Finance leases

During the years presented no assets leased under finance leases were capitalised.

Documentation assets

The cost of the documentation which has arisen in conjunction with the development work of Faron is recorded in intangible assets. This documentation consists of API documentation (see Note 1.11.2 Intangible assets for further details). Faron completed these assets in 2014 and will subsequently amortise the assets in line with agreed policy.

Orphan drug status

Faron has been granted an orphan drug status for the treatment of ALI/ARDS with interferon beta by the European Commission and the European Medicines Agency (EMA) under the registration number EU/3/07/505. The orphan drug status granted by the EMA entitles the holder an exclusive right for the marketing and sales of a drug within the European Union for 10 years as from the grant date of the approval. This status is transferable. No costs related to this status have been capitalised. Thus the orphan drug status represents an off-balance sheet asset.

12. Inventories

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Finished goods	546	1,099	699	649
Inventories total	546	1,099	699	649

The cost of inventories recognised as an expense and included in the line item "Cost of sales" amounted to EUR 50,000 (2014: 400,000, 2013: 100,000; 2012: zero).

Faron has not recognised any impairment losses on inventories in the financial years 2012, 2013, 2014 and the six month period ended 30 June 2015.

13. Current receivables

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Loans and receivables				
Trade receivables	—	—	—	—
Prepayments	—	—	—	540
Accrued items	289	15	23	10
Other receivables	25	30	17	97
Total trade and other receivables	314	45	40	647

14. Cash and cash equivalents

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Bank balances	—	—	242	2,276
Total cash and cash equivalents	—	—	242	2,276

15. Equity and reserves

	Number of shares	*Share capital €'000*	*Reserve for invested non-restricted equity €'000*	*Share capital not registered €'000*	*Total €'000*
In issue at 1 January 2012	1,413,700	5	5,328	—	5,333
Shares issued	39,680	1,290	—	—	1,290
31 December 2012	1,453,380	1,295	5,328	—	6,623
Shares issued	3,688	121	—	—	121
Issued for merger consideration (see below)	1,000,000	—	—	—	—
Cancelled in merger	(1,000,000)	—	—	—	—
Shares issued not registered	—	—	—	1,275	1,275
31 December 2013	1,457,068	1,416	5,328	1,275	8,019
Shares registered	35,424	1,275	—	(1,275)	—
Shares issued	53,133	—	1,125	—	1,125
31 December 2014	1,545,625	2,691	6,453	—	9,144
Shares issued	380,930	—	5,050	—	5,050
30 June 2015	1,926,555	2,691	11,503	—	14,194

Full details of changes in the company's issued and fully paid share capital are set out at paragraph 4.8 of section 4 of Part VII of this document.

On 18 June 2013 the Company cancelled 1,000,000 of its shares owned by Faron Holding Oy and issued 1,000,000 new shares to the shareholders of Faron Holding Oy under the terms of a merger agreement which was registered and completed on 31 December 2013 and under which agreement the shareholders of Faron Holding Oy became direct shareholders in the Company.

As at 30 June 2015, the Company's total number of shares was 1,926,555 and the share capital is EUR 2,691,292.50.

For further information on the convertible notes see also Note 16. Non-current financial liabilities and other liabilities. Details on the management shareholding are disclosed in Note 20. Related party transactions.

Nature and purpose of reserves

Share capital

The subscription price of a share received by the company in connection with share issues is credited to the share capital, unless it is provided in the share issue decision that a part of the subscription price is to be recorded in the fund for invested non-restricted equity.

Fund for invested non-restricted equity

The fund for invested non-restricted equity includes other equity investments and that part of the subscription price of the shares that according to the related decision is not to be credited to the share capital.

Convertible loan notes

The Company has issued a number of convertible loan notes in the period from 1 January 2012, which have all been converted into fixed numbers of new ordinary shares by 30 June 2015 and have been recognised through equity.

Warrants

The Company has issued warrants in conjunction with share subscriptions and convertible loan notes. These entitled the holder to convert the warrants into new ordinary shares in the event the Company did not achieve a listing event. No consideration was paid for the warrants due to the link with the terms of the share subscriptions and convertible notes and these have all been recognised upon conversion.

The Company has not paid any dividends.

16. Non-current financial liabilities and other liabilities

Interest-bearing financial liabilities

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Amortised cost				
Tekes loan	1,690	1,445	1,691	1,446
Fair value through profit and loss				
Convertible notes	131	—	—	—
Total non-current financial liabilities	1,821	1,445	1,691	1,446
Other non-current liability	—	—	—	—
Total other non-current liabilities	—	—	—	—
Total non-current liabilities	1,821	1,445	1,691	1,446

Further information on Faron's financial liabilities and related arrangements is presented in Note 2. Financial risk management. See also Note 17. Current financial liabilities and other liabilities below.

17. Current financial liabilities and other liabilities

Interest-bearing financial liabilities

	12 months ended 31 Dec 2012 €'000	*12 months ended 31 Dec 2013 €'000*	*12 months ended 31 Dec 2014 €'000*	*6 months ended 30 Jun 2015 €'000*
Amortised cost				
Government loans (current portion)	—	245	—	245
Bank overdraft	777	343	—	—
	777	588	—	245
Non-interest-bearing financial liabilities				
Amortised cost				
Trade payables	89	45	10	320
	89	45	10	320
Other liabilities				
Amortised cost				
Other creditors and deferred income	—	1,033	1,456	1,187
Accrued expenses	78	66	150	106
Other liabilities	8	9	46	18
	86	1,108	1,652	1,311
Total current financial liabilities and other liabilities	952	1,741	1,662	1,876

Other creditors and deferred income represents amounts held by Faron in relation to the consortium grant received, the money is held as a creditor until paid out to partners or recognised as income by Faron.

18. Carrying amounts of financial assets and liabilities by measurement categories

Faron has elected to apply the exemption provided under IFRS 1 to its government loans (Tekes), drawn in 2010 and 2011. The loans are stated at the carrying amount measured using the previous GAAP. The carrying amounts are presented below.

	31 Dec 2012 *€'000*	*31 Dec 2013* *€'000*	*31 Dec 2014* *€'000*	*30 Jun 2015* *€'000*
Carrying amount[1]	1,691	1,691	1,691	1,691

1) Includes both the non-current and current portions

19. Contingencies and commitments

	31 Dec 2012 *€'000*	*31 Dec 2013* *€'000*	*31 Dec 2014* *€'000*	*30 Jun 2015* *€'000*
Financial liabilities, for which mortgages have been issued	777	343	—	—
Corporate mortgages	800	800	800	800
	1,577	1,143	800	800

Operating lease – Faron as a lessee

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

	31 Dec 2014 *€'000*	*31 Dec 2013* *€'000*	*31 Dec 2012* *€'000*	*30 Jun 2015* *€'000*
No later than 1 year	9	9	17	82
Later than 1 year and no later than 5 years	—	—	24	19
Later than 5 years	—	—	—	
Total	9	9	41	101

Faron leases equipment under non-cancellable operating leases. The lease terms are between 3 and 4 years.

The operating facilities used currently are leased under a cancellable operating lease. Faron is required to give a three-month notice for the termination of this agreement.

20. Transactions with related parties

Related parties of the Company

Faron's related parties comprise the following:

- Marko Salmi, a private individual having significant influence in Faron Pharmaceuticals Oy, following from the shareholding of 17.6 per cent., as at 30 June 2015.
- Board of Directors; and
- the Company's key management personnel (see below)

Faron Holding Ltd. was a related party of the Company in the previous financial years; see the paragraph headed Transactions with related parties below.

Faron had no interests in other entities at the end of the reporting periods presented in these financial statements.

Key management personnel

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

- members of the Board of Directors
- Management Team comprising CEO Markku Jalkanen, PhD; VP Ilse Piippo, MD, MSc (Pharm) and Res. Dir. Mikael Maksimow, PhD, CFO Yrjö Wichmann MSc (Econ)

Remuneration of key management personnel

	31 Dec 2012 *€'000*	*31 Dec 2013* *€'000*	*31 Dec 2014* *€'000*	*30 Jun 2015* *€'000*
Salaries and other short-term employee benefits	278	262	472	206
Post-employment benefits (defined contribution plans)	47	45	—	27
Total	325	307	472	233

Transactions with related parties

Faron has not carried out any transactions with related parties in the financial years presented in these financial statements, except that the former parent company of Faron Pharmaceuticals Ltd., Faron Holding Ltd., merged into its subsidiary Faron Pharmaceuticals Ltd. at 31 December 2013.

21. Nature of financial information

The financial information on Faron presented above does not constitute statutory financial statements for Faron for either of the three years ended 31 December 2012, 31 December 2013 and 31 December 2014 or for the six months ended 30 June 2014.

PART V

TAXATION

The information in this section is intended as a general summary of certain elements of Finnish and UK tax laws and should not be construed as constituting advice. Shareholders should obtain advice from their own investment or taxation adviser. Shareholders should be aware that the Company is tax resident in Finland.

1. Finnish Taxation

The following summary is based on the tax laws of Finland in effect and applied on the date of this document as well as on the current tax practice. Any changes in Finnish tax laws and in their interpretation may also have a retroactive effect. The summary is not exhaustive and does not take into account or discuss the tax laws of any country other than Finland. Shareholders are advised to consult their own tax adviser as to the Finnish tax consequences in connection with the Ordinary Shares in Finland. Shareholders, who may be affected by the tax laws of other jurisdictions, should consult a tax adviser with respect to the tax consequences applicable to their particular circumstances.

1.1 *Background*

The following is a description of the material Finnish income and transfer tax consequences that may be relevant with respect to a holding of the Ordinary Shares. The description below only addresses Finnish tax legislation and does not take into account the tax laws of any other country. The following does not address tax consequences applicable to shareholders that may be subject to special tax rules. Such shareholders include, among others, entities exempted from income tax as well as general or limited partnerships. Furthermore, this description addresses neither the tax consequences of Finnish resident shareholders in controlled foreign corporations nor Finnish inheritance tax nor gift tax consequences.

This description is based on:

- The Finnish Income Tax Act (1535/1992, as amended);
- The Finnish Business Income Tax Act (360/1968, as amended);
- The Finnish Act on Taxation of Income of Non-residents (627/1978, as amended); and
- The Finnish Transfer Tax Act (931/1996, as amended).

In addition, relevant case law, decisions and statements made by the tax authorities in effect and available at the date of this document have been taken into account. Tax legislation, legal practice and statements of tax authorities are subject to change and such changes may also have a retroactive effect.

1.2 *Overview*

Finnish residents and non-residents are treated differently for tax purposes. The global income of persons resident in Finland is subject to taxation in Finland. Non-residents are taxed only on Finnish source income. In addition, and subject to applicable tax treaty provisions, all income of a non-resident derived from a permanent establishment located in Finland will be taxed in Finland. Tax treaties entered into by Finland may restrict the applicability of Finnish internal tax legislation and prevent the taxation of income of a resident or non-resident individual.

An individual is deemed to be a Finnish resident if such individual stays in Finland for more than six consecutive months or if the permanent home and dwelling of such individual is in Finland. A Finnish citizen is deemed to be a resident of Finland during the year he or she has emigrated from Finland and for the three subsequent years unless he or she proves that no essential links with Finland have existed during the tax year. Earned income of an individual, including salary, is taxed at progressive tax rates while capital income up to €30,000 is taxed at a rate of 30 per cent. and capital income exceeding €30,000 at a rate of 33 per cent.

Corporate entities established under the laws of Finland are regarded as Finnish residents and thus their global income is subject to taxation in Finland. The corporate income tax rate in Finland is 20 per cent.

1.3 ***Taxation of Finnish companies***

(A) *Capital gains and capital losses*

Finnish companies are subject to corporate income tax on their global income. As a main rule, any capital gain arising from the disposal of Ordinary Shares, is included either in the taxable income attributable to business activities (business income source) or to passive assets (other income source) of a Finnish resident company. The taxable income of a Finnish resident company is separately determined for its business activities and for its other activities, both of which are taxed at a flat tax rate of 20 per cent. Capital gain (and also capital loss) is calculated by deducting the total sum of the actual acquisition cost and sales-related expenses from the sales proceeds.

As a main rule, any capital loss arising from the sale of Ordinary Shares attributable to business activities is initially deductible from income in the business income source. Confirmed losses from business activities can be carried forward from the taxable income from business activities for ten years following the loss-making year. Capital losses attributable to other income can only be offset against capital gains arising in the same income source and can be carried forward only for the subsequent five tax years.

Despite the above mentioned, capital gains arising from the disposal of shares in a limited liability company may be tax-exempt for corporate entities (excluding capital investors) provided, among other things, that the seller company has owned at least 10 per cent. of the other company's share capital, the seller company has owned the shares for at least a period of one year and the shares belong to the seller's fixed assets attributable to the business income source. Losses relating to the disposal of such shares, which qualify for the before mentioned tax exemption, will not be tax deductible. Capital losses arising from disposal of shares, which belong to the seller's fixed assets but do not qualify for the before mentioned tax exemption are deductible only from capital gains arising from disposal of shares during the same tax year and during the subsequent five years.

(B) *Dividend income*

The tax treatment of dividends distributed by a company which shares are at the time the decision to distribute dividends is made subject to trade: (1) in a regulated market as specified in Act on Trading in Financial Instruments (748/2012); (2) in a another regulated market outside the EEA supervised by the authorities; or (3) in a multilateral trading facility as set forth in the Act on Trading in Financial Instruments, provided that the securities issued by the company are traded at the company's consent, varies depending on whether the Finnish resident shareholder is a listed or a non-listed company.

When the shareholder is a listed company, dividends received by such shareholders are, as a main rule, not taxable income. However, in the event that the underlying Finnish shares belong to the investment assets of such a shareholder, 75 per cent. of the dividend received by the listed company is taxable income and 25 per cent. is tax-exempt income. Only financial, insurance and pension institutions may have investment assets. The actual tax rate in these situations is 15 per cent.

If the recipient is a non-listed company, the dividends it receives are fully taxable income if such a shareholder does not directly own at least 10 per cent. of the share capital of the distributing company. If the direct ownership is at least 10 per cent. when the dividend is distributed, the dividend received on such shares is tax-exempt. However, if a non-listed company receives dividends from shares of a Finnish company included in its investment assets, 75 per cent. of the dividend is taxable income and 25 per cent. is tax-exempt regardless of the ownership threshold.

1.4 ***Taxation of individuals resident in Finland***

(A) *Capital gains and capital losses*

As a main rule, any gain arising from the disposal of Ordinary Shares is taxable as capital income for Individuals. Any loss arising from the disposal of Ordinary Shares is, as a main rule, deductible from capital gains. The current tax rate applied to such capital gains is 30 per cent. for capital income of up to €30,000 and 33 per cent. for capital income exceeding €30,000. Capital gains are, however, exempted from tax if the total amount of the sales proceeds of the sold assets of an Individual does not exceed €1,000 during a tax year. Capital losses arising from the disposal of Ordinary Shares, which do not belong to the Individual's business activities, are deductible only from capital gains arising from the disposal of assets during the same year or during the subsequent five years. Capital losses will not, however, be tax deductible if the total amount of the acquisition costs of the assets sold by the Individual does not exceed €1,000 during the tax year.

Capital gain and loss is calculated by deducting the actual acquisition costs and sales-related expenses from the sales proceeds. Alternatively, individuals may choose to apply the so called presumptive acquisition cost instead of the actual acquisition cost for the shares. As the presumptive acquisition cost, 20 per cent. is deducted from the sales proceeds but, if the shareholder has held the shares for at least ten years, the presumptive acquisition cost is 40 per cent. of the sales proceeds. If the presumptive acquisition cost is applied instead of the actual acquisition cost, any sales-related expenses are deemed to be included and may therefore not separately be deducted. Natural persons resident in Finland must enter information about any disposal of shares during the tax year in their pre-completed tax return.

(B) *Dividend income*

85 per cent. of dividends received by a natural person resident in Finland from a listed company is taxable as capital income, whereas 15 per cent. is tax-exempt income, provided that the Ordinary Shares do not belong to the assets of the individual's business activities. The current applicable tax rate is 30 per cent. for capital income of up to €30,000 and 33 per cent. for capital income exceeding €30,000. When a Listed Company distributes dividends to individuals, the company is obligated to withhold advance tax on the dividend payments. On the date of this document, the tax withholding is 25.5 per cent. of the amount of the dividend. The withholding tax withheld by the distributing company is credited against the final tax payable of the tax year by the recipient of the dividend.

Individuals must check from their pre-completed tax return that the dividend information is correct, and, when necessary, correct the right amount of dividends and withholding of tax to the tax authorities.

1.5 ***Taxation of non-resident investors***

(A) *Capital gains and capital losses*

Non-resident investors are not subject to Finnish tax on capital gains arising from disposals of Ordinary Shares, provided that the disposals of the Ordinary Shares do not relate to business carried out in Finland (through a permanent establishment in Finland) and provided that not more than 50 per cent. of the total assets of the transferred company consists of one or more real estates located in Finland.

(B) *Dividend income*

In connection with the payment of dividends from a Finnish company to a non-resident investor, the Finnish dividend payer is obliged to withhold withholding tax in connection with the payment of the dividend.

The current withholding tax rate under Finnish provisions applicable to dividends paid to non-resident natural persons is 30 per cent. The rate applicable to dividends paid to non-resident corporate entities is currently 20 per cent. under Finnish provisions. The withholding tax rate may be reduced or the dividends may be tax exempt pursuant to Finnish domestic legislation or applicable tax treaty provisions.

Pursuant to Finnish domestic legislation no withholding tax is levied on dividends paid to corporate entities qualifying under Article 2 of the so-called Parent-subsidiary Directive (90/435/EEC) if the recipient company owns directly at least 10 per cent. of the share capital of the dividend distributing Finnish company.

No withholding tax is levied on Finnish-source dividends paid to a non-resident entity, if:

(i) the entity receiving the dividend resides in the EEA;

(ii) the council directive 2011/16/EU on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC or an agreement on mutual administrative assistance and information exchange in tax matters in EEA applies to the residence state of the recipient of the dividend;

(iii) the company receiving dividends may be deemed equivalent to a Finnish corporation as defined in the Finnish Income Tax Act section 33d sub-section 4 or section 6a of the Finnish Business Income Tax Act;

(iv) the dividend would be fully tax-exempt if paid to a Finnish limited liability company; and

(v) the entity establishes (for instance with a certificate from the home member state's tax authority) that in accordance with the agreements on avoidance of double taxation applicable in the state of residence of the recipient of the dividends, the withholding tax cannot be reimbursed in full.

Notwithstanding the aforementioned, if the shares in the distributing company belong to the investment assets of the recipient corporate entity, the applicable withholding tax rate is 15 per cent. if:

a) the dividend recipient is a non-resident entity as defined in The Finnish Act on Taxation of Income of Non-residents section 3 sub-section 5, and the dividend recipient is not a company referred to in the EU Parent-subsidiary Directive that directly holds a minimum of 10 per cent. of the share capital of the dividend distributing entity at the time of dividend distribution;

b) the dividend recipient is a foreign entity that is equivalent to a domestic pension institution and domiciled in the EEA, and the dividend recipient is not a company as referred to in the EU Parent-subsidiary Directive that directly holds a minimum of 10 per cent. of the share capital of the dividend distributing entity at the time of dividend distribution; or

c) the dividend recipient is a foreign entity that is equivalent to a domestic pension institution and directly holds less than ten per cent. of the share capital of the dividend distributing entity, Finland and the home state of the dividend recipient have an information exchange agreement concerning tax matters, and sufficient information is available from the home state of the dividend recipient to allow the execution of taxation.

A withholding tax of 15 per cent., or a higher percentage provided for in the applicable tax treaty, is levied on nominee-registered shares provided for that the distributing company has with due care ascertained that the provisions on dividend payments in the applicable tax treaty are applicable to the recipient corporate entity.

If the recipient is a non-resident natural person residing within the EEA, he or she may request that the tax on the dividend distributed by a Finnish company is assessed in accordance with the Finnish Act on Taxation Procedure instead of the Finnish Act on Taxation of Income of Non-residents. This requires, however, that mutual administrative assistance in tax matters is organised between Finland and the state of residence of the recipient in accordance with the council directive 2011/16/EU on administrative co-operation in the field of taxation and repealing Directive 77/799/EEC or a treaty on mutual administrative assistance and information exchange in tax matters in EEA.

Furthermore, it is provided that according to the applicable tax treaty, withholding tax cannot be credited in its entirety in the country of residence of the recipient, and the recipient provides a statement that the withholding tax levied at source cannot be credited in full in its state of residence.

1.6 ***Transfer tax***

The transfer of securities is transfer tax exempted provided that the securities are transferred against fixed cash consideration and the securities are subject to trade in a regular trading that is open to public i.e. (1) in public trading in regulated markets as specified in the Act on Trading in Financial Instruments (748/2012); (2) in another regulated market, which are supervised by the authorities, in a non-EEA state with which Finland has an agreement on mutual executive assistance; or (3) multilateral trading facilities as set forth in the Act on the Book-entry System and Clearing Activities (749/2012) on mutual trading system comparable to it as defined in the applicable EU Directive provided that securities issued by the company are traded at the company's consent and the securities are included in a Finnish book-entry system or a foreign system similar to the book-entry system utilised in Finland. An additional requirement for the transfer tax exemption is that a broker or counterparty to the transaction is an investment company referred to in the Act on Investment Services (747/2012), a foreign investment company or another investment service provider as referred in the Act on Investment Services or the recipient party of the trade is acknowledged as a party to trading on the market where the transaction takes place. Transfer tax exemption shall not apply to certain transfers specified in the Finnish Transfer Tax Act section 15a of sub-section 4.

If the shares are to be transferred outside the stock exchange, and either the seller or the buyer or both are resident in Finland for tax purposes, a transfer tax at a rate of 1.6 per cent. of the purchase price is payable by the buyer. The seller may elect to pay the transfer tax on behalf of the buyer; this arrangement should be agreed in advance of any transaction subject to transfer tax. The seller may incur an additional tax charge for the payment of tax on behalf of a buyer.

If neither the buyer nor the seller is tax resident in Finland or a Finnish branch or office of a foreign credit institution, investment firm, foreign fund company or EEA Alternative Investment Fund Managers, the transfer of shares will be exempt from Finnish transfer tax (transfers of qualified real estate companies are, however, subject to transfer tax).

Where a Finnish investment firm or credit institution or the Finnish branch or office of a foreign investment firm or credit institution is a party to, or is used as a broker in the transaction, it is liable to collect the possible transfer tax from the buyer and account the tax to the state.

No Finnish transfer tax is payable in connection with the issuance or subscription of new shares.

2. United Kingdom Taxation

The following statements are based on current UK tax law as applied in England and Wales and the published practice of HM Revenue & Customs ("HMRC"), which may not be binding on HMRC, as at the date of this document, both of which are subject to change at any time (possibly with retrospective effect). The information is given by way of general summary only and does not purport to be a comprehensive analysis of the UK tax consequences applicable to Shareholders and DI Holders and may not apply to certain classes of Shareholders or DI Holders, such as dealers in securities, insurance companies and collective investment schemes or to Shareholders or DI Holders who are exempt from taxation or who have (or are deemed to have) acquired their Ordinary Shares or Depositary Interests by virtue of an office or employment. Such persons may be subject to special rules.

In addition, except where the position of non-UK residents is expressly referred to, the following statements relate solely to Shareholders and DI Holders who are either resident, and in the case of individuals, domiciled, in the United Kingdom for tax purposes, who hold the Ordinary Shares or Depositary Interests as an investment and who are the absolute beneficial owners thereof. The statements further assume that the DI Holders are the beneficial owners of the underlying Ordinary Shares.

There is a UK: Finland double taxation convention that UK tax resident Shareholders and DI Holders need to consider their position and obligations under the terms of this convention.

Any person who is in any doubt as to his or her tax position, or who is subject to taxation in any jurisdiction other than that of the UK, should consult his or her professional advisers immediately.

2.1 ***Taxation of dividends and distributions***

The following paragraphs apply equally to Shareholders and DI Holders.

A UK resident individual Shareholder or DI Holder generally will be entitled to a tax credit in respect of any dividend received from the Company and will be taxed on the aggregate of the dividend and the tax credit (the "Gross Dividend"). The value of the tax credit is one ninth of the dividend received (or 10 per cent. of the Gross Dividend (before deduction of any Finnish withholding tax (if any)). The Gross Dividend will be part of the Shareholder's or DI Holder's total income for UK purposes and will be treated as the top slice of that income.

In the case of a UK resident individual Shareholder or DI Holder who is liable to income tax at the starting and basic rates only, the tax credit will satisfy in full such Shareholder's or DI Holder's liability to income tax on the dividend received, therefore, there will be no further tax to pay on the dividend received. A UK resident individual Shareholder or DI Holder who is liable to income tax at the higher rate will be subject to income tax on the Gross Dividend at 32.5 per cent., but will be able to set the tax credit off against part of this liability. As a result, such a Shareholder or DI Holder will be liable to pay further income tax equal to 22.5 per cent. of the Gross Dividend (which is also equal to 25 per cent. of the cash dividend (before deduction of any Finnish withholding tax (if any)). A UK resident individual Shareholder or DI Holder who is liable to income tax at the additional rate will be subject to income tax on the Gross Dividend at 37.5 per cent., but will be able to set the tax credit off against part of this liability. As a result, such a Shareholder or DI Holder will be liable to pay further income tax equal to 27.5 per cent. of the Gross Dividend (which is also equal to approximately 30.6 per cent. of the cash dividend (before deduction of any Finnish withholding tax (if any)).

Any Finnish withholding tax withheld from the payment of a dividend will generally be available as a credit against the income tax payable by an individual Shareholder or an individual DI Holder in respect of the dividend. Shareholders or DI Holders within the charge to UK corporation tax in respect of the Ordinary Shares, or Depositary Interests, which are not "small companies" (for the purposes of UK taxation and dividends) will not generally expect to be subject to tax on dividends from the Company. Other Shareholders or DI Holders within the charge to UK corporation tax will be subject to corporation tax on the gross amount of any dividends paid by the Company unless the dividends fall within an exempt class and certain other conditions are met. Each Shareholder's or DI Holder's position will depend on its own individual circumstances. Although it would normally be expected that the dividends paid by the Company would fall within an exempt class, the exemptions are not comprehensive and are also subject to anti-avoidance rules. Shareholders within the charge to UK corporation tax should consult their own professional advisers. UK resident Shareholders and DI Holders who are not liable to income tax on dividends, including pension funds and charities, are not entitled to claim payment of the tax credit attaching to dividends paid by the Company.

UK resident Shareholders and DI Holders will not be able to claim repayment of any part of the tax credit attaching to dividends received from the Company. Non-UK resident Shareholders and DI Holders may be subject to tax on dividends paid by the Company under any law to which they are subject outside the United Kingdom. Non-UK resident Shareholders and DI Holders should obtain their own tax advice concerning tax liabilities on dividends received from the Company. Under current UK legislation, no tax is withheld from dividend payments by the Company.

2.2 ***Taxation and chargeable gains***

A disposal or deemed disposal of Ordinary Shares by a Shareholder, or Depositary Interests by a DI Holder, who is (at any time in the relevant tax year) resident for tax purposes in the United Kingdom may, depending upon the Shareholder's or DI Holder's circumstances and subject to any available exemption or relief, give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of chargeable gains.

A Shareholder or DI Holder who is not resident for tax purposes in the United Kingdom will not generally be liable to UK taxation of chargeable gains on a disposal or deemed disposal of Ordinary Shares or Depositary Interests unless they are carrying on a trade, profession or vocation in the United Kingdom through a branch or agency (or, in the case of a corporate Shareholder or DI Holder through a permanent establishment) in connection with which the Ordinary Shares or Depositary Interests are used, held or acquired.

An individual Shareholder or DI Holder who has ceased to be resident for tax purposes in the United Kingdom for a period of five years or less and who disposes of all or part of his or her Ordinary Shares or Depositary Interests during that period may also be liable to UK capital gains tax on his or her return to the United Kingdom, subject to any available exemptions or reliefs.

2.3 ***Section 13 TCGA 1992: deemed gains***

Section 13 of the UK Taxation of Chargeable Gains Act 1992 may apply to Shareholders and DI Holders who are resident in the United Kingdom for tax purposes and whose proportionate interest in the Company as "participators" for UK tax purposes together with that of any persons "connected" with them for UK tax purposes, is greater than 25 per cent. If the Company would be a "close company" for UK tax purposes were it (hypothetically) resident in the United Kingdom for those purposes, such Shareholders or DI Holders could, depending on the circumstances, be liable to UK capital gains taxation on the Shareholders' and DI Holders' *pro rata* share of any capital gain accruing to the Company or one of its subsidiaries.

2.4 ***Inheritance tax***

The Ordinary Shares and Depositary Interests may constitute assets situated in the United Kingdom for the purposes of UK inheritance tax. A gift or settlement of Ordinary Shares or Depositary Interests by, or the death of, an individual Shareholder or DI Holder may (subject to certain exemptions and reliefs), therefore, give rise to a liability to UK inheritance tax even if the Shareholder or DI Holder is neither domiciled nor deemed to be domiciled in the United Kingdom. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor receives or retains some benefit.

2.5 ***Stamp duty and SDRT***

The following comments are intended as a guide to the general UK stamp duty and stamp duty reserve tax ("SDRT") position and do not apply to persons such as market makers, brokers, dealers or intermediaries or where the shares are issued to a depositary or clearing system or its nominee or agent.

No stamp duty will be payable on the transfer of the Ordinary Shares, provided that any instrument of transfer is not executed in the United Kingdom and does not relate to any property situate, or to any matter or thing done or to be done, in the United Kingdom. Where stamp duty is payable this will, generally, be at a rate of 0.5 per cent. (rounded up to the nearest £5) of the consideration given. For the purposes of stamp duty only cash, shares or the assumption or release of debt are consideration.

In addition, provided that the Ordinary Shares are not registered in any register kept in the United Kingdom by or on behalf of the Company, and the Ordinary Shares are not paired with any shares in a company incorporated in the United Kingdom, any agreement to transfer the Ordinary Shares will not be subject to SDRT.

Notwithstanding the above, Finance Act 2014 introduced an exemption from stamp duty and SDRT for securities admitted to trading on HMRC recognised growth markets with effect from 28 April 2014. As of 28 April 2014 AIM was recognised by HMRC as a recognised growth market for the

purposes of the exemption. Any instrument transferring an Ordinary Share on its sale, which is executed in the United Kingdom or which (if not executed in the United Kingdom) relates to any matter or thing done or to be done in the United Kingdom on or after 28 April 2014, will be exempt from stamp duty pursuant to the exemption for securities admitted to trading on a recognised growth market introduced by paragraph 5 Schedule 24 Finance Act 2014. This exemption also applies to the charge to SDRT. Where the Ordinary Shares are held through Depositary Interests, HMRC Stamp Taxes have confirmed that the growth market exemption still applies to SDRT arising on a transfer of a Depositary Interest even though the Ordinary Shares and not the Depositary Interests are admitted to trading on a recognised growth market (and no other market). On this basis no SDRT should be payable.

PART VI

SUMMARY OF APPLICABLE FINNISH COMPANY LAW

The following section sets out a brief summary of certain provisions of Finnish company law. It is not, and is not intended to be, an exhaustive or definitive guide to Finnish company law but is intended merely to provide brief details and information which may be applicable to the Company.

1. General

The principal statute governing the formation and operation of companies is the Finnish Companies Act. Other relevant statutes are the Act on the Book-Entry System and Clearing Operations (749/2012, as amended) and the Accounting Act (1336/1997, as amended).

In very broad terms, Finnish company law is generally based on similar concepts enshrined within English company law. However, certain concepts enshrined in the Act are not replicated in Finnish company law. Directors of Finnish companies are not subject to the same exact statutory duties as directors of English companies, for example, though there is substantial overlap.

2. Articles of Association

A fundamental document for a Finnish company is its articles of association, which sets out its trade name, line of business, domicile and certain other matters required by the Finnish Companies Act. The Articles are summarised in paragraph 6 of Part VII of this document.

As the Company is a Finnish company, the Articles are not in a form which is typical of a UK public listed company. Typically, articles of association of Finnish companies do not include matters already covered by Finnish law.

Additionally, the Takeover Code and the disclosure obligations in relation to shareholdings under the Disclosure and Transparency Rules which would normally attach to a UK-incorporated, AIM-listed company do not apply, and therefore the Articles have been amended, as set out in paragraph 6 of Part VII of this document above, to reflect such provisions.

Additionally, as the Company is a private Finnish company, the following provisions have been included in the Articles to bring the Company in line with certain public company standards under the Finnish Companies Act:

- the inclusion of Article 11 of the Articles, which requires that any buy back or redemption by the Company of the Company's Ordinary Shares or the acceptance by the Company of the Company's Ordinary Shares as pledge requires a resolution by a General Meeting of Shareholders supported by more than two thirds (2/3) of the votes cast and the Ordinary Shares represented at such General Meeting; and
- the inclusion of Article 12 of the Articles, which requires the Board, in the event that they notice that the equity of the Company (such equity being defined in the Finnish Companies Act as being divided into restricted equity (consisting of the share capital, as well as the fair value reserve and the revaluation reserves under the Finnish Accounting Act) and unrestricted equity (consisting of other reserves, as well as of the profit from the current and previous financial periods) is less than one half of the share capital, to draw up without delay financial statements and an annual report in order to ascertain the financial position of the Company. If, according to the balance sheet, the equity of the Company is less than one half of the share capital of the Company, the Board are required without delay to convene a General Meeting to consider measures to remedy the financial position of the Company. Such a General Meeting shall be held within three months of the date of the financial statements.

3. General Meetings

Annual and Extraordinary General Meetings

Under the Finnish Companies Act, the Company may hold two types of General Meetings: ordinary General Meetings (i.e. annual General Meetings) and extraordinary General Meetings. The Company's annual General Meeting must be held within six months of its financial year end.

Place of Meeting

Under the Finnish Companies Act and the Articles, a General Meeting must be held in the place where the registered office of the Company is located, i.e. in Turku, Finland, unless otherwise stated in the Articles. A General Meeting may be held at another location only if there is an exceptional reason to do so (for example, due to war, natural disaster or other similar reason), or by a unanimous decision of the Shareholders.

Appointment of Chairman

Under the Finnish Companies Act the General Meeting shall elect the chairman of the General Meeting, unless otherwise stated in the Articles. The General Meeting shall be opened by the person designated by the convener of the meeting, who ensures that the chairman is appointed.

Majority Required

Under the Finnish Companies Act, resolutions at a General Meeting generally require the approval of a simple majority of the votes cast. In an election, the person receiving the most votes shall have been elected. The General Meeting may decide before the election that the person receiving more than half of the votes cast shall have been elected. In the event of a tie, an election shall be decided by drawing lots and other votes shall be decided by the casting vote of the chairman of the General Meeting, unless otherwise stated in the Articles. For any other vote than an election the majority required pursuant to the Finnish Companies Act is a minimum requirement, and may not be reduced by the Articles.

However, the Finnish Companies Act requires an increased majority in order to resolve on certain matters. Resolutions requiring an increased majority include any resolution to amend the Articles or a resolution regarding the merger, demerger or liquidation of the Company. These resolutions require a majority of two thirds (2/3) of the Ordinary Shares represented at the General Meeting and of votes cast, unless the Articles stipulate that an even greater majority is required.

In addition, the Articles require a three quarters (3/4) majority of the Ordinary Shares represented and votes cast at the General Meeting for a decision on a share issue in deviation from the Shareholders' pre-emptive rights or on a share issue authorisation that does not exclude the right of the Board to decide on a share issue in deviation from the shareholders' pre-emptive rights or on a decision or authorisation on the issue of option rights or other special rights entitling to shares.

Reflecting the requirements of AIM Rule 41, the Articles also require a three quarters (3/4) majority for the cancellation of the admission of the Company's Ordinary Shares to listing on AIM.

Additionally, under the Finnish Companies Act certain decisions of the General Meeting or amendments of the Articles that weaken the Shareholders' position require the consent of all or the affected Shareholders.

Right to Call Meetings

Under the Finnish Companies Act, the General Meeting shall be called by the Board. The Board is also obliged to call an extraordinary General Meeting at the written request of a Shareholder or group of Shareholders representing at least 10 per cent. of the issued Ordinary Shares. The Company's auditor may also require the Board to call an extraordinary General Meeting.

Notice of General Meetings

Under the Finnish Companies Act, a notice of a General Meeting must state the matters that will be addressed at it. If the purpose of the General Meeting includes a proposed amendment to the Articles, the principal contents of the amendment must be described in the notice.

Under the Articles, Shareholders shall be convened to a General Meeting, as determined by the Board, by the delivery to the Shareholders of a notice, such notice to be published:

- on the Company's website; and
- whilst the Company is admitted to trading on AIM, through a regulatory information service approved by the London Stock Exchange for the distribution of public announcements, or otherwise in compliance with any relevant requirements of the AIM Rules and/or the London Stock Exchange from time to time in force.

The Articles provide that the notice shall be delivered to the Shareholders not earlier than two months before the "record date" of the meeting and no later than three weeks before the date of the meeting. The notice must, however, always be given at least nine days before the "record date" of the General Meeting. The "record date" is, in turn, eight business days before the General Meeting takes place.

Attendance and Voting

Under the Finnish Companies Act, each Ordinary Share carries one vote. A Shareholder must give notice to the Company of his or her intention to attend a General Meeting on or before the "last registration date" stated in the notice of the General Meeting. The registration date shall not be earlier than 10 days prior to the General Meeting.

The right to attend a General Meeting is determined in accordance with the Finnish Companies Act. Shareholders entitled to attend and vote at a General Meeting must be registered in the shareholders register, which is kept by Euroclear Finland in accordance with the Finnish Companies Act, on the record date of the General Meeting, i.e. eight business days prior to the General Meeting. A Shareholder may attend and vote at a General Meeting in person or through an authorised representative, but only Shareholders in attendance or so represented may vote.

A holder of nominee-registered Ordinary Shares, including any DI Holder, who has the right, based on the shares, to be entered in the Company's shareholder register on the record date of the General Meeting and who wishes to attend and vote at the General Meeting or authorise a representative to do so on his or her behalf, must seek a temporary registration in the shareholder register of Euroclear Finland. The registration must be made no later than on the date specified in the notice to the General Meeting, which must be after the record date.

Full details and deadlines will be provided to DI Holders ahead of each meeting either in writing from the Depositary or through the CREST bulletin service.

For further information on the voting and other rights to be accorded to DI Holders, see paragraph 20 of Part VII.

Submission of Shareholder Proposals

A Shareholder has the right to have a matter falling within the competence of the General Meeting dealt with by the General Meeting. Under the Finnish Companies Act, the Shareholder in question must give written notice of a proposal to the Board within a sufficient period of time prior to the publication of the notice of the General Meeting.

4. Issue of Shares and Pre-emption Rights

Issue of Shares

Under the Finnish Companies Act, the approval of the Shareholders is required before the Company may issue Ordinary Shares.

Under the Finnish Companies Act, the Company may issue Ordinary Shares by a Shareholders' resolution at a General Meeting by a simple majority of all votes cast. Such a resolution can either authorise the Board to resolve on the issuance at a later date, or resolve on the issuance itself. However, if Shareholders authorise the Board to resolve on an issuance of shares in the future, such authorisation shall include the maximum amount of shares which the Board may issue. Under the Finnish Companies Act, new Ordinary Shares may be notified for registration only after they have been fully paid for by the subscriber.

Pre-emption Rights

Under the Finnish Companies Act, Shareholders have preferential rights to subscribe, on a *pro rata* basis, for Ordinary Shares. In accordance with the Articles, the Shareholders' pre-emption rights may be deviated from only if such a resolution is approved at a General Meeting by a three quarters (3/4) majority of the votes cast and the Ordinary Shares represented at the General Meeting. In addition, Shareholders' pre-emption rights may be deviated from only if such deviation is justified by weighty financial reasons from the perspective of the Company. Such assessment shall be made on a case-by-case basis. In the assessment of the permissibility of deviation from the pre-emptive rights, special attention shall be paid to the relation between the subscription price and the fair price of the share. In practice, deviation may be justified e.g. for the purposes of ensuring the financing requirements of the company, the financing of an acquisition, and in connection with employee and/or management incentive arrangements.

Certain shareholders resident in, or with a registered address in, certain jurisdictions other than Finland may, due to securities regulations in such jurisdictions, be unable to exercise their pre-emptive rights and preferential rights in respect of their shareholding in a Finnish company unless a prospectus or registration statement, or equivalent thereof, under the applicable laws of their respective jurisdictions is published or effective or an exemption from any registration or similar requirements under the applicable laws of their respective jurisdictions is applicable to any offering.

5. Share Buy-Backs and Redemption of Own Shares

Under the Finnish Companies Act, a buy-back or redemption of the Company's own Ordinary Shares by the Company requires the approval of the Shareholders at a General Meeting. The Articles of the Company require that such a resolution is passed by a two thirds (2/3) majority of the votes cast and the Ordinary Shares represented at a General Meeting.

The Shareholders may also authorise the Board to decide upon the buy back of the Company's own Ordinary Shares. The authorisation must state the maximum number of Ordinary Shares which the Board may acquire, the minimum and maximum consideration which may be paid and the date on which the authorisation expires. The maximum duration of such an authorisation is 18 months from the date on which it is passed. A buy-back which takes place under an authorisation may only be funded out of the Company's unrestricted equity.

The Company may also acquire its own Ordinary Shares other than in proportion to the Shareholders' existing shareholdings where there is a weighty financial reason to do so, i.e. the directed acquisition would be in the best interests of the Company and all of its Shareholders. In the Board's assessment of the acceptability of a directed acquisition, special attention shall be paid to the relation between the consideration offered and the fair price of the share. Such a resolution shall be passed by a two thirds (2/3) majority of the votes cast and the Ordinary Shares represented at a General Meeting. The Company may redeem its own Ordinary Shares other than in proportion to the Shareholders' existing shareholdings only with the consent of all of the Shareholders.

6. Statutory Shareholder Liability and Certain Other General Principles

Shareholder Liability

Under the Finnish Companies Act, a Shareholder shall be liable to compensate the Company, another Shareholder or a third party for any damage to which he has contributed through a wilful or negligent act which infringes either provisions of the Finnish Companies Act or the Articles which impose specific obligations on Shareholders.

Equal treatment

Under the Finnish Companies Act, all shares carry the same rights in the Company, unless it is otherwise provided in the Articles. The General Meeting, the Board or the CEO of the Company shall not make decisions or take other measures which are conducive to conferring an undue benefit to a Shareholder or another person at the expense of the Company or another Shareholder.

Corporate Benefit

Under the Finnish Companies Act, the purpose of the Company is to generate profits for the shareholders, unless otherwise provided in the Articles. The management of the Company shall act with due care and promote the interests of the Company.

7. Disclosure Requirements

Ownership of a shareholder, including any DI Holder, whose shares have been nominee registered, is not directly recorded in the shareholder register of the Company. However, provisions have been incorporated into the Articles which serve to mirror the disclosure obligations contained in DTR 5, as set out in paragraph 6 of Part VII of this document.

8. Squeeze Out and Sell Out

Under the Finnish Companies Act, when a person, alone or together with one or more of its affiliates, owns more than 90 per cent. of the aggregate amount of shares and votes of a company, that person is entitled to redeem the remaining shares in such company from other shareholders at fair market value. On the other hand, any minority shareholder whose shares may be so redeemed is, accordingly, entitled to request from the majority shareholder redemption of the shares held in the company by the said shareholder. Such a major shareholder shall without delay notify the company of the commencement (and termination) of the rights of squeeze out and sell out. Reaching of shareholding constituting the right and obligation for redemption shall be registered with the Finnish Trade Register by the company without undue delay. The Redemption Board of the Finland Chamber of Commerce appoints requisite number of arbitrators to resolve disputes related to the redemption right and the redemption price. The fair price of the share before the initiation of the arbitration shall serve as the basis for the determination of the redemption price. Where the right and obligation for redemption has been preceded by a mandatory offer, the price quoted in the mandatory offer shall serve as the fair price, unless there is a special reason to determine otherwise. Where the right and obligation for redemption has been preceded by a voluntary offer, and the redeemer has on the basis of that offer obtained no less than nine tenths (9/10) of the shares targeted in the offer, the price quoted in the voluntary offer shall serve as the fair price, unless there is a special reason to determine otherwise.

The key difference between the Finnish and English statutory "squeeze out" procedures relates to the consideration, which under the Finnish regime must be satisfied in cash, and under the English regime is generally the same as the consideration available under the general offer to the other shareholders.

9. Management of the Company

Management

A Finnish company is managed by its board of directors in the same way as a UK company. However, under the Finnish Companies Act, certain powers which are reserved to the board in the UK are exercised by shareholders rather than the board of a Finnish company. For example, under Finnish law, Directors of the Company may only be appointed, and their remuneration can only be approved, by the Shareholders in a General Meeting.

The Articles provide that the Company may have a managing director (i.e. the CEO). Under the Finnish Companies Act, the CEO shall see to the executive management of the Company in accordance with the instructions and orders given by the Board. The CEO shall see to it that the accounts of the Company are in compliance with the law and that its financial affairs have been arranged in a reliable manner. The CEO shall supply the Board of Directors with the information necessary for the performance of the duties of the Board. The CEO may undertake measures that are unusual or extensive in view of the scope and nature of the activities of the Company only if so authorised by the Board or if it is not possible to wait for a decision of the Board without causing essential harm to the business operations of the Company.

Number and Domicile of Directors

The Articles provide that the Board may not have fewer than three (3) nor more than twelve (12) ordinary members. Under Finnish company law at least one of the board members must be a resident of an EEA country unless the registration authority has granted an exception from such requirement.

Appointment and Removal of Directors

Under the Finnish Companies Act and the Articles, the Directors are elected by the Shareholders at General Meetings annually. Under the Finnish Companies 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.

Directors' Liability

Under the Finnish Companies Act, the Directors and the CEO may become personally liable to a company for damage caused to the company, in violation of the duty of care, as a result of on negligence or intentional acts (under the Finnish Companies Act, an act will be considered to be an intentional act if the consequence was the person's purpose, or such person had considered the actual consequence as a certain or probable consequence of such person's actions). Personal liability to a third party, including shareholders, creditors, employees and contractors of a company, requires, in addition to negligence or an intentional act, a breach of a provision of the Finnish Companies Act or the articles of association of a company. Under Finnish law, directors and officers must discharge their duties with that degree of care and skill that an "ordinary prudent person" would exercise under similar circumstances in like position, and breach of this standard constitutes negligence. However, business judgements of directors and officers if exercised in good faith on the basis of due consideration of available information will not establish negligence.

Directors' Service Contracts

There are no specific provisions in the Finnish Companies Act regarding the duration of directors' executive service contracts.

Under the Finnish Companies Act, a director of a Finnish company may resign before the end of his or her term. However, the resignation shall only take effect at the earliest when it was been notified to the board of directors.

A director may also be dismissed ahead of term by the party who appointed the director. The dismissal shall take effect with the conclusion of the General Meeting of Shareholders deciding on the dismissal, unless the General Meeting decides otherwise.

Directors of Finnish private limited companies are elected until further notice. However, the Articles provide that the Directors are to be elected and the remuneration of the Directors is to be resolved on annually for a term expiring upon the closing of the next annual General Meeting of Shareholders.

Indemnification of Directors

Under the Finnish Companies Act, the Directors and the CEO are discharged from any and all liabilities relating to their activities on behalf of the Company annually by a Shareholders' resolution to that effect at the annual General Meeting. Such a resolution prevents the Company from bringing a law suit against the Director or officer based on facts that the General Meeting was aware of at the time of the adoption of the resolution. However, the Company may bring a suit against the officers and Directors based on facts they were not aware of at the time of the adoption of the resolution.

In addition, shareholders of a Finnish company may, in certain situations, despite the adoption of the resolution, bring a claim on behalf of that company if it is probable at the time of filing of the action that the company will not make a claim for damages and the non-enforcement of the claim for damages would be contrary to the principle of equal treatment. However, shareholders or third parties are entitled to make a claim against directors or officers for damages that have been caused directly to themselves by a breach of a provision of the Finnish Companies Act or the articles of association of a company.

Loans to directors

Except for the basic principles on equal treatment and corporate benefit, the Finnish Companies Act does not contain restrictions on loans to directors or substantial property transactions. The annual report of the Company shall contain information on loans, liabilities and commitments to related parties and on the main terms thereof, if the total amount of such transactions exceeds EUR 20,000 or five per cent. of the equity of the Company.

A company must not provide loans, assets or security for the purpose of a third party, such as the members of the board of directors, acquiring shares in the company (financial assistance). However, this prohibition does not apply to measures taken within the limits of the distributable assets and aiming for the acquisition of shares for employees of the company.

10. Dividends

Under the Finnish Companies Act and in accordance with prevailing practice in Finland, dividends on shares in a Finnish company are generally paid only once a year after the board of directors has proposed the distribution of dividend and the general meeting of shareholders has adopted the company's financial statements and resolved on the distribution of dividend. However, Finnish companies may also pay an interim dividend based on the earnings of the current financial year in accordance with the audited financial statements adopted by the extraordinary general meeting of shareholders. The general meeting of shareholders may also authorise the board of directors to resolve on the distribution of dividends. The authorisation will be valid until the beginning of the next annual general meeting of the shareholders at the latest. A resolution on the distribution of dividend or the granting of authorisation to the board of directors requires the approval of the majority of the votes cast at a general meeting of shareholders.

As a general rule, the general meeting may not decide to distribute dividends in an amount exceeding that proposed or accepted by the board of directors. However, under the Finnish Companies Act and irrespective of the proposal by the board of directors, such shareholders who hold at least one tenth of all shares in a company may request at the annual General Meeting of shareholders before the resolution on the use of profits is made that, within the determined amount of distributable funds, the minimum of one half of the financial year's profit is distributed as dividends subtracted with the funds to remain undistributed pursuant to possible provision in the articles of association. The distribution of dividend on the demand of shareholders shall not exceed the amount equivalent to eight per cent. of the company's total shareholders' equity.

According to the Finnish Companies Act, the shareholders' equity is divided into restricted and unrestricted equity. The division has significance when determining the amount of distributable funds. Restricted equity consists of the share capital and revaluation surplus, fair value reserve and revaluation reserve. Other reserves and the profit for the financial year and retained earnings from the previous financial years are included in unrestricted equity. The amount of dividends or other distribution of assets may not be in excess of distributable funds in the latest adopted financial statements of the company subtracted with the funds to remain undistributed pursuant to possible provision in the articles of association. Losses from the previous financial years and dividends distributed earlier in the current financial year decrease distributable funds. Material changes in the company's financial position after the preparation of the previous financial statements shall be taken into account upon resolving the distribution of dividends. The amount of dividends that may be distributed is at all times subject to the company remaining liquid after the distribution of dividends. Consequently, funds from the company shall not be distributed if the board of directors of the company knows or it ought to know upon resolution of the dividends that the company is insolvent or that the distribution of dividends causes the company to become insolvent.

Dividends and other distributions are paid to shareholders or their nominees that are included in the shareholder register on the relevant record date. Such register is maintained by Euroclear Finland through the relevant book-entry account operators. Under the Finnish book-entry securities system, dividends are paid by account transfers to the accounts of the shareholders appearing in the register. The right to

claim dividends usually expires in three years from the due date for the dividend payment. The money will return to the company and the company may decide in a General Meeting of shareholders how to distribute or otherwise deal with the unclaimed amount of money.

11. Dissolution and Liquidation

Under the Finnish Companies Act, a company may be dissolved in a liquidation procedure, as a result of a merger or a demerger, or at the termination of the bankruptcy, if there are no more assets, or a determination on the use of the assets has been made in connection with the bankruptcy.

The purpose of voluntary liquidation proceedings is to ascertain the financial position of the company, to convert the requisite amount of assets into cash, to settle the company's debts and to return the surplus to the shareholders *pro rata* to their holdings. The decision on liquidation shall be made by the general meeting of shareholders. The notice of the general meeting that is to decide on liquidation shall be sent to shareholders no earlier than two months and no later than one month before the record date of the general meeting. The decision shall be made by a two-thirds (2/3) majority of the votes cast and shares represented at the general meeting.

Liquidation may lead to bankruptcy upon the application by the liquidator appointed by the general meeting, if the assets of the company in liquidation are not adequate for the repayment of the company's debts.

The registration authority (National Board of Patents and Registration of Finland) may also issue an order of the liquidation or deregistration of the company, if the company has no registered and competent board of directors; if the company has no registered representative; if regardless of an exhortation by the registration authority, the company has not notified its financial statements for registration within one year of the end of the financial period; or if the company has been declared bankrupt, but the bankruptcy has lapsed for lack of funds.

The matter of liquidation or deregistration of a company may be initiated by the board of directors, a member of the board of directors, the managing director, an auditor, a shareholder, a creditor or another whose rights may depend on appropriate registration or the placing of the company into liquidation. Further, the registration authority may take the matter up also on its own motion. The liquidation shall be terminated and a company shall be deemed to have dissolved once the liquidators have presented the final accounts to the general meeting. The liquidators shall then without delay notify the dissolution for registration.

If a company fails to pay its debts when due and the incapacity of paying is not temporary, the company is considered to be insolvent. Under certain conditions a bankruptcy application may then be filed to the court by the company's board of directors or a creditor. If the application is granted, an estate administrator of the bankruptcy estate will be appointed simultaneously by the court.

12. Shareholders' Inspection Rights

Under the Finnish Companies Act, the minutes of the General Meeting shall be kept available to the Shareholders (excluding DI Holders) at the head office of the Company or on the Company's website, and copies shall be delivered to Shareholders (excluding DI Holders) requesting the same. A Shareholder (excluding DI Holders) shall have the right to receive copies of the attachments to the minutes against compensation of the Company's costs.

In addition, Shareholders (excluding DI Holders) are entitled to request more detailed information from the Directors and the CEO on circumstances that may affect the evaluation of a matter dealt with by the General Meeting. If the General Meeting deals with the financial statements, this obligation shall apply also to more general information on the financial position of the Company. However, the information shall not be provided if this would cause essential harm to the Company. If the question of a Shareholder can only be answered on the basis of information not available at the General Meeting, the answer shall be provided in writing within two (2) weeks. The answer shall be delivered to the Shareholder asking the question and to other Shareholders requesting the same.

The inspection right and right to present questions is reserved to direct Shareholders only, being those persons entered in the Company's shareholders' register. An acquirer of Ordinary Shares cannot exercise a Shareholder's rights in the Company before the acquirer has been entered into the shareholder register maintained in the book-entry securities system in Euroclear Finland. Rights pertaining to Ordinary Shares registered in the name of a nominee, which is the case with respect to the DI Holders, are provided for in the Finnish Act on the Book-Entry System (749/2012, as amended), under which shares registered in the name of a nominee do not entitle one to exercise other rights of the owner in relation to a company other than the right to withdraw funds, to convert or exchange the book-entry and to participate in an issue of shares or other book entries. Therefore, any DI holders wishing to exercise the inspection right or the right to present questions should register their shareholding directly in the book-entry system in Euroclear Finland.

All persons have the right to peruse the shareholder register in the premises of Euroclear Finland and, if the Company has an online connection to Euroclear Finland, also at the head office of the Company. Copies of the shareholder register, or parts thereof, shall be provided against compensation for the expenses of the Company. The shareholder register prepared for the situation as per the registration date of the General Meeting shall be kept accessible until the conclusion of the General Meeting.

13. Foreign Exchange Control

Shares of a Finnish company may be purchased by non-residents of Finland without any separate Finnish exchange control consent. Non-residents may receive dividends without separate Finnish exchange control consent, but the company distributing the dividend is liable to withhold the withholding tax from the assets being transferred from Finland unless there is an applicable exemption in a tax treaty eliminating double taxation. Non residents having acquired shares may receive shares pursuant to a bonus issue or through participation in a rights issue without separate Finnish exchange control consent. Shares of a Finnish company may be sold in Finland by non residents, and the proceeds of such sale may be transferred out of Finland in any convertible currency. There are no Finnish exchange control regulations applying to the sale of shares of a Finnish company to other non residents.

PART VII

ADDITIONAL INFORMATION

1. Responsibility

The Company and the Directors, whose names are set out on page 17 of this document, accept responsibility for the information contained in this document. To the best of the knowledge and belief of the Company and the Directors, each having taken all reasonable care to ensure that such is the case, the information contained in this document is in accordance with the facts and contains no omission likely to affect its import.

2. The Company

2.1 The Company was registered in Finland on 24 October 2006 with the Trade Register as a private limited liability company under the laws of Finland, with the name of the Company and a business identity code of 2068285-4.

2.2 The Company's principal place of business is at Joukahaisenkatu 6, FIN-20520 Turku. The telephone number for the Company's principal place of business is +358 2 469 5151

2.3 The accounting reference date of the Company is 31 December.

2.4 The website at which the information required by Rule 26 of the AIM Rules for Companies will be made available is http://www.faronpharmaceuticals.com/.

3. Subsidiaries

The Company has no subsidiaries as at the date of this document.

4. Share Capital

4.1 As at the date of this document, the Company's registered share capital amounted to €2,691,292.50.

4.2 The total number of Ordinary Shares issued as at the date of this document and immediately following Admission is/will be:

	Ordinary Shares issued
As at the date of this document	19,265,550
Immediately following Admission	23,111,704

4.3 On Admission and completion of the Placing and Subscription, the existing Shareholders will be diluted by 16.6 per cent. in their interests in the Company.

4.4 Pursuant to the Articles, the Ordinary Shares do not have a nominal value.

4.5 The Articles do not include limitations on the maximum amount of share capital or the number of Ordinary Shares that may be issued. According to Article 3 of the Company's Articles, the minimum share capital of the Company that is permitted is €80,000.

4.6 The Ordinary Shares comprise the only class of shares in the Company's share capital and each of the Ordinary Shares entitle the holder to equal rights in the Company.

4.7 The Ordinary Shares are in registered form and they have been entered into the book-entry securities system of Euroclear Finland. The ISIN code of the Ordinary Shares is FI4000153309.

4.8 For the period covered by the Historical Financial Information, the following changes have taken place to the Company's issued and fully paid share capital:

(A) by a Board resolution on 26 April 2011 and pursuant to an authority granted to the Board at the Annual General Meeting held on 30 March 2011, on 13 February 2012 the number of Ordinary Shares was increased to 1,413,700 Ordinary Shares by the issue of 100,000 new

Ordinary Shares at a subscription price of €20.00 per Ordinary Share. The subscription price was credited in full to the Company's reserve for invested unrestricted equity, and the share capital of the Company was not increased;

(B) by a Board resolution on 26 November 2012 and pursuant to an authority granted to the Board at the Annual General Meeting held on 26 April 2012, on 3 December 2012 the number of Ordinary Shares was increased to 1,429,078 Ordinary Shares, and the Company's share capital was increased to €506,353.50 by the issue of 15,378 new Ordinary Shares pursuant to the conversion of convertible loans at a subscription price of €32.50 per Ordinary Share;

(C) by a Board resolution on 12 December 2012 and pursuant to an authority granted to the Board at the Annual General Meeting held on 26 April 2012, on 31 December 2012 the number of Ordinary Shares was increased to 1,453,380 Ordinary Shares, and the Company's share capital was increased to €1,296,168.50 by the issue of 24,302 new Ordinary Shares pursuant to the conversion of convertible loans at a subscription price of €32.50 per Ordinary Share;

(D) by a Board resolution on 1 February 2013 and pursuant to an authority granted to the Board at the Annual General Meeting held on 26 April 2012, on 11 March 2013 the number of Ordinary Shares was increased to 1,457,068 Ordinary Shares, and the Company's share capital was increased to €1,416,028.50 by the issue of 3,688 new Ordinary Shares pursuant to the conversion of convertible loans at a subscription price of €32.50 per Ordinary Share;

(E) by a Board resolution on 30 November 2013 and pursuant to an authority granted to the Board at the Annual General Meeting held on 18 June 2013, on 22 January 2014 the number of Ordinary Shares was increased to 1,492,492 Ordinary Shares, and the Company's share capital was increased to €2,691,292.50 by the issue of 35,424 new Ordinary Shares at a subscription price of €36.00 per Ordinary Share;

(F) by a Board resolution on 1 November 2014 and pursuant to an authority granted to the Board at the Annual General Meeting held on 16 June 2014, on 9 December 2014 the number of Ordinary Shares was increased to 1,545,625 Ordinary Shares by the bonus issue of 53,133 new Ordinary Shares at a subscription price of €0.00 per Ordinary Share;

(G) by a Board Resolution on 29 January 2015 and pursuant to an authority granted to the Board at the Annual General Meeting held on 16 June 2014, on 24 February 2015 the number of Ordinary Shares was increased on 1,623,791 Ordinary Shares by the issue of 78,166 new Ordinary Shares at a subscription price of €14.40 per Ordinary Share. The subscription price was credited in full to the Company's reserve for invested unrestricted equity, and the share capital of the Company was not increased;

(H) by a Board resolution on 6 May 2015 and pursuant to an authority granted to the Board at the Annual General Meeting held on 16 March 2015, on 19 May 2015 the number of Ordinary Shares was increased to 1,843,356 Ordinary Shares by the issue of 219,565 new Ordinary Shares at a subscription price of €15.41 per Ordinary Share. The subscription price was credited in full to the Company's reserve for invested unrestricted equity, and the share capital of the Company was not increased;

(I) by a Board resolution on 28 May 2015 and pursuant to an authority granted to the Board at the Annual General Meeting held on 16 March 2015, on 9 June 2015 the number of Ordinary Shares was increased to 1,926,555 Ordinary Shares by the issue of 83,199 new Ordinary Shares at a subscription price of €20.03 per Ordinary Share. The subscription price was credited in full to the Company's reserve for invested unrestricted equity, and the share capital of the Company was not increased;

(J) by a resolution of the Extraordinary General Meeting held on 15 September 2015, on 17 September 2015 the number of Ordinary Shares was increased to 19,265,550 by the issue of 17,338,995 new Ordinary Shares to the shareholders without payment in proportion to their holdings so that nine Ordinary Shares were issued for each existing Ordinary Share (the "Share Split");

(K) by a resolution of a Board Meeting held on 16 September 2015 made pursuant to an authority granted to the Board of Directors at the Extraordinary General Meeting held on 15 September 2015, on 16 September 2015 the Company issued 151,400 warrants (each warrant representing an entitlement to subscribe for one Ordinary Share) to Whitman Howard (which were subscribed for by and issued to Whitman Howard on 16 September 2015). The warrants are divided into two tranches: in the first tranche, 109,800 warrants with a subscription price of €1.55 ("A Warrants"), and in the second tranche, 41,600 warrants with a subscription price of €2.01 ("B Warrants"). Any "A" Warrants shall be exercised during the subscription period commencing on 2 November 2015 and ending on 7 May 2018. Any "B" Warrants shall be exercised during the subscription period commencing on 2 November 2015 and ending on 28 May 2018;

(L) by a resolution of the Extraordinary General Meeting held on 15 September 2015, the Company adopted the 2015 Share Option Plan and granted the Options detailed in paragraph 5.5 below to the Directors;

(M) by a resolution of a Board Meeting held on 11 November 2015 made pursuant to an authority granted to the Board of Directors at the Extraordinary General Meeting held on 15 September 2015, the Company resolved to issue (i) 2,417,113 Ordinary Shares without payment into treasury, in order for such Ordinary Shares to be transferred to Placees pursuant to the Placing on a delivery versus payment basis on Admission, (ii) 44,044 Ordinary Shares as VCT Shares and EIS Shares pursuant to the Placing, and (iii) 1,384,997 Ordinary Shares as Subscription Shares pursuant to the Subscription.

The new Ordinary Shares referred to in paragraphs (B) to (D) (inclusive) above were paid for with assets other than cash.

4.9 Save as disclosed in this document: (i) there has been no change in the amount of the issued share or loan capital of the Company; and (ii) no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share capital of the Company.

5. Share Option Plan

5.1 A Share Option Plan (the "2015 Share Option Plan") was adopted by the Company at the Extraordinary General Meeting held on 15 September 2015.

5.2 The 2015 Share Option Plan allows the Company to offer options (the "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 will entitle the holder of the Option (the "Option Holder") to subscribe for one Ordinary Share.

5.3 Under the terms of the 2015 Share Option Plan, an aggregate maximum number of 1,600,000 Options may be granted, such aggregate being made up of a maximum of 400,000 "A" Options, the subscription period for which ends on 31 December 2015 (exercisable between 2 November 2015 and 30 September 2021), a maximum of 400,000 "B" Options to be subscribed for between 8 October 2016 and 30 September 2019 (exercisable between 8 October 2016 and 30 September 2021), a maximum of 400,000 "C" Options to be subscribed for between 8 October 2017 and 30 September 2019 (exercisable between 8 October 2017 and 30 September 2021), and a maximum of 400,000 "D" Options to be subscribed for between 8 October 2018 and 30 September 2019 (exercisable between 8 October 2018 and 30 September 2021).

5.4 The exercise price for Ordinary Shares based on "A" Options shall be the Euro equivalent to the Placing Price. The exercise price for Ordinary Shares based on "B", "C" and "D" Options shall be determined by the Euro equivalent to the average share price of the publicly traded Ordinary Shares of the Company on AIM between 1 July and 30 September of 2016, 2017 and 2018 respectively. The Board shall confirm the exercise price for Ordinary Shares based on "B", "C" and "D" Options before the beginning of the relevant exercise period, and the exercise price will be disclosed in Euros based on the exchange reference rate published by the European Central Bank on the last day

of the period for determination of the exercise price, and rounded to the nearest Euro cent. The Options in each "A", "B", "C" and "D" tranche will be offered for subscription on the basis of the allocation schedule below, to such persons as are in the positions listed at the commencement of the relevant subscription period:

Chairman of the Board	40,000 Options
Members of the Board (excluding the Chairman of the Board, the Chief Executive Officer and the Chief Financial Officer)	20,000 Options each (up to an aggregate maximum of 100,000 Options)
Chief Executive Officer	80,000 Options
Chief Financial Officer	30,000 Options
Key management to be nominated by the Board	Up to an aggregate maximum of 80,000 Options
Officers and employees to be nominated by the Board	Up to an aggregate maximum of 70,000 Options

5.5 At the date of this document, the Directors have been granted, conditional on Admission, the following "A" Options under the 2015 Share Option Plan:

Director	*"A" Options held*
Dr Markku Jalkanen	80,000
Dr Frank Armstrong	40,000
Matti Manner	20,000
Dr Juho Jalkanen	20,000
Yrjö Wichmann	30,000
Leopoldo Zambeletti	20,000
Dr Huaizheng Peng	20,000
Professor Jonathan Knowles	20,000

5.6 Additionally, the Directors have the right to subscribe for the following "B", "C" and "D" Options (conditional on them continuing to remain in their respective Director roles at the time of commencement of the relevant subscription period):

Director	*"B", "C" and "D" Options*
Dr Markku Jalkanen	80,000 "B" Options
	80,000 "C" Options
	80,000 "D" Options
Dr Frank Armstrong	40,000 "B" Options
	40,000 "C" Options
	40,000 "D" Options
Matti Manner	20,000 "B" Options
	20,000 "C" Options
	20,000 "D" Options
Dr Juho Jalkanen	20,000 "B" Options
	20,000 "C" Options
	20,000 "D" Options
Yrjö Wichmann	30,000 "B" Options
	30,000 "C" Options
	30,000 "D" Options
Leopoldo Zambeletti	20,000 "B" Options
	20,000 "C" Options
	20,000 "D" Options
Dr Huaizheng Peng	20,000 "B" Options
	20,000 "C" Options
	20,000 "D" Options
Professor Jonathan Knowles	20,000 "B" Options
	20,000 "C" Options
	20,000 "D" Options

5.7 The Board shall determine the allocation of Options among officers and employees of the Company.

5.8 If the Company increases the number of shares in the Company with a free issue of Ordinary Shares when the Options remain exercisable, the subscription price per Ordinary Share and the number of Ordinary Shares subject to each Option shall be adjusted pursuant to a formula contained in the 2015 Share Option Plan. No adjustment shall be made to Options in the event of any issue of Ordinary Shares for payment or other special rights entitling recipients to shares in the Company, or issues of other option rights.

5.9 Options, once issued, are personal to the recipient, and cannot be transferred or pledged without the prior written consent of the Board. Benefits derived from Options are not pensionable.

5.10 If an Option Holder's employment or appointment with the Company ends (including any membership of the Board of Directors), the Option Holder must offer all unexercised options to the Company on the last day of his or her employment or appointment. The Board may allow the Option Holder to keep some or all of the Options or terminate all unexercised Options.

6. Articles of Association

The following is a brief summary of certain material provisions of the Articles of the Company which were adopted at the Extraordinary General Meeting held on 15 September 2015 and which will be effective as of the date of Admission. Certain of the matters typically governed by the articles of association in the context of an English company are instead governed by the provisions of the Finnish Companies Act in respect of the Company. A summary of certain applicable provisions of Finnish company law is set out in Part VI of this document.

6.1 ***Trade name and domicile***

The trade name of the Company is Faron Pharmaceuticals Ltd in English and Faron Pharmaceuticals Oy in Finnish which is "Faron Pharmaceuticals Ltd" when translated into English. The Company's domicile is Turku.

6.2 ***Line of business***

The line of business of the Company is to produce products as well as consulting and research services relating to the biotechnology sector and to make commercial use of them, product development in the biotechnology sector, marketing, export and domestic trade as well as professional services and training related to the sector. The Company may also own and acquire shares and other securities as well as properties.

6.3 ***Share capital***

The minimum share capital of the Company is €80,000. There is no maximum share capital.

6.4 ***Directors***

The Board shall comprise a minimum of three (3) and a maximum of twelve (12) Directors. The term of office of each Director expires on the closing of the AGM immediately following his election.

6.5 ***Board committees***

The Board shall have an audit committee, a remuneration committee and a nomination committee. The members of the committees shall be appointed by the Board from among its members. The functions of the committees are as follows:

- The audit committee shall have the task of supervising and developing the internal audit of the Company and advising and making recommendations to the Board on issues related thereto.
- The remuneration committee shall have the task of advising on and making recommendations to the Board in relation to the remuneration paid to the members of the Board, and supervising the development of any other remuneration or reward systems of the Company.

- The nomination committee shall have the task, in cooperation with the Board, of advising on and making recommendations to the Board on issues relating to the composition and nomination of the Board.

6.6 ***Directors' remuneration***

The remuneration and compensation payable to the members of the Board shall be approved by the Shareholders at the AGM.

Any Director who is employed or is the holder of an executive office is entitled to such additional remuneration in respect of his executive role (whether by way of salary, commission, participation in profits or otherwise) as the remuneration committee may approve either in addition to or in lieu of his remuneration as a Director.

Any Director who, by request, goes or resides abroad for any purposes of the Company or who performs services which in the opinion of the Board goes beyond the ordinary duties of a Director may be paid extra remuneration (whether by way of salary, commission, participation in profits or otherwise) or may receive such other benefits as the remuneration committee may approve.

Each Director is entitled to be reimbursed in respect of his 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 and is to be reimbursed in respect of all such expenses properly and reasonably incurred by him in the conduct of the Company's business or in the discharge of his duties as a Director.

6.7 ***Representation of the Company***

The Company may be represented by the Board and by its chairman and the Managing Director (i.e. the CEO), each alone. The Managing Director (i.e. the CEO) is appointed by the Board.

In addition, the Board may grant to a designated person a procuration right or a right to represent the Company.

6.8 ***The AGM***

The AGM shall:

- have presented to it:
  - a) the financial statements, comprising an income statement, balance sheet, cash flow statement and the notes thereto, as well as the consolidated financial statements, if any;
  - b) the annual report by the Board; and
  - c) the auditor's report;
- resolve on:
  - a) the adoption of the financial statements and the consolidated financial statements, if any;
  - b) the measures to be taken on the basis of the profit set out in the balance sheet;
  - c) the granting of discharge from liability to the members of the Board and the Managing Director (i.e. the CEO);
  - d) the number of the members of the Board; and
  - e) the remuneration payable to the members of the Board and the auditor;
- elect:
  - f) the members of the Board; and
  - g) the auditor; and
- resolve on:
  - h) any other matters mentioned in the invitation to the General Meeting.

6.9 ***Notice of General Meetings***

Shareholders shall be convened to a general meeting, as determined by the Board, by the delivery to the Shareholders of a notice. This notice shall be published:

- on the Company's website; and
- whilst the Company is admitted to trading on AIM, through a regulatory information service approved by the London Stock Exchange for the distribution of public announcements, or otherwise in compliance with any relevant requirements of the AIM Rules and/or the London Stock Exchange from time to time in force.

This notice shall be delivered to the Shareholders not earlier than two months before the record date of the meeting and no later than three weeks before the date of the meeting. The notice must also be given at least nine days before the "record date" of the General Meeting. The "record date" is, in turn, eight business days before the General Meeting takes place.

6.10 ***Attendance and voting at General Meetings***

Each Ordinary Share carries one vote. A Shareholder must give notice to the Company of his or her intention to attend a General Meeting on or before the "last registration date" stated in the notice of the General Meeting. This registration date shall not be earlier than 10 days prior to the General Meeting. For further details on attendance rights, including for DI Holders, under Finnish law, see paragraph 3 of Part VI of this document.

6.11 ***Acquisition, redemption and pledge of the Company's own Ordinary Shares***

Under the Articles, the Company may acquire or redeem its own Ordinary Shares or accept its own Ordinary Shares as pledge if resolved by Shareholders at a General Meeting by way of a vote representing more than two thirds (2/3) of the votes cast and Ordinary Shares represented at a General Meeting.

6.12 ***Equity shortfall***

Under the Articles, if the Board notices that the equity of the Company is less than one half of the Company's share capital, the Board shall without delay draw up financial statements and an annual report in order to ascertain the financial position of the Company. If, according to the balance sheet, the equity of the Company is less than one half (1/2) of the Company's share capital, the Board shall without delay convene a General Meeting to consider measures to remedy the Company's financial position. Such a General Meeting shall be held within three months of the date of the financial statements.

6.13 ***Deviation from the Pre-Emptive Rights of Shareholders***

Under the Articles, a decision to deviate from the shareholders' pre-emptive rights must be authorised by the Company by way of a vote of Shareholders representing three quarters (3/4) of the Ordinary Shares represented and votes cast at a General Meeting.

6.14 ***Notification on change of a Shareholder's holdings in the Company***

Notification Thresholds

A Shareholder shall notify the Company of any holdings that he may have in the voting rights attaching to the Ordinary Shares, whether directly or indirectly (including, for the avoidance of doubt, holdings of DIs or any other financial instruments (as defined in the AIM Rules) in respect of such Ordinary Shares), when such holdings reach, exceed or decrease below 3 per cent. and each 1 per cent. threshold thereafter up to 100 per cent. of the total voting rights in the Ordinary Shares registered at the Finnish Trade Register (a "Notification"). Each Shareholder shall also make a Notification when he becomes a party to an agreement or other arrangement that upon implementation would result in the holdings of the shareholder reaching, exceeding or decreasing below any of above-mentioned thresholds.

Calculation of Holdings

In the calculation of holdings of a Shareholder such holdings shall also comprise holdings of any Subsidiary Undertakings (as defined below) of the Shareholder and any third parties if the exercise of voting rights attached to such holdings of any third parties may be decided by the Shareholder either alone or together with such third party on the basis of an agreement or another arrangement ("Controlled Entities").

Under the Articles, "Subsidiary Undertakings" is defined as any undertaking in relation to which a person:

- holds a majority of the voting rights;
- is a shareholder (or any of its subsidiary undertakings is a shareholder, or a person acting on behalf of the person or any of its subsidiary undertakings is a shareholder) and has the right to appoint or remove a majority of its board of directors;
- has the right to exercise a dominant influence, either by virtue of provisions contained in the undertaking's articles or by virtue of a control contract;
- is a shareholder (or any of its subsidiary undertakings is a shareholder, or a person acting on behalf of the person or any of its subsidiary undertakings is a shareholder) and controls alone, pursuant to an agreement with other shareholders a majority of the voting rights; or
- has the power to exercise, or actually exercises, dominant influence or control.

Exemption for Depositary

No Notification obligation shall arise in respect of shares that may be held by a person through his role as the Company's depositary. Under the Articles, the "Company's depositary" is defined as a custodian or other person (or a nominee of such custodian or other person) appointed under contractual arrangements with the Company or other arrangements approved by the Board whereby such custodian or other person or nominee holds Ordinary Shares of the Company or rights in Ordinary Shares of the Company and issues securities or other documents of title or otherwise evidencing the entitlement of the holder thereof to receive such Ordinary Shares or rights.

Timing of Notification

The Notification shall be made as soon as possible, but not later than four trading days, the first of which shall be the day after the date on which the person:

- learns of the acquisition or disposal or the possibility of exercising voting rights, or on which, having regard to the circumstances, should have learned of it, regardless of the date on which the acquisition, disposal or possibility of exercising voting rights takes effect; or
- is informed about any event triggering a change in the breakdown of voting rights which would lead to an obligation to disclose pursuant to the Articles.

For the purposes of the Articles, a person shall, in relation to a transaction to which he is a party or which he has instructed, be deemed to have knowledge of the acquisition, disposal or possibility to exercise voting rights no later than two trading days following the transaction in question and where a transaction is conditional upon the approval by public authorities of the transaction or on a future uncertain event the occurrence of which is outside the control of the parties to the agreement, the parties are deemed to have knowledge of the acquisition, disposal or possibility of exercising voting rights only when the relevant approvals are obtained or when the event happens.

Notwithstanding the time limits for disclosure set out above, the Company is required by Rule 17 of the AIM Rules for Companies to announce via a Regulatory Information Service, all the information contained in any vote holder notification "without delay".

When a Notification is made to the Company or the Company otherwise becomes aware of the reaching, exceeding or decreasing below any of the above-mentioned thresholds the Company shall without delay publish information on the change of holdings in the Company and deliver such

information to the markets in the Finnish and/or English language(s) and in compliance with the relevant requirements of the AIM Rules and/or the London Stock Exchange from time to time in force.

Content of Notification

The Notification shall comprise following information:

- The grounds for making the Notification.
- The point of time when the holdings have reached, exceeded or decreased below any of the thresholds above.
- The exact portion of the Ordinary Shares held either directly or indirectly by the shareholder.
- The number of the Ordinary Shares concerned.
- The complete name of the shareholder and trade register number or equivalent identification number.
- The complete name and trade register number or equivalent identification number of each of the Controlled Entities.
- A report on the division of the holdings between the shareholder and each of the Controlled Entities.
- The chain of Controlled Entities through which the Ordinary Shares and voting rights attached to the Ordinary Shares are held.
- The parties, term and material information on the contents of the agreement or another arrangement to which the shareholder is a party and which upon implementation will result in reaching, exceeding or decreasing below any of the above-mentioned thresholds.
- The nature of the transaction.
- The nature of the Shareholder's interest in the transaction.

The Company shall post template forms of Notification to its website.

The shareholder may make the Notification in Finnish or English language at the sole discretion of the shareholder.

6.15 ***Failure to make a Notification***

The Board of Directors may serve a notice (a "Disclosure Notice") on any Shareholder or other person whom the Company knows or has reasonable cause to believe to have holdings in Ordinary Shares asking them to make a Notification of their holdings.

If any person fails to respond to the Board of Directors' Disclosure Notice with the information required within three (3) Business Days of such Disclosure Notice, then the Board of Directors may, in its absolute discretion (and after consultation with the Company's Nominated Adviser), serve a further notice (a "Default Notice") on such person stating that such person shall be liable to pay a penalty fee to the Company (the "Non-Disclosure Penalty Fee") equal to €5,000.

The Board of Directors may also in its absolute discretion resolve to set off the Non-Disclosure Penalty Fee against any dividends or other distribution of funds payable to such person. Any such Non-Disclosure Penalty Fee shall be refunded (without any liability to pay interest thereon) to such person after a Notification has been made to the satisfaction of the Board of Directors.

If the Board of Directors resolves that it has reasonable cause to believe that a person is or may be interested in Ordinary Shares, and that they have made reasonable enquiries to establish whether a person is so interested, then such person shall, be deemed to be interested in such Ordinary Shares, from the date of such resolution until any such time as the Board of Directors may otherwise resolve.

Any resolution or determination of, or exercise of any discretion or power by the Board or any Director acting in good faith under or pursuant to the provisions of the Articles in this respect shall be final and conclusive and anything done by, or on behalf of, or on the authority of, the Board or any Director acting in good faith pursuant to Articles shall be conclusive and binding on all persons concerned and shall not be open to challenge, whether as to its validity or otherwise on any ground whatsoever. The Board shall not be required to give any reasons for any resolution or determination taken or made in this respect.

6.16 ***Obligation to purchase Ordinary Shares***

Thresholds for obligation to purchase Ordinary Shares

Except with the consent of the Board (in consultation with the Company's nominated adviser) and for so long as the Company is admitted to trading on AIM, when:

- any person acquires, whether by a series of transactions over a period of time or not, holdings in the voting rights attached to Ordinary Shares, whether directly or indirectly, that (taken together with the voting rights of any Connected Person (as defined below)) represent 30 per cent. or more of the voting rights of the Company; or
- any person (together with any Connected Person (as defined below)) has a holding in the voting rights attached to Ordinary Shares that in the aggregate represent not less than 30 per cent. of the voting rights of the Company, but not more than 50 per cent. of such voting rights, and such person acquires additional interests which will increase his, her or its percentage share of voting rights in the Company.

(the above categories of acquisition together being a "Relevant Acquisition") then such person or any Connected Person, as defined below, (each such person referred to herein as the "Offeror") shall be obliged to make an offer ("Offer") to purchase all the other Ordinary Shares, or options or other special rights which entitle the holder to new Ordinary Shares, from the other shareholders or holders of such options or other special rights ("Offerees").

The obligation to make an Offer shall not arise if the Board resolves otherwise. However, in the event that any Director makes a Relevant Acquisition, such Director shall not be entitled to vote in any decision of the Board regarding any waiver of the obligation to make an Offer.

Calculation of Voting Rights

In calculating the voting rights of a person, the following Ordinary Shares that belong to the following parties ("Connected Persons") shall also be taken into account:

- Ordinary Shares held by the Offeror, as well as Subsidiary Undertakings of the Offeror and pension foundations and pension funds under the control of the said parties;
- Ordinary Shares held by the Offeror and his or her spouse or registered partner, a minor whose guardian the Offeror is, or another family member of the Offeror who has lived in the same household with the Offeror for at least one year;
- Ordinary Shares held by any other private persons and entities who are Acting in Concert (as defined in the City Code on Takeovers and Mergers) with the Offeror in order to acquire Control in the Company;
- Ordinary Shares held by the Offeror or any other party under subsection (a) to (c) above together with any third parties; or
- Ordinary Shares, the proportion of voting rights attached to which the shareholder is entitled to use or direct under a contract or other arrangement.

For the purpose of the provisions on calculating voting rights, "Control" means an interest, or interests, in shares carrying in aggregate 30 per cent. or more of the voting rights (as defined below) of a company, irrespective of whether such interest or interests give de facto control.

Any person acting as the Company's Depositary shall not be deemed to be an Offeror and its holdings shall be deemed to be excluded for the purposes of calculating the number of Ordinary Shares held by any person.

In calculating the voting rights of a person, any restrictions on the exercise of the voting rights in an agreement to which the person is a party or provisions of applicable law shall not be taken into account.

Ordinary Shares held by the Company or any entity under the Control of the Company shall not be taken into account in the determining of total voting rights attached to the Ordinary Shares.

In the event that a Relevant Acquisition has occurred:

- solely as a result of activities of the Company or another person; or
- as a result of or pursuant to any stock borrowing arrangement which has been approved by the Board.

a person shall not be obliged to make an Offer until he purchases, subscribes for or in any other manner increases his holdings in the voting rights of the Company.

Calculation of the Offer Price

The purchase price ("Price") payable by the Offeror shall be a Fair Market Price, which shall mean:

- the highest price paid per Ordinary Share by the Offeror or any person or entity referred to above during the 12 months prior to the emergence of the obligation to make an Offer; or
- in the event no such purchases have been made, the weighted average price per Ordinary Share in trading on AIM during the preceding three month period, or such other price as the Board Directors may determine (having consulted with the Company's nominated adviser).

Except with the consent of the Board (in consultation with the Company's nominated adviser), the Price should be in cash or be accompanied by a cash alternative. In the event that any Director makes a Relevant Acquisition, such Director shall not be entitled to vote in any decision of the Board regarding any waiver of the obligation to make an Offer in cash or accompanied by a cash alternative.

If an acquisition to be deemed to have influence on the Price is denominated in a currency other than the Pound Sterling of the United Kingdom, in which the Ordinary Shares are traded, the conversion value of such acquisition currency to the trading currency shall be calculated through the official rates of the European Central Bank for the currencies in question seven days prior to the date on which the Board notified the shareholders of the Offer.

Terms of the Offer

The Offeror shall be obliged to treat all Offerees equally and pay the same price per share/depositary interest to all Offerees willing to sell their Ordinary Shares to the Offeror on the basis of the Offer irrespective of the identity of the Offeree, number of Ordinary Shares held by the Offeree or point of time when the Offeree sells his Ordinary Shares to the Offeror.

In the event that the Offeror or any Connected Person acquires Ordinary Shares under better terms and conditions than what has been offered to the Offerees in the Offer and said acquisition takes place between the date on which the obligation to make an Offer has arisen and the due date by which claims for purchase shall be made, the Offeror shall be obliged to amend the Offer to correspond to the terms of said acquisition.

In the event the Offeror or any person Connected Person acquires Ordinary Shares under better terms and conditions than what has been offered to the Offerees in the Offer (or the amended Offer, if any) and said acquisition takes place within nine months after the due date by which claims for purchase were made to the Offeror, the Offeror shall be obliged to compensate the Offerees having accepted the Offer (or the amended Offer, if any) for the difference between the Price paid in the Offer (or the amended Offer, if any) and the purchase price paid in said acquisition.

Offer Procedure

The Offeror shall upon submitting a Notification communicate the obligation to make an Offer (a "Communication") in writing at the Company's address to the Board.

The Communication shall contain details of the number of Ordinary Shares owned by the Offeror and the number and price of the shares acquired during the last 12 months. The Communication shall also contain the address at which the Offeror may be contacted. The Communication shall be made in the Finnish or English language at the sole discretion of the Offeror.

The Board shall notify Shareholders of the arising of the obligation to make an Offer within 45 days of the receipt of the Communication or, in the absence of such Communication, or where such Communication fails to arrive within the specified period, of the date on which it otherwise became aware of such obligation to make an Offer.

The Board's notice shall contain details of the date on which the obligation to make an Offer has arisen, the basis for determination of the purchase price as far as known to the Board and the due date by which acceptances shall be made. The Offeror shall be obliged to provide the Board with all information reasonably needed by the Board for it to make its notification to the Shareholders. The Board's notification shall be made in compliance with the provisions of the Articles which concern notice of a General Meeting. An Offeree who wishes to accept the Offer shall do so in writing within 30 days of the Board's notification. The notification of acceptance, which shall be sent to the Company or to a party appointed by the Board, shall indicate the number of Ordinary Shares to which the acceptance relates. An Offeree who accepts the Offer shall, at the same time as making its acceptance notification, provide the Company with all necessary documentation to effect the transfer of the relevant Ordinary Shares to the Offeror upon the payment of the Price.

The Offeror shall immediately inform the Board if the Offer needs to be amended in accordance with the above provisions and provide the Board with all information reasonably needed by the Board. In the event the Offer has already been notified to the Offerees, the Board shall forthwith notify the amended Offer to the Offerees in the manner set forth above together with information on the possible extension of the offer period. Such extension shall be determined by the Board and it shall not exceed seven days.

If the Offer is not accepted by an Offeree by the due date in the manner described above the Offeree shall forfeit his right to accept the Offer (or the amended Offer, if any). An Offeree shall have the right to revoke his acceptance at any time until the purchase has taken place in accordance with the terms of the Offer.

Forthwith after the due date for accepting the Offer, the Company shall notify the Offeror of the total number of acceptances of the Offer. The Offeror shall, within fourteen (14) days of receipt of such a notice, in the manner prescribed by the Company, pay the Price and complete the purchase of the Ordinary Shares, and any options over unissued Ordinary Shares, in respect of which acceptances have been received.

The Price or any part thereof which is not paid within the specified period shall accrue default interest of 20 per cent. per annum as of the date on which the purchase should have been made. If the Offeror has, in addition, failed to observe the above provisions concerning an obligation to make an Offer, default interest shall be calculated as of the date on which the notification should have been made.

The Company shall make all communication relating to notices and other information published to the shareholders of the Company set forth in the Articles in both Finnish and English languages.

Any provisions relating to the application and interpretation of the obligation to purchase Ordinary Shares and not explicitly stipulated in the Articles shall be determined by applying the EC Takeover Directive as implemented and applied in Finland.

Dispute Resolution

The Board has full authority to determine the application of the above obligations to purchase Ordinary Shares, including as to the deemed application of the whole or any part of the regulatory framework directly or analogically applicable. Such authority shall include all discretion vested in a relevant takeover panel, including, without limitation, whether the shareholding threshold has been reached, the determination of conditions and consents and the consideration to be offered.

Any resolution or determination of, or decision or exercise of any discretion or power by the Board or any Director or by the Chairman of any meeting acting in good faith under or pursuant to the provisions of the Articles shall be final and conclusive and anything done by, or on behalf of, or on the authority of, the Board or any Director acting in good faith pursuant to the provisions of the Articles shall be conclusive and binding on all persons concerned and shall not be open to challenge, whether as to its validity or otherwise on any ground whatsoever. The Board shall not be required to give any reasons for any decision, determination or declaration taken or made in accordance with the Articles.

In case one half or more of the Directors would have a conflict of interest or are otherwise unable to resolve on any matters relating to the Articles, the Board shall:

a) for so long as the Company's Ordinary Shares are traded on AIM, consult with the Company's nominated adviser about the process to be adopted; or

b) where the Company's Ordinary Shares are not traded on AIM, appoint an independent financial adviser to undertake the role of the Board for the purposes of the relevant Articles. Any such adviser must have relevant experience and relevant background for takeover matters. Such an adviser shall then have similar powers as set forth above in the relevant Articles relating to the Board.

6.17 ***Cancellation of AIM Listing***

If the Company wishes the London Stock Exchange to cancel the admission of its Ordinary Shares to listing on AIM, the matter must be submitted to be decided by a General Meeting. The resolution by the General Meeting shall be made by a qualified majority of three quarters (3/4) of the Ordinary Shares represented and votes cast at a General Meeting.

7. Significant Shareholders

Insofar as is known to the Directors, the following interests will represent three per cent. or more of the issued share capital of the Company, immediately following Admission:

Shareholder	*Number of Existing Ordinary Shares as at the date of this document*	*Percentage of Existing Ordinary Shares as at the date of this document*	*Number of Ordinary Shares following Admission*	*Percentage of Enlarged Ordinary Share Capital following Admission*
Marko Salmi	3,389,570	17.59	3,389,570	14.67
A&B (HK) Company Limited	3,027,640	15.72	3,408,409	14.75
Tom-Erik Lind	2,225,600	11.55	2,552,523	11.04
Aviva Investors Global Services Limited	—	—	2,305,769	9.98
Markku Jalkanen	1,794,890	9.32	1,794,890	7.77
Juho Jalkanen*	1,082,570	5.62	1,082,570	4.68
Sirpa Jalkanen	1,078,500	5.60	1,078,500	4.67
Maija-Leena Hollmén	1,078,500	5.60	1,078,500	4.67
Katriina Peltola	1,078,500	5.60	1,078,500	4.67
Timo Syrjälä**	520,830	2.70	924,676	4.00

* of which, 1,078,500 are held by Juho Jalkanen directly and 4,070 are held by Juho Jalkanen's family being Aaro Jalkanen, Enna Jalkanen and Heikki Jalkanen.

** of which, 520,830 are held directly by Timo Syrjälä and 403,846 are held by Acme Investments SPF S.à.r.l., an entity wholly owned by Timo Syrjälä.

8. Related Party Transactions

8.1 Other than those matters referred to in note 20 to the Historical Financial Information on the Company, the Company has not entered into any related party transaction in the financial period covered by the reports in Part IV of this document or from the end of that period to the date of this document.

9. Additional Information on the Directors

9.1 In addition to being a Director of the Company, the Directors have held or hold the following directorships (excluding subsidiaries of any company of which he is also a director) and/or have been/are a partner in the following partnerships within the five years immediately prior to the date of this document:

Director	*Current directorships*	*Former directorships*
Dr Markku Jalkanen	Avoin yhtiö Ylläksen H-108 Faron Ventures Ltd. Inveni Capital Oy Inveni Fund I Oy Piedino Financing Oy	Faron Holdings Oy Priaxon AG Medeia Therapeutics Oy
Dr Frank Armstrong	Actinopharma Ltd AMS Sciences Limited Dr Frank M Armstrong Consulting Ltd Love Africa Charitable Trust Juniper Pharmaceuticals Inc Mereo Biopharma Group Ltd Xceleron Inc Redx Pharma Plc Summit Therapeutics Plc	Asceneuron SA Entelos Inc Cardiorentis AG Fulcrum Pharma Developments International Limited Fulcrum Pharma Limited
Matti Manner	Asianajotoimisto Brander & Manner Oy Kauppakeskus Mylly Oy Kiint. Oy Itäinen Puistotie 4 Kiinteistö Oy Helsingin Dosentinlinna Kiinteistö Oy Helsingin Dosentinpuisto Kiinteistö Oy Helsingin Helapuisto Kiinteistö Oy Kuloisten Kauppakeskus Kiinteistö Oy Raitinlukko Kiinteistö Oy Rauman Kanalinpuisto Kiinteistö Oy RentMoon Kiinteistö Oy Turun Kaskenkolmio Kiinteistö Oy Turun Kaskenlinna Kiinteistö Oy Turun Kaskenniitty Kiinteistö Oy Turun Sagalinna Marva Media Oy (Marva Group Oy) Matjuk Oy Oy Sivuaskel Ruissalo Foundation	Kiinteistö Oy Helsingin Dosentinrinne Muumimaailma Oy Röölän-Hauspannan Vesiosuuskunta

Director	*Current directorships*	*Former directorships*
	Satatuote Oy (Marva Group Oy) Taaleritehtaan Afrikka Rahasto I Ky Taaleritehtaan Asuntorahasto VI Ky Tulevi Oy Turun Osuuskauppa Turun Toriparkki Oy YH Kodit Oy YH VS-Rakennuttaja Oy Yritysneuvonta JM Oy	
Dr Juho Jalkanen	–	–
Yrjö Wichmann	Alltrust Oy Asunto-osakeyhtiö Riddarborg Bioretec Oy Asunto Oy Uudenmaankatu Bostads AB Nylandsgatan	Aberet Orthpedic Oy Chip-man Technologies Oy –
Leopoldo Zambeletti	Advanced Accelerator Applications SA Barts Charity Espalter Ibiza, Sociedad Limitada Nogra Pharma Qardio Europe Ltd Summit Therapeutics Zambeletti Limited Powis Gardens Limited	–
Dr Huaizheng Peng	Bridging Pharma Ltd CMS Pharma	China Medical System Holdings Limited Galileo Funds Inc Northland Capital Partners Limited Northland Bancorp
Professor Jonathan Knowles	Adaptimmune Therapeutics plc Adaptimmune Limited Affibody Holding AB Affibody Medical AB Agency for Science and Technology Research Cancer Research UK Caris Life Sciences Immunocore Limited Mava Foundation pour la Nature MediSapiens Oy Oncos Therapeutics Oy	Herantis Pharma Oy Hever Group Glaxo Institute for Molecular Biology

9.2 No Director:

(a) has any unspent convictions in relation to indictable offences; or

(b) has been adjudged bankrupt or been the subject of an individual voluntary arrangement or has had a receiver appointed to any asset of such Director; or

(c) has been a director of any company which, whilst he or she was a director or within twelve months after he ceased to be a director, had a receiver appointed or went into compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement or made any composition or arrangement with its creditors generally or with any class of its creditors; or

(d) has been a partner of any partnership which, whilst he or she was a partner or within twelve months after he or she ceased to be a partner, went into compulsory liquidation, administration or partnership voluntary arrangement or has had a receiver appointed to any partnership asset; or

(e) has had any public criticism by statutory or regulatory authorities (including recognised professional bodies); or

(f) has been disqualified by a court from acting as a director of a company or from acting in the management or conduct of the affairs of a company.

10. Directors' service agreements and letters of appointment

10.1 The following are particulars of the Directors' service agreements and letters of appointment with the Company, including details of the Directors' fees and remuneration which were adopted at a board meeting held on 16 September 2015.

(A) ***Executive service agreement with Dr. Markku Jalkanen***

On 16 September 2015 Dr Markku Jalkanen entered into a service agreement with the Company pursuant to which he was appointed as the CEO of the Company for a salary of €200,000 per annum and reimbursement of all of his reasonable travelling, hotel, entertainment and other out of pocket expenses incurred in the performance of his duties from Admission. Dr Jalkanen has agreed pursuant to the service agreement not to be engaged or interested in any business or undertaking which competes with the business of the Company, save with the prior sanction of the Company.

Dr Jalkanen's appointment as the CEO shall continue automatically until further notice and is terminable on six months' notice by either side, after a fixed 12 month period from Admission. The Company may terminate the appointment immediately for cause, in the event that, among other things, Dr Jalkanen is in serious breach of the service agreement or commits persistent misconduct or is found to be dishonest. Should Dr Jalkanen's appointment as the CEO be terminated by the Company other than immediately for cause, Dr Jalkanen shall, in addition to his salary for the notice period, be entitled to severance pay in an amount equal to his salary for twelve (12) months, such severance pay to be payable at the end of his appointment.

Dr Jalkanen's appointment as a Director is terminable with immediate effect in accordance with the Articles and the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds.

(B) ***Executive service agreement with Yrjö Wichmann***

On 16 September 2015 Mr Yrjö Wichmann entered into a service agreement with the Company pursuant to which he was appointed as the CFO of the Company for a salary of €150,000 per annum and reimbursement of all of his reasonable travelling, hotel, entertainment and other out of pocket expenses incurred in the performance of his duties from Admission. Mr Wichmann has agreed pursuant to the service agreement not to be engaged or interested in any business or undertaking which competes with the business of the Company, save with the prior sanction of the Company.

The appointment shall continue automatically until further notice and is terminable on six months' notice by either side, after a fixed 12 month period from Admission. The Company may terminate the appointment immediately for cause, in the event that, among other things, Mr Wichmann is in serious breach of the service agreement or commits persistent misconduct or is found to be dishonest.

Mr Wichmann's appointment as a Director is terminable with immediate effect in accordance with the Articles and the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds.

(C) ***Letter of appointment of Dr Juho Jalkanen***

On 16 September 2015 Dr Jalkanen entered into a letter of appointment with the Company under the terms of which he agreed to act as a non-executive Director of the Company for a fee of €35,000 per annum and reimbursement of all reasonable and properly documented expenses incurred in the performance of his duties.

The appointment is terminable with immediate effect in accordance with the Articles and pursuant to the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds. Dr Jalkanen 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, after a fixed 6 month period from Admission.

(D) ***Letter of appointment of Leopoldo Zambeletti***

On 16 September 2015 Mr Zambeletti entered into a letter of appointment with the Company under the terms of which he agreed to act as a non-executive director of the Company for a fee of €35,000 per annum and reimbursement of all reasonable and properly documented expenses incurred in the performance of his duties. Mr Zambeletti will also receive an additional fee of €5,000 per annum for his role as Chairman of the Company's audit committee.

The appointment is terminable with immediate effect in accordance with the Articles and pursuant to the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds. Mr Zambeletti 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, after a fixed 6 month period from Admission.

(E) ***Letter of appointment of Dr Huaizheng Peng***

On 16 September 2015 Dr Peng entered into a letter of appointment with the Company under the terms of which he agreed to act as a non-executive director of the Company for a fee of €35,000 per annum and reimbursement of all reasonable and properly documented expenses incurred in the performance of his duties.

The appointment is terminable with immediate effect in accordance with the Articles and pursuant to the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds. Dr Peng 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, after a fixed 6 month period from Admission.

(F) ***Letter of appointment of Professor Jonathan Knowles***

On 16 September 2015 Professor Knowles entered into a letter of appointment with the Company under the terms of which he agreed to act as a non-executive director of the Company for a fee of €35,000 per annum and reimbursement of all reasonable and properly documented expenses incurred in the performance of his duties.

The appointment is terminable with immediate effect in accordance with the Articles and pursuant to the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds. Professor Knowles 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, after a fixed 6 month period from Admission.

(G) ***Letter of appointment of Matti Manner***

On 16 September 2015 Mr Manner entered into a letter of appointment with the Company under the terms of which he agreed to act as a non-executive director of the Company for a fee of €35,000 per annum and reimbursement of all reasonable and properly documented expenses incurred in the performance of his duties. Mr Manner will also receive an additional fee of €5,000 per annum in respect of his position as Chairman of the nomination committee.

The appointment is terminable with immediate effect in accordance with the Articles and pursuant to the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds. Mr Manner 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, after a fixed 6 month period from Admission.

(H) ***Letter of appointment of Dr Frank Armstrong***

On 16 September 2015 Dr Armstrong entered into a letter of appointment with the Company under the terms of which he agreed to act as a non-executive director of the Company for a fee of €35,000 per annum and reimbursement of all reasonable and properly documented expenses incurred in the performance of his duties. Dr Armstrong will also receive an additional fee of €33,000 per annum in respect of his position as Chairman of the Board, and an additional fee of €5,000 per annum for his role as Chairman of the remuneration committee.

The appointment is terminable with immediate effect in accordance with the Articles and pursuant to the Finnish Companies Act, through a resolution of Shareholders at a General Meeting on any grounds. Dr Armstrong 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, after a fixed 6 month period from Admission.

11. Directors' and other interests

11.1 The interests of the Directors and their immediate families, so far as they are aware having made due and careful enquiries of persons connected with them (within the definition of 'family' as defined by the AIM Rules for Companies), in Ordinary Shares of the Company as at the date of this document and at Admission, all of which are beneficial unless otherwise stated, are set out below:

Director	*Number of Ordinary Shares held as at the date of this document*	*Percentage of Ordinary Shares in issue as at the date of this document*	*Number of Ordinary Shares held as at the date of Admission*	*Percentage of Ordinary Shares in issue on Admission*
Dr Markku Jalkanen	2,873,390*	14.91	2,873,390*	12.43
Dr Juho Jalkanen	1,082,570**	5.62	1,082,570**	4.68
Yrjö Wichmann	69,440	0.36	69,440	0.30
Matti Manner	480,900	2.50	480,900	2.08
Leopoldo Zambeletti	0	0	13,461	0.06
Dr Huaizheng Peng	0	0	0	0
Professor Jonathan Knowles	0	0	3,846	0.02
Dr Frank Armstrong	0	0	3,846	0.02

* of which, 1,794,890 are held by Markku Jalkanen directly, and 1,078,500 are held by Markku Jalkanen's wife being Sirpa Jalkanen.

** of which, 1,078,500 are held by Juho Jalkanen directly, and 4,070 are held by Juho's Jalkanen's family being Aaro Jalkanen, Enna Jalkanen and Heikki Jalkanen.

11.2 Additionally, the Directors have been granted the following "A" Options over Ordinary Shares (conditional on Admission) pursuant to the 2015 Share Option Plan:

Director	*"A" Options held*
Dr Markku Jalkanen	80,000
Dr Frank Armstrong	40,000
Matti Manner	20,000
Dr Juho Jalkanen	20,000
Yrjö Wichmann	30,000
Leopoldo Zambeletti	20,000
Dr Huaizheng Peng	20,000
Professor Jonathan Knowles	20,000

11.3 Additionally, as described in paragraph 5 of this Part VII, the Directors have the right to subscribe for the following "B", "C" and "D" Options (conditional on them continuing to remain in their respective Director roles at the time of commencement of the relevant subscription period):

Director	*"B", "C" and "D" Options*
Dr Markku Jalkanen	80,000 "B" Options 80,000 "C" Options 80,000 "D" Options
Dr Frank Armstrong	40,000 "B" Options 40,000 "C" Options 40,000 "D" Options
Matti Manner	20,000 "B" Options 20,000 "C" Options 20,000 "D" Options
Dr Juho Jalkanen	20,000 "B" Options 20,000 "C" Options 20,000 "D" Options
Yrjö Wichmann	30,000 "B" Options 30,000 "C" Options 30,000 "D" Options
Leopoldo Zambeletti	20,000 "B" Options 20,000 "C" Options 20,000 "D" Options
Dr Huaizheng Peng	20,000 "B" Options 20,000 "C" Options 20,000 "D" Options
Professor Jonathan Knowles	20,000 "B" Options 20,000 "C" Options 20,000 "D" Options

12. Independent Auditors

12.1 The Company's financial statements for the years ended 31 December 2014, 2013 and 2012 have been audited by independent auditors PricewaterhouseCoopers Oy (business identity code 0486406-8), a member of the Institute of Finnish Authorised Public Accountants.

13. Employees

13.1 As at the date of this document, the Company had 6 full time employees, including Directors.

13.2 The following table sets forth the total number of the Company's full-time equivalent employees at the end of each period indicated:

	Year ended 31 December			*Six months ended 30 June*
	2012	*2013*	*2014*	*2015*
Total	4	4	5	5

14. Property, Plant and Equipment

14.1 As at the date of this document, the Company's leased business premises were at Joukahaisenkatu 6, FIN-20520 Turku, Finland.

14.2 Save as disclosed in this document, the Company is not aware of any material environmental issues or risks affecting the utilisation of the Company's tangible fixed assets or its operations.

15. Material Contracts

Except for the contracts described below, there are no contracts (other than contracts entered into in the ordinary course of business) which have been entered into by any member of the Company during the two years immediately preceding the date of this document which are, or may be, material or which contain any provision under which any member of the Company has any obligation or entitlement which is material to the Company as of the date here.

15.1 ***Nominated Adviser Engagement Letter***

Under an agreement dated 5 March 2015 between the Company and Cairn, the Company has agreed that in consideration for Cairn's advisory services to be provided in connection with Admission, the Company will pay Cairn a transaction fee of £125,000 and any VAT payable on such amount.

15.2 ***Nomad Agreement***

Under an agreement dated 11 November 2015 between: (1) the Company, (2) the Directors, and (3) Cairn, Cairn has agreed to act as nominated adviser to the Company as required by the AIM Rules. Under this agreement, Cairn will provide, amongst other things, such independent advice and guidance to the Directors and the Company as they may require from time to time as to the nature of their responsibilities and obligations to ensure compliance by the Company on a continuing basis with the AIM Rules. The Company has agreed to pay Cairn an annual retainer fee of £30,000 plus VAT, as well as payment of any disbursements and expenses reasonably incurred by Cairn in the course of carrying out its duties as nominated adviser. The agreement is subject to a minimum 12 month term, after which it is terminable on three months' notice given by either Cairn or the Company. The agreement also contains provisions for early termination in certain circumstances and an indemnity given by the Company to Cairn in relation to the provision by Cairn of its services under the agreement.

15.3 ***Broker Agreement***

Under an agreement dated 11 November 2015 between: (1) the Company, and (2) Whitman Howard, Whitman Howard has agreed to act as broker to the Company as required by the AIM Rules. The Company has agreed to pay Whitman Howard an annual retainer fee of £50,000 plus VAT as well as payment of any disbursements and expenses reasonably incurred by Whitman Howard in the course of carrying out its duties as broker. The agreement is subject to a minimum 12 month term,

after which it is terminable on 3 months' notice given by either Whitman Howard or the Company. The agreement also contains provisions for early termination in certain circumstances and an indemnity given by the Company to Whitman Howard in relation to the provision by Whitman Howard of its services under the agreement.

15.4 ***Placing Agreement***

On 11 November 2015 the Company and its Directors entered into a placing agreement with Cairn and Whitman Howard under which Whitman Howard has agreed to use its reasonable endeavours as agent for the Company to seek subscribers at the Placing Price for the Placing Shares.

In consideration for its services to be provided under the Placing Agreement, the Company will pay Whitman Howard, conditional on the Placing and Admission: (a) a documentation and corporate advisory fee of £100,000; (b) commission equal to 4 per cent. of the gross proceeds of the Placing received by the Company from investors introduced by Whitman Howard; (c) commission equal to 1.25 per cent. of the gross proceeds of the Placing received by the Company from investors introduced in certain other circumstances; and (d) any VAT payable on the above.

In addition, Whitman Howard will be issued warrants pursuant to the Warrant Instrument detailed in paragraph 4.8(k) of Part VII of this document .

The Placing Agreement contains certain warranties and indemnities given by the Company and the Directors (which are of a customary nature) in favour of Cairn and Whitman Howard. The Placing Agreement is conditional *inter alia* on Admission and may be terminated in certain circumstances prior to Admission, including by reason of force majeure.

15.5 ***Subscription Applications Forms***

The Company has entered into Subscription Application Forms dated 6 November 2015 with each of the Subscribers, pursuant to which the Subscribers have applied to the Company for the Subscription of a total of 1,384,997 Subscription Shares at the Subscription Price. Subject to the terms and conditions of these letters and Admission, the Company will issue to each of the Subscribers their relevant allocation of the Subscription Shares on Admission. The Subscription of the Subscription Shares is not being underwritten.

15.6 ***Relationship Agreement***

On 11 November 2015 the Company, Cairn, Whitman Howard, Markku Jalkanen, Sirpa Jalkanen, Juho Jalkanen, Maija-Leena Hollmén and Katriina Peltola, entered into a relationship agreement pursuant to which, conditional on Admission, each of Markku Jalkanen, Sirpa Jalkanen, Juho Jalkanen, Maija-Leena Hollmén and Katriina Peltola have undertaken that, for so long as they hold 20 per cent. or more of the voting rights attaching to Ordinary Shares of the Company, they will exercise such voting rights (and procure that their Associates (as defined therein) exercise their voting rights) to ensure that, *inter alia*, the Company is capable at all times of carrying on its business independently of them, no variations are made to the Articles that would be contrary to the Company's independence from them and that all transactions between them and the Company are and will be made at arm's length and on normal commercial terms.

15.7 ***Lock-in and Orderly Marketing Agreements***

On 11 November 2015 the Company entered into lock-in and orderly marketing agreements with Cairn, Whitman Howard and each of the Locked-in Persons, pursuant to which each of the Locked-in Persons has agreed with the Company, Cairn and Whitman Howard not to dispose of any interest he holds in the Ordinary Shares for a period of 360 calendar days from Admission, except in certain limited circumstances, including with the prior written consent of Cairn and Whitman Howard. Each of the Locked-in Persons has also agreed that, for a further period of 180 calendar days thereafter, they will only dispose of their Ordinary Shares through Whitman Howard (except in certain limited circumstances, including with the prior written consent of Cairn and Whitman Howard) in order to maintain an orderly market, unless (in each case) agreed otherwise in advance with Cairn and Whitman Howard. Cairn and Whitman Howard's rights under these agreements may be assigned by Cairn and Whitman Howard to any successor nominated adviser or nominated broker duly appointed by the Company, or to any member of their respective groups.

Whitman Howard also entered into a lock-in and orderly marketing agreement with Cairn and the Company on 11 November 2015 pursuant to which it has agreed not to dispose of any Whitman Howard Warrants, or any Ordinary Shares held pursuant to the exercise of such Whitman Howard Warrants, for a period of 360 calendar days from Admission, except in limited circumstances, including with the prior written consent of Cairn and the Company. Whitman Howard has also agreed that, for a further period of 180 calendar days thereafter, it will only dispose of such Whitman Howard Warrants, or any Ordinary Shares held by pursuant to the exercise of such Whitman Howard Warrants, in order to maintain an orderly market, unless (in each case) agreed otherwise in advance with Cairn and the Company.

15.8 ***Depositary Agreement***

On 6 October 2015, the Company and Computershare Investor Services PLC (the "Depositary") entered into an agreement for the provision of depositary services and custody services (the "Depositary Agreement") pursuant to which the Company appointed the Depositary to act as the depositary and custodian of the Depositary Interests and to provide the services set out in the Depositary Agreement. The Company has agreed to pay the Depositary an annual fee of £8,000 (which shall be agreed annually) and to reimburse the Depositary for all reasonable out-of-pocket expenses. The Depositary's maximum liability under the Depositary Agreement in respect of any twelve month period is capped at an amount equal to twice the Depositary's fees earned in that twelve month period. The parties are required under the Depositary Agreement to indemnify each other in certain circumstances. Neither party is liable to indemnify the other in respect of any loss arising from the fraud, negligence or wilful default of the other party or as a result of a breach by the other party of the Depositary Agreement. Subject to earlier termination, the appointment of the Depositary shall continue in force until terminated by either party giving the other not less than 6 months' notice.

15.9 ***Japanese Licensing Agreement***

Under a licence agreement dated 9 February 2011 between the Company and Maruishi Pharmaceutical Co., Ltd, the Company has granted to Maruishi an exclusive licence with the right to sublicense, to use, offer for sale, sell and/or import, manufacture or have manufactured Traumakine® and the Kit (as defined below) in Japan. In particular, the agreement gives to Maruishi the exclusive rights to certain of the Company's IP rights under the Patent Law of Japan, including the right to register these IP rights with the Patent Office of Japan. Please see Part I, above, for further information.

Under the terms of the agreement, the Company is entitled to receive one third (1/3) of Maruishi's net profit from sales of the Kit in Japan through the milestone, royalty and other payments. Pursuant to the agreement, the royalty rate shall be agreed between the parties in writing. The milestone payments consist of up to €5 million in aggregate, subject to foreign exchange adjustments.

The agreement contemplates that Maruishi shall establish and complete a development plan for clinical trials of Traumakine® and a kit designed for its administration (the "Kit") aimed at achieving final regulatory approval for Traumakine® and the Kit in Japan.

The agreement contemplates that the Company will supply Kits to Maruishi in accordance with the Maruishi Supply Agreement summarised below.

The Company is entitled to a one-third (1/3) share of Maruishi's net profit from sales of the Kit in Japan during the "Royalty Period", defined in the agreement as the period starting from the date on which Maruishi first launches the Kit in Japan until the later of: (1) the expiry of the last patent within the Company's IP rights specified under the agreement covering Traumakine in Japan; or (2) the expiry of the Japanese ODD status. After the lapse of the Royalty Period, and unless Maruishi terminates the agreement, the Company shall be entitled to royalties for a period of three years at a rate to be agreed between the parties.

Under the agreement, Maruishi shall indemnify, defend and hold harmless the Company against any claims and losses by a third party arising directly or indirectly out of the development, use, possession, commercialisation, sale or distribution of the Kit by Maruishi or arising directly or

indirectly out of the breach of the agreement by Maruishi. The Company shall indemnify, defend and hold harmless Maruishi against any claims and losses by a third party arising directly or indirectly out of the breach of the agreement by the Company.

The agreement shall continue for as long as Maruishi continues sales of the Kit in Japan. However, Maruishi may terminate the agreement at any time for any or no reason, at which point Maruishi shall, at the Company's request, transfer its ODD status (if obtained) and registration to the Company or a third party whom the Company appoints, provided that the Company is not in material breach of the agreement.

15.10 ***Maruishi Supply Agreement***

The Company and Maruishi also entered into a supply agreement on 24 March 2014, under which the Company supplies and delivers certain FP-1201-lyo related products and substances and standardised reference substances to Maruishi, for the purpose of the clinical development of Traumakine.

Under the agreement, Maruishi has agreed to compensate the Company for costs and expenses incurred by the Company or on its account in relation to the development of the products supplied by the Company pursuant to the agreement. Maruishi's obligation to pay compensation is retroactive and the costs incurred by the Company between the years 2011 and 2013 are payable pursuant to the agreement, whereas no development cost for the year 2014 or for any year thereafter shall be payable. The compensation for the period between the years 2011 and 2013 has been paid in 2014 and the rest will be paid in 2015 or thereafter.

15.11 ***A&B Agreement***

The Company entered into a subscription, asset transfer and supply agreement with A&B (HK) on 8 May 2015. Subject to the A&B Share Subscription specified in the agreement the Company agreed to transfer and license to A&B (HK) certain assets related to FP-1201-lyo and A&B (HK) shall take responsibility for development and commercialisation of FP-1201-lyo (in any dosage form or line extension) in the territories of mainland China, Hong Kong, Macao and Taiwan (the "CMS Territory"), such commercialisation activities to be conducted by CMS affiliates.

Under the agreement, A&B (HK) has acquired from the Company the exclusive and irrevocable ownership of the assigned assets specified under the agreement, and the license to certain licensed IP, as well as certain rights to exchange information in relation to FP-1201-lyo. A&B (HK) owns the right to import, register, market, distribute, promote and sell the assigned assets in the CMS Territory at A&B (HK)'s sole discretion and the right to manufacture the assigned assets for the CMS Territory. The Company does not have rights to, nor cause or assist any third party to, sell or distribute the assigned assets within the CMS Territory, nor resell, transfer, license, authorise or dispose the assigned assets in any other ways.

Under the agreement, the Company has agreed to assist A&B (HK) (and/or any CMS affiliate) in the arrangement of the supply of FP-1201-lyo for clinical trial, and the Company shall provide reasonable assistance to A&B (HK) to procure that contract manufacturers of each part of FP-1201-lyo enter into direct relationships with A&B (HK).

If the Company is the listed manufacturer on the Certificate of Pharmaceutical Product specified in the agreement or the Company arranges the supply of FP-1201-lyo upon the request of A&B (HK), A&B (HK) shall purchase the FP-1201-lyo from the Company and the Company shall organise the supply of the quantities required by A&B (HK) for the CMS Territory. In the event that the supply price from any CMS affiliate through its distributors to those governmental or hospital authorities buying the FP-1201-lyo exceeds a certain amount, such CMS affiliates shall also pay royalties to the Company.

The agreement remains in force and effect until any obligation under the agreement is fully performed and discharged or as otherwise agreed in writing by the parties. However, A&B (HK) shall have the right to terminate the agreement at any time because it has decided, for whatever reason, that it no longer wishes to develop and/or commercialise the product in the CMS Territory. The Company has no right to terminate the agreement by reason of the breach by A&B (HK) or

any CMS affiliate of any provisions of the agreement. The Company's material breach of the agreement entitles A&B (HK) to terminate the agreement upon giving 90 days written notice to the Company on the occurrence of a material breach.

15.12 ***A&B Subscription Agreement***

The Company entered into a share subscription agreement with A&B (HK) on 8 May 2015. Pursuant to the agreement, the Company issued two tranches of Ordinary Share to A&B (HK), for an aggregate subscription price of €5,049,972.62. Subject to the A&B Share Subscription and concurrently with it, the Company agreed to transfer and license certain assets to A&B (HK), as described above. The first share issue was executed upon the signing of the agreement, consisting of 219,565 new Ordinary Shares at a subscription price of €15.41 per Ordinary Share. The second share issue was executed on 28 May 2015, consisting of 83,199 new Ordinary Shares at a subscription price of €20.03 per Ordinary Share. In total, A&B (HK) subscribed for 15.72 per cent. of the total amount of Ordinary Shares in the Company. Both issues of Ordinary Shares set out in this paragraph were prior to the Share Split.

Under the terms of the agreement, A&B (HK) has a right to nominate one of the members of the Company's Board of Directors in the next General Meeting following the completion of the second share issue. A&B (HK) shall continue to have this right as long as it owns not less than 12 per cent. of the total amount of Ordinary Shares in the Company. In this respect, Dr Peng was appointed to the Board of Directors on 15 September 2015.

15.13 ***CMS Agreement***

The Company, A&B (HK) and CMS Pharma Co. Ltd entered into a supplemental agreement to the A&B Agreement and the A&B Subscription Agreement on 19 May 2015. According to the agreement, A&B (HK) shall transfer and sell, and CMS Pharma Co. Ltd shall purchase and acquire the assigned assets as specified in the A&B Agreement, and accordingly CMS Pharma Co. Ltd owns the right to import, register, market, distribute, promote and sell FP-1201-lyo in the CMS Territory at its sole discretion, and the right to manufacture FP-1201-lyo for the CMS Territory. Under the agreement, the Company has agreed to directly deliver the assigned assets to CMS Pharma Co. Ltd and may license CMS Pharma Co. Ltd with respect to the licensed IP specified in the agreement directly within a reasonable time. Prior to the launch of FP-1201-lyo in the CMS Territory, CMS Pharma Co. Ltd shall approach the manufacturer of FP-1201-lyo and reach relevant agreements on the manufacturing of FP-1201-lyo directly, subject to the terms and conditions of the A&B Agreement.

15.14 ***TEKES loans***

As at 30 June 2015, the Company had two research and development loans in the aggregate amount of €1,690,600 granted by the Finnish Funding Agency for Technology and Innovation ("TEKES"). The loans were granted in 2008 and 2011. Research and development loans are granted to a defined product development project and cover a contractually defined portion of the projects' research and development expenses. The interest rate for these loans is the base rate set by the Finnish Ministry of Finance minus three (3) percentage points, subject to a minimum rate of one percent. 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. However, for the first loan falling due for repayment, the Company has been granted with an extended loan period of 12 years, with repayment to be initiated after 7 years.

As at 30 June 2015, the Company had also received €908,980.00 of TEKES funding for young and innovative companies. The funding is granted for young and innovative companies for comprehensive development of their business activities. The funding as well as the research and development loans are granted to a defined product development project and cover a contractually defined portion of the projects' expenses. The funding has been paid in accordance with the Company's incurred expenses approved by TEKES. TEKES shall also continue to evaluate the impact of projects after their completion. If necessary, the Company shall, on request, provide information in respect of the realisation of the plans and forecasts that it had presented during the processing of the application and the implementation of the project.

15.15 ***Consortium Agreement and European Commission Grant Agreement***

On 28 May 2012 the Company entered into a consortium agreement with University College London Hospital, the University of Torino and the University of Turku for the purpose of a project regarding the interferon-beta treatment of ARDS. The agreement is based on the DESCA model consortium agreement. In particular, it governs the relationship between the parties with respect to the organisation of work in respect of the project, management of the project and their obligations concerning liability, access rights and dispute resolution.

As coordinator of the Consortium, the Company proceeded to negotiate with the European Commission to obtain a grant to fund the project. On 27 November 2012, the EU, represented by the European Commission, entered into a grant agreement with the Company, in its capacity as coordinator of the Consortium. Pursuant to the grant agreement, the EU agreed to pay a maximum financial contribution of €5,997,278.00 to the Consortium for the purpose of funding the pan-European phase III clinical trials in respect of Traumakine®. The maximum contribution may be paid to the Consortium subject to the completion of the agreed tasks and milestones to the satisfaction of the European Commission. The share of the financial contribution budgeted to be allocated to the Company is €3,153,042, though pursuant to the grant agreement the members of the Consortium are entitled to transfer the budget between themselves. One of the Company's key roles as coordinator of the Consortium is that the payments of the grant are paid to the account of the Company and the Company then distributes the financial contribution to other parties.

The duration of the project is defined as 48 months, starting from the first day of the month after entry into force of the grant agreement. This means that it expires on 1 December 2016. The grant agreement provides that the EU shall make the payments to the Consortium in the following stages:

(1) An initial payment of €2,298,956. This has already been paid.

(2) Interim payments made in accordance with reporting periods set out in the grant agreement. The reporting periods run from month 1 to month 18 (P1); from month 19 to month 36, (P2); and from month 37 to month 48 (P3). The Consortium has already received €1,017,812.59 pursuant to the interim payments.

(3) A final payment corresponding to the amount accepted for the last reporting period plus any adjustment needed. If the corresponding financial contribution is less than any amount already paid to the Consortium, the European Commission shall recover the difference.

16. Litigation

The Company has no pending governmental, legal or arbitration legal proceedings (including any proceedings which are pending or threatened of which the Company is aware) which may have or may have had in the past 12 months a significant effect on the financial position or profitability of the Company and/or the Company, as a whole, nor is the Company aware of any such proceedings being threatened.

17. Significant Change

Except as disclosed in paragraph 11 of Part I of this document, there has been no significant change in the Company's financial position or trading position since 30 June 2015 (being the date to which the Historical Financial Information on the Company set out in Part IV of this document was prepared).

18. Working Capital

In the opinion of the Company and its Directors, having made due and careful enquiry, the working capital available to the Company is sufficient for its current requirements, that is for at least the next 12 months from the date of Admission.

19. Estimate of Total Expenses of the Placing and Subscription

The total costs and expenses of the Placing and Subscription are estimated to be £1.7 million.

20. Crest Depositary Interests

20.1 ***General***

CREST is a computerised share transfer and settlement system. The CREST system allows shares and other securities to be held in electronic form rather than paper form. For private investors who do not trade frequently, this latter course is likely to be more cost-effective.

Shares in non-UK companies cannot be held and transferred directly into the CREST system. Application will be made for the Depositary Interests in respect of the underlying Ordinary Shares to be admitted to CREST with effect from Admission. Shareholders who wish to hold and transfer Ordinary Shares in uncertificated form through Depositary Interests may do so pursuant to a Depositary Interest arrangement established by the Company in conjunction with Computershare Investor Services PLC.

20.2 ***The Nature of Depositary Interests***

Depositary Interests facilitate settlement of shares in non-UK companies into CREST. The Ordinary Shares will not themselves be admitted to CREST. Instead the Depositary will issue Depositary Interests in respect of the Ordinary Shares. The Depositary Interests are independent securities constituted under English law that may be held and transferred through CREST.

Depositary Interests have the same international security identification number (ISIN) and TIDM Code as the underlying Ordinary Shares. The Depositary Interests are created and issued pursuant to a deed poll with the Depositary, which governs the relationship between the Depositary and the holders of the Depositary Interests. Ordinary Shares represented by Depositary Interests are held on bare trust for the holders of the Depositary Interests. Each Depositary Interest is treated as one Ordinary Share for the purposes of determining eligibility for dividends, issues of bonus stock and voting entitlements.

20.3 ***The Deed Poll***

The DIs will be created pursuant to and issued on the terms of the Deed Poll. The Deed Poll was executed on 30 September 2015 by the Depositary in favour of the holders of the DIs from time to time. Prospective holders of DIs should note that they will have no rights against Euroclear or its subsidiaries in respect of the underlying Shares or the DIs representing them.

Shares will be transferred to an account of the Depositary's nominated custodian (the "Custodian") and the Depositary will issue DIs to participating members of CREST.

Each DI will be treated as one Ordinary Share for the purposes of determining, for example, eligibility for any dividends. The Depositary will pass on to holders of DIs any stock or cash benefits received by it as holder of Shares on trust for such DI Holder. DI Holders will also be able to receive from the Depositary notices of meetings of holders of Shares and other information issued by the Company to the Shareholders to make choices and elections. In summary, the Deed Poll contains, *inter alia*, provisions to the following effect:

(a) The Depositary will hold (through the Custodian), as bare trustee, the Ordinary Shares issued by the Company and all and any rights and other securities, property and cash attributable to the Ordinary Shares for the time being held by the Depositary or Custodian pertaining to the DIs for the benefit of the holders of the DIs.

(b) The Depositary will re-allocate securities or distributions allocated to the Depositary or the Custodian pro rata to the Shares held for the respective accounts of the holders of DIs but will not be required to account for fractional entitlements arising from such re-allocation.

(c) Holders of DIs warrant, *inter alia*, that the securities in the Company transferred or issued to the Depositary or Custodian on behalf of the Depositary for the account of the DI Holder are free and clear of all liens, charges, encumbrances or third party interests and that such transfers or issues are not in contravention of the Articles or any contractual obligation, or applicable law or regulation binding or affecting such holder. The holder of Depositary Interests indemnifies the Depositary for any losses it incurs as a result of a breach of this warranty.

(d) The Depositary and any Custodian must pass on to DI Holders, and so far as reasonably able exercise on their behalf, all rights and entitlements received by the Depositary or the Custodian in respect of the Ordinary Shares which are capable of being passed on or exercised. Rights and entitlements to cash distributions, to information, to make choices and elections and to attend and vote at meetings shall, subject to the Deed Poll, be passed on in the form which they are received, together with amendments and additional documentation necessary to effect such passing-on. If arrangements are made which allow a holder to take up rights in the Company's securities requiring further payment, the holder must put the Depositary in cleared funds before the relevant payment date or other date notified by the Depositary if it wishes the Depositary to exercise such rights.

(e) The Depositary will be entitled to cancel DIs and treat the holders as having requested a withdrawal of the underlying securities in certain circumstances, including where a DI holder fails to furnish to the Depositary with such certificates or representations as to material matters of fact, including his identity, or where the Depositary believes that the ownership of the DIs may result in a pecuniary disadvantage to the Depositary or the Custodian or where the DIs are held by a person in breach of the law. If these events occur the Depositary shall make such arrangements for the deposited property as it sees fit, including sale of the deposited property and delivery of the net proceeds thereof to the holder of the DIs in question.

(f) The Deed Poll contains provisions excluding and limiting the Depositary's liability. For example, the Depositary will not be liable to any DI Holder or any other person for liabilities in connection with the performance or non-performance of obligations under the Deed Poll or otherwise except as may result from its negligence or willful default or fraud or that of any person for whom it is vicariously liable, provided that the Depositary will not be liable for the negligence, willful default or fraud of any Custodian or agent which is not a member of its group unless it has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.

(g) The Depositary is entitled to charge holders of DIs fees and expenses for the provision of its services under the Deed Poll.

(h) The holders of DIs are required to agree and acknowledge with the Depositary that it is their responsibility to ensure that any transfer of DIs by them which is identified by the CREST system as exempt from stamp duty reserve tax is so exempt, and to notify the Depositary forthwith if this is not the case, and to pay to Euroclear any interest, charges or penalties arising from late or non-payment of stamp duty reserve tax in respect of such transaction.

(i) Each holder of DIs is liable to indemnify the Depositary and any Custodian (and their agents, officers and employees) against all liabilities arising from or incurred in connection with, or arising from any act performed in accordance with or for the purposes of or otherwise related to, the Deed Poll so far as they relate to the DIs (and any property or rights held by the Depositary or Custodian in connection with the DIs) held by that holder, other than those resulting from the willful default, negligence or fraud of the Depositary, or the Custodian or any agent if such Custodian or agent is a member of the Depositary's group or if, not being a member of the same group, the Depositary has failed to exercise reasonable care in the appointment and continued use and supervision of such Custodian or agent.

(j) The Depositary is entitled to make deductions from any income or capital arising from the underlying securities, or to sell such underlying securities and make deductions from the sale proceeds therefrom, in order to discharge the indemnification obligations of DI holders.

(k) The Depositary may terminate the Deed Poll by giving 30 days' notice. During such notice period holders may cancel their DIs and withdraw their deposited property and, if any DIs remain outstanding after termination, the Depositary must, among other things, deliver the deposited property in respect of the DIs to the relevant DI holders or, at its discretion sell all

or part of such deposited property. It must, as soon as reasonably practicable, deliver the net proceeds of any such sale, after deducting any sums due to the Depositary, together with any other cash held by it under the Deed Poll pro rata to holders of DIs in respect of their DIs.

(l) The Depositary or the Custodian may require from any holder information as to the capacity in which DIs are or were owned and the identity of any other person with or previously having any interest in such DIs and the nature of such interest and evidence or declarations of nationality or residence of the legal or beneficial owners of DIs and such information as is required for the transfer of the relevant Shares to the holders. Holders agree to provide such information requested and consent to the disclosure of such information by the Depositary or Custodian to the extent necessary or desirable to comply with their legal or regulatory obligations. Furthermore, to the extent that the Articles require disclosure to the Company of, or limitations in relation to, beneficial or other ownership of the Company's securities, the holders of DIs are to comply with such Articles and the Company's instructions with respect thereto.

(m) The holders of DIs are also required to comply with the provisions of the Articles requiring the making of takeover offers in certain circumstances.

20.4 ***Voting and Attending Meetings***

A holder of nominee-registered Ordinary Shares, including any DI Holder, who has the right, based on the shares, to be entered into the Company's shareholder register on the record date of the General Meeting and who wishes to attend and vote at the General Meeting or authorise a representative to do so on his or her behalf, must seek a temporary registration in the shareholder register of Euroclear Finland. The registration must be made no later than on the date specified in the notice to the General Meeting, which must be after the record date. Full details and deadlines will be provided to DI Holders ahead of each meeting either in writing from the Depositary or through the CREST bulletin service.

20.5 ***Dividends***

Shareholders who hold their Ordinary Shares in the form of Depositary Interests will be able to have dividends declared on Ordinary Shares paid to them by the Depositary. The Company will put the Depositary in funds for the payment and the Depositary will transfer the money to the holders of the Depositary Interests.

In respect of any bonus stock, the Company will allot any bonus stock to the Depositary who will issue such bonus stock to the holder of the Depositary Interest (or as such holder may have directed) in registered form.

20.6 ***Trading Depositary Interests by Holders in Euroclear Finland***

Acting in CREST

(A) Persons wishing to buy Ordinary Shares will place a trade on AIM, settle with the seller in CREST (as DIs), and then bring the Ordinary Shares back to Finland by cancelling the DIs via the Depositary and taking delivery of the Ordinary Shares to their Euroclear Finland Account.

(B) Persons wishing to sell Ordinary Shares will place a trade on AIM, move their Ordinary Shares to the Depositary's Custodian account in Finland and arrange the issuance and delivery of DIs to the purchaser's CREST account, settle the trade and receive the monies.

Acting in Euroclear Finland

(A) Persons wishing to buy Ordinary Shares will place a trade on AIM via an agent. Their appointed agent will settle with the seller in CREST (as DIs) and move the Ordinary Shares back to Finland (as above) and deliver the Ordinary Shares to the relevant Euroclear Finland Account. This way, the Finnish participant is only transacting in Finland.

(B) Persons wishing to sell Ordinary Shares will agree a trade on AIM via an agent. They will transfer the Ordinary Shares to the agent's Euroclear Finland account and the agent will then move the Ordinary Shares to the Depositary's Custodian account and request the issuance and

delivery of DIs to the agent's own CREST account. The agent will then settle the trade, receive and then transfer the monies to the Euroclear Finland participant.

21. Consents

21.1 Cairn, the nominated adviser of the Company, has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which it appears.

21.2 Whitman Howard, the broker of the Company, has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which it appears.

21.3 Rx Securities, the equity adviser of the Company, has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which it appears.

21.4 Crowe Clark Whitehill, the reporting accountant of the Company, has given and not withdrawn their written consent to the issue of this document with the inclusion in it of their report and letter and references to them and to their name in the form and context in which they respectively appear.

21.5 Turun Patenttitoimisto Oy, the intellectual property consultants of the Company, has given and not withdrawn its written consent to the issue of this document with the inclusion in it of their report and references to its name in the form and context in which it appears.

21.6 PriceWaterhouse Coopers Oy, the Company's auditors, has given and not withdrawn its written consent to the issue of this document with references to its name in the form and context in which it appears.

21.7 Professor Alberto Mantovani, who has prepared a technical report on Clevegen for the purpose of Admission, has given and not withdrawn his written consent to the issue of this document with the inclusion in it of references to that technical report and to his name in the form and context in which they appear.

22. Benefits received from the Company

Save as disclosed elsewhere in this document, no person (excluding professional advisers named in this document and trade suppliers) has received, directly or indirectly, from the Company within the twelve months preceding the date of admission or entered into any contractual arrangement to receive, directly or indirectly, from the Company on or after admission, any fees totalling £10,000 or more or securities in the Company with a value of £10,000 or more or any other benefit with a value of £10,000 or more.

23. Availability of Admission Document

A copy of this document is available free of charge for inspection during normal business hours on any weekday (public holidays excepted) at the offices of Cairn Financial Advisers LLP, at 61 Cheapside, London, United Kingdom, EC2V 6AX from the date of this document until at least one month after the date of Admission. A copy of this document is also available on the Company's website, http://www.faronpharmaceuticals.com/.