HYLORIS PHARMACEUTICALS SA

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Business Number: 0674.494.151– RPM Liège

ANNUAL REPORT OF THE BOARD OF DIRECTORS FOR THE FINANCIAL YEAR ENDING DECEMBER 31, 2020

Ladies
Gentlemen,

We have the honor to report to the General Meeting of June 8, 2021 on the activity of our governance during the fiscal year from January 1, 2020 to December 31, 2020 ("the Fiscal Year").

1. Comments on the development of business, the balance sheet and the income statement

The main items in the income statement are as follows:

Operating income (Total: €80,610.70)
Turnover and other operating income amount to €80,610.70 and consist of re-invoicing of costs to group subsidiaries.

Operating expenses (Total: €6,811,486.40)
Operating expenses mainly consist of non-recurring operating expenses for €5,294,127.15 and services and other goods for €1,514,597.05. Non-recurring operating expenses consist of costs associated with capital transactions, such as investment bank commissions, legal and audit fees. The increase in operating expenses is explained by the costs associated with capital transactions and by the expansion of the Company's management and governance structure.

The operating loss for the period
The operating loss for the period amounts up to €6,730,875.70 compared to a loss of €485,370.60 in 2019.

The financial result
In 2020, financial income amounts to €701,916.64, mainly composed of interests incurred on loans granted to subsidiaries. Financial charges amount to €591,184.06 and consist mainly of interests incurred on financial debts granted by shareholders and interests related to the issuance of convertible bonds in March and April.

Result of the period
The net loss for the period amounts to €6,623,379.20

The main balance sheet items are as follows:

Financial fixed assets (total: €60,935,829.11)

Financial fixed assets on December 31, 2020 consist of investments in subsidiaries, namely Hyloris Developments, RTU Pharma and Dermax, as well as receivables granted to its same subsidiaries to finance their activities.

The increase is explained by the capital increases in two subsidiaries, namely Hyloris Developments and Dermax, as well as by the increase in receivables granted to its subsidiaries.

Current assets (total: €44,591,692.55)

Current assets mainly consist of:

- cash investments for €20,000,000.00;
- cash at bank for €22,976,295.26;
- receivables within one year for €150,602.06, including €81,083.34 relating to VAT to recover;
- Deferred charges and accrued income for €1,464,795.23 and mainly concern the interest incurred on loans to subsidiaries.

Equity (total €97,077,676.97)

The Company's capital amounts to €129,163.16 and is fully subscribed.

As of December 31, 2020, share premiums amounted to €103,692,644.84.

The change in equity is mainly due (1) to the capital increases carried out in 2020 and (2) to the loss of the period (€6,623,379.20).

The capital increases were carried out as follows:

- on June 29, 2020, the Company closed its initial public offering (IPO) on Euronext Brussels resulting in the issuance of 5,750,000 new shares for a total gross proceeds of €61,821,500.
- the completion of the IPO triggered the conversion of the convertible bonds issued on March 31, 2020 and April 30, 2020 for respectively €10,800,000.00 and €4,350,000.00. The bonds were converted using a price per share of €7.525, corresponding to a 30% discount to the IPO price as contractually agreed at the issuance of the bonds. The Bonds bear a 6% interest rate as from their issue date. Accrued interest as of the date of the conversion were paid in shares, together with the principal amount, totalling together €15,358,025.00.
- on July 31, 2020, the Company exercised the over-allotment option in connection with its initial public offering. The exercise of the option resulted in the issuance of 240,000 new shares for total gross proceeds of €2,580,000.00.

On June 8, 2020, the General Assembly granted the Board of Directors the power to increase the capital, at once or in more installments, up to maximum of €117,758.84. The Board is allowed to use the authorised capital for a period of 5 years. As per December 31, 2020, the remaining authorised capital amounts to €115,758.84, as the Board of Directors has used its power to increase the capital of the company within the framework of the authorised capital for an amount of €2,000 (excl. issue premium) on November 27, 2020, following the issue of 400,000 ESOP 2020 subscription options ('warrants').

The Company has issued a warrant plan intended for the employees, consultants and Directors of the Company and its subsidiaries for the services rendered. In accordance with the terms of the plan, as approved by the Board of Directors, employees may be granted warrants giving them the right to subscribe to ordinary shares at the exercise price per ordinary share mentioned below.

Each employee warrant converts into an ordinary share of the Company upon exercise. No amount is paid or payable by the beneficiary upon receipt of the warrant. The warrants do not confer dividend rights or voting rights.

The 2020 plan is subject to services conditions so that it will vest gradually over the next four years (25% after 1 year, and 1/48 for every additional month). As at April 21, 2021 144,500 warrants were accepted.

Amounts payable after more than one year (€6,902,268.74)

Amounts payable after more than one year consist of financial debts granted by the principal shareholders of the Company. These debts are unsecured. During the first quarter of 2020, the Company received additional loans from its shareholders for a total of €3.3 million. In March 2020, the Company and the lenders agreed to review the terms of the shareholder loans. The loans were originally repayable by year end 2020. Following the terms of the new agreements, the Company shall reimburse €7.5 million in Q2 2020 (on top of the earlier reimbursement of €0.6 million made in Q1 2020) and repay the remaining part of the loans (including interest) the earlier of year end 2022 or when the Company will generate an operating profit. Hence the increase in debts for more than one year: transfer of financial debts granted by the main shareholders of the Company up to one year, which amounted to €13,942,989.95 as of December 31, 2019.

Amounts payable within one year (total €432,593.03)

Amounts payable within one year mainly consist of trade payables (for €378,246.73). The decrease compared to last year is explained by the classification of financial debts granted by the main shareholders of the Company (see "debts after more than one year").

2. Main risks and uncertainties

The Board of Directors has not identified any risk or uncertainty that could endanger the Company, other than the risks inherent in the activity of its subsidiaries and in the development of their pharmaceutical products. As of December 31, 2020, the Company was not subject to the risk of changes in the price of its products, to credit risk. In order to cover the exchange rate risks of its subsidiaries, the company occasionally uses financial means to cover exchange rate risk. The financing of the Company's activities is ensured for 12 months from the approval of the 2020 annual accounts by the General Meeting of shareholders (see "Justification for the application of the going concern accounting rules").

3. Important events after the end of the reporting period

Purna Female Healthcare

On February 5 2021, the Company announced a partnership with Purna Female Healthcare (PFH) to develop and commercialise an innovative combination therapy for the treatment of severe and recurrent vulvovaginal candidiasis (rVVC).

PFH is a special purpose vehicle founded to exclusively develop a local topical combination formulation of the well-known antifungal Miconazole with Domiphen Bromide (MCZ-DB). Under the terms of the agreement, Hyloris has committed to milestone related investments of up to €4.3 million in PFH (of which €1.27 million at signing) and will lead the commercialisation and out-licensing activities. Hyloris owns 20% of PFH and is eligible to receive up to a maximum of 45% of the net profits generated by PFH.

Purna Female Healthcare has exclusively in-licensed MCZ-DB and associated IP owned by KU Leuven and the University of Antwerp (Belgium).

This event has no impact on the Company's 2020 annual accounts. The Board of Directors is not aware of other significant events that have occurred after the end of the reporting period.

4. Information on the circumstances likely to have a significant influence on the development of the Company

COVID-19

On March 11, 2020 the World Health Organisation declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The length or severity of this pandemic cannot be predicted, and although there have been vaccines developed, the Board anticipates that there may still be a potential impact from COVID-19 on the planned development activities of its subsidiaries.

With COVID-19 continuing to spread in Europe and in the United States, the business operations of its subsidiaries could be delayed, particularly with third-party organisations (such as hospitals, CRO's and CMO's) located in affected geographies that the Group relies upon to carry out its preclinical and clinical trials. The spread of COVID-19, or another infectious disease, could also negatively affect the operations at its third-party suppliers, which could result in delays or disruptions in the supply of drug product used in its preclinical and clinical trials. In addition, the Company is taking temporary precautionary measures intended to help minimise the risk of the virus to its employees, including temporarily requiring all employees to work remotely, suspending all travel worldwide for its employees.

Further, timely enrolment in clinical trials is reliant on clinical trial sites which may be potentially affected by the COVID-19 pandemic. Most of its subsidiaries' and CRO's clinical trial sites are located in the United States, currently being afflicted by COVID-19.

Some factors from the COVID-19 outbreak that the Group believes would affect enrolment in its trials at least on a temporary basis include:

- the diversion of healthcare resources away from the conduct of clinical trial matters to focus on pandemic concerns, including the attention of physicians serving as Group's clinical trial investigators, hospitals serving as its clinical trial sites and hospital staff supporting the conduct of its clinical trials;
- limitations on travel that interrupt key trial activities, such as clinical trial site initiations and monitoring;

- employee absences that delay necessary interactions with local regulators, ethics committees and other important agencies and contractors.

As of the date of authorisation for issue of the consolidated financial statements, the Board considers that the limited delays encountered in the development of its subsidiaries' product-candidates will not result in major deviation in our planned activities and in the assumptions of our business plan. As stated in Note 3.1, the uncertainty raised by the COVID-19 pandemic is not impacting the going concern and the Company's ability to continue its operations.

5. Research and development activities

The Company does not carry out research and development activities, these being carried out by its subsidiaries.

6. The existence of branches of the company

The company does not have a branch.

7. Justification for the application of the going concern accounting rules

The Board of Directors has taken note of the requirements of article 3: 6, 6 ° Code of companies and associations.

Management has prepared detailed budgets and cash flow forecasts for the Company and its subsidiaries for the years 2021 and 2022. These forecasts reflect the Group's strategy and include significant expenses and cash outflows in relation to the development program, ongoing clinical studies and product candidate pipeline and including 4 product acquisitions per year to the product candidate pipeline. Management acknowledges that there is still uncertainty in these cash flow forecasts (such as delays in clinical development, regulatory approval, commercialisation) but estimates that the Group's cash position at the end of 2020 (i.e. €64 million) is sufficient to cover the Company's cash requirements for at least a period of 12 months following the approval of this report. After having duly taken the above into account, the Board of Directors is of the opinion that it has an appropriate basis to decide on the continuity of activities over the next 12 months from the closing date, and therefore the financial statements should be prepared on a going concern basis. The impact of COVID-19 on the business and operations of the company remains uncertain and will depend on future developments, which are uncertain and cannot be predicted. The Company believes that, while there are uncertainties, this does not have a material impact on the Company's ability to continue as a going concern. On the date of authorisation for publication of the consolidated financial statements, we encountered limited delays in the development of our product candidates, and we do not believe that this will lead to a major difference in our planned activities and in the assumptions of our business plan. In conclusion, the uncertainty created by the COVID-19 pandemic does not affect the continuity of the business and the ability of the company to continue its operations.

8. Purchase of own shares

It should be noted that the company did not acquire any own shares during Fiscal Year 2020.

9. Use of financial instruments

The company occasionally uses instruments of change risk hedging (FX Forward) to cover the risk of change in USD within its subsidiaries.

10. Conflict of interest

During the year under review, none of the Directors or members of the Executive Management has a conflict of interest within the meaning of article 7:96 of the Companies and Associations Code, which has not been disclosed to the Board of Administration.

You will find below an extract from the meeting of the Board of Directors during which the conflict of interest procedure was applied (the complete minutes of the Board of Directors of 8 June 2020 are only available in French and are attached to the French version of the report of the Board of Directors for the financial year ending December 31, 2020), ratifying - as far as necessary - the decisions taken by the Board of Directors and the transactions on which the Board of Directors has pronounced potentially in violation of the laws and the statutes applicable in matters of conflict of interest.

> *Board of Directors of June 8, 2020*
> Before the start of the deliberations, SVR Management BV and its permanent representative Mr Stijn Van Rompay and Jacobsen Management BV, represented by its permanent representative Mr Thomas Jacobsen, declared that they have a potential conflict of interest, as defined in article 7:96 Code of companies and associations. This conflict of interest was due to the fact that SVR Management BV and its permanent representative Mr Stijn Van Rompay and Jacobsen Management BV, represented by its permanent representative Mr Thomas Jacobsen had a direct or indirect financial interest in decisions to be taken by the Board, such as the approval of certain commercial contracts with the Alter Pharma group, the approval of consultancy and remuneration agreements for SVR Management BV and Jacobsen Management BV, the acquisition of RTU Pharma, the approval of loan agreements between certain shareholders and the Company, the acquisition of Dermax and the confirmations of the decisions to be taken by the Companies of the Hyloris Group with regard to a certain number of commercial contracts concluded by the Companies of the Hyloris Group.
>
> Based on the above arguments, the Board of Directors concluded that the decisions were made and were in the context of the Company’s social interest.
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> The Executive Directors did not participate in the deliberations or in the vote on these items on the agenda. In accordance with Article 7:96 of the Companies and Associations Code, the Company's auditor has been informed of these conflicts of interest.

Apart from the decisions and transactions covered by the meeting of the Board of Directors of June 8, 2020, there were no other decisions or transactions on which the Board of Directors has pronounced or should have pronounced.

11. Corporate Governance Statement

The corporate governance statement (including the remuneration report) is included in the 2020 Hyloris Pharmaceuticals Annual Report (https://investors.hyloris.com/financial-information/#financialreports).

12. Valuation rules

The Board of Directors emphasises that the Company's valuation rules have not been changed in 2020.

13. Additional fees of the Auditor

The additional emoluments received by the statutory auditor during the 2020 financial year amounts up to €242,615.00.

Liège, April 21, 2021

[signed version]

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Stephan Yee
President

[signed version]

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SVR Management SRL
Permanently represented by
Sir Stijn Van Rompay
Managing director