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, 2021

Ladies
Gentlemen,

We have the honor to report to the General Meeting of June14, 2022 on the activity of our governance during the fiscal year from January 1, 2021 to December 31, 2021 ("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:

Sales and services (Total: € 3,151,939)

Sales consist of a turnover of € 2,780,254 relating to our product Maxigesic IV marketed by our client AFT Pharmaceuticals.

Other operating income amounts to € 371,68 Euro and is mainly composed of re-invoicing of costs to group subsidiaries.

Operating expenses (Total: € 10,765,548)

Operating expenses consist of non-recurring operating expenses of € 5,770,005 and miscellaneous services and goods of EUR 4,986,959.

The non-recurring operating expenses are related to the renegotiation of license agreements for various products with the Alter Pharma group.

The services and miscellaneous goods include specifically an amount of € 2,474,426 with the subsidiary Hyloris Developments and represents the share of revenues related to Maxigesic IV subject to intra-group reallocation.

The operating loss for the period

The operating loss for the financial year amounts to € 7,613,610 against a loss of € 6,730,876 in 2020.

The financial result

In 2021, financial income amounts to € 545,677, mainly composed of interest incurred on loans granted to subsidiaries et exchange differences (principally EUR/USD).

Financial charges amount to € 310,665 and consist mainly of interest incurred on financial debts granted by shareholders.

Result of the period

The net loss for the period amounts to € 7,684,897.

The main balance sheet items are as follows:

Intangible assets (€ 86,761)

The company acquired licenses for two products, one from Rhoshan Pharmaceuticals and the other from Baker Heart and Diabetes Institute.

Financial fixed assets (total: € 57177.515)

Financial fixed assets on December 31, 2021 consist of investments in subsidiaries, namely Hyloris Developments, RTU Pharma and Dermax, as well as the receivables granted to these subsidiaries to finance their activities.
In February 2021, Hyloris Pharmaceuticals entered into a partnership with Purna Female Healthcare for an investment amounting to € 4,270,000.

Current assets (total: € 48,534,247)

Current assets mainly consist of:

- cash investments for € 20,000,000;
- cash at bank for €21,689,562.14;
- receivables due within one year for € 3,378,508 of which €1,929,154.24 euros related to trade receivables, € 250,000 related to the agreement with Alter Pharma and € 500,000 related to the agreement with Pleco Therapeutics (convertible interest-free loan)
- Deferred charges and accrued income for € 1,784,565 and mainly concern the interest incurred on loans to subsidiaries
- Trade receivables due after one year for € 845,000 with the customer AFT Pharmaceuticals and € 836,612.76 of other receivables (Atler Pharma and Vaneltix)

Equity (total € 89,392,780)

The Company's capital amounts to € 129,163 and is fully subscribed.
As of December 31, 2021, share premiums amounted to € 103,692,645.

The change in equity is mainly due to the loss of the period (€ 7,684,897).

Amounts payable after more than one year (€ 300,000)

The debts payable after more than one year consist exclusively of a LT debt resulting from the agreement with Alter Pharma.
In comparison to 2020, the financial debts granted by the main shareholders have been reclassified to the current portion of debts payable within one year.

Amounts payable within one year (total € 14,611,123)

Debts payable within one year consist of :

- trade payables (€3,177,6958), of which € 2,695,97 is intra-group debt
- financial debts consists of current account balances with its subsidiaries for an amount of € 724,821;
- debts at more than one year maturing within the year for an amount of € 7,119,852. These debts are granted by the main shareholders of the Company and are not guaranteed. Under the terms of the agreements, the Company undertakes to pay the balance of the loans (including interest) at the earliest at the end of 2022, or when the Company generates a positive operating result.
- debts related to agreements with Atler Pharma (€ 200,000) and Purna Female Healthcare (€ 3,000,000)
- Tax, salary and social debts up to € 388,754.

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, 2021, 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 2021 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

Armed Conflict between Russia and Ukraine

The geopolitical situation in Eastern Europe intensified on 24 February 2022, with Russia’s invasion of Ukraine. The war between the two countries continues to evolve as military activity proceeds and additional sanctions are imposed.

Although the Russia-Ukraine war is not expected to cause disruption in the Company’s operations, the Company will continue to monitor the situation and is taking measures to mitigate the impact on her operations.

Equity Transaction

On 31 March 2022, the Group successfully raised 15,000,001 euros in gross proceeds, from new and existing, local and international investors, through an equity offering by means of a private placement via an accelerated bookbuild offering of 967,742 new shares at an issue price of 15.50 euros per share.

The Company will use the net proceeds of the Offering primarily to fund the development of new products and accelerate in-house R&D activities.

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

COVID-19

Beginning 2020 the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. To date, the Company has experienced limited impact on its operational and financial performance, financial position, cash flows and significant judgements and estimates, although the Company continues to face additional risks and challenges associated with the outbreak.

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 2021 consolidated results of the Group present a negative result, and the consolidated statement of financial position includes a loss carried forward.

Management has prepared detailed budgets and cash flow forecasts for the years 2022 and 2023. These forecasts reflect the strategy of the Group and include significant expenses and cash outflows in relation to the development of the ongoing products candidates, including four new product acquisitions per year. Management acknowledges that uncertainty remains in these cash flow forecasts (such as delays in clinical development, regulatory approval, commercialisation).

With a cash position of the Group at year end 2021 (i.e. €50 million) and the successfully raised €15 million in gross proceeds end March 2022 , the Board of Directors is of the opinion that it has an appropriate basis to conclude on the business continuity over the next 12 months from the balance sheet date.

8. Purchase of own shares

It should be noted that the company did not acquire any own shares during Fiscal Year 2021.

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. Where such a conflict of interest has occurred, Hyloris has applied (or ratified the application of) the statutory conflicts of interest procedure of Article 7:96 CCA.

Below is an overview of the meetings of the Board of Directors in which the conflict of interest procedure has been applied. The announcements relating to the two transactions below are available on our website in the Press releases section accessible via the following links: Hyloris successfully renegotiates the licensing agreements for lead products with the Alter Pharma Group and Hyloris enters into a strategic partnership with Vaneltix for a therapeutic treatment of the acute pain in interstitial cystitis.

Board of Directors of May 10, 2021
Before the start of the deliberation, SVR Management BV and its permanent representative Mr. Stijn Van Rompay and Jacobsen Management BV, represented by its permanent representative Mr. Thomas Jacobsen, declared having a potential conflict of interest, as defined in Article 7:96 of the Belgian Code on Companies and Associations.
This conflict of interest had arisen from 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 both had a direct or indirect financial interest with the decision to be taken by the Board of Directors for the modification of the contractual and business arrangements between Hyloris (or one of its affiliates) and Alter Pharma Group NV, a public limited liability company ("naamloze vennootschap") under Belgian law, with registered offices at Marie Curiesquare 50, 1070 Anderlecht, Belgium (or one of its affiliates) (referred to as 'APG'). Because of the relationship between on the one hand SVR Management BV and its permanent representative Mr. Stijn Van Rompay and Jacobsen Management BV, represented by its permanent representative Mr. Thomas Jacobsen and, on the other hand Alter Pharma Group, Alter Pharma Group was also considered a related party within the meaning of Article 7:97 of the Code of Companies and Associations.
More specifically, the Board of Directors had to decide on the following:

- The modification of the Patent and Know-How Licence Agreement dated 22 May 2012, with respect to Maxigesic IV as follows: the obligation of Hyloris to pay to APG a 15% royalty on net revenues received by Hyloris under the present agreement shall be cancelled and replaced by a payment by Hyloris to APG of up to €5,500,000 (thereby also waiving al past obligations towards the Alter Pharma Group and its affiliates) being:

- an initial one-time lump sum of € 5,000,000, payable on Closing;
- a first milestone payment of € 200,000, payable upon the first launch in the US; and
- a second milestone payment of € 300,000, payable upon reaching an annual worldwide sales threshold of € 50,000,000.

- The modification of the License Agreement and Special Agreement dated June 28, 2019 with respect to Fusidic Acid cream in Canada ("Fusidic Acid") whereby APG transfers to Hyloris the right to receive its Fusidic Acid 50% profit share from its commercial partner Basic Pharma with respect to sales to Hyloris for the Canadian market ("APG Fusidic Acid Profit Share") against a payment by Hyloris to APG of a one-time lump sum of €250,000.

- The proposed modifications of the various existing agreements with respect to HY-028, HY-075, HY-038 and Chlorpromazine oral liquid ("Chlorpromazine"), and hereafter jointly referred to as the "Other Products" as follows:

    - Hyloris shall continue to bear all development costs for HY-075, HY-038 and Chlorpromazine but will be released from any fees, expenses or other payments to APG (and hence will no longer have to split the future profit with APG on these products), while APG shall be released from any past and future obligations to develop these Other Products.

    - Hyloris accepts and no longer challenges its overdue and unpaid sales invoice of September 7, 2020, payable by APG with respect to HY-028 for a total amount 431,694.86 EUR and which shall be settled as part of the Net Other Products Refund (as described and defined below), while APG waives all formally asserted claims towards Hyloris.

    - After compensation of the respective costs borne by Hyloris and APG with respect to HY-075, HY-038, HY-028 and Chlorpromazine, APG owes Hyloris a net product refund balance of 645.111 euros ("Net Other Products Refund"), payable as follows:
        - € 250,000, by July 1, 2022; and
        - € 395,111 by way of set-off against the payments due by Hyloris under the Maxigesic milestone payments or, to the extent not entirely set-off, by January 1, 2023.

In addition, Hyloris and APG clarified certain terms regarding the maximum clinical spend of APG with respect to the ongoing clinical trials in Canada in case of an underspend or overspend of less or more than € 800,000.

The Board was of the view that the decisions were taken and fit within the context of the Company's corporate interest. The Executive Directors did not participate in the deliberations or the vote on these items on the agenda. In compliance with the Article 7:96 of the Belgian Code of Companies and Associations, the Company's statutory auditor was informed of these conflicts of interest.

Board of Directors of December 13, 2021
Before the start of the deliberation, Ms. Carolyn Myers declared having a potential conflict of interest, as defined in Article 7:96 of the Belgian Code on Companies and Associations. Because of the relationship between Ms. Carolyn Myers, Independent Director of the Company, and Mr. Dan Vickery, CEO and shareholder of Vaneltix. Vaneltix Pharma Inc and its affiliates were also considered a related party within the meaning of Article 7:97 of the Code of Companies and Associations.

This conflict of interest had arisen from the fact that Ms. Myers had a direct or indirect financial interest with the decision to be taken by the Board of Directors to approve the transaction between the Company and its affiliates and Vaneltix Pharma Inc. and its affiliates ("Vaneltix") with respect to (i) the co-development for a combination product containing Lidocaine and Heparin, with the aim to develop one or more pharmaceutical product(s) approvable by the regulatory agencies around the world for treatment of all patients suffering from interstitial cystitis/bladder pain syndrome, and (ii) a loan granted by Hyloris to Vaneltix for an amount of 500,000 USD at an interest rate of 6% (and in any case no less than the interest rate paid by Vaneltix to any unaffiliated third party for a (convertible) loan) in exchange for which Vaneltix granted to Hyloris an exclusive right to enter into a final collaboration and co-development agreement between Parties with respect to VNX002 (a glucagon like peptide 2 treatment of IC Bladder Lesions). Vaneltix Pharma Inc. is a corporation incorporated under the laws of the State of Delaware (United States of America) having its registered office at 305 East High Street, Suite 7, Bound Brook, NJ 08805 (United States of America).

The Board was of the view that the decisions were taken and fit within the context of the Company's corporate interest. Ms. Carolyn Myers did not participate in the deliberations or the vote on these items on the agenda. In compliance with the Article 7:96 of the Belgian Code of Companies and Associations, the Company's statutory auditor was informed of these conflicts of interest.

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 emphasizes that the Company's valuation rules have not been changed in 2021.

13. Additional fees of the Auditor

The additional emoluments received by the statutory auditor during the 2021 financial year amounts up to € 7,000.

Liège, April 27 2022

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