Initiator Pharma

ANNUAL REPORT

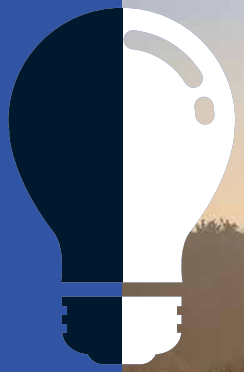
2016

Initiator Pharma A/S

Address: Lyngsiesvej 18, 8230 Åbyhøj, Denmark

Generalforsamling: 16.05.2017
Dirigent: Søren S. Skjærbæk

We are committed to providing a better medical treatment option for the growing number of untreated patients suffering from Sexual Dysfunction, and thereby improving the quality of life for them and their partners.



Initiator Pharma

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Initiator Pharma A/S

Address: Lyngsiesvej 18, 8230 Åbyhøj, Denmark
Telephone: +45 6126 0035
Email: ceo@initiatorpharma.com

2016 IN BRIEF

SIGNIFICANT EVENTS IN 2016

May 2016

- Initiator Pharma is founded as a spin off company from Saniona AB.
- The Company acquires Compound Assets and IPR from Saniona AB, e.g. IPED2015, IPNP2015 and IPDP2015.

October 2016

- Saniona AB exercise a Lex ASEA distribution of their shares of Initiator Pharma (60% of the voting rights and Capital) to their existing shareholders. Initiator Pharma presently has approx. 4,000 shareholders.

November 2016

- The extraordinary shareholders meeting approves the proposal for the subscription for new shares and subsequent listing on the Aktietorget exchange.

Key Figures

Profit & Loss Statement, TDKK	2016
Net sales	0
Total operating expenses	-887
Operating profit/loss	-887
Financial items, net	-5
Profit/loss before tax	-892
Tax on net profit	0
Profit/loss for the year	**-892**

Balance Sheet, TDKK	2016
Property, plant and equipment	64
Intangible assets	101
Current receivables	231
Cash and cash equivalents	167
Total assets	**563**
Shareholder equity	-371
Current liabilities	934
Total shareholder equity and liabilities	**563**

Cash flow, TDKK	2016
Cash flow from operating activities before changes in working capital	-875
Cash flow from operating activities	-178
Cash flow from investing activities	-177
Cash flow from financing activities	521
Cash flow for the year	**167**

Key figures, %	2016
Operating margin	n/a
Liquidity ratio	43%
Equity ratio	-66%

Share data, DKK	2016
Diluted earnings per share	-0.18
Shareholder equity per share	-0,07
Dividend	0
Cash flow per share	0.03

Share data, #	2016
Shares outstanding	4 962 254
Warrants outstanding	0
Diluted shares outstanding	4,962,254
Weighted average number of shares outstanding	4,937,210

About Initiator Pharma

Initiator Pharma is a Biotech company established in Aarhus, Denmark. Its main asset IPED2015 represents a novel treatment paradigm for the treatment of Erectile Dysfunction (ED) and will improve the quality of life for the growing number for patients (and their partners) that do not respond or cannot be treated with the currently marketed medications. Initiator Pharma is based in Århus, Denmark.

Vision

Initiator Pharma will be a leading biotech company within the field of mono-amine reuptake transporters and dedicated to the development of paradigm changing drugs for unmet medical needs to the benefit of both patient and society.

Business model

The Company aims to commercialize its research efforts through the following 2 business models:

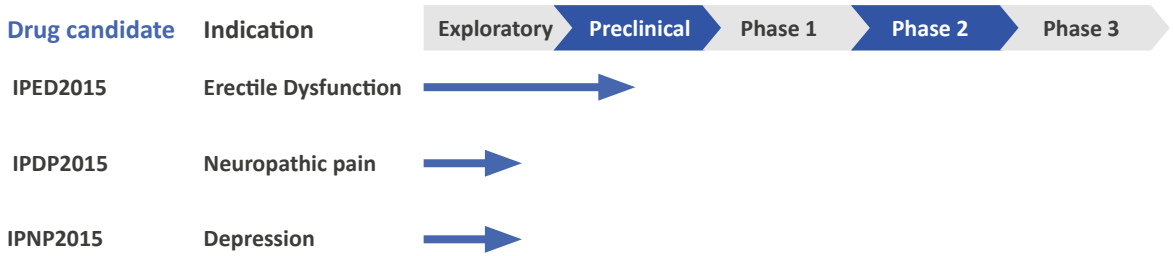
- By internal development of selected programs through pre-clinical and clinical development before out-licensing to pharmaceutical companies who will take over the further development of Initiator Pharma's programs and typical with upfront payments, milestone and royalty payments on product sales to Initiator Pharma.
- Through early stage research and development collaboration with pharmaceutical companies who will fund the research and development activities and pay upfront, milestones and royalty payments on product sales to Initiator Pharma.

The Market

The current number of ED patients is estimated to about 150 million men worldwide and a number that is estimated to increase to more than 300 million by 2025. About 30-40% of these patients will not respond to the current treatment and represent a significant unmet medical need. This is exactly our primary target group and will clearly distinguish us form the PDE5i drugs, where patents protection rapidly is disappearing and experience increasing price pressure from generics. In 2015, the Erectile Dysfunction market generated about USD 4 billion in sales, and Initiator Pharma strongly believes that targeting the PDE5i non-responders will allow us to receive premium pricing for IPED2015 and thereby generate substantial commercial value for Initiator Pharma.

Project portfolio

In 2016, Initiator Pharma acquired three potential drug candidates from Saniona. All three drug candidates belong to the drug class known as Monoamine reuptake inhibitors:



IPED2015, our most advanced drug candidate, is a novel drug candidate for the treatment of patients suffering from Erectile Dysfunction (ED) that do not respond to the currently marketed drugs in the PDE5i class (e.g. Viagra®, Cialis®, Levitra®). IPED2015 is unique, in that it has a dual action, both a central effect initiating erection and a peripheral effect potentiating erection through smooth muscle relaxation, and is aimed for treatment of erectile dysfunction in patients suffering from erectile dysfunction due to metabolic syndrome and diabetes.

Note from the CEO

2016 was an eventful year for Initiator Pharma. Initiator Pharma was formally established in May 2016, as a spin-out from Saniona AB via which the Company acquired three key drug development programs, all within the monoamine reuptake inhibitor class and all targeting key unmet medical needs within the central and peripheral nervous system.

Our lead drug candidate, IPED2015 is targeting the medical condition known as Erectile Dysfunction (ED), and specifically patients with ED that are non-responsive to drugs currently being prescribed within the PDE5i class, including the approved drugs Viagra®, Cialis® and Levitra®.

In 2017, our primary focus will be the Regulatory Development of IPED2015 drug candidate. We are confident that will complete this work and obtain an approval from the authorities to initiate a Phase I clinical trial in mid-2018. Furthermore, we will pursue the possibility to obtain soft-funding and seek potential partnerships for our other assets in portfolio.

2017 was also the year where Initiator Pharma completed its listing on AktieTorget, and is starting to build-up and transform Initiator Pharma into a biotech company in for the long-term, with a focus on high quality research and development for the benefit of the patients. In addition, we are very keen to commence working with the Regulatory Development program for our drug candidate IPED2015.

In closing for now, I would like to take this opportunity once again to say welcome to all our new shareholders from the Saniona lex ASEA distribution and express my appreciation for the large interest in Initiator Pharma. This was clearly evident in the recent completed rights issue, where all shares were acquired by existing shareholders. This is a sign of trust, which we will work hard to respond to and strive to live up to.

Claus Olesen
CEO, Initiator Pharma A/S

"We are very pleased with the great interest in Initiator Pharma and now look forward to create novel treatments for patients and value for our shareholders!"

Business concept and strategy

About Initiator Pharma and its business concept

Initiator Pharma was started as a spin out company from Saniona, with the business concept of further developing a family of drug candidates based on Monoamine Reuptake Inhibitor (MRI) technology. This family of drug candidates, where the primary candidate consists of IPED2015, which is intended to treat patients with ED, was previously owned by Saniona. However the drug candidates were not considered by the Board of Directors Saniona's to fit in with the Saniona's core business activities, which is based on research in the field of ion channels, and thus was not suitable for further development within the framework or context of Saniona's business activities. On the other hand, Saniona's Board of Directors saw a promising future with the drug candidates' potential, not the least due to that a large amount of data from extensive preclinical research was included in the obtaining of the drug candidates. The data, which among other things includes extensive testing of the drug candidate in animal models and preliminary toxicity tests, is showing promising results. These include i.a.:

- An increased number of spontaneous erectile responses in animal models
- A low risk of that the drug candidate will have addictive effects
- Effective dosage level identified
- No unexpected toxicity at the effective dosage level
- No adverse cardiac- or vascular-related side effects at the effective dosage level.

Given that Saniona chose not to engage in further development of IPED2015 within its own business activities, but had continued strong confidence in its potential, Initiator Pharma was established in order to allow the development to take place in this company instead. Initiator Pharma was founded together with Dr. Claus Olesen, Dr. Dan Peters, Professor Ulf Simonsen and Dr. Mikael Thomsen, all of whom have extensive experience in preclinical and clinical pharmaceutical drug development, and in addition who are among the world's leading researchers in both ED and MRI technology, which is the basis for the Company's drug candidates.

Initiator Pharma's primary business concept is to further develop, with the help of a skilled team of researchers, the existing IPED2015 drug candidate, which in pre-clinical tests has already shown good potential for efficacy. With this drug candidate, it is the Company's objective to be able to create a new first-in-line treatment (i.e. recommended treatment) for the large group of men who suffer from ED, but who, for various reasons, do not adequately respond to the currently recommended treatment with PDE5i.

The established goals and milestones

The Company's primary goal is to efficiently conduct the effective development of the drug candidate IPED2015 until completion of the Phase II clinical trials (to clinical Proof of Concept). After this, the Company intends to either license out the drug candidate, or alternatively to sell some or all of the Company, and thus provide an exit for its shareholders.

Thanks to an extensive data package from earlier research on IPED2015, conducted by the candidate drug's previous owner, was included with the candidate drug, Initiator Pharma's Board of Directors believes that the development process can be accomplished in less time than is normally the case concerning pharmaceutical drug development. This is because much of the time-consuming pre-clinical work has already been undertaken and that the Company thus already has a good understanding of the candidate drug's mechanisms of action. Initiator Pharma's goals for the coming year are presented below. The proceeds from the impending issuance of new share will finance the Company's needs up until completed regulatory toxicology and safety studies.

Year	Activity
2017	• API* & CMC** • Completion of the pharmacological work • Conduct regulatory toxicology and safety studies
2018	• Apply for regulatory approval to initiate Phase I clinical trials • Initiate and conduct Phase I clinical trials (toxicology and safety study)
2019	• Commence Phase II clinical trials (Proof of Concept)
2020	• Conclude Phase II clinical trials (Proof of Concept)

* Active Pharmaceutical Ingredient
** Chemistry, Manufacturing & Control

It is Initiator Pharma's objective that a Phase II clinical trial can be conducted in approximately 3-4 years and that an out licensing or exit can then be implemented after that. The Board of Directors also believes that it is at this point that an out licensing, or alternatively an exit, is the most profitable course for the shareholders due to that at this

stage the Company will have built up a considerable value with the drug candidate, while leaving the costly and extensive Phase III clinical studies for the buyer of the project. A biopharmaceutical industry report from EP Vantage has estimated that the average size of the transfer agreements for drug candidates in Phase II is approximately USD 300 million, with an up-front payment of approximately USD 30-40 million.

The market for treatments for ED

In pace with inter alia that the global population is reaching an increasingly high average age and suffers to an ever-increasing extent from lifestyle-related diseases such as diabetes and obesity, increasingly a problematic side effect also arises for the male part of the population – erectile dysfunction ("ED"). ED, colloquially called impotence, is defined as the inability of a man to achieve and maintain an erection and thereby be able to engage in sexual intercourse. In the present situation, the problem is already huge, and is affecting a growing part of the population – today ED strikes about 150 million men worldwide, and this figure is expected to rise to around 322 million by 2025[1]. The medical indication ED only affects the man's sexual performance; however, research has shown that the problem can have many serious consequences. Men suffering from ED have, among other issues, a greater tendency to commit suicide compared to the general population, and also have a higher likelihood of suffering from other illnesses and ailments. In addition, the indication may lead i.a. to lower self-esteem, depression, relationship problems and a general deterioration of the quality of life for both the man and his eventual partners.

The problem of ED has been addressed, to some extent, in connection with the introduction to the market of medicines based on Phosphodiesterase inhibitors, called PDE5 inhibitors ("PDE5i"), such as sildenafil, vardenafil (Levitra) and tadalafil (Cialis). The best-known drug in this category, sildenafil citrate, is marketed under the brand name Viagra®, and in the present situation this drug is the recommended regimen of the indication.

The market for traditional treatments of ED amounts to about USD 4.125 billion (2015 figures).[1] The Board of Directors has made the assessment that in 2019 the value of the market for these treatments will amount to as much as USD 4-5 billion, partly due to the fact that patents for several of the drugs within the category will expire and the number of patients increases.

PDE5 inhibitors have usually shown good effect but there are also major problems directly associated with them – about 30-40% of the men who suffer from ED do not respond to this type of medication. The group of patients who may be resistant to PDE5i treatment for ED include, among other patients, those with neurological injuries or disorders, diabetes or serious cardiovascular diseases. Other groups that may have a resistance to PDE5i treatment include patients who are being treated with certain antidepressants and anxiolytics. Overall, as the Board of Directors sees it, by 2025 there may be over 100 million men suffering from ED who for various reasons can not be treated with PDE5i. There is thus a great unmet medical need and thus also a need for an alternative treatment for ED that can satisfy the group of patients that are resistant to the currently the recommended regimen.

Assuming that up to 30-40% of the patients do not respond to conventional treatment methods, the Board of Directors is of the view that the IPED2015 program has a signfiicant potential financial value, and it is the Board's hope that IPED2015 will become established as the recommended treatment for all patients suffering from ED and who are resistant to the treatment with PDE5 inhibitors. The target group for IPED2015 can include, due to the large group suffering from ED who do not respond to PDE5i treatment, over 100 million men worldwide by 2025, according to the Board's assessment.

Business Model and Financing Strategy

Initiator Pharma's business model is to conduct drug development primarily financed by investments, but also to a certain extent by various research subsidies and possibly joint collaborations with others. In order to minimize the Company's outlays and expenses, and thus maximize the investors potential returns, the Board expects to build a virtual structure for the Company, to a high degree. Among other things, this means a minimal infrastructure in terms of offices and research facilities, that all people working in the Company (with the exception of the CEO, Claus Olesen) will be engaged on a consultancy basis, and that the bulk of the research, drug development and the regulatory work will be outsourced via contracts with Contract Research Organizations (CROs). The work will however be conducted under the direction and supervision of Initiator Pharma. The Company will initially be financed via the now completed issuance of new shares (IPO), which has provided the Company with approx. SEK 20.5 million (before issuance expenses)

1. Acute Markets Report, 2016, 2. Kendirci et al., 2006; Dhir et al., 2011

and is expected to finance the Company's needs at least until Q1, 2018. Besides the financing via the issuance of new shares, the Company also plans to apply for additional funding through various forms of subsidies. This consists inter alia of a planned application to the InnoBooster program, offered by Innovation Fund Denmark. This program is aimed at small- and medium-sized innovative enterprises and can encompass a subsidy of up to DKK 5 million. Initiator Pharma's total capital requirements is expected to amount to approx. SEK 60-80 million, including the approx. SEK 20.5 million provided to the Company by the completed share issue and depends upon, among other factors, the development pace of IPED2015, the scope of the upcoming planned studies, and whether the Company enters into joint cooperation agreements and/or is provided any subsidies.

Product Portfolio and patents

Currently, Initiator Pharma has three drug candidates in its product portfolio, all based on Monoamine Reuptake Inhibitor technology (called "MRI" in short). The technology relates to inhibiting the reuptake of monoamines in the body's nerves and via this increasing the dopamine levels in various parts of the body. Dopamine is a vital neurological neurotransmitter, and by increasing the body's dopamine level, a number of different indications can be treated.

The primary candidate, which is also the Company's primary focus, is called IPED2015, and is a type of monoamine reuptake inhibitor that is primarily intended to treat ED in men. This drug candidate has been administered in animal experiments in preclinical studies and has shown promising results. In addition to IPED2015, the Company also owns the drug candidates IPDP2015 (intended for the treatment of depression) and IPNP2015 (intended for the treatment of neuropathic pain). These are based on the same fundamental technology as IPED2015, however Initiator Pharma has not currently adopted a plan for how or when the further development of these drug candidates will occur. All three drug candidates have been purchased in their entirety from Saniona, after Initiator Pharma was established. Together with the drug candidates, Initiator Pharma also received the patent rights for the three drug candidates. These patents were previously owned by Saniona's subsidiary Saniona A/S. The patent for the primary drug candidate IPED2015 is registered in the U.S. and runs until the end of 2031. See the table below for further details on Initiator Pharma's portfolio with regard to intellectual property rights.

Drug candidate	Patent status
IPED2015	• Approved in the U.S. until the end of 2031
IPDP2015	• Approved in the U.S. until the end of 2028 • Presently in process patent application in Europe
IPNP2015	• Approved in the U.S. until the end of 2028 • European Patent has been approved and validated in Switzerland, Germany, France and the United Kingdom until the end of 2028

Competitors

There are, according to Initiator Pharma's Board of Directors, a small number of other treatment methods for ED under development by other pharmaceutical companies which could be considered as competitors to Initiator Pharma and their primary drug candidate IPED2015. The competing methodologies are based primarily, according to the Board's assessment, on different variants of testosterone treatments, further developments of existing treatments with PDE5 inhibitors, as well as certain technical or more surgical solutions such shockwave therapy. However Initiator Pharma's assesses that IPED2015 represents a unique treatment that could be able to fulfill the needs of the large group of patients who do not respond to existing therapies, and that the actual competition is therefore limited.

There is also a competitive situation to some degree with regard to the companies which market the existing method of treatment with PDE5 inhibitors (for instance Viagra), in that these drugs also treat patients who suffer from ED. Initiator Pharma's goal with IPED2015 however, is that the drug candidate should treat the patient group that is not being helped by the PDE5 inhibitors, which is why these drugs can rather be seen as a complement, and not as a competitor, to IPED2015.

The share, share capital and ownership structure

At December 31, 2016, Initiator Pharma had a total of 4,962,254 shares outstanding. The Company has no outstanding warrants (at December 31, 2016).

At December 31, 2016, the Company had approx. 4,000 shareholders. The following shareholders own more than 5% of the number of shares of Initiator Pharma:

Shareholders as of March 31, 2017

Owners	Number of shares	Shares (%)
BNY Mellon SA/NV (Former BNY)	593 908	6,84%
Mikael Södergård Thomsen APS	505 946	5,83%
Claus Olesen Holding APS	503 348	5,80%
DanPet AB	503 348	5,80%
Försäkringsaktiebolaget, Avanza Pension	481 898	5,55%
Nordnet Pensionsförsäkring AB	380 200	4,38%
Handelsbanken Denmark	349 452	4,02%
Nykredit Bank	334 959	3,86%
Swedish Growth Fund AB	272 724	3,14%
Feldthus, Thomas	267 143	3,08%
Olofsson, Christian	260 000	2,99%
Christophersen, Palle	117 143	1,35%
Brästrup, Claus	105 100	1,21%
JP Morgan Luxemburg	100 487	1,16%
Larsen, Janus Schreiber	100 058	1,15%
Clearstream Banking S.A.	84 659	0,97%
HCN Group AB	76 545	0,88%
Peters, Leif Anders Rudolf	72 726	0,84%
Aktiebolaget Skånska Bruk	71 817	0,83%
SEB Life - CJ Wachtmeister Consult	68 148	0,78%
SIX SIS AG	60 000	0,69%
Ferm, Peter	59 820	0,69%
Nielsen, Karin Sandanger	49 479	0,57%
Jacobsen, Thomas Amos	41 956	0,48%
Lundquist, Ola	40 908	0,47%
Other shareholders	3 182 171	36,64%
Total	**8 683 943**	**100,00%**

Report from the Board of Directors and the Chief Executive Officer

The Board of Directors and the Chief Executive Officer of Initiator Pharma (publ), corporate identity number 37663808, hereby present the Annual Report for the period May 2, 2016 – December 31, 2016.

Initiator Pharma is a limited liability company registered and headquartered in Aarhus, Denmark. The address of the head office is Lyngsiesvej 18, DK-8230 Åbyhøj, Denmark. Initiator Pharma was incorporated on May 2, 2016 and was listed on AktieTorget on March 16, 2017.

ABOUT INITIATOR PHARMA

Initiator Pharma is a research and development company focusing on the development of innovative drugs targeting key unmet medical needs within the central and peripheral nervous system. The Company´s research is focusing on monoamine reuptake inhibitors, molecules that are affecting the synaptic concentrations of neurotransmitters such as dopamine, serotonin and noradrenaline.

The Company´s lead drug candidate, IPED2015 is targeting the medical condition Erectile Dysfunction (ED), and specifically patients with ED that are non-responsive to drugs within the PDE5i class, including the approved drugs Viagra®, Cialis® and Levitra®. Initiator Pharma is currently preparing a preclinical development program aiming to enable the Company to initiate clinical studies in 2018.

SIGNIFICANT EVENTS IN 2016

- Initiator Pharma A/S was incorporated on May 2, 2016
- The Company acquires Compound Assets and IPR from Saniona AB e.g. IPED2015, IPNP2015 and IPDP2015
- Saniona AB exercise a Lex ASEA distribution of their shares of Initiator Pharma (60% of the voting rights and Capital) to their existing shareholders. Initiator Pharma presently has approx. 4,000 shareholders.
- The extraordinary shareholders meeting approves the proposal for the subscription for new shares and subsequent listing on the Aktietorget exchange

EVENTS AFTER THE CLOSE OF THE REPORTING PERIOD

- On January 26th, Initiator Pharma announced the start of the subscription period of the rights issue, with minimum amount of SEK 14.9 million and a maximum of SEK 20.5 million.
- On February 15th, Initiator Pharma announced the successful completion of the fully subscribed rights issue totaling SEK 20.5 million (total subscriptions received: MSEK 44.1, a subscription rate of 215%).
- In February, the Company initiated the program for production of the Active Pharmaceutical Ingredient (API) and completed planning of preclinical program enabling first-in-man clinical studies
- On March 16th, Initiator Pharma was listed on the Aktietorget exchange. Initiator Pharma increased its shareholder base by about 50, and now has more than 4,000 shareholders

FINANCIAL DEVELOPMENTS IN 2016

Initiator Pharma A/S was incorporated on May 2, 2016. Consequently, there are no available comparative financial figures for previous periods. Initiator Pharma A/S is a Danish registered company, and is reporting its financial figures in Danish kroner (DKK).

Revenue and results of business operations

Initiator Pharma generated total sales of TDKK 0 for 2016. The Company recognized an operating loss of TDKK 887 for the period from inception to December 31, 2016.

Financial position

The shareholder equity as of December 31, 2016 was TDKK -371. Cash and cash equivalents amounted to TDKK 167 as of December 31, 2016. Total assets as of December 31, 2016, were TDKK 563.

On February 15th, the Company successfully completed a preferential rights issue raising approximately DKK 15.9 million (gross amount), resulting in approx. DKK14.9 million net of transaction-related costs. With these proceeds the Company expects to have sufficient capital to initiate and finance the planned development activities for next 12 months.

Cash Flow

For the fiscal year 2016 operating cash flow was TDKK -173, After a positive change in working capital of TDKK 703. Cash flow from financing activities was TDKK -5. Cash flow from investment activities was TDKK -177.

RISKS

Initiator Pharma is exposed to various kinds of risks that may impact upon the Company's financial results and financial position. The risks can be divided into operational risks and financial risks.

Operational risks

Brief history

Initiator Pharma was incorporated in 2016 as a spin-out from Saniona AB. Consequently, the Company has a relatively short history, which should be taken into consideration when evaluating the Company.

Financing needs and capital

Initiator Pharma´s research and development activities involve significant costs for the Company. Initiator Pharma is thus dependent on that capital can be accessed in order to finance its planned activities. Any delays in product development could affect the cash flow negatively. There is a risk that the Company is unable to raise the additional capital needed. This may lead to the research and development work being temporarily suspended or that Initiator Pharma is required to operate at a slower pace than desired, which may negatively impact the Company´s operations. In case Initiator Pharma is unable to raise capital, there is a risk that the Company cannot further develop its business. If the Company cannot finance the operations, there is a risk that Initiator Pharma´s drug development stops.

Suppliers

Initiator Pharma has entered an agreement with the Indian service provider Syngene regarding the production and preclinical development of IPED2015. The Company will enter less comprehensive agreements with other suppliers in order to develop IPED2015. There is a risk that one or more of Initiator Pharma's suppliers choose to discontinue its cooperation with the Company, which could have a negative impact on the Company's business operations. There is also a risk that Initiator Pharma's suppliers do not fully meet the quality standards set by the Company. There is also a risk that the establishment of new suppliers or replacement of existing suppliers becomes more costly and/or takes longer than the Company estimates, which may negatively affect the Company's financial results and financial position.

Key individuals and employees

Initiator Pharma's key individuals and employees have a high degree of expertise and long experience within fields the Company operates in. A loss of one or more key individuals or employees may have negative consequences for the Company's operations and financial results. It is not possible to fully protect against unauthorized disclosure of information, with the risk that competitors can gain access to and benefit from the know-how developed by Initiator Pharma, which could be detrimental to the Company. There is a risk that the loss of one or more key individuals, employees and consultants leads to delays in the Company's work to develop drugs. Any delays can cause increased costs for the Company. Thus, there is also a risk that delays could negatively affect the Company's results.

Competitors

Initiator Pharma is a research and development company engaged in pharmaceutical development of drugs to be used for erectile dysfunction, depression and pain. Initiator Pharma's research is focused in the area of monoamine reuptake inhibitors. The Company's drug research will be conducted primarily through its own pharmaceutical development in the early phase and through potential cooperation with other major pharmaceutical companies. Some of the Company's competitors are multinational companies with significant financial resources. A comprehensive investment and product development from a competitor may result in less favorable market conditions for Initiator Pharma. Furthermore, companies with global operations who are working in related areas in the current situation, can also establish themselves within the fields the Company operates in. Increased competition could lead to negative impact on sales and adverse effects on earnings for the Company in the future.

Economic developments and currency risk

External factors such as inflation, currency and interest rate fluctuations, supply and demand, as well as economic recessions and booms, may have an impact on operating costs, sales prices and share valuations. A significant share of Initiator Pharma's development costs is in international currencies. Exchange rates can change substantially. There is a risk that Initiator Pharma's future operating costs, revenue and share valuation may be negatively affected by these factors, which are beyond the control of the Company.

Political risk

The Company, through its pharmaceutical development work, operates in a number of different countries and can therefore be affected by political and economic uncertainties in these countries. There is a risk that Initiator Pharma is negatively affected by changes in laws, taxes, duties, exchange rates and terms for foreign companies. The Company may also be negatively affected by any domestic policy decisions. The above could have negative consequences for the Company's research in pharmaceutical development and can thus affect the Company's future results and financial position.

Patents and other intellectual property rights

Initiator Pharma currently holds 3 different patent families. There is a risk that any future patent applications will not be approved and there is also a risk that an approved patent will not constitute a total commercial protection in the future. Patents have a limited lifespan. If the Company is forced to defend future patent rights against a competitor, this will involve considerable costs, which may negatively affect the Company's research, results and financial position. Furthermore, in the industry Initiator Pharma operates there is always the risk that the Company may or is alleged to infringe patent held by third parties. Other actors' patents may also limit the ability of one or more of the Company's future partners to freely use the product or production method concerned. The risk associated with patent protection implies that the outcome of such disputes is difficult to predict. Negative outcome of litigation relating to intellectual property rights may lead to loss of protection, prohibition to continue to use the right, or an obligation to pay damages. In addition, the costs of litigation may be substantial, even in the event of a favorable outcome for Initiator Pharma, which could negatively affect the Company's financial results and financial position. The above could imply difficulties or delays in the commercialization of future products and thus also difficulties in generating revenue.

Development expenditures

Initiator Pharma will continue to develop drug candidates in its operating area. Time and cost aspects of drug development can be difficult to determine in advance with accuracy. This creates the risk of a planned product development program becoming more costly than planned, which may affect the Company's future results and financial position.

Financial risks

Financial risks relate to a potential negative impact on the financial position resulting from changes in the financial risk factors. The Board of Directors is ultimately responsible for the exposure, management and monitoring of the Company's financial risks. The Board of Directors sets the framework that applies to the exposure, management and monitoring of the financial risks and this framework is evaluated and revised yearly. The Board of Directors can decide on temporary departures from its predetermined framework. Below is a brief description of the financial risk factors that are deemed the most significant for Initiator Pharma.

Currency risks consist of the risk that the fair value of future cash flows fluctuate because of changed foreign exchange rates. Exposure to currency risk is primarily sourced from payment flows in foreign currency and from the translation of balance sheet items in foreign currency, as well as upon the translation of foreign subsidiaries' Profit & Loss Statements and Balance Sheets to the Company's reporting currency, which is DKK.

Interest risk consists of the risk that fair value or future cash flows fluctuates as a result of changed market interest rates.

Liquidity risk consists of the risk that the Company encounters difficulties in satisfying commitments related to the Company's financial liabilities.

Credit risk consists of the risk that a counterparty in a transaction generates a loss for the Company by being failing to satisfy its contracted obligations. Credit risk may also arise in relation to the investment of the Company's surplus liquidity in various types of financial instruments.

CORPORATE GOVERNANCE

Initiator Pharma does not provide a Corporate Governance Report for 2016. The Board of Directors has reviewed the governance structure for Initiator Pharma in relation to the Company's plans for listing at AktieTorget. The Board of Directors has adapted the following policies:

- Rules of Procedure for the Board of Directors
- Instructions for the CEO
- Information Policy

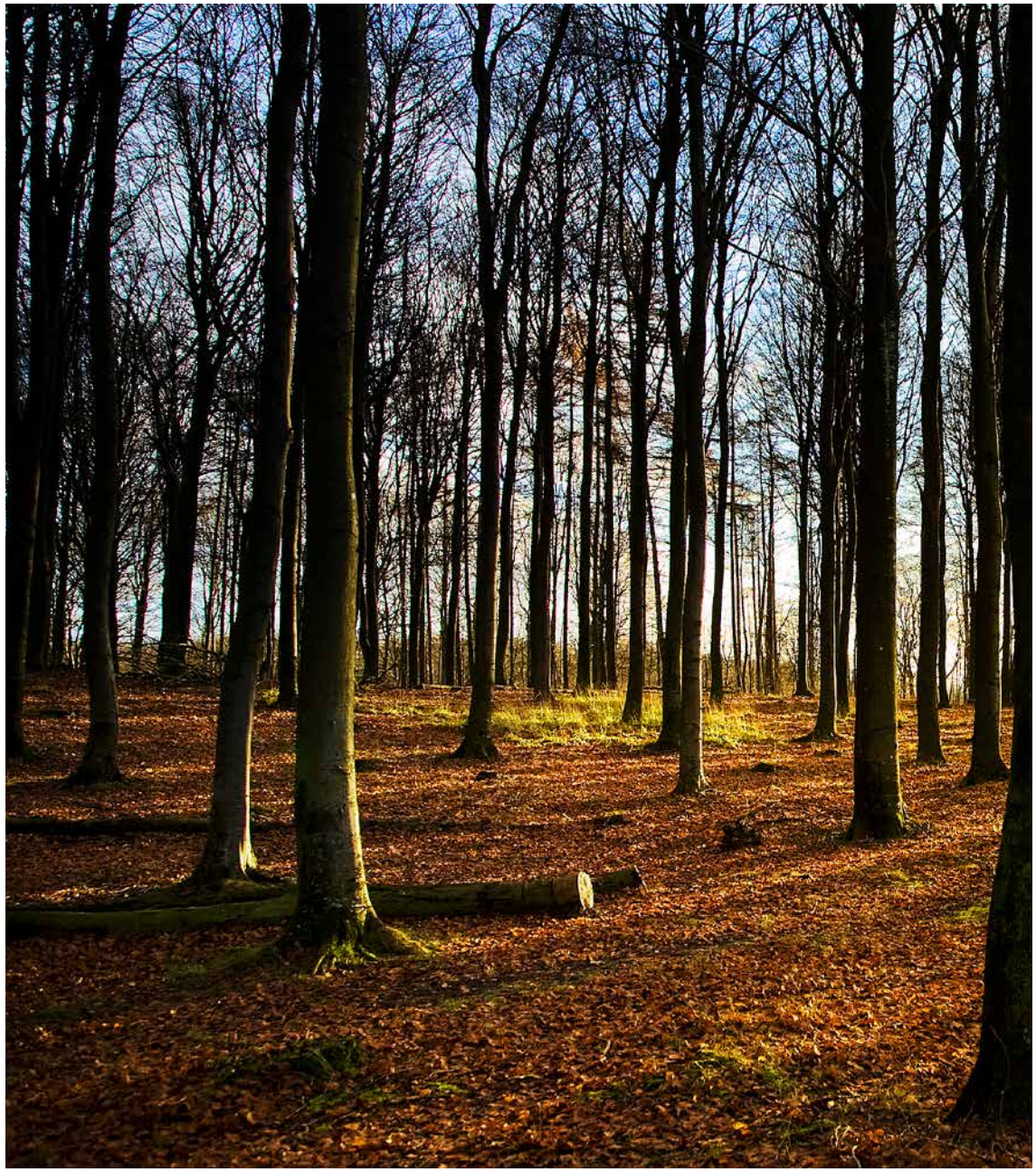
ORGANIZATION

The average number of employees in the Company during the year amounted to 0.5 of whom none were women. As of December 31 2016, the number of employees was 0.5 of which none were women. Of these employees, none were full-time employees, 1 was a part-time employee.

In addition to its employees, Initiator Pharma has a number of consultants who work with the Company on an ongoing basis.

REMUNERATION

The AGM resolves on remuneration (director's fees) to the Chair of the Board and other Board members. The AGM also resolves on guidelines for remunerating the CEO and other senior executives. For more information on remuneration for the year, refer to Note 1.



Profit & Loss Statement

TDKK	Notes	2016
Gross profit/loss		-700
Personnel expenses	1	-175
Depreciation and write-downs	2	-12
Operating profit/loss		**-887**
Other financial expenses		-5
Profit/loss for the year	3	**-892**

Balance Sheet at 12/31/2016

ASSETS, DKK thousands	Notes	2016
Acquired rights		101
Intangible assets	4	**101**
Fixture, fittings, tools and equipment		64
Property, plant and equipment	5	**64**
Fixed assets		**165**
Other receivables		32
Prepayments	6	199
Current receivables		**231**
Cash and cash equivalents	7	**167**
Current assets		**398**
Assets		**563**

SHAREHOLDER EQUITY AND LIABILITIES, TDKK	Notes	2016
Contributed capital	8	521
Retained earnings		-892
Shareholder equity		**-371**
Other payables		934
Current liabilities other than provisions		**934**
Liabilities other than provisions		**934**
Shareholder equity and liabilities		**563**
Contingent liabilities	10	

Statement of changes in shareholder equity

TDKK	Contributed capital	Retained earnings	Total
Increase of capital	521	0	521
Profit/loss for the year	0	-892	-892
Shareholder equity end of year	521	-892	**-371**

Cash Flow Statement

TDKK	Notes	2016
Operating profit/loss		-887
Amortization, depreciation and impairment losses		12
Changes in working capital	9	703
Cash flow from operating activities before gains/losses from financial items		**-173**
Interest income received		
Interest expense paid		-5
Cash flow from operating activities		**-178**
Investing activities		
Investment in tangible assets		-65
Investments in intangible assets		-112
Investments in other financial assets		0
Cash flow from investing activities		**-177**
Financing activities		
Issuance of new shares		521
Cash flow from financing activities		**521**
Increase/decrease in cash and cash equivalents		**167**
Cash and cash equivalents at the end of period		**167**

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these financial statements are as stated below.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the entity, and the value of the asset can be measured reliably.

Liabilities are recognized in the balance sheet when the entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognized in the Profit & Loss Statement when earned, whereas costs are recognized by the amounts attributable to this fiscal year.

Profit & Loss Statement

Gross profit or loss

Gross profit or loss comprises revenue, other operating income, cost of raw materials and consumables and external expenses.

Other external expenses

Other external expenses include expenses relating to the entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc.

Personnel expenses

Personnel expenses comprise salaries and wages as well as social insurance contributions, pension contributions, etc. for the entity's personnel.

Depreciation, amortization and impairment losses

Amortization, depreciation and impairment losses relating to intangible assets and equipment comprise amortization, depreciation and impairment losses for the fiscal year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as equipment.

Other financial expenses

Other financial expenses comprise interest expenses, payables and transactions in foreign currencies etc.

Balance Sheet

Intellectual property rights, etc.

Intellectual property rights, etc. comprise acquired intellectual property rights and prepayments for intangible assets.

Intellectual property rights acquired are measured at cost less accumulated amortization. Patents are amortized over their remaining duration, and licenses are amortized over the term of the agreement, but over no more than 20 years.

Intellectual property rights etc. are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Property, plants, other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of the item's useful life. Straight-line depreciation is taken on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment: 3 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Receivables
Receivables are measured at amortized cost, usually equaling nominal value less write-downs for bad and doubtful debts.

Prepayments
Prepayments comprise costs incurred relating to subsequent fiscal years. Prepayments are measured at cost.

Cash
Cash comprises cash in hand and bank deposits.

Other financial liabilities
Other financial liabilities are measured at amortized cost, which usually corresponds to nominal value.

Cash Flow Statement
The Cash Flow Statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the fiscal year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc. of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, repayments of interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.

Notes to the financial statements

Note 1 - Personnel expenses	2016 (TDKK)
Salaries and wages	175
	175

Number of employees (annualized average)	1

Remuneration to the Executive Board has not been disclosed with reference to The Danish Financial Statements Act, § 98 B.

Note 2 - Depreciation, amortization and impairment losses	2016 (TDKK)
Amortization of intangible assets	11
Depreciation of property, plant and equipment	1
	12

Note 3 - Proposed allocation of profits/losses	2016 (TDKK)
Retained earnings	-892
	-892

Note 4 - Intangible assets	Acquired rights (TDKK)
Additions	112
Cost end of year	**112**
Amortization for the year	11
Amortization and impairment losses end of year	11
Carrying amount end of year	**101**

Note 5 - Property, plant and equipment	Other fixtures and fittings, tools and equipment (TDKK)
Additions	65
Cost end of year	**65**
Depreciation for the year	-1
Depreciation and impairment losses end of the year	**-1**
Carrying amount end of year	**64**

Note 6 - Prepayments

This item includes costs incurred in connection with the ongoing process and funding and listing on AktieTorget. Costs related to the capital increase will after completion of the funding and listing process be offset against the proceeds received.

Note 7 - Cash

Total cash funds amounts to TDKK 167, of which TDKK 85 is pledged as security for the guarantee provided by the Company's bank.

Note 8 - Contributed capital	Number	Par value (DKK)	Nominal value (TDKK)
Shares	4.962.254	0,105	521
	4.962.254		**521**

Note 9 - Change in working capital	2016 (TDKK)
Increase/decrease in receivables	-231
Increase/decrease in trade payables, etc.	934
	703

Note 10 - Contingent liabilities

On behalf of the Company, its bank has issued a guarantee to third party in the amount of TDKK 76. The Company has pledged, in this connection, the funds in a bank account with a balance of TDKK 85.

Statement by Management concerning the Annual Report

The Board of Directors and the Executive Board have today considered and approved the Annual Report of Initiator Pharma A/S for the fiscal year 05/02/2016 - 12/31/2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the entity's financial position at 12/31/2016 and of the results of its operations and cash flows for the fiscal year 05/02/2016 - 12/31/2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend that the Annual Report with its accompanying financial statements be adopted at the Annual General Meeting.

Copenhagen, 04/20/2017

Executive Board

Claus Elsborg Olesen

Board of Directors

Gunnar Magnus Severus Modée Persson
Chariman

Peter Joakim Holm

Henrik Kristian Moltke

Claus Elsborg Olesen

Independent Auditor's Report

To the shareholders of Initiator Pharma A/S

Opinion

We have audited the financial statements of Initiator Pharma A/S for the fiscal year 05/02/2016 -12/31/2016, which comprise the Profit & Loss Statement, Balance Sheet, statement of changes in shareholder equity, Cash Flow Statement and Notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the entity's financial position at 12/31/2016 and of the results of its operations and cash flows for the fiscal year 05/02/2016 - 12/31/2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the financial statements section of this auditor's report. We are independent of the entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exits. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management commentary
Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 04/20/2017
Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Jens Sejer Pedersen
State Authorized Public Accountant

Initiator Pharma's Board of Directors, Senior Management, and Auditors

Member of the Board of Directors and Management

MAGNUS PERSSON (b. 1960)
Chairman and member of the Board of Directors since 2016

Education: Medical doctor and Ph.D. from the Karolinska Institute in Sweden

Other assignments:

Previous assignments:

No. of shares held: 7,791*

Not-affiliated to the management, the Company or major shareholders

HENRIK MOLTKE (b. 1958)
Member of the Board of Directors since 2016

Education: Master's degree in international economics and strategic management from the Copenhagen Business School

Other assignments:

Previous assignments:

No. of shares held: 7,791*

Not-affiliated to the management, the Company or major shareholders

PETER HOLM (b. 1974)
Member of the Board of Directors since 2016

Education: Ph.D. in biochemistry from the Karolinska Institute and a Master's degree in chemistry from the University of Linköping

Other assignments:

Previous assignments:

No. of shares held: 0

Not-affiliated to the management, the Company or major shareholders

CLAUS OLESEN (b. 1974)
Member of the Board of Directors and CEO of Initiator Pharma since 2016 and co-founder of the Company

Education: PhD. in Physiology and Biophysics from Aarhus University

Other assignments:

Previous assignments:

No. of shares held : 503,348* through companies

Not-affiliated to the management, the Company or major shareholders

* As of March 31, 2017

AUDITOR: Deloitte Statsautoriseret Revisionspartnerselskab.

Auditor in charge: Jens Sejer Pedersen. **Address:** Deloitte Statsautoriseret Revisionspartnerselskab, Weidekampsgade 6, 2300 Copenhagen S, Denmark

TORGEIR VAAGE (b. 1964)
CFO of Initiator Pharma A/S since 2016

Education: Ph.D. in business administration from UC Berkeley, master's degree from the Norwegian School of Economics

Other assignments: CEO in Caerus Consulting AS and Pluvia AS

Previous assignments:

No. of shares held: 7,791*

MIKAEL THOMSEN (b. 1968)
CSO of Initiator Pharma A/S since 2016 and co-founder of the Company

Education: PhD in Pharmacology and Toxicology (University of Copenhagen and two M. Sc. degrees (Pharmacy and Human Biology; from University of Pharmaceutical Sciences, Copenhagen and University of Copenhagen, Medical Faculty).

Other assignments:

Previous assignments:

No. of shares held: 505,946* through companies

ULF SIMONSEN (b. 1963)
CMO of Initiator Pharma A/S since 2016 and co-founder of the Company

Education: Medical doctor (Aarhus University) and Ph.D. in Physiology (Complutense University, Madrid). Currently Professor of Pharmacology and head of Department of Pharmacology at Aarhus University.

Other assignments: Professor at Aarhus University

Previous assignments:

No. of shares held: 503,348* through companies

DAN PETERS (b. 1961)
CTO of if Initiator Pharma since 2016 and co-founder of the company.

Education: PhD in Organic Chemistry (University of Lund). Previously with NeuroSearch, heading their monoamine reuptake inhibitor program. Peters has published more than 70 scientific papers and holds more than 100 patents.

Other assignments:

Previous assignments:

No of shares: 503,348* through companies

* As of March 31, 2017

Glossary

Business terms

CNS
The Central Nervous System, a part of the nervous system consisting of the brain and spinal cord.

CTA
Clinical Trial Application is an application which a pharmaceutical company files with the EMA for the purpose of obtaining authorization to ship and test an experimental drug in Europe before an application for the marketing of the drug has been approved. In the United States, an approved application is called an Investigational New Drug (IND)

EMA
European Medicines Agency

Erectile Dysfunction
Erectile Dysfunction (ED) or impotence is sexual dysfunction characterized by the inability to develop or maintain an erection of the penis during sexual activity in humans.

FDA
U.S. Food and Drug Administration

IND
The Investigational New Drug is a program by which a pharmaceutical company obtains permission to ship and test an experimental drug in the U.S. before a marketing application for the drug has been approved. In Europe, the application is called a Clinical Trial Application (CTA).

IPED2015
IPED2015, our most advanced drug candidate, is a novel drug candidate for the treatment of patients suffering from Erectile Dysfunction (ED) that does not respond to the currently marketed drugs in the PDE5i class (e.g. Viagra®, Cialis®, Levitra®)

Monoamine re-uptake inhibitors.
A monoamine reuptake inhibitor (MRI) is a drug that acts as a reuptake inhibitor of one or more of the three major monoamine neurotransmitters, serotonin, norepinephrine, and dopamine, by blocking the action of one or more of the respective monoamine transporters.

Neuropathic pain
Neuropathic pain is a complex, chronic pain state that usually is accompanied by tissue injury. With neuropathic pain, the nerve fibers themselves may be damaged, dysfunctional, or injured. These damaged nerve fibers send incorrect signals to other pain centers.

PDE5 inhibitor
A drug used to block the degradative action of the PDE5 enzyme in the smooth muscle cells lining the blood vessels supplying the corpus cavernosum of the penis. These drugs, which include Viagra®, Cialis® and Levitra®, are used in the treatment of erectile dysfunction and were the first effective orally administered treatment available for the condition.

Financial

Earnings per share
Profit/loss for the period, divided by the average number of shares outstanding at the end of the reporting period

EBIT
Earnings Before Interest and Taxes (Operating profit/loss)

Equity ratio
Shareholder equity as a proportion of total assets

Diluted earnings per share
Profit/loss for the reporting period, divided by the average number of shares after dilution at the end of the period

Operating margin
EBIT as a proportion of revenue

Financial calendar and contact information

FINANCIAL CALENDAR

Annual General Meeting	May 16, 2017
1Q Interim Report	May 26, 2017
2Q Interim Report	August 24, 2017
3Q Interim Report	November 24, 2017
Year-End Report, 2016	February 23, 2018

CONTACT INFORMATION

Initiator Pharma A/S
Lyngsiesvej 18
DK-8230 Åbyhøj
Denmark

Telephone: + 45 61 26 00 35
E-mail: ceo@initiatorpharma.com

Initiator Pharma

Initiator Pharma A/S

Address: Lyngsiesvej 18, 8230 Åbyhøj, Denmark • **Telephone:** +45 6126 0035 • **Email:** ceo@initiatorpharma.com