

LSP Life Sciences Fund N.V.

Annual Report 2016

LSP
Life Sciences Partners

LSP LIFE SCIENCES FUND N.V.

Annual Report

2016

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PROFILE

General information

LSP Life Sciences Fund N.V. (the Fund) is a public company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 52545474. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund qualifies as a tax-exempt investment fund within the meaning of article 6a of the Dutch corporate income tax act. Accordingly, the Fund is not subject to Dutch corporate income tax.

Investment strategy

The Fund's primary investment objective is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies). The majority of the Fund's portfolio will consist of European companies listed on one of the (main) European stock exchanges, with a market capitalization of below Euro 2.5 billion at the time of investment. The Fund Manager believes that in particular this sub-segment of companies – generally referred to as the small- and midcap segment – offers great potential for value growth. Typically, these companies will have developed a suite of innovative technologies that offer benefit over existing technologies and approaches. In addition, these companies have frequently established a product development pipeline that consists of therapeutics that have the potential to offer clinical benefit to a large and/or underserved market. The Fund intends to specifically target those companies that are projected to realize important clinical, regulatory or commercial milestones, value-enhancing partnerships and/or offer M&A potential. By doing so, the Fund expects to benefit from the value increases that frequently accompany the announcement of such milestones, partnerships or M&A transactions.

Sustainable and responsible investing (SRI)

Sustainable and responsible investing means giving due consideration to environmental, social and governance (ESG) investment risks and opportunities – the pillars of the Sustainability model. The Fund uses these Sustainability measures, combined with more traditional methods of financial and company evaluation methods, to identify the very best investment opportunities.

The due diligence process of the Fund is structured and well-validated in the selection of companies with the 'best-in-class' approach within sub-sectors of our target market. On a macro level, an assessment is performed of the key need for the products which are the core assets of the company, the competitive environment in which the companies operate as well as of potential future developments which may impact the sustainability of the company's approach. On a company specific level, the key medical benefits of each of the products within the portfolio and their potential social and environmental impact are analysed. Furthermore the quality of management and their approach to corporate governance issues which may impact the company's reputation and investor confidence are reviewed as part of the due diligence process.

By focusing on sustainable investments in life sciences companies, the Fund believes that its investments help to support the development of all manner of medical innovation which could promote a better quality of life and increase life expectancy. In developing drugs, vaccines and other solutions for unmet medical needs or expanding the availability of medications, companies within the life sciences sector help to keep people healthier for longer, thereby improving productivity through reduced sick leave and reducing the burden on the healthcare system and society.

Fund Governance

The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund. LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V.

The Fund Manager is responsible for the entire management of the Fund in accordance with the provisions of the Fund's organizational documents and applicable laws. The investment team of the Fund Manager consists of three individuals - Mark Wegter, Joep Muijters and Geraldine O' Keeffe – who have complementary investment skills and backgrounds relevant to the Fund's business.

The investment team receives full support from the in-depth industry knowledge of the entire cross-Atlantic and pan-European LSP organization. The Fund Manager is further supported by LSP's established, global network of advisors and experts who bring specific expertise essential for performing in-depth due diligence on potential and existing investee companies.

The Fund Manager has been granted a license pursuant to Article 2:65 of the Dutch Financial Markets Supervision Act (Wft) by the Authority for the Financial Markets on 12 April 2011.

The Supervisory Board of the Fund comprises Pauline Bieringa and Onno Paymans, both having relevant expertise on the Fund's business. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of the Fund as performed by the Fund Manager as well as to supervise the general course of affairs of the Fund, and (ii) resolving any conflict of interest situation the Fund is involved in.

DIRECTOR'S REPORT

Investment Performance

As per the end of December 2016, the Fund has been operational for over five and one-half years and has shown strong performance over that period. The year itself has been challenging nonetheless, with three major events having a significant impact: the fear of a global economic slowdown that hit the markets in January and early February, Brexit in June and – above all specific to the healthcare sector – the expectation that Hillary Clinton would be winning the Presidential elections by a landslide (proven to be wrong of course). As a result, the Net Asset Value per share moved from Euro 211.92 as at 31 December 2015 to Euro 169.37 (minus 20.1%) as at 31 December 2016. The Fund recorded a loss for the period of Euro 18.3 million compared to a profit of Euro 10.3 million in the prior year. As outlined in the prospectus, the Fund aims to provide absolute return for its investors. The Fund Manager is of the opinion that there is no proper benchmark available, which can be used to evaluate the Fund's performance. Therefore, no comparative benchmark data is presented in this report. Importantly, we focus to a lesser extent on short term investment opportunities and remain true to our strategy of building a balanced portfolio with investments that offer upside in the mid- to long term (on average 1 to 2 years). Our portfolio primarily holds investments in companies that have a market cap below Euro 1 billion. As at 31 December 2016 the value of the portfolio amounted to Euro 42.7 million holding 17 names (2015: 18 names).

The portfolio consists exclusively of equity (-derived) positions in listed life sciences companies that jointly provide a balanced - yet concentrated - exposure to the sector. Investments have been spread across clinical stage of development, disease area, geography, field of technology and business model. The majority of the investments in the period were in the area of drug development, combined with investments in innovative diagnostics, medical devices and specialty pharma companies. Equity stakes were predominantly below 5% of the portfolio company's outstanding capital, the exact size depending on company specific factors such as liquidity, market capitalization, timing of expected news flow and long term outlook. Holding periods consequently varied. The monthly reports of the Fund that are published on the Fund's website include the current portfolio composition and also list the top-5 best performing stocks of the respective month.

Alternative Investment Fund Managers Directive

The Fund Manager has implemented the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014. Furthermore it has appointed KAS Trust & Depositary Services B.V. as Depositary for the Fund in accordance with the directive. The Depositary is responsible for the (i) the safekeeping of the Fund's assets, and (ii) the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The Depositary has delegated its day-to-day custody tasks to KAS BANK N.V. The depositary remains liable towards the Fund for loss of assets of which the custody has been delegated to KAS BANK N.V. or another third party. The Depositary can only discharge itself from such liability if all the requirements of article 21(13) or 21(14) of the AIFMD are met.

Fund's risk management

The Fund has exposure to market risks, liquidity risk, credit risk, counterparty risk and operational risks, including preservation and legal and tax compliance risks. The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology.

Fund policy regarding voting rights and voting conduct

The Fund Manager will actively exercise, or deliberately refrain from exercising, voting rights attached to the Fund's shares in its portfolio companies. The Fund Manager will determine the manner in which voting rights are being exercised on a case-by-case basis, but at all times in the best interests of the Fund and the investors of the Fund. During 2016 the Fund Manager has not exercised its voting rights.

Human resources

The Fund does not employ any personnel. The management of the Fund is entrusted to the Fund Manager.

Administrative organization and internal controls

The Fund Manager and the Fund have documented the administrative organization and internal controls in accordance with the Dutch Financial Markets Supervision Act (Wft) and the Decree on Market Conduct Supervision of Financial Business (Bgfo). During the reporting period we have reviewed the various aspects of our operations. Our review did not find anything that would lead us to conclude that the administrative organization and the system of internal controls as referenced in article 121 of the Bgfo does not satisfy the requirements as laid down in the Bgfo and related regulations. Furthermore, we did not find that the administrative organization and internal controls are ineffective or that they do not operate in accordance with their description.

Based on the above, we declare as Fund Manager of the LSP Life Sciences Fund N.V. that we are in possession of a description of the administrative organization and internal controls in accordance with Article 121 of the Bgfo, which fulfils the requirements of the Bgfo. We also state with a reasonable degree of certainty that the administrative organization and the system of internal controls were effective and operated in accordance with its description during the reporting period.

The director of LSP Life Sciences Fund N.V. confirms to the best of its knowledge that:

- the financial statements for the year 2016 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code as well as the Dutch Act on Financial Supervision and give a true and fair view of the assets, liabilities and financial position of LSP Life Sciences Fund N.V. as at 31 December 2016 and of its result for the period then ended;
- the report includes a fair review of the key developments of the Fund during the period and the effects thereof on the annual report, together with the principal risks and uncertainties of upcoming six months;
- the report provides adequate disclosure of the principal transactions with related parties.

Outlook

While the election of Trump averted the anticipated Clinton lead war on drug pricing – uncertainty remains. The healthcare markets remain volatile in response to any Trump associated comments on healthcare; most notably ‘repeal and replace’ of the Affordable Healthcare Act, more commonly known as ACA or Obamacare, and continued rhetoric around drug pricing. It is expected that any changes to ACA will only come into effect in about 2 years. Regarding drug pricing – there is increasing discussion in the industry about moving towards value based pricing systems for some medication. This would mean payment would be linked to treatment outcomes. Such a system should favour highly innovative, impactful new therapies such as those being developed by the biotechnology sector. The biotechnology sector in which the LSP fund invests, continues to advance the development and launch of exciting new healthcare solutions and treatments which should not only improve lives but reduce the overall cost of healthcare. In the short term, volatility may continue until there is some clarity on the policies of the Trump administration but in the longer term, the 2016 repricing of the sector provides new investment opportunities. Furthermore, recent measures and developments at FDA have demonstrated increased flexibility of the agency to accelerate market approval for the most promising new treatments – those designated as having ‘breakthrough’ potential. These measures undoubtedly benefit many companies within our investment universe. While 2017 contains uncertainty for the broader markets – the biotechnology sector fundamentals look promising for the long term investors.

The director

LSP Advisory B.V.

Mark Wegter

Joep Muijers

Geraldine O’Keeffe

SUPERVISORY BOARD REPORT

In accordance with the Fund documents, the Supervisory Board of the Fund meets at least quarterly and at such times as the Supervisory Board or the directors of the Fund Manager deem necessary. During the year 2016, the Supervisory Board held 4 regular meetings together with the directors of the Fund Manager.

During these meetings the Supervisory Board has discussed a wide range of subjects including the investment strategy and investment performance, the Fund's operations and the interaction with third party service providers (e.g. depositary, custodian, fund agent, fund administrator and brokers), the principles of fund governance, compliance related matters as well as the monitoring and adherence to the investment restrictions and the Socially Responsible Investment practices and procedures of the Fund. During the year the Fund Manager asked the Supervisory Board for approval of one proposed investment involving a potential conflict of interest. The Supervisory Board reviewed the case at hand, established that all relevant procedures were adhered to and granted its approval for the investment. In addition the Supervisory Board has permitted the Fund Manager in one occasion to deviate from the Investment Restrictions.

Furthermore the Supervisory Board has monitored the financial reporting process, the effectiveness of the internal controls and the risk management of the Fund.

The Supervisory Board declares that all of its members were independent of one another as well as in respect of the Fund and the Fund Manager.

Pauline Bieringa (chair)

Onno Paymans

KEY FIGURES

(in thousands of Euro's, except per share data)

| | 2016 | 2015 | 2014 | 2013 |
|---|---------|---------|---------|---------|
| Net Asset Value | 59,783 | 94,948 | 70,175 | 62,592 |
| Number of shares outstanding | 352,971 | 448,036 | 380,941 | 467,271 |
| Net Asset Value per share | 169.37 | 211.92 | 184.21 | 133.95 |
| Share price performance | -20.1% | 15.0% | 37.5% | 28.7% |
| Net Result | -18,267 | 10,315 | 21,252 | 12,775 |
| Ongoing charges figure (OCF) ¹ | 1.92% | 1.92% | 2.03% | 2.07% |
| Performance fee figure ² | 0.00% | 3.57% | 7.43% | 2.46% |
| Turnover Ratio | 237% | 166% | 164% | 154% |

¹⁾ The Total Expense Ratio (TER) has been replaced by the Ongoing Charges Figure (OCF). The comparative figures for 2013 have been adjusted accordingly to this new key figure definition

²⁾ The performance related fees expressed as a percentage of the Fund's average Net Asset Value (NAV)

BALANCE SHEET on 31 December 2016

(in thousands of Euro's, before appropriation of the result)

| | Note | 31 December 2016 | 31 December 2015 |
|---|----------|------------------|------------------|
| Assets | | | |
| Investments | 1 | | |
| Investments in securities | | 42,653 | 85,190 |
| Investments in derivatives | | - | 1 |
| | | <u>42,653</u> | <u>85,191</u> |
| Receivables | | | |
| Amounts receivable | | 300 | 123 |
| Other assets | 2 | | |
| Cash accounts | | 17,041 | 13,799 |
| | | <u>17,041</u> | <u>13,799</u> |
| Total Assets | | <u>59,994</u> | <u>99,113</u> |
| Liabilities and shareholders' equity | | | |
| Shareholders' equity | 3 | | |
| Issued share capital | | 353 | 448 |
| Share premium | | 31,747 | 48,550 |
| Other reserves | | 45,950 | 35,635 |
| Unappropriated result | | -18,267 | 10,315 |
| | | <u>59,783</u> | <u>94,948</u> |
| Current liabilities | 4 | | |
| Creditors and accrued expenses | | 211 | 4,165 |
| | | <u>211</u> | <u>4,165</u> |
| Total Liabilities and shareholders' equity | | <u>59,994</u> | <u>99,113</u> |
| Net Asset Value per share | | 169.37 | 211.92 |

PROFIT AND LOSS ACCOUNT for the year 2016

(in thousands of Euro's)

| | Note | 31 December 2016 | 31 December 2015 |
|---|------|------------------|------------------|
| Income from investments | | | |
| Dividends on securities | | 15 | 26 |
| Realized movements in investments and other assets | | | |
| Realized movements on securities | 5 | -17,495 | 29,625 |
| Realized movements on derivatives | | - | 4,186 |
| | | -17,495 | 33,811 |
| Unrealized movements in investments and other assets | | | |
| Unrealized movements on securities | | 1,060 | -11,505 |
| Unrealized movements on derivatives | | -1 | -2,966 |
| Currency results on cash accounts | | 93 | -3,959 |
| | | 1,152 | -18,430 |
| Expenses | | | |
| Management costs | 6 | 1,111 | 4,446 |
| Depositary costs | 7 | 45 | 37 |
| Fund operational costs | 8 | 264 | 250 |
| Other operating expenses | 9 | - | 39 |
| Interest expenses on cash accounts | | 519 | 320 |
| | | 1,939 | 5,092 |
| Result for the period | | -18,267 | 10,315 |

CASH FLOW STATEMENT for the year 2016

(in thousands of Euro's)

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Cash flows from investment activities | | |
| Net result | -18,267 | 10,315 |
| Realized movements in investments and other assets | 17,495 | -33,811 |
| Unrealized movements in investments and other assets | -1,152 | 18,430 |
| Purchase of investments and other assets | -90,288 | -110,006 |
| Sale of investments and other assets | 116,391 | 95,275 |
| Change in amounts receivable | -177 | -22 |
| Change in intangible assets | - | 39 |
| Change in current liabilities | -3,954 | -831 |
| | 20,048 | -20,611 |
| Cash flows from financial activities | | |
| Issue of shares | 7,319 | 37,778 |
| Redemption of shares | -24,217 | -23,320 |
| Total cash flows from financial activities | -16,898 | 14,458 |
| Currency results on cash accounts | 93 | -3,959 |
| Net increase for the period | 3,242 | -10,112 |
| Opening balance | 13,799 | 23,911 |
| Closing balance | 17,041 | 13,799 |
| | 3,242 | -10,112 |

SELECTED NOTES TO THE ANNUAL REPORT

General

LSP Life Sciences Fund N.V. (the Fund) is a public limited liability company with the status of an investment company with variable capital organised and established under the laws of the Netherlands on 18 April 2011. The Fund has its statutory seat in Amsterdam, the Netherlands. The Fund is an open-end investment fund listed on Euronext Amsterdam. The Fund is managed by LSP Advisory B.V. as sole managing director of the Fund.

The purpose of the Fund is to achieve capital appreciation by investing in a diversified, yet concentrated portfolio of publicly listed life sciences companies (including biopharmaceutical, specialist pharmaceutical, medical device, drug delivery, vaccine and diagnostic companies).

The Fund qualifies as a tax-exempt investment fund within the meaning of Article 6a of the Dutch Corporate Income Tax Act. Accordingly, the Fund is not subject to Dutch corporate income tax.

Accounting principles

General

The financial year of the Fund corresponds to the calendar year. This report has been prepared in accordance with generally accepted accounting principles in the Netherlands, and in compliance with the financial reporting requirements included in Part 9, Book 2 of the Netherlands Civil Code as well as the Dutch Act on Financial Supervision.

The functional currency of the Fund is Euro and the financial statements are presented in thousands of Euro's except per share data.

Unless specifically specified otherwise the Fund applies the historical cost convention less any value adjustments deemed necessary. Furthermore, the accrual method of accounting has been applied which means that income and expenses are recognised in the period to which they relate rather than the period in which they have been paid or received.

Foreign currency translation

Unless otherwise stated, assets and liabilities denominated in foreign currencies are translated into the Fund's reporting currency at the exchange rates at closing date. Revenues and expenses denominated in foreign currencies are translated into Euro's at rate prevailing at the transaction date. Resulting currency exchange differences are taken into the Profit and Loss account under currency results.

| | |
|---|---------|
| The exchange rates at 31 December 2016, in Euro | |
| Danish Crown | 0.13449 |
| British Pound | 1.17151 |
| United States Dollar | 0.94809 |
| Swiss Franc | 0.93284 |

Investments*Securities*

Investments are recorded at their fair value. The Fund only has investments in listed securities for which fair value is determined at their closing price on the valuation date on the relevant exchanges. Transaction costs in respect of purchase and sale of investments are included in unrealized and realized movements in investments.

Derivatives

Derivatives (warrants) are measured at fair value on initial recognition. After initial recognition, these derivative financial instruments are carried at fair value, with gains and losses recognized in unrealized and realized movements in investments in the Profit and Loss account.

In the absence of a quotation, the fair value of the warrants is calculated using the Black-Scholes Discrete model, taking into account the exercise price of the warrant, the remaining life of the warrant, the vesting period of the warrant, the share price of the underlying security at valuation date, the risk-free interest rate, the expected volatility and the expected dividend yield.

Receivables and other assets

Other receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses. Cash and cash equivalents are stated at nominal value. If cash and cash equivalents are not readily available, this fact is taken into account in the measurement.

Share premium account

This reserve originates from the issue and redemption of shares over and above their nominal value.

Current liabilities

Current liabilities and other financial commitments are stated after their initial recognition at amortised cost on the basis of the effective interest rate method.

Profit and Loss account

Income and expenses are accounted for in the period to which they relate.

Realized movements in investments and other assets

Realized movements in investments and other assets consist of gains or losses on securities and derivate positions that have been sold during the reporting period.

Unrealized movements in investments and other assets

Unrealized movements in investments and other assets consist of gains or losses on securities and derivate positions that are (still) in the portfolio at the end of the reporting period.

Income

Dividends are recognised on an ex-dividend date basis. Dividend income is recognised net of dividend withholding tax as the fund cannot reclaim dividend tax paid from the tax authorities. If the Fund elects to receive a stock dividend in lieu of a cash dividend, an amount equal to dividends not received is included in income. When the Fund receives a stock dividend when there is no cash alternative, an amount equal to the nominal value of the shares issued is included in income to the extent that such stock dividend is regarded as revenue for Dutch tax purposes.

Expenses

Expenses are dealt with on an accrual basis. All expenses are charged to the Profit and Loss account.

Cash Flow statement

The Cash Flow statement is prepared by using the indirect method.

Notes to balance sheet

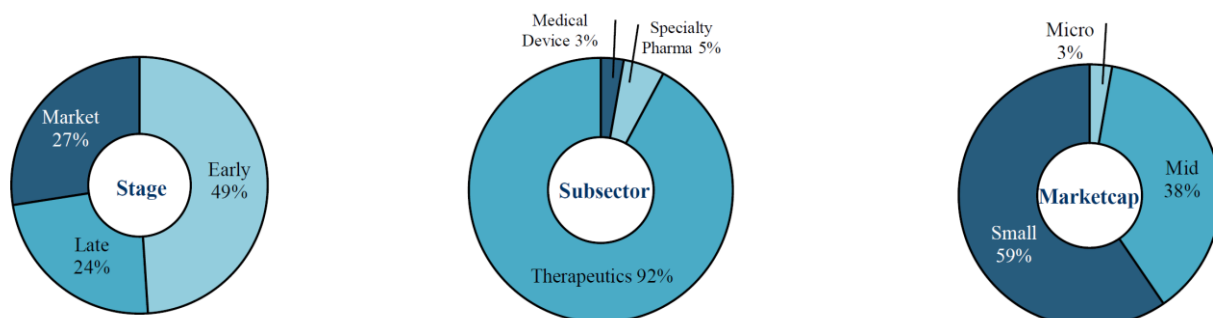
1. Investments

| | 31 December 2016 | 31 December 2015 |
|----------------------------------|------------------|------------------|
| Securities | | |
| Market value beginning of period | 85,190 | 47,808 |
| Purchases | 90,288 | 114,378 |
| Sales | -116,391 | -95,116 |
| Unrealized price movements | 2,184 | -11,228 |
| Unrealized currency movements | -1,123 | -277 |
| Realized price movements | -17,806 | 25,306 |
| Realized currency movements | 311 | 4,319 |
| Market value at end of period | 42,653 | 85,190 |
| Derivatives | | |
| Market value beginning of period | 1 | 3,312 |
| Purchases | - | - |
| Sales | - | -4,531 |
| Unrealized price movements | -1 | -2,947 |
| Unrealized currency movements | - | -19 |
| Realized price movements | - | 4,531 |
| Realized currency movements | - | -345 |
| Market value at end of period | - | 1 |

The parameters used for the 2016 valuation of the non-listed warrants (included in derivatives) are:

| Parameter | Warrant C | Warrant D |
|---|---|---|
| | Sphere Medical serie 1 07/15/13-07/14/18 | Sphere Medical serie 2 07/15/13-07/14/18 |
| Expiration date | Jul-18 | Jul-18 |
| Remaining life | 1.54 years | 1.54 years |
| Price of underlying share at value date | GBP 8.50 | GBP 8.50 |
| Exercise price | GBP 92.50 | GBP 44.00 |
| Vesting period | - | - |
| Expected dividend yield | 0.00% | 0.00% |
| Expected volatility | 39.79% | 39.79% |
| Rate of yield curve | 1.21% | 1.21% |

The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 31 December 2016 is shown below.



| Stage at year end | 2016 | 2015 |
|-----------------------------|-------------|-------------|
| Early Stage | 49% | 16% |
| Late Stage | 24% | 57% |
| Market | 27% | 27% |

| Subsector at year end | 2016 | 2015 |
|---------------------------------|-------------|-------------|
| Therapeutics | 92% | 87% |
| Medical Device | 3% | 3% |
| Specialty Pharma | 5% | 10% |

| Marketcap at year end | 2016 | 2015 |
|---------------------------------|-------------|-------------|
| Microcap | 3% | 3% |
| Smallcap | 59% | 40% |
| Midcap | 38% | 57% |

Portfolio breakdown

The below table shows the portfolio breakdown of the Fund grouped per company (including warrants) as a percentage of the total Fund's Net Asset Value.

| Company | Stage | Subsector | Marketcap | % |
|-------------------------|--------------|------------------|------------------|----------|
| Evotec | Early | Therapeutics | Small | 9.6% |
| arGEN-X | Early | Therapeutics | Small | 8.0% |
| Colucid Pharmaceuticals | Late | Therapeutics | Small | 7.6% |
| Neuroderm | Early | Therapeutics | Small | 7.3% |
| Kite Pharma | Early | Therapeutics | Mid | 6.4% |
| GW Pharmaceuticals | Market | Therapeutics | Mid | 6.1% |
| Genmab | Market | Therapeutics | Mid | 5.0% |
| Clinigen Group | Market | Specialty Pharma | Small | 3.6% |
| Aerie Pharmaceuticals | Late | Therapeutics | Mid | 2.9% |
| TherapeuticsMD | Market | Therapeutics | Mid | 2.8% |
| Forward Pharma | Late | Therapeutics | Small | 2.8% |
| ProQR Therapeutics | Early | Therapeutics | Small | 2.0% |
| Sphere Medical | Market | Medical Device | Micro | 2.0% |
| CytomX Therapeutics | Early | Therapeutics | Small | 1.7% |
| Spark Therapeutics | Late | Therapeutics | Mid | 1.5% |
| Neurocrine Biosciences | Late | Therapeutics | Mid | 1.4% |
| Bluebird Bio | Late | Therapeutics | Mid | 0.6% |
| | | | | 71.3% |

2. Other assets

Cash accounts

The cash at banks are held with KAS BANK N.V. and are available on demand. The net cash of the Fund at year end consists of a credit balance on the Euro and Danish Crown accounts and a debit balance on the British Pound and United States Dollar currency accounts as shown in below table.

| Cash account | at 31 December 2016 | | at 31 December 2015 | |
|----------------------|---------------------|---------------|---------------------|---------------|
| | in Local Currency | in Euro | in Local Currency | in Euro |
| Euro | 49,738 | 49,738 | 70,735 | 70,735 |
| Danish Crown | -21,783 | -2,930 | 15 | 2 |
| Swiss Franc | -4 | -4 | - | - |
| British Pound | -2,918 | -3,418 | -9,088 | -12,330 |
| United States Dollar | -27,787 | -26,345 | -48,457 | -44,608 |
| Total | | 17,041 | | 13,799 |

The cash accounts are an integral part of the Fund's currency hedging as further detailed in note 5. Furthermore all accounts are covered by the same contractual agreements. The individual account balances are managed jointly and are presented in the annual accounts as a single netted amount.

3. Shareholders' equity

The authorized share capital of the Fund is Euro 1,000,000 and is divided in 1,000,000 shares with a par value of Euro 1.00 each. The number of issued shares at 31 December 2016 amounts to 352,971.

| | 31 December 2016 | 31 December 2015 |
|---|-------------------------|-------------------------|
| Issued share capital | | |
| Balance at beginning of period | 448 | 381 |
| Issued | 43 | 179 |
| Redemption | -138 | -112 |
| Balance at end of the period | 353 | 448 |
| Share premium account | | |
| Balance at beginning of period | 48,550 | 34,159 |
| Issue of shares | 7,276 | 37,599 |
| Redemption of shares | -24,079 | -23,208 |
| Balance at end of the period | 31,747 | 48,550 |
| Legal and statutory reserve | | |
| Balance at beginning of period | - | 39 |
| Amortisation of intangible assets | - | -39 |
| Balance at end of the period | - | - |
| Other reserves | | |
| Balance at beginning of period | 35,635 | 14,344 |
| Result appropriation for previous year | 10,315 | 21,252 |
| Release of legal and statutory reserve | - | 39 |
| Balance at end of the period | 45,950 | 35,635 |
| Number of issued shares | | |
| Balance at beginning of period | 448,036 | 380,941 |
| Issued | 43,706 | 178,670 |
| Redemption | -138,771 | -111,575 |
| Balance at end of the period | 352,971 | 448,036 |
| Number of shares | 352,971 | 448,036 |
| Net Asset Value | 59,783 | 94,948 |
| Net Asset Value per share | 169.37 | 211.92 |
| Unappropriated result | | |
| Balance at beginning of period | 10,315 | 21,252 |
| Result previous year added to other reserves | -10,315 | -21,252 |
| Result for the period | -18,267 | 10,315 |
| Balance at end of the period | -18,267 | 10,315 |

4. Current liabilities**31 December 2016** **31 December 2015****Creditors and accrued expenses**

| | | |
|---|-------|-------|
| Interest | 35 | 32 |
| Share redemptions payable to shareholders | - | 807 |
| Fund operational costs | 98 | 98 |
| Management fee | 78 | 125 |
| Performance fee | - | 3,103 |
| | <hr/> | <hr/> |
| | 211 | 4,165 |

The creditors and accrued expenses are payable within one year.

Fund operational costs

| | | |
|---------------------------------------|-------|-------|
| Fund administration fee | 19 | 17 |
| Remuneration of the Supervisory Board | 30 | 37 |
| Governance costs | 2 | 7 |
| Auditor's remuneration | 33 | 32 |
| Advisory costs | 10 | 5 |
| Other Costs | 4 | - |
| | <hr/> | <hr/> |
| | 98 | 98 |

Notes to the Profit and Loss account

5. Realized and unrealized movements in investments and other assets

| | 31 December 2016 | 31 December 2015 |
|--|------------------|------------------|
| Realized movements on securities | | |
| Realized gains / losses on securities | -17,806 | 25,306 |
| Currency results on securities | 311 | 4,319 |
| | -17,495 | 29,625 |
| Realized movements on derivatives | | |
| Realized gains / losses on derivatives | - | 4,531 |
| Currency results on derivatives | - | -345 |
| | - | 4,186 |
| Unrealized movements on securities | | |
| Change in unrealized gains / losses on securities | 2,183 | -11,228 |
| Currency results on securities | -1,123 | -277 |
| | 1,060 | -11,505 |
| Unrealized movements on derivatives | | |
| Change in unrealized gains / losses on derivatives | -1 | -2,947 |
| Currency results on derivatives | - | -19 |
| | -1 | -2,966 |

The realized and unrealized movements are a combination of gains as well as losses. In accordance with the generally accepted accounting principles in the Netherlands these gains and losses have to be reported separately. The below table provides this decomposition.

| | | | |
|--|--------------|---------------|--------------|
| Realized movements 31 December 2016 | | | |
| | Gains | Losses | Total |
| Securities | 14,513 | -32,008 | -17,495 |
| Derivatives | - | - | - |
| Unrealized movements 31 December 2016 | | | |
| | Gains | Losses | Total |
| Securities | 26,643 | -25,583 | 1,060 |
| Derivatives | - | -1 | -1 |
| Realized movements 31 December 2015 | | | |
| | Gains | Losses | Total |
| Securities | 35,673 | -6,048 | 29,625 |
| Derivatives | 4,770 | -584 | 4,186 |
| Unrealized movements 31 December 2015 | | | |
| | Gains | Losses | Total |
| Securities | 9,987 | -21,492 | -11,505 |
| Derivatives | 157 | -3,123 | -2,966 |

Currency results on cash accounts

The Fund makes use of foreign currency cash accounts to (partially) hedge the currency exposure of its investments. During the reporting period the currency results on these cash accounts amounted to a profit of Euro 93 thousand (2015: -3,959 thousand), whilst the realized and unrealized currency result of the investments amounted to a loss of Euro 812 thousand (2015: 3,679 thousand). The net currency result of the Fund thus amounted to a loss of Euro 719 thousand (2015: -280 thousand).

6. Management costs

Management Fee

The Fund Manager is entitled to an annual management fee due by the Fund to the Fund Manager equal to 1.5% per annum of the Net Asset Value excluding (i.e. before deduction of) the accrued management fee and performance fee. The management fee accrues on a daily basis by reference to the latest Net Asset Value and is payable by the Fund in arrears as per the last business day of each month. The management fee amounts to Euro 1,111 thousand (2015: 1,343 thousand).

Performance Fee

The Fund Manager is entitled to receive a performance fee of twenty per cent (20%) of the increase (if any) in the Net Asset Value per share accrued during the year for each share outstanding at the end of the relevant year, but only to the extent such increase exceeds the hurdle of 8%. The performance fee is furthermore subject to a perpetual high watermark which means that performance fee shall only be payable if, and to the extent that, the Net Asset Value per share at the end of a year is greater than the highest value of this variable which has been determined at the end of all of the preceding years. The performance fee is calculated and accrues on a daily basis. The performance fee, if any, is payable as per the last valuation day of each calendar year.

The initial issue price of Euro 100.00 per share, plus the 8% hurdle since inception amounted to Euro 154.94 at 31 December 2016. The high watermark is set to the highest Net Asset Value per share at the end of all preceding years, i.e. Euro 211.92. As the High Watermark exceeds the hurdle, the performance fee is calculated with reference to this High Watermark. The Net Asset Value per share – before performance fee – as of period-end was Euro 169.37, and thus below the High Watermark. As such there is no performance fee for the period (2015: 3,103 thousand).

| (in Euro per share) | 31 December 2016 | 31 December 2015 |
|---|------------------|------------------|
| Net Asset Value (before performance fee) | 169.37 | 218.84 |
| Hurdle | 154.94 | 143.46 |
| High Watermark | 211.92 | 184.21 |
| Excess performance | 0.00 | 34.63 |
| Performance fee (20% of excess performance) | 0.00 | 6.93 |
| Number of shares outstanding | 352,971 | 448,036 |

7. Depositary costs

In connection with the Alternative Investment Fund Manager Directive (AIFMD) that came in force on 22 July 2014, the Fund has appointed KAS Trust & Depositary Services B.V. as depositary. The depositary acts in the interest of the investors and is responsible for the safekeeping of the fund's assets and the oversight and supervision of the Fund and the management of the Fund by the Fund Manager. The depositary costs consist of the fees contractually due to the depositary for the provision of its services.

| 8. Fund operational costs | 31 December 2016 | 31 December 2015 |
|---------------------------------------|-------------------------|-------------------------|
| Fund administration fee and bank fees | 150 | 147 |
| Remuneration of the Supervisory Board | 30 | 37 |
| Governance costs | 2 | -5 |
| Auditor's remuneration | 38 | 40 |
| Advisory costs | 13 | 15 |
| Other costs | 31 | 16 |
| | 264 | 250 |

Fund operational costs include all costs of legal, tax, regulatory, administrative, custody, auditing, reporting and similar services and advices provided to the Fund, the cost of the Fund Agent and Administrator, the costs of supervision of the Fund, all costs incurred in relation to the Fund's Supervisory Board and all costs of communications with and meetings of the investors.

Auditor's remuneration

The following fees were charged by KPMG Accountants N.V. to the company, its subsidiaries and other consolidated companies, as referred to in Section 2:382a (1) and (2) of the Netherlands Civil Code.

| | 31 December 2016 | | |
|-----------------------------------|-----------------------------|--------------------------|---------------|
| | KPMG Accountants N.V. | Other KPMG network | Total KPMG |
| Audit of the financial statements | 33 | - | 33 |
| Other audit engagements | - | - | - |
| Tax-related advisory services | - | - | - |
| Other non-audit services | - | 5 | 5 |
| | 33 | 5 | 38 |

| | 31 December 2015 | | |
|-----------------------------------|-----------------------------|--------------------------|---------------|
| | KPMG Accountants N.V. | Other KPMG network | Total KPMG |
| Audit of the financial statements | 31 | - | 31 |
| Other audit engagements | 4 | - | 4 |
| Tax-related advisory services | - | - | - |
| Other non-audit services | - | 5 | 5 |
| | 35 | 5 | 40 |

9. Other operating expenses

| | 31 December 2016 | 31 December 2015 |
|--|-------------------------|-------------------------|
| Amortisation of establishment expenses | - | 39 |
| | - | 39 |

The establishment expenses are capitalized at the level of the Fund and are amortized over a period of 5 years.

Comparison total expenses with expenses mentioned in the prospectus

| | Actual costs | Prospectus |
|------------------------|--------------|------------|
| Management fee | 1,111 | 1,111 |
| Performance fee | - | - |
| Depositary costs | 45 | 333 |
| Fund operational costs | 264 | 333 |
| | 1,420 | 1,444 |

The expenses in the Prospectus are based on an average Fund size of Euro 75 million and have been adjusted proportionally to the actual average Fund size in this comparison. In the Prospectus the depositary costs are not mentioned separately but are included in the Fund operational costs.

Portfolio Turnover Ratio

The portfolio turnover ratio refers to the measure of trading activity in the Fund's portfolio. The portfolio turnover rate is a percentage of the portfolio that is bought and sold in exchange for other stocks. The portfolio turnover ratio is calculated by taking the amount of new securities purchased and the amount of securities sold minus the amount for redemption and issue of shares over the financial year. The result is expressed as a percentage of the average Net Asset Value (NAV). The average Net Asset Value is now calculated, in accordance with the generally accepted accounting principles in the Netherlands, as the average of all calculated and published NAV's during the year. Previously this average calculation was based on five measurement points during the year. The portfolio turnover ratio for 2016 amounts to 237% (2015: 166%). As the portfolio turnover measure includes both the purchases as well as the sales of securities, it effectively corresponds to an average holding period of about 0.8 years, consistent with the Fund's investment strategy.

Ongoing Charges Figure

According to the generally accepted accounting principles in the Netherlands the total expense ratio (TER) has been replaced by the ongoing charges figure (OCF). Like the TER, the ongoing charges figure is the total amount of costs the Fund incurred in a year, expressed as a percentage of the Fund's average Net Asset Value (NAV) for the period concerned. The changes consist of a change in calculation method and a change in the cost components that should be included in the calculation. The average Net Asset Value is now calculated as the average of all calculated and published NAV's during the year, whereas for the TER this average calculation was based on five measurement points during the year. The performance related fees are excluded from the ongoing charges figure and are expressed separately as a percentage of the Fund's average Net Asset Value (NAV) for the period concerned. The resulting OCF for 2016 is 1.92% (2015: 1.92%). The resulting percentage of the performance fee for 2016 is nil (2015: 3.57%).

Remuneration policy

The Fund itself has no employees. The management of the Fund is entrusted to the Fund Manager being LSP Advisory B.V. As such the remuneration policy is determined at the level of the Fund Manager. The Fund Manager has implemented the AIFMD regulations regarding remuneration and has established a compliant remuneration policy. The objective of this remuneration policy is to motivate and retain the investment managers and other employees. The remuneration policy of the Fund Manager is designed such that it is consistent with and promotes sound and effective risk management and does not encourage risk-taking in a manner inconsistent with the risk policy of the Fund. The remuneration policy is reviewed on annual basis and will be amended from time to time to remain compliant with applicable regulations and to abide by social norms. The remuneration consists of a fixed and a variable component. The variable remuneration is linked to the performance of the Fund as well as to the individual targets of the staff members.

Remuneration of the Fund Manager's staff

During the year 2016 the Fund Manager paid Euro 0.9 million (2015: 1.5 million) to its staff members. Of this amount Euro 0.9 million (2015: 0.8 million) was fixed remuneration and Euro 8 thousand (2015: 0.7 million) was variable.

Of the total remuneration referenced above an amount of Euro 0.7 million (2015: 1.5 million) related to the directors of the Fund Manager. This consists of a fixed remuneration of Euro 0.7 million (2015: 0.8 million) and no variable compensation for the period (2015: 0.7 million).

In total 5 staff members work in part or fully for the Fund. The total remuneration of these staff members that is attributed to managing the Fund for the period amounts to Euro 0.9 million (2015: 1.5 million), such amount being allocated on the basis of the average Assets under Management of the various activities of LSP Advisory B.V. The tables on the next page show the breakdown of the remuneration of the staff members attributed to the management of the Fund for the current and prior period.

| 2016 | Beneficiaries | Fixed remuneration | Variable remuneration | Total Remuneration |
|------------------|---------------|-----------------------|--------------------------|-----------------------|
| Directors | 3 | 741,535 | - | 741,535 |
| Identified staff | 1 | 22,290 | - | 22,290 |
| Other employees | 1 | 104,803 | 8,202 | 113,105 |
| Total | 5 | 868,628 | 8,202 | 876,830 |

| 2015 | Beneficiaries | Fixed remuneration | Variable remuneration | Total Remuneration |
|------------------|---------------|-----------------------|--------------------------|-----------------------|
| Directors | 3 | 756,635 | 713,713 | 1,470,348 |
| Identified staff | 1 | 22,960 | 3,103 | 26,063 |
| Other employees | 1 | 9,229 | - | 9,229 |
| Total | 5 | 788,824 | 716,816 | 1,505,640 |

Remuneration of the Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 30 thousand (2015: 37 thousand).

| Supervisory Board member | 31 December 2016 | 31 December 2015 |
|------------------------------------|-------------------------|-------------------------|
| Pauline Bieringa | 18 | 18 |
| Onno Paymans | 12 | 12 |
| Hanso Schotanus à Steringa Idzerda | - | 7 |
| | 30 | 37 |

Risk factors and risk management

An investment in the Fund involves certain risks and uncertainties relating to the Fund's structure and investment strategy. The Fund has exposure to the following risks from financial instruments:

- Market risks
- Liquidity risk
- Counterparty risk, including settlement risk
- Operational risks, including preservation and legal and tax compliance risks

The Fund Manager applies a comprehensive process based on qualitative and quantitative risk measures to assess the risks of the Fund entailing a standard monitoring process which consists of pre-defined monitoring items and cycles. The overall exposure of the Fund is calculated by means of the Value-at-Risk (VaR) methodology. The Value-at-Risk methodology provides a measure of the potential loss that could arise over a given time interval under normal market conditions, and at a given confidence level. During the year of 2016 no risk limits of the Fund have been exceeded nor were they likely to be exceeded.

The Fund Manager has been given a discretionary authority to manage the assets in accordance with the Fund's investment objectives. Compliance with the investment restrictions and the composition of the portfolio is monitored by the Fund Manager on a daily basis.

Market Risk

The prices of financial instruments on the financial markets in general and more specifically the prices of financial instruments in the portfolio can increase or decrease as a result of a multitude of factors like expectations of economic growth, inflation and price movements of goods and foreign currencies. In addition the value of the portfolio can vary due to, for example, political and monetary developments. Market risks are increased as a result of limiting the geographic scope of the Fund to Europe (and in part to the United States) as well as the Fund's concentrated sector portfolio. The Fund manager distinguishes the following market risks: (i) price volatility, (ii) concentration risk, (iii) foreign currency risk and (iv) interest rate risk, which are discussed in further detail below.

(i) Price volatility

The stock prices of companies involved in the life sciences industry have been and will likely continue to be volatile. Stock prices and their related financial instruments (e.g. warrants) could be subject to wide fluctuations in response to a variety of factors, including the following:

- General market fluctuations (including the parameters used for valuation of warrants);
- Actual or anticipated variations in companies' operating results;
- Announcements of technological innovations by competitors;
- Changes in financial estimates by securities analysts;
- Changes in the market valuations of life sciences companies;
- Legal or regulatory developments affecting companies in the life sciences industry;
- Announcement by life sciences companies or their competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments; or
- Additions or departures of key personnel.

Many life sciences companies do not or in the future might not have earnings. As a result, the trading prices of life sciences companies may decline substantially and valuations may not be sustained. Any negative change in the public's perception of the prospects of life sciences companies, generally could depress the stock prices of a particular company regardless of its results. Other broad market and industry factors may decrease the stock price of life sciences stocks, regardless of their operating results.

Market fluctuations, as well as general political and economic conditions such as recession or interest rate or currency rate fluctuations, also may decrease the market price of life sciences stocks. Given the investment objective of the Fund and its inherent sector focus, the price volatility risk is in principle not managed by the Fund Manager.

(ii) Concentration risk

The Fund endeavours to create a concentrated portfolio of life sciences investments that are diversified by sub-sector (indication area or technology), geographic location, type of investment (IPOs, rights offerings, follow-on offerings, PIPEs, direct equity offerings, open market transactions, etc.), business model, area of focus, stage of development, etc. in order to achieve a high level of risk diversification. However, subject to the investment restrictions, investments may be weighted to certain indication and/or technologies and in certain geographic markets within Europe. Events that impact a specific investment, a specific sub-sector or a region may have an impact on the Fund's performance. The investment restrictions put an upper limit to the maximum allocation to a single portfolio company. Furthermore the Fund Manager monitors the concentration levels on a daily basis and will rebalance the portfolio if so required. As at 31 December 2016 the 5 single largest holdings account for 39% of the Net Asset Value of the Fund (year-end 2015: 43%).

(iii) Foreign currency risk

The Fund invests in life sciences companies in various countries. The investments may be dominated in currencies other than Euro and the value of these currencies may fluctuate. Thus, investors in principle will be subject to fluctuations in currency exchange rates. These fluctuations may have a positive or a negative effect on the Net Asset Value. The Fund Manager can make use of a range of financial instruments to (partially) hedge the various currency exposures that result from the portfolio investments. During the reporting period the currency risk of the British Pound, Danish Crown, Norwegian Krone and United States Dollar was partially hedged by contrary positions on the respective foreign currency cash accounts.

| Net currency exposure | at 31 December 2016 | | at 31 December 2015 | |
|-----------------------|---------------------|---------|---------------------|---------|
| | in Local Currency | in Euro | in Local Currency | in Euro |
| Danish Crown | 650 | 87 | 15 | 2 |
| British Pound | -63 | -73 | 581 | 789 |
| United States Dollar | -596 | -565 | -2,218 | -2,041 |

(iv) Interest rate risk

The Fund has no significant exposure to interest rate risk, since all cash accounts have floating interest rates and the Fund does not hold any fixed income securities.

Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities – including redemptions of shares – that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund. The Fund Manager actively monitors the maximum possible share redemptions in relation to the Fund's cash position and the level of liquidity of securities in the portfolio and will take corrective action if so required.

Counterparty risk

The Fund can be subject to the risk of the inability or refusal of dealers, brokers, clearing and payment institutions, custodians, principals or other service providers, issuing entities or other counterparties to its transactions to duly and timely perform under such services or transactions. Any such shortcoming, failure or refusal, whether due to insolvency, bankruptcy or other causes, could subject the Fund to substantial losses. The Fund Manager mitigates these risks by reviewing the creditworthiness and reliability of all service providers and counterparties and only enters into transactions with those parties that the Fund believes to be creditworthy and reliable. All cash balances, amounting to Euro 17,041 thousand as at 31 December 2016 (2015: 13,799 thousand), are held with the KAS BANK N.V. Fitch ratings has affirmed KAS BANK N.V.'s (per 16 December 2016) long- and Short-Term Issuer Default Ratings (IDRs) at 'A-' and 'F2', respectively. The outlook on the Long-Term IDR is Stable.

Settlement risk

The Fund can be subject to the risk that settlement through a payment system is unable to take place as expected because payment or delivery of the financial instruments is not on time or does not happen at all. The Fund mitigates this risk by conducting most of its settlements through a broker and ensuring that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Operational risks

Operational risk concerns the risk that the Fund will incur financial losses due to amongst others operational errors, negligence and/or fraud. In general the Fund manages this risk through an adequate administrative organization including segregation of duties and internal controls, which cover these risks.

Preservation risk

To safeguard the assets of the Fund, the Fund uses an independent custodian. Preservation risk is the risk that the assets of the Fund are lost as a result of, among other things, negligence, insolvency or fraudulent actions of the custodian. To monitor and mitigate this risk, the Fund Manager will periodically review the ISAE 3402 Type II report as received from the custodian to assess whether the relevant administrative organization and internal controls are adequate.

Legal and tax compliance risks

Changes in tax legislation in any of the countries in which the Fund has investments, or changes in tax treaties negotiated by those countries, could adversely affect the returns from the Fund to its investors. In the event that the Fund no longer complies with the requirements of a tax-exempt investment fund, the Fund might be subject to Dutch corporate income tax. The Fund Manager, in consultation with its tax and legal advisors, monitors compliance with the relevant rules and regulations.

Transactions with related parties

The Fund Manager, LSP Advisory B.V. qualifies as a related party. In the reporting period the Fund Manager received a management fee of Euro 1,111 thousand (2015: 1,343 thousand). Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price.

Soft dollar arrangements

The Fund will not enter into arrangements with any party regarding kickback payments. Third parties may in relation to the execution of orders by them on behalf of the Fund provide products and services to the Fund manager. During the reporting period the Fund's transactions were conducted under execution-only arrangements with its brokers and the Fund manager has assessed that it received no soft dollar arrangement during 2016 (2015: none).

Interests of the Supervisory Board and Management

The members of the Supervisory Board and Management had no interests in securities held by the Fund's portfolio as at 31 December 2016 (2015: no interests).

The members of the Supervisory Board had no shares in the Fund as at 31 December 2016 (2015: 200 shares).

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 14,575 (2015: 13,355) shares in the Fund. The lock-up period as described in the prospectus of the Fund has expired.

Amsterdam, 31 March 2017

The director

LSP Advisory B.V.

OTHER INFORMATION

Statutory income allocation

According to article 22 of the Articles of Association, the Fund Manager will determine which part of the profit will be retained; the remainder of the profit will be at the disposal of the general meeting of shareholders.

Distributions policy

As the investment objective of the Fund is to achieve capital appreciation, frequent and regular distribution of profits or other net proceeds by the Fund are not intended nor anticipated. All net proceeds will in principle be reinvested and the Fund Manager will exercise its right to add profits of the Fund to the Fund's reserves.

Post-balance sheet events

There were no material post-balance sheet events which have a bearing on the understanding of the financial statements.

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report

To: the General Meeting and the Supervisory Board of LSP Life Sciences Fund N.V.

Report on the audit of the annual financial statements 2016

Our opinion

In our opinion the financial statements give a true and fair view of the financial position of LSP Life Sciences Fund N.V. as at 31 December 2016, and of its result for 2016 in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the requirements set with regard to the financial statements by or pursuant to the Wet op het financieel toezicht (Wft, Act on Financial Supervision).

What we have audited

We have audited the financial statements 2016 of LSP Life Sciences Fund N.V., based in Amsterdam.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2016;
- 2 the profit and loss account for 2016;
- 3 the cash flow statement for 2016; and
- 4 the notes comprising a summary of the significant accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of LSP Life Sciences Fund N.V. in accordance with the Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the Verordening gedrags- en beroepsregels accountants (VGBA, Dutch Code of Ethics).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Unqualified audit opinion



Materiality

- Overall materiality of EUR 600,000 (1% of shareholders' equity)
- Misstatement threshold of EUR 30,000



Key audit matters

- Existence and valuation of investments

Materiality

Based on our professional judgment we determined the materiality for the financial statements as a whole at EUR 600,000 (2015: EUR 950,000). The materiality is determined with reference to total shareholders' equity (2016: 1%; 2015: 1%), as we consider the invested amount by shareholders (equity) most relevant for an investment fund. Value changes are an important part of the total revenue and therefore of the result of an investment fund. Due to the dependency on the value changes both the total revenues and the profit before tax are inherently volatile and therefore less suited as benchmark for determining materiality.

We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

We agreed with the Supervisory Board that misstatements in excess of EUR 30,000, which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds.

Processes performed by service providers

The fund has no employees and its portfolio management, risk management and registration of subscriptions and redemptions are therefore performed by the Director LSP Advisory B.V. The financial and investment administration are performed by Kas Bank N.V. Consequently, the fund is dependent on LSP Advisory B.V. and KAS Bank N.V. for generating financial information and drafting the financial statements. Taking into account our responsibilities for the audit of the financial statements we are responsible for assessing the nature and significance of the services provided by LSP Advisory B.V. and KAS Bank N.V. and its effect on the internal controls relevant to the audit. Based on this assessment we identify the risks of material misstatement and design audit procedures to address these risks.

As part of our audit procedures we rely on the procedures performed by the external auditor of KAS Bank N.V. on the relevant administrative organisation and internal controls of KAS Bank N.V. The outcome of these procedures is included in the ISAE 3402 type II report of KAS Bank N.V. Our audit procedures consisted of determining the minimum expected controls at KAS Bank N.V., and evaluating the controls which are included in the ISAE 3402 type II report, the procedures performed in order to test the effectiveness of those controls and the outcome of these procedures.

Based on the above procedures performed over these processes and additional work performed by us, we have collected sufficient appropriate audit evidence in relation to the fund's investments and investment income in order to opine on the financial statements.

Our key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements. We have communicated the key audit matter to the Supervisory Board. The key audit matter is not a comprehensive reflection of all matters discussed.

This matter was addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Existence and valuation of investments

Description

The investments of the fund comprise 71% of the balance sheet total. These investment are valued at fair value based on market information. Therefore, the valuation of the investments has a significant impact on the financial results of the fund. The determination of the fair value is disclosed on page 15. We assess the risk of a material misstatement in the valuation of the investments as low due to the fact that the portfolio consists of liquid, listed investments which are traded on an active market. Due to the amount of the investments in relation to the financial statements as a whole we identify the existence and



Existence and valuation of investments

valuation of investments as a key audit matter.

Our response

Our audit procedures consisted of the following:

- determining the existence of the investments by custodian confirmation.
- determining that the used price is based on the method which is defined for the relevant investment category. We performed this procedure by comparing the used valuations of the investments with our independent valuation which is based on observable market prices. In performing these procedures we have used our valuation specialists.

Furthermore we evaluated the disclosure in the financial statements on page 17 and 18.



Our observation

Based on our procedures we conclude that the investments exist and that the Director's valuation of the investments resulted in an acceptable valuation of the investments in the financial statements.



Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- the director's report;
- the supervisory board report;
- the key figures; and
- other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Based on the below procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information as required by Part 9 of Book 2 of the Netherlands Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Netherlands Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Director is responsible for the preparation of the other information, including the director's report in accordance with Part 9 of Book 2 of the Netherlands Civil Code and other information pursuant to Part 9 of Book 2 of the Netherlands Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting as auditor of LSP Life Sciences Fund N.V. as of the audit for year 2011 and have operated as statutory auditor since then. On 24 May 2016, we have been reappointed by the General Meeting to audit the financial statements 2016.

Description of the responsibilities for the financial statements

Responsibilities of the Director and Supervisory Board for the financial statements

The Director is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the requirements set with regard to the financial statements by or pursuant to the Wft. Furthermore, the Director is responsible for such internal control as the Director determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud.



As part of the preparation of the financial statements, the Director is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Director should prepare the financial statements using the going concern basis of accounting unless the Director either intends to liquidate the company or to cease operations, or has no realistic alternative but to do so. The Director should disclose events and circumstances that may cast significant doubt on the company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the company's financial reporting process.

Our responsibilities for the audit of financial statements

Our objective is to plan and perform the audit to obtain sufficient and appropriate audit evidence for our opinion. Our audit has been performed with a high, but not absolute, level of assurance, which means we may not have detected all material errors and fraud during the audit.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

For a further description of our responsibilities in respect of an audit of financial statements we refer to the website of the professional body for accountants in the Netherlands (NBA) https://www.nba.nl/Documents/Tools%20Vaktechniek/Standaardpassages/Standaardpassage_nieuwe_controletekst_oob_variant_%20Engels.docx

Amsterdam, 31 March 2017

KPMG Accountants N.V.

W.L.L. Paulissen RA

STATEMENT OF THE DEPOSITARY

Considering that

- KAS Trust & Depositary Services B.V. (“the depositary”) is appointed to act as depositary of **LSP Life Sciences Fund N.V.** (“the fund”) in accordance with section 21(1) of the Alternative Investment Fund Managers Directive (2011/61/EU) (the “AIFM Directive”);
- Such appointment and the mutual rights and obligations of the fund manager and the depositary of the fund have been agreed upon in the depositary agreement dated 22 July 2014 between such parties, including the schedules to that agreement (the “depositary agreement”);
- The depositary issues this statement exclusively to the fund manager in relation to the activities of the fund manager and relates to the period 1 January up to and including 31 December 2016, (“the reporting period”).

Responsibilities of the depositary

The depositary acts as a depositary within the meaning of the AIFM Directive and provide its services in accordance with the AIFM Directive, the EU implementing regulation, applicable Dutch laws and regulations and the policy rules issued by the European Securities and Markets Authority and the Netherlands Authority for the Financial Markets (the “regulations”). The responsibilities of the depositary have been described in the depositary agreement and include, in addition to the safekeeping, recordkeeping and ownership verification tasks (as defined in article 21(8) AIFM Directive), several monitoring and oversight tasks (as defined in article 21(7) and 21(9) AIFM Directive):

- Monitoring of the fund’s cash flows, including identification of significant and inconsistent cash flows and reconciliation of the cash flows with the fund’s administration;
- Ensuring that the sale, issue, re-purchase, redemption, cancellation and valuation of units or shares of the fund are carried out in accordance with the applicable national law and the fund documentation;
- Ensuring that in transactions involving the fund’s assets any consideration is remitted to the fund within the usual time limits;
- Ensuring that the fund’s income is applied in accordance with the applicable national law and the fund documents;
- Monitoring whether the fund is managed in compliance with the investment restrictions and leverage limits as defined in the fund documentation.

Statement of the Depositary

The depositary has carried out such activities during the reporting period as considered necessary to fulfil its responsibilities as depositary of the fund. The depositary is of the opinion that, based on the information made available to it and the explanations provided by the fund manager, in all material respects, the fund manager has carried out its activities which are in scope of the monitoring and oversight duties of the depositary, in accordance with the regulations and the fund documentation.

Miscellaneous

This statement does not create, and is not intended to create, any right for a person or an entity that is not a party to the depositary agreement.

Amsterdam, 31 March 2017

KAS Trust & Depositary Services B.V.