



LSP Life Sciences Fund N.V.

Annual Report 2011

LSP
Life Sciences Partners

LSP LIFE SCIENCES FUND N.V.

Annual Report

for the period 18 April – 31 December 2011

Visiting address

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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 1 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 Management 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 Muijers 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, the supervisory body in the Netherlands, on 12 April 2011.

The Supervisory Board of the Fund currently comprises of two members, 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.

DIRECTORS' REPORT

Investment Performance

Following the successful launch of the Fund in April 2011, we have been executing on the Fund's investment strategy. We have analysed, monitored and performed due diligence on a large number of small- and midcap European life sciences companies, the core investment focus of the fund. During the period May to December 2011, we have invested in a relatively small number of such companies and have thus built up a concentrated portfolio of investments, averaging some 15 names. As at 31 December 2011 the portfolio amounts to Euro 29,736 thousand and consists exclusively of 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 2011 were in the area of drug development, combined with investments in innovative diagnostics, medical devices, vaccines, drug delivery technologies, contract research organizations and specialty pharma companies. Equity stakes were all 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 vast majority of the investments were in European companies. Crucially, the Fund takes a long term view and bottom-up approach. The Fund applies a fundamental, highly intensive diligence process to any potential investee company, with the aim of achieving long term value growth. The Fund took a pro-active investment approach, which included visits to (potential) investee companies, continuous interactions with their senior managers and executives and thorough analyses of their businesses, both before and after investing. Investment cases were typically built around expected news flow (for instance the announcement of a corporate partnership, an M&A transaction or clinical data), in the near to medium term. The Fund already benefited from some value increases that frequently accompany the announcement of such milestones, although the more significant milestones that the Fund expects, should have an effect in 2012 and beyond. In the second half of 2011, the Fund's performance was impacted by the general market downturn associated with the sovereign debt and Eurozone crises. Unfortunately, a general flight to low risk asset classes has hit the general equities sector, in particular in Europe and in particular in the higher risk segments within equities, such as the small- and midcap life sciences segment. As a result, the fund hit a low in November 2011, whereas the companies in the portfolio of the fund were sound from a fundamental point of view.

The Fund recorded a loss for the year of Euro 6,262 thousand. The Net Asset Value per share moved from its issue price of Euro 100.00 to Euro 83.99 (minus 16.0%) as at 31 December 2011. 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.

Outlook

We expect an improvement in the general market conditions in (early) 2012, which should have a positive impact on the Fund, making up for (some of) the losses incurred in the second half of 2011. The Fund Manager believes there is substantial upward potential in the LSP Life Sciences Fund, with significant milestones and news flow expected from its portfolio companies in the coming year. The Fund will continue to selectively add and dispose of companies in line with its investment strategy.

Fund's risk management

The Fund has established a risk management function that monitors the risks, among other things, on the basis of periodic reports from the fund administrator and the other service providers. Reference is made to pages 19 - 22 of the financial statements for a more detailed description.

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 way 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 the year 2011 the Fund Manager has exercised its voting rights on one occasion.

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 work 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 was 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 2011 have been prepared in accordance with the statutory provisions of Part 9, Book 2 of the Netherlands Civil Code as well as the Guidelines for Annual Reporting issued by the Dutch Accounting Standards Board 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 2011 and of its result for the year 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 accurate disclosure of the principal transactions with related parties.

The director

LSP Advisory B.V.

Mark Wegter

Joep Muijters

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 2011, the Supervisory Board held 4 meetings together with the directors of the Fund Manager. All meetings had full attendance of the individual members. 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. 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.

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)

Tom van Wijngaarden

BALANCE SHEET on 31 December 2011

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

	Note	31 December 2011
Assets		
Investments		
Investments in securities	1	29,736
Other assets		
Intangible assets	2	156
Cash accounts		3,135
		3,291
Total Assets		33,027
Liabilities and shareholders' equity		
Shareholders' equity		
Issued share capital	3	391
Share premium		38,727
Legal and statutory reserve		156
Other reserves		-156
Unappropriated result		-6,262
		32,856
Current liabilities		
Creditors and accrued expenses	4	171
Total Liabilities and shareholders' equity		33,027
Net Asset Value per share		83.99

PROFIT AND LOSS ACCOUNT for the period 18 April – 31 December 2011

(in thousands of Euro's)

	Note	18 April 2011 - 31 December 2011
Income from investments		
Dividends on securities		28
Realized movements in investments and other assets		
Securities		365
Unrealized movements in investments and other assets		
Securities		-5,091
Currency results on cash accounts	5	-957
		-6,048
Expenses		
Administration expenses	6	518
Other operating expenses	7	39
Interest expenses on cash accounts		50
		607
Result for the period		-6,262

CASH FLOW STATEMENT for the period 18 April - 31 December 2011

(in thousands of Euro's)

18 April 2011 - 31 December 2011**Cash flows from investment activities**

Net result	-6,262
Realized movements in investments and other assets	-365
Unrealized movements in investments and other assets	6,048
Purchases of securities	-42,351
Sales of securities	7,889
Change in intangible assets	-156
Change in current liabilities	171
	<u>-35,026</u>

Cash flows from financial activities

Issue of shares	39,497
Redemption of shares	<u>-379</u>
Total cash flows from financial activities	39,118

Currency results on cash accounts	-957
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Net increase for the period	3,135
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Opening balance	-
Closing balance	<u>3,135</u>
	3,135

SELECTED NOTES TO THE FUND'S 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

This annual report relates to the period 18 April - 31 December 2011. 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.

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 2011, in Euro	
Danish crown	0.13455
British pound	1.19717
Swedish krona	0.11237
United States dollar	0.77036

Investments

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.

Intangible assets

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

Share premium account

This reserve originates from the issue and from the redemption of shares.

Other assets and liabilities

Cash accounts and liabilities are shown at their nominal value.

Profit and Loss account

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

Income

Dividends are recognised on an ex-dividend date basis. 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

Administrative 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

31 December 2011

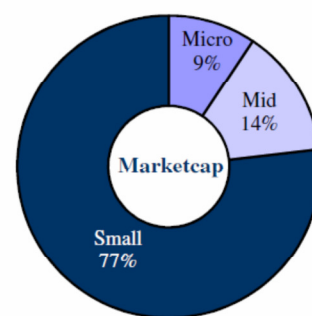
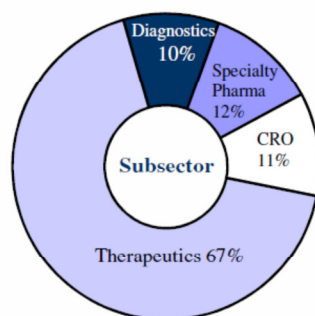
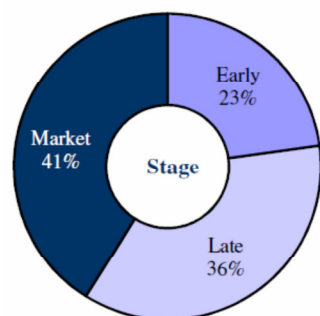
1. Investments

The changes in securities are shown below:

Equity

Market value at 18 April 2011	-
Purchases	42,351
Sales	-7,889
Unrealized movements in investments	-5,091
Realized movements in investments	365
Market value at 31 December 2011	29,736

All the securities are listed. The Fund's investments are classified according to stage, subsector and market capitalization. The breakdown of the Fund's portfolio per 31 December 2011 is shown below.



Stage at 31 December 2011	
Early Stage	23%
Late Stage	36%
Market	41%

Subsector at 31 December 2011	
Therapeutics	67%
Specialty Pharma	12%
CRO	11%
Diagnostics	10%

Marketcap at 31 December 2011	
Microcap	9%
Smallcap	77%
Midcap	14%

2. Other assets

Intangible assets

Establishment expenses	195
Depreciation	-39
Value at 31 December 2011	156

The intangible assets consists of the establishment expenses of the Fund that are capitalized at the level of the Fund and are amortized over a period of 5 years. Included in the establishment expenses are legal, accounting and tax advisory costs, incorporation expenses and travel costs.

Cash accounts

The cash at banks are held with KAS BANK N.V. and are available on demand.

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 2011 amounts to 391,168.

31 December 2011

Issued share capital

Balance at 18 April 2011	-
Issue of shares	395
Redemption of shares	-4
Balance at 31 December 2011	391

Share premium

Balance at 18 April 2011	-
Issue of shares	39,102
Redemption of shares	-375
Balance at 31 December 2011	38,727

Number of issued shares

Balance at 18 April 2011	-
Issued	395,348
Redemption	-4,180
Balance at 31 December 2011	391,168

Net Asset Value	32,856
Number of shares	391,168
Net Asset Value per share	83.99

31 December 2011

Legal and statutory reserve

Balance at 18 April 2011	-
Intangible assets (establishment expenses)	156
Balance at 31 December 2011	156

Other reserves

Balance at 18 April 2011	
Intangible assets (establishment expenses)	-156
Balance at 31 December 2011	-156

Unappropriated result

Balance at 18 April 2011	-
Result for the period	-6,262
Balance at 31 December 2011	-6,262

4. Current liabilities**Creditors and accrued expenses**

Interest	23
Fund operational costs	95
Establishment expenses	12
Management fee	41
	171

The creditors and accrued expenses are payable within one year.

Fund operational costs

Fund administration fee	20
Custody fees	16
Remuneration of the Supervisory Board	20
Auditor's remuneration	17
Membership costs	8
Governance costs	5
Advisory costs	5
Other costs	4
	95

Notes to the Profit and Loss account

5. 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 loss of Euro 957 thousand, whilst the realized and unrealized currency result of the investments amounted to a profit of Euro 735 thousand. The net currency result of the Fund thus amounted to a loss of Euro 222 thousand and the corresponding effective hedge ratio was 77%.

6. Administration expenses

Fund operational costs	152
Management fee	366
	518
Fund operational costs	
Fund administration fee	64
Custody fees	29
Remuneration of the Supervisory Board	20
Auditor's remuneration	17
Membership costs	8
Governance costs	5
Advisory costs	5
Other costs	4
	152

The auditor's remuneration amounts to Euro 17 thousand in respect of the audit of these financial statements.

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.

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 accrued during each year, adjusted for the direct effect on the Net Asset Value of subscriptions and redemptions of shares and distributions effected during the year concerned, 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 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 initial issue price of Euro 100.00 per share, plus the 8% hurdle since inception amounted to Euro 105.44 at 31 December 2011. As the Net Asset Value per share per year-end was below this threshold amount, there is no Performance Fee payable for the period.

7. Other operating expenses

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 in accordance with the applicable provisions of Dutch GAAP.

Comparison total expenses with expenses mentioned in the prospectus.

	Actual costs	Prospectus
Fund operational costs	152	133
Management fee	366	368
Establishment expenses	39	35
	557	536

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 calculated as follows ($\frac{1}{2} \times \text{NAV 30 April} + 1 \times \text{NAV 30 June} + 1 \times \text{NAV 30 September} + \frac{1}{2} \times \text{NAV 31 December 2011}$) divided by 3. The portfolio turnover ratio for 2011 amounts to 29%.

Total Expense Ratio

The total expense ratio (TER) 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 average Net Asset Value is calculated as follows ($\frac{1}{2} \times \text{NAV 30 April} + 1 \times \text{NAV 30 June} + 1 \times \text{NAV 30 September} + \frac{1}{2} \times \text{NAV 31 December 2011}$) divided by 3. The resulting TER for 2011 is 1.5%.

Remuneration of the Supervisory Board

The total of remuneration for the members of the Supervisory Board for the period amounts to Euro 20 thousand. Below table shows the remuneration for each individual Supervisory Board member.

Supervisory Board member	Remuneration
Pauline Bieringa	10
Tom van Wijngaarden	10

Personnel

The Fund did not employ any personnel.

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

The Fund Manager monitors the risks, among other things, on the basis of periodic reports from the fund administrator and the other service providers.

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 could be subject to wide fluctuations in response to a variety of factors, including the following:

- General market fluctuations;
- 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 2011 the 5 single largest holdings account for 44% of the Net Asset Value of the Fund.

(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 Danish crown, British pound, Swedish krona and United States dollar was partially hedged by contrary positions on the respective foreign currency cash accounts.

Net currency exposure at 31 December 2011	in Local Currency	in Euro
Danish crown	-4,455	-599
British pound	-78	-94
Swedish krona	-19,531	-2,195
United States dollar	-2,352	-1,812

(iv) Interest rate risk

Changes in interest rates can affect the Fund's profitability by affecting the expense of its interest-bearing liabilities, if any. Interest rates are highly sensitive to many factors, including governmental, monetary and tax policies, domestic and international economic and political considerations, fiscal deficits, trade surpluses or deficits, regulatory requirements and other factors beyond the control of the Fund. The Fund has no significant exposure to interest rate risk, since all cash accounts have floating interest rates.

Credit 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. In addition all securities transactions are settled as either receipt or delivery versus payment which further reduces the credit risk. All cash balances, amounting to Euro 3,135 as at 31 December 2011, are held with the KAS BANK N.V. which is rated by Standard & Poor's as long term A- and short term A-2.

Settlement risk

The Fund can be subject to the risk of 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. For all of its transactions the Fund mitigates this risk by conducting settlements through a broker to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

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.

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 366 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 2011.

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 2011.

The members of the Supervisory Board did not hold any shares in the Fund as at 31 December 2011.

Employees of the Fund Manager, LSP or its affiliates participate in the Fund against a market price. These persons own in aggregate 14,545 shares in the Fund and are subject to a lock-up period as described in the prospectus of the Fund.

Amsterdam, 13 March 2012

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

To: The general meeting of shareholders of LSP Life Sciences Fund N.V.

Report on the financial statements

We have audited the accompanying financial statements 2011 of LSP Life Sciences Fund N.V., Amsterdam, which comprise the balance sheet as at 31 December 2011, the profit and loss account for the period 18 April 2011 to 31 December 2011 and the notes, comprising a summary of the accounting policies and other explanatory information.

Management's responsibility

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the Directors' report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act (Wet op het financieel toezicht). Furthermore, management is responsible for such internal control as it determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 2011 and of its result for the period 18 April 2011 to 31 December 2011 in accordance with Part 9 of Book 2 of the Netherlands Civil Code and the Financial Supervision Act.

Report on other legal and regulatory requirements

Pursuant to the legal requirements under Section 2:393 sub 5 at e and f of the Netherlands Civil Code, we have no deficiencies to report as a result of our examination whether the Directors' report, to the extent we can assess, has been prepared in accordance with Part 9 of Book 2 of this Code, and if the information as required under Section 2:392 sub 1 at b - h has been annexed. Further, we report that the Directors' report, to the extent we can assess, is consistent with the financial statements as required by Section 2:391 sub 4 of the Netherlands Civil Code.

De Meern, 13 March 2012

KPMG ACCOUNTANTS N.V.

W.L.L. Paulissen RA