



LSP Advisory B.V.

Annual Report 2016

LSP
Life Sciences Partners

Document to which the KPMG report (1241966/17W00150826AVN) dated 28 April 2017 also refers.

Table of contents

Financial report

Directors' report	2
Balance sheet as at 31 December 2016	5
Profit and loss account for the year 2016	6
Notes	7
Other information	16
Independent auditor's report	17

Directors' report

General

LSP Advisory B.V. was incorporated on 3 March 2008 as asset manager focussing on investments in publicly listed life sciences companies. It currently manages the Euronext listed LSP Life Sciences Fund N.V. (the Fund). During the reporting period the Assets under Management of this fund have decreased from € 95.0 million to € 59.8 million, a 37% decrease.

LSP Advisory B.V. has its statutory seat at Johannes Vermeerplein 9, Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 34296447.

Governance

LSP Advisory B.V. is a wholly owned subsidiary of LSP Advisory Group B.V. It 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. With the Alternative Investment Fund Managers Directive (AIFMD) that came into force on 22 July 2014, this license has been converted into an AIFM license by legislative decree.

The Supervisory Board of LSP Advisory B.V. currently comprises of one member. The principal duties and responsibilities of the Supervisory Board include (i) the supervision of the management of LSP Advisory B.V. as well as to supervise the general course of affairs of LSP Advisory B.V., and (ii) resolving any conflict of interest situation LSP Advisory B.V. is involved in.

Key Financial Data

In 2016 LSP Advisory B.V. had revenues amounting to € 1.1 million compared to € 4.3 million in the prior year. This revenue consists of € 1.1 million management fee (2015: 1.1 million) and no performance fee (2015: 3.1 million) and no other income (2015: 0.1 million). Operating expenses for the year amount to € 1.4 million (2015: 2.0 million) and the corporate income tax charge totals minus € 0.1 million (2015: 0.6 million), resulting in a net loss for the period of € 0.3 million (2015: net income of 1.8 million). Per year end 2016 the shareholders' equity amounted € 0.5 million (2015: 2.4 million) which is well above the solvency requirement as included in the AIFMD. Current assets less current liabilities as of 31 December 2016 amounted to € 0.5 million (2015: 2.4 million).

Risk management

LSP Advisory has established and maintains a permanent risk management function that implements effective risk management policies and procedures in order to identify, measure, manage and monitor on an ongoing basis all relevant risks.

The risk management function is functionally and hierarchically separated from the investment management function. The risk manager has a dotted line to the Supervisory Board and participates in the Supervisory Board meetings. The risk management function is also subject to the independent review of the Supervisory Board to ensure that decisions are being arrived at independently. The risks of LSP Advisory B.V. itself are mainly related to:

- Market risks
- Credit risk
- Operational risks, including regulatory compliance risk

LSP Advisory B.V. is exposed to market risk as the management fee is linked to the Assets under Management (AuM). In turn this AuM fluctuates with market movements. Also the performance fee is influenced by market movements as well as investment performance. Credit risk mainly relates to the solvency and liquidity of the investment fund(s) from which LSP Advisory B.V. receives its fees. Operational risks relate mainly to people, e.g. skill and retention of key investment personnel, IT systems and regulatory compliance risk.

Personnel

During the year LSP Advisory B.V. no changes occurred to the composition and number of staff members.

Investments and financing

LSP Advisory B.V. will continue to invest make additional investments in its IT infrastructure in order to further improve the trade execution capabilities, risk management and data analytics and fundraising capability. The company is completely financed with equity and it is expected to remain that way for the next couple of years. Aforementioned investments will be financed out of retained earnings.

Administrative organization and internal controls

LSP Advisory B.V. has 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 LSP Advisory B.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 Directors of LSP Advisory B.V. confirm to the best of their 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 and give a true and fair view of the assets, liabilities and financial position of LSP Advisory B.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 company 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.

Recent developments

Since the beginning of 2017 up until the date of these annual accounts, the Assets under Management have increased to € 64.5 million (plus 8%), mainly as a result of investment performance.

Outlook

For the year 2017, LSP Advisory B.V. expects to grow its Assets under Management, in line with the ambition to become a sizable player in its market. It is expected that this growth comes from a combination of investment performance as well as through subscription by new investors.

LSP Advisory B.V.

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

Balance sheet as at 31 December 2016

(before proposed appropriation of result)

Assets			31 December 2016	31 December 2015
(in Euro)				
Current assets				
Receivables from group companies		-		14,892
Taxes and social security premiums	1	361,985		-
Other receivables	2	612,803		3,714,578
Cash and cash equivalents	3	<u>400,942</u>		<u>629,570</u>
			1,375,730	4,359,040
			<u>1,375,730</u>	<u>4,359,040</u>

Liabilities			31 December 2016	31 December 2015
(in Euro)				
Equity				
	4			
Issued capital		18,000		18,000
Share premium		82,000		82,000
General reserve		700,124		563,213
Result for the year		<u>(286,083)</u>		<u>1,766,037</u>
			514,041	2,429,250
Current liabilities				
Payable to group companies	5	47,032		47,032
Taxes and social security premiums	6	11,940		579,003
Other liabilities	7	<u>802,717</u>		<u>1,303,755</u>
			861,689	1,929,790
			<u>1,375,030</u>	<u>4,359,040</u>

Profit and loss account for the year 2016

		2016	2015
(in Euro)			
Management fee	8	1,061,572	1,127,877
Performance fee		-	3,103,097
Other income		-	100,000
Operating income		1,061,572	4,330,974
Staff expenses	9	908,639	1,505,640
Other operating expenses	10	455,120	439,079
Depreciation tangible fixed assets		-	1,823
Service fee	11	51,300	43,050
Operating expenses		1,415,059	1,989,592
Operating income (loss)		(353,487)	2,341,382
Interest income and similar proceeds		(27,258)	-
Financial result		(27,258)	-
Income before tax		(380,745)	2,341,382
Corporate income tax	12	(94,662)	575,345
Net income (loss) for the year		(286,083)	1,766,037

Notes

General

LSP Advisory B.V. is a private limited liability company established under the laws of the Netherlands on 3 March 2008. LSP Advisory B.V. has its statutory seat at Johannes Vermeerplein 9, Amsterdam, the Netherlands and is registered at the Trade Register of the Chamber of Commerce in Amsterdam under file number 34296447. Its primary activities consist of managing investment funds and mandates in the healthcare sector.

Principles of accounting

Basis of preparation

The accompanying financial statements have been prepared in accordance with Title 9, Book 2 of the Netherlands Civil code and the Generally Accepted Accounting Principles in the Netherlands. In view of the size of the company, the exemption provided for in article 396, Title 9, Book 2 of the Netherlands Civil code (small company) has been applied.

Going concern

These financial statements have been prepared on the basis of the going concern assumption.

General

An asset is disclosed in the balance sheet when it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably. A liability is recognised in the balance sheet when it is expected to result in an outflow from the entity of resources embodying economic benefits and the amount of the obligation can be measured with sufficient reliability.

Income is recognised in the profit and loss account when an increase in future economic potential related to an increase in an asset or a decrease of a liability has arisen, the size of which can be measured reliably. Expenses are recognised when a decrease in the economic potential related to a decrease in an asset or an increase of a liability has arisen, the size of which can be measured with sufficient reliability.

If a transaction results in a transfer of future economic benefits and or when all risks relating to assets or liabilities to a third party, the asset or liability is no longer included in the balance sheet. Assets and liabilities are not included in the balance sheet if economic benefits are not probable and/or cannot be measured with sufficient reliability.

Income and expenses are allocated to the financial year to which they relate.

All amounts are in Euro (€), the company's functional currency, unless otherwise stated.

Using estimates and judgments

The preparation of the financial statements requires that management make judgements and use estimates and assumptions that affect the application of the accounting principles and the reported value of the assets and liabilities and the income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are continually reviewed. Revised estimates are incorporated in the period in which the estimate is revised and in future periods for which the revision has consequences.

Foreign exchange translation

Transactions denominated in foreign currency are translated into the relevant functional currency of the company at the exchange rate applying on the transaction date. Monetary assets and liabilities denominated in foreign currency are translated at the balance sheet date into to the functional currency at the exchange rate applying on that date. Translation gains and losses are taken to the profit and loss account as expenditure.

Non-monetary assets and liabilities in foreign currency that are stated at historical cost are translated into euros at the applicable exchange rates applying on the transaction date. Non-monetary assets and liabilities in foreign currency that are stated at present value are translated into euros at the applicable exchange rates at the moment the present value is determined. Translation gains and losses are taken directly to equity as part of the revaluation reserve.

Financial instruments

Financial instruments include investments in shares and bonds, trade and other receivables, cash items, loans and other financing commitments, derivative financial instruments, trade payables and other amounts payable. These financial statements contain the following financial instruments: receivables and financial liabilities.

Financial instruments are initially stated at fair value, including discount or premium and directly attributable transaction costs. However, if financial instruments are subsequently measured at fair value through profit and loss, then directly attributable transaction costs are directly recognised in the profit and loss account at the initial recognition.

After initial recognition, financial instruments are valued in the manner described below.

Other receivables

Other receivables are carried at amortised cost on the basis of the effective interest method, less impairment losses.

Equity

Financial instruments taking the legal form of shareholders' equity instruments are presented under shareholders' equity. Distributions to the holders of these instruments are deducted from shareholders' equity.

Current liabilities

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

Taxes

Taxes are calculated on the result, taking into account existing tax facilities.

Balance sheet as at 31 December 2016

Current Assets

1. Taxes and social security premiums

Taxes and social security premiums consist of a receivable for corporate income tax for the year 2014/2015.

2. Other receivables

Other receivables consist of a receivable from BioCapital Investments Cayman Ltd. of € 41 thousand, a receivable from Capital Alliance Partners of € 55 thousand, management fee of € 78 thousand regarding December 2016 from LSP Life Sciences Fund N.V. as well as a receivable from LSP Management Group B.V. of € 189 thousand and a receivable from LSP Bioventures Management B.V. of € 250 thousand. All these receivables are due within one year.

3. Cash and cash equivalents

Cash and cash equivalents consist of cash at banks with ING Bank in Amsterdam. All cash and cash equivalents are available on demand.

4. Equity

(in Euro)	Issued capital	Share premium	General reserve	Result for the year	Total
Balance as at 31 December 2014	18,000	82,000	446,836	2,629,102	3,175,938
Changes during the year					
Transfer of result to reserve			2,629,102	(2,629,102)	-
Dividend			(2,512,725)		(2,512,725)
Result for the year				1,766,037	1,766,037
Balance as at 31 December 2015	18,000	82,000	563,213	1,766,037	2,429,250
Changes during the year					
Transfer of result to reserve			1,766,037	(1,766,037)	-
Dividend			(1,629,126)		(1,629,126)
Result for the year				(286,083)	(286,083)
Balance as at 31 December 2016	18,000	82,000	700,124	(286,083)	514,041

In the year 2016 the company paid a dividend of € 1.6 million to its (sole) shareholder. The year before a dividend in the amount of € 2.5 million was paid to its shareholder.

Issued capital

The authorised capital of the company amounts to € 90,000, divided in 90,000 common shares, with a par value of € 1.00, of which 18,000 shares have been issued and fully paid.

Appropriation of profit

The management proposes to deduct the net loss for the year 2016 from the general reserve. This proposal has not been included in the financial statements.

Current liabilities**5. Payables to group companies**

The payables to group companies consist of a payable to LSP Advisory Group B.V. of € 47 thousand which is due within one year.

6. Taxes and social security premiums

Taxes and social security premiums consist of VAT payable for the fourth quarter of 2016 of € 12 thousand. This liability is due within one year.

7. Other liabilities

Other liabilities consist of various expenses made in 2016, which will be paid in 2017 for an amount of € 0.3 million as well as a payable to LSP Operations B.V. of € 0.4 million and a payable to LSP Bioventures Inc. of € 0.1 million. All these liabilities are due within one year.

Income Statement for the year 2016

8. Management fee

LSP Advisory B.V. has concluded an investment management agreement with LSP Life Sciences Fund N.V. pursuant to which LSP Advisory B.V. is entitled to receive a management fee 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.

In addition LSP Advisory B.V. has concluded an investment management agreement with BioCapital Investments Cayman Ltd. pursuant to which LSP Advisory B.V. is entitled to receive a management fee equal to 1.5% per annum of the Net Asset Value of the respective mandate.

The aggregate management fee for the year 2016 amounts to € 1.1 million (2015: 1.1 million).

9. Staff expenses

(in Euro)	2016	2015
Gross wages and salaries	727,651	642,186
Social security charges	65,781	44,092
Pension insurance	98,552	93,613
Performance based remuneration	8,500	716,816
Other staff expenses	8,155	8,933
Total staff expenses	908,639	1,505,640
FTE at year end	3.7	3.7

As part of the AIFMD implementation, the Investment Managers and the Risk Manager have been seconded to LSP Advisory B.V. as of 1 July 2014. As part of this secondment agreement LSP Operations B.V. charges the fully loaded personnel expenses to LSP Advisory B.V.

LSP Advisory B.V. 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 company 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 Funds under management.

During the year 2016 the LSP Advisory B.V. 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 9 thousand (2015: 0.7 million) was variable.

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

2016 (in Euro)	Beneficiaries	Fixed remuneration	Variable remuneration	Total remuneration
Directors	3	768,435	-	768,435
Identified staff	1	23,099	-	23,099
Other employees	1	108,605	8,500	117,105
Total	5	900,139	8,500	908,639

2015 (in Euro)	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

10. Other operating expenses

(in Euro)	2016	2015
Advisory costs	158,423	83,126
Supervisory board remuneration	12,100	14,200
Travel, meeting and representation expenses	60,435	85,811
Performance based compensation	-	214,114
Other costs	251,120	41,828
Total other operating expenses	482,078	439,079

Performance based compensation relates to a discretionary pay out to certain key employees of LSP in recognition for their expertise and research into the various life sciences domains. Staff members who are seconded to LSP Advisory B.V. are not considered for this performance based compensation; instead their variable remuneration is included in the staff expenses as described in note 9.

11. Service fee

(in Euro)	2016	2015
Service fee LSP Operations B.V.	51,300	43,050

From 1 July 2014 onwards LSP Operations B.V. charges a service fee at arm's length conditions to LSP Advisory B.V. for financial and legal services, office automation, service provider management and housing costs. For the year 2016 the total fee charged amounted to € 51 thousand (2015: € 43 thousand).

12. Corporate income tax

The negative income before tax of the year 2016 makes that LSP Advisory B.V. will receive a refund for taxes paid in the prior year in the amount of € 95 thousand.

Related party transactions

LSP Operations B.V. on charges third party expenses to LSP Advisory B.V. for travel costs, office expenses and marketing costs paid. For 2016 the total amount charged is € 78 thousand. Furthermore as detailed in notes 9 and 11, LSP Operations B.V. has charged LSP Advisory B.V. under the secondment agreement and the services agreement.

Post-balance sheet events

Management is not aware of any events that took place after balance sheet date that could have a material effect on the financial position of the Company.

Amsterdam, 28 April 2017

As Statutory Directors

Mark Wegter

Joep Muijers

Geraldine O'Keeffe

As Supervisory Board member

Maarten Scholten

Other information

Statutory regulations as to appropriation of profit

According to Article 21 of the Articles of Association, profit as evidenced by the adopted financial statements shall be at the disposal of the General Meeting of Shareholders.

The company may only make payments from the distributable profit to the shareholders and other parties having a profit entitlement in so far as its shareholders' equity exceeds the value of the paid-in portion of the capital augmented by such reserves as required to be maintained, either by law or, in so far as applicable, pursuant to these Articles of Association.

Independent auditor's report

The independent auditor's report is included on the next pages.



Independent auditor's report

To: the General Meeting and the Supervisory Board of LSP Advisory B.V.

Report on the accompanying financial statements

Our opinion

We have audited the financial statements 2016 of LSP Advisory B.V., based in Amsterdam.

In our opinion the accompanying financial statements give a true and fair view of the financial position of LSP Advisory B.V. as at 31 December 2016, and of its result 2016 in accordance with Part 9 of Book 2 of the Dutch Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act.

The financial statements comprise:

- 1 the balance sheet as at 31 December 2016;
- 2 the profit and loss account 2016; and
- 3 the notes comprising a summary of the 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 Advisory B.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.

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:

- directors' report;
- other information pursuant to Part 9 of Book 2 of the Dutch Civil Code;

Based on the following 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 Dutch 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 Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is less than the scope of those performed in our audit of the financial statements.

Management is responsible for the preparation of the other information, including the management board's report in accordance with Part 9 of Book 2 of the Dutch Civil Code and other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Description of the responsibilities for the financial statements

Responsibilities of management and the Supervisory Board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Part 9 of Book 2 of the Dutch Civil Code and the requirements set with regard to the financial statements by or pursuant to the Dutch Financial Supervision Act. Furthermore, management is responsible for such internal control as management 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, management is responsible for assessing the company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, management should prepare the financial statements using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. Management 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 the financial statements

Our objective is to plan and perform the audit assignment in a manner that allows us 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 our audit.

Misstatements can arise from fraud or errors and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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.

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements.

Our audit included e.g.:

- identifying and assessing the risks of material misstatement of the financial statements, whether due to errors or fraud, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from errors, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- concluding on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company ceasing to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Amstelveen, 28 April 2017

KPMG Accountants N.V.



W.L.L. Paulissen RA