

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

Commission file number 001-37437

XBIOTECH INC.

(Exact name of Registrant as specified in its charter)

British Columbia, Canada

(State or other jurisdiction of incorporation or organization)

N/A

(IRS Employer Identification No.)

**8201 E. Riverside Drive, Bldg. 4, Suite 100
Austin TX 78744**

(Address of principal executive offices, including zip code)

Telephone Number (512) 386-2900

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Common Stock, par value \$0.0001 per share

Name of each exchange on which registered

NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of December 31, 2017, was approximately \$139,630,732, based upon the closing sales price for the registrant's common stock, as reported on the NASDAQ Global Market. The calculation of the aggregate market value of voting and non-voting common equity excludes 10,387,160 shares of common stock the registrant held by executive officers, directors and shareholders that the registrant concluded were affiliates of the registrant on that date. Exclusion of such shares should not be construed to indicate that any such person possesses the power, direct or indirect, to direct or cause the direction of management or policies of the registrant or that such person is controlled by or under common control with the registrant.

As of March 15, 2018, 35,439,272 shares of the registrant's Common Stock were outstanding.

EXPLANATORY NOTE

This Amendment No. 2 on Form 10-K/A ("Amendment") to the Annual Report on Form 10-K of XBiotech Inc. (the "Company") for the fiscal year ended December 31, 2017 (the "Form 10-K"), originally filed with the Securities and Exchange Commission (the "SEC") on March 16, 2018, is being filed for the sole purpose of including language from the introductory portion of paragraph 4 as well as paragraph 4(b) of the Section 302 certification regarding the Company's internal control over financial reporting.

Other than as expressly set forth above, no changes have been made in this Amendment to amend, modify or restate any other information or disclosures presented in the Form 10-K. This Amendment does not reflect events occurring after the original filing of the Form 10-K. As a result, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 continues to speak as of March 16, 2018. This Amendment should be read in conjunction with the Company's Form 10-K and other Company filings made with the SEC.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of XBiotech Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of XBiotech Inc. (the Company) as of December 31, 2017 and 2016, the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2005.

Houston, Texas

March 16, 2018

XBiotech Inc.

Consolidated Balance Sheets
(in thousands, except share data)

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 31,768	\$ 34,324
Prepaid expenses and other current assets	1,564	2,606
Total current assets	<u>33,332</u>	<u>36,930</u>
Property and equipment, net	29,640	10,142
Building construction in progress	-	19,978
Total assets	<u>\$ 62,972</u>	<u>\$ 67,050</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 1,730	\$ 4,431
Accrued expenses	1,062	3,532
Total current liabilities	<u>2,792</u>	<u>7,963</u>
Long-term liabilities:		
Deferred rent	18	23
Total liabilities	<u>2,810</u>	<u>7,986</u>
Shareholders' equity:		
Preferred Stock, no par value, unlimited shares authorized, no shares outstanding	-	-
Common stock, no par value, unlimited shares authorized, 35,439,272 and 32,627,691 shares outstanding at December 31, 2017 and December 31, 2016, respectively	277,492	242,419
Accumulated other comprehensive loss	(768)	57
Accumulated deficit	(216,562)	(183,412)
Total shareholders' equity	<u>60,162</u>	<u>59,064</u>
Total liabilities and shareholders' equity	<u>\$ 62,972</u>	<u>\$ 67,050</u>

See accompanying notes.

XBiotech Inc.Consolidated Statements of Operations
(in thousands, except share and per share data)

	Year Ended December 31,		
	2017	2016	2015
Operating expenses:			
Research and development	\$ 26,424	\$ 42,486	\$ 31,310
General and administrative	7,635	10,277	6,200
Total operating expenses	34,059	52,763	37,510
Loss from operations	(34,059)	(52,763)	(37,510)
Other income (loss):			
Interest income	354	49	-
Other income	-	-	21
Foreign exchange gain (loss)	555	(47)	6
Total other income (loss)	909	2	27
Net loss	\$ (33,150)	\$ (52,761)	\$ (37,483)
Net loss per share—basic and diluted	\$ (0.95)	\$ (1.63)	\$ (1.22)
Shares used to compute basic and diluted net loss per share	34,875,814	32,403,391	30,801,994

See accompanying notes.

XBiotech Inc.

Consolidated Statements of Comprehensive Loss
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Net loss	\$ (33,150)	\$ (52,761)	\$ (37,483)
Foreign currency translation adjustment	(825)	258	(48)
Comprehensive loss	<u>\$ (33,975)</u>	<u>\$ (52,503)</u>	<u>\$ (37,531)</u>

See accompanying notes.

XBiotech Inc.

Consolidated Statements of Shareholders' Equity
(in thousands)

	Number of Shares	Common Stock Amount	Accumulated Other Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance at January 1, 2015	27,547	152,351	(153)	(93,168)	59,030
Net loss	-	-	-	(37,483)	(37,483)
Foreign currency translation adjustment	-	-	(48)	-	(48)
Issuance of common stock, net of issuance cost	4,373	75,386	-	-	75,386
Issuance of common stock under stock option plan	359	1,348	-	-	1,348
Stock subscription receivable	-	410	-	-	410
Share-based compensation expense	-	4,407	-	-	4,407
Balance at December 31, 2015	32,279	233,902	(201)	(130,651)	103,050
Net loss	-	-	-	(52,761)	(52,761)
Foreign currency translation adjustment	-	-	258	-	258
Issuance of common stock, net of issuance cost	145	1,808	-	-	1,808
Issuance of common stock under stock option plan	204	1,136	-	-	1,136
Share-based compensation expense	-	5,573	-	-	5,573
Balance at December 31, 2016	32,628	\$ 242,419	\$ 57	\$ (183,412)	\$ 59,064
Net loss	-	-	-	(33,150)	(33,150)
Foreign currency translation adjustment	-	-	(825)	-	(825)
Issuance of common stock, net of issuance cost	2,521	32,620	-	-	32,620
Issuance of common stock under stock option plan	290	818	-	-	818
Share-based compensation expense	-	1,635	-	-	1,635
Balance at December 31, 2017	35,439	\$ 277,492	\$ (768)	\$ (216,562)	\$ 60,162

See accompanying notes.

XBiotech Inc.

Consolidated Statements of Cash Flows
(in thousands)

	Year Ended December 31,		
	2017	2016	2015
Operating activities			
Net loss	\$ (33,150)	\$ (52,761)	\$ (37,483)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	1,484	698	699
Share-based compensation expense	1,750	5,573	4,407
Gain on disposal of property and equipment	-	-	(157)
Other non-cash adjustments	401	-	-
Changes in operating assets and liabilities:			
Prepaid expenses and other current	1,041	(617)	(1,579)
Accounts payable	(2,700)	(981)	840
Accrued expenses	(2,470)	2,066	(52)
Deferred rent	(5)	7	17
Net cash used in operating activities	(33,649)	(46,015)	(33,308)
Investing activities			
Purchase of property and equipment	(1,405)	(4,746)	(2,322)
Expenditures on building construction	-	(9,168)	(8,070)
Net cash used in investing activities	(1,405)	(13,914)	(10,392)
Financing activities			
Issuance of common stock and warrants, net	32,620	1,808	75,712
Issuance of common stock under stock option plan	703	1,136	1,348
Collection of subscription receivable	-	-	410
Net cash provided by financing activities	33,323	2,944	77,470
Effect of foreign exchange rate on cash and cash equivalents	(825)	258	(48)
Net change in cash and cash equivalents	(2,556)	(56,727)	33,722
Cash and cash equivalents, beginning of period	34,324	91,051	57,329
Cash and cash equivalents, end of period	<u>\$ 31,768</u>	<u>\$ 34,324</u>	<u>\$ 91,051</u>
Supplemental Information:			
Accrued purchases of property and equipment	\$ -	\$ 148	\$ 940
Accrued expenditures on building construction	-	439	1,416

See accompanying notes.

XBiotech Inc.

Notes to Consolidated Financial Statements

1. Organization

XBiotech Inc. (XBiotech or the Company) was incorporated in Canada on March 22, 2005. XBiotech USA, Inc., a wholly-owned subsidiary of the Company, was incorporated in Delaware, United States in November 2007. XBiotech Switzerland AG, a wholly-owned subsidiary of the Company, was incorporated in Zug, Switzerland in August 2010. XBiotech Japan K.K., a wholly-owned subsidiary of the Company, was incorporated in Tokyo, Japan in March 2013. XBiotech Germany GmbH, a wholly-owned subsidiary of the Company, was incorporated in Germany in January 2014. The Company's headquarters are located in Austin, Texas.

Since its inception, XBiotech has focused on advancing technology to rapidly identify and clone antibodies from individuals that have resistance to disease. At the heart of the Company is a proprietary technical knowhow to translate natural human immunity into therapeutic product candidates.

In 2005, the Company began to develop a new framework for commercial manufacturing, using technology that required less capital, fewer operators and provided greater flexibility than standard industry practices.

With the manufacturing capability to produce its True Human™ antibody therapy, in 2010, the Company began a clinical trial program. The first clinical trial program at MD Anderson Cancer Center began treating the sickest cancer patients irrespective of tumor type. Soon thereafter, the Company used the same antibody therapy in various clinical studies at treatment centers around the United States (U.S.) and abroad to investigate the antibody effect in patients that had vascular disease, leukemia, type 2 diabetes, psoriasis or acne.

The Company continues to be subject to a number of risks common to companies in similar stages of development. Principal among these risks are the uncertainties of technological innovations, dependence on key individuals, development of the same or similar technological innovations by the Company's competitors and protection of proprietary technology. The Company's ability to fund its planned clinical operations, including completion of its planned trials, is expected to depend on the amount and timing of cash receipts from future collaboration or product sales and/or financing transactions. The Company believes that its cash and cash equivalents of \$31.8 million at December 31, 2017, will enable the Company to achieve several major inflection points, including potential new clinical studies with our lead product candidate. We expect to have sufficient cash through one year from the report issuance date.

2. Significant Accounting Policies

Basis of Presentation

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States (US GAAP).

Basis of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions have been eliminated upon consolidation.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported values of amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Prior to its initial public offering on April 15, 2015, the Company utilized significant estimates and assumptions in determining the fair value of its common stock. The board of directors determined the estimated fair value of the Company's common stock based on a number of objective and subjective factors, including the prices at which the Company sold shares of its common stock to third parties and external market conditions affecting the biotechnology industry sector. After the initial public offering, the fair market value is calculated by using the closing price of the Company's common stock as reported by NASDAQ.

Research and Development Costs

All research and development costs are charged to expense as incurred. Research and development costs include salaries and personnel-related costs, consulting fees, fees paid for contract clinical trial research services, the costs of laboratory consumables, equipment and facilities, license fees and other external costs. Costs incurred to acquire licenses for intellectual property to be used in research and development activities with no alternative future use are expensed as incurred as research and development costs.

Nonrefundable advance payments for goods or services to be received in the future for use in research and development activities are deferred and capitalized. The capitalized amounts are expensed as the related goods are delivered or the services are performed.

Income Taxes

The Company makes estimates and judgments in determining the need for a provision for income taxes, including the estimation of its taxable income or loss for the full fiscal year. The Company has accumulated significant deferred tax assets that reflect the tax effects of net operating losses and tax credit carryovers and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Realization of certain deferred tax assets is dependent upon future earnings. The Company is uncertain about the timing and amount of any future earnings. Accordingly, the Company offsets these deferred tax assets with a valuation allowance. The Company may in the future determine that certain deferred tax assets will likely be realized, in which case the Company will reduce its valuation allowance in the period in which such determination is made. If the valuation allowance is reduced, the Company may recognize a benefit from income taxes in its statement of operations in that period.

The GAAP guidance requires recognition of the impact of a tax position in our financial statements only if that position is more likely than not to be sustained upon examination by taxing authorities, based on the technical merits of the position. Any interest and penalties related to uncertain tax positions will be reflected in income tax expense. Determining the consolidated provision for income taxes involves judgments, estimates and the application of complex tax regulations. We are required to provide for income taxes in each of the jurisdictions where we operate, including estimated liabilities for uncertain tax positions. Although we believe that we have provided adequate liabilities for uncertain tax positions, the actual liability resulting from examinations by taxing authorities could differ from the recorded income tax liabilities and could result in additional income tax expense having a material impact on our consolidated results of operations. Changes of estimates in our income tax liabilities are reflected in our income tax provision in the period in which the factors resulting in the change to our estimate become known to us. We benefit from the tax credit incentives under the U.S. research and experimentation tax credit extended to taxpayers engaged in qualified research and experimental activities while carrying on a trade or business.

Share-Based Compensation

The Company accounts for its share-based compensation awards in accordance with ASC Topic 718, *Compensation-Stock Compensation* ("ASC 718"). ASC 718, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the statements of operations based on their grant date fair values. For stock options granted to employees and to members of the board of directors for their services on the board of directors, the Company estimates the grant date fair value of each option award using the Black-Scholes option-pricing model. The use of the Black-Scholes option-pricing model requires management to make assumptions with respect to the expected term of the option, the expected volatility of the common stock consistent with the expected life of the option, risk-free interest rates and expected dividend yields of the common stock. For awards subject to service-based vesting conditions, the Company recognizes share-based compensation expense, equal to the grant date fair value of stock options on a straight-line basis over the requisite service period. The Company accounts for forfeitures as they occur rather than on an estimated basis.

Share-based compensation expense recognized for the years ended December 31, 2017, 2016 and 2015 was included in the following line items on the Consolidated Statements of Operations (in thousands).

	Year Ended December 31,		
	2017	2016	2015
Research and development	\$ 413	\$ 2,095	\$ 2,204
General and administrative	2,063	3,478	2,203
Total share-based compensation expense	<u>\$ 2,476</u>	<u>\$ 5,573</u>	<u>\$ 4,407</u>

No related tax benefits were recognized for the years ended December 31, 2017, 2016 and 2015.

The fair value of each option is estimated on the date of grant using the Black-Scholes method with the following assumptions:

	Year Ended December 31,		
	2017	2016	2015
Weighted-average grant date fair value per share	\$4.85	\$7.29	\$17.95
Expected volatility	65% - 67%	65% - 70%	66% - 71%
Risk-free interest rate	1.83% - 2.41%	1.09% - 2.44%	1.07% - 2.42%
Expected life (in years)	5.38 - 10	5 - 10	3 - 10
Dividend yield	-	-	-

Due to the adoption of ASU No. 2016-09, "Stock Compensation," the Company accounts for forfeitures as they occur rather than on an estimated basis.

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of 90 days or less when purchased to be cash equivalents. Cash and cash equivalents consisted primarily of cash on deposit in U.S., German, Swiss and Canadian banks. Cash and cash equivalents are stated at cost which approximates fair value.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist primarily of cash and cash equivalents. The Company holds these investments in highly-rated financial institutions, and limits the amounts of credit exposure to any one financial institution. These amounts at times may exceed federally insured limits. The Company has not experienced any credit losses in such accounts and does not believe it is exposed to any significant credit risk on these funds. The Company has no off-balance sheet concentrations of credit risk, such as foreign currency exchange contracts, option contracts or other hedging arrangements.

Fair Value Measurements

The Company follows ASC Topic 820, *Fair Value Measurements and Disclosures*, which establishes a fair value hierarchy for those instruments measured at fair value that distinguishes between assumptions based on market data (observable inputs) and the Company's own assumptions (unobservable inputs). The hierarchy consists of three levels:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities.
- Level 2—Quoted prices for similar assets and liabilities in active markets, quoted prices in markets that are not active, or inputs which are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3—Unobservable inputs that reflect the Company’s own assumptions about the assumptions market participants would use in pricing the asset or liability in which there is little, if any, market activity for the asset or liability at the measurement date.

At December 31, 2017 and 2016, the Company did not have any assets or liabilities that are measured at fair value on a recurring basis. The carrying amounts reflected in the balance sheets for cash and cash equivalents, prepaid expenses and other current assets, accounts payable, and accrued expenses approximate their fair values at December 31, 2017 and 2016, due to their short-term nature.

Property and Equipment

Property and equipment, which consists of land, construction in process, furniture and fixtures, computers and office equipment, scientific equipment, leasehold improvements, vehicles and building are stated at cost and depreciated over the estimated useful lives of the assets, with the exception of land and construction in process which are not depreciated, using the straight line method. The useful lives are as follows:

• Furniture and fixtures	7 years
• Office equipment	5 years
• Leasehold improvements	Shorter of asset’s useful life or remaining lease term
• Scientific equipment	5 years
• Vehicles	5 years
• Building	39 years

Costs of major additions and betterments are capitalized; maintenance and repairs, which do not improve or extend the life of the respective assets, are charged to expense as incurred. Upon retirement or sale, the cost of the disposed asset and the related accumulated depreciation are removed from the accounts and the resulting gain or loss is recognized.

Impairment of Long-Lived Assets

The Company periodically evaluates its long-lived assets for potential impairment in accordance with ASC Topic 360, *Property, Plant and Equipment*. Potential impairment is assessed when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset may not be recovered. Recoverability of these assets is assessed based on undiscounted expected future cash flows from the assets, considering a number of factors, including past operating results, budgets and economic projections, market trends and product development cycles. If impairments are identified, assets are written down to their estimated fair value. The Company has not recognized any impairment through December 31, 2017.

Foreign Currency Transactions

Certain transactions are denominated in a currency other than the Company's functional currency of the U.S. dollar, and the Company generates assets and liabilities that are fixed in terms of the amount of foreign currency that will be received or paid. At each balance sheet date, the Company adjusts the assets and liabilities to reflect the current exchange rate, resulting in a translation gain or loss. Transaction gains and losses are also realized upon a settlement of a foreign currency transaction in determining net loss for the period in which the transaction is settled.

Comprehensive Income (Loss)

ASC Topic 220, *Comprehensive Income*, requires that all components of comprehensive income (loss), including net income (loss), be reported in the financial statements in the period in which they are recognized. Comprehensive income (loss) is defined as the change in equity during a period from transactions and other events and circumstances from non-owner sources, including unrealized gains and losses on investments and foreign currency translation adjustments.

Segment and Geographic Information

Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker, or decision making group, in making decisions on how to allocate resources and assess performance. The Company's chief operating decision maker is the Chief Executive Officer. The Company and the chief operating decision maker view the Company's operations and manage its business as one operating segment. Substantially all of the Company's operations are in the U.S. geographic segment.

Net Loss per Share

Net loss per share (“EPS”) is computed by dividing net loss by the weighted average number of common shares outstanding during each period. Diluted EPS is computed by dividing net loss by the weighted average number of common shares and common share equivalents outstanding (if dilutive) during each period. The number of common share equivalents, which include stock options, is computed using the treasury stock method.

Subsequent Events

The Company considered events or transactions occurring after the balance sheet date but prior to the date the consolidated financial statements are available to be issued for potential recognition or disclosure in its consolidated financial statements. We have evaluated subsequent events through the date of filing this Form 10-K.

Recent Accounting Pronouncements

In February 2016, the FASB issued final guidance that will change the accounting for leases ASU No. 2016-02, “Leases.” ASU 2016-02. The FASB issued final guidance that requires lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The guidance also eliminates today’s real estate-specific provisions for all entities. For lessors, the guidance modifies the classification criteria and the accounting for sales-type and direct financing leases. All entities classify leases to determine how to recognize lease-related revenue and expense. Classification continues to affect what lessors record on the balance sheet. For calendar-year public business entities and certain calendar-year not-for-profit entities and employee benefit plans, the guidance is effective in 2019, and interim periods within that year. For other calendar-year entities, it is effective in 2020, and interim periods in 2021. Early adoption is permitted for all entities. The adoption of this standard will require the Company to record its operating leases on the balance sheet. The Company is currently evaluating the impact of this pronouncement on the Company’s consolidated financial statements

In March 2016, the FASB issued ASU No. 2016-09, “Stock Compensation,” which is intended to simplify several aspects of the accounting for share-based payment award transactions. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The Company adopted this pronouncement effective January 1, 2017. Upon adoption, the Company recognized approximately \$491 thousand of accumulated excess tax benefits as deferred tax assets that under the previous guidance could not be recognized until the benefits were realized through a reduction in cash taxes paid. This part of the guidance is applied using a modified retrospective method with a cumulative-effect adjustment to the accumulated deficit for the excess tax benefits not previously recognized. However, given the full valuation allowance placed on the additional \$491 thousand of deferred tax assets, the recognition of this provision of ASU 2016-09 had no impact to the Company’s accumulated deficit as of January 1, 2017. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The Company elected to account for forfeitures as they occur using a modified retrospective transition method. The adoption of this one-time accounting policy election did not have a material impact on the Company’s financial statements.

3. Property and Equipment and Building Construction in Progress

Property and equipment consisted of the following as of December 31, 2017 and 2016 (in thousands):

	2017	2016
Computer and office equipment	\$ 461	\$ 456
Furniture and fixtures	183	132
Land	1,418	1,418
Leasehold improvements	802	794
Scientific equipment	12,194	6,116
Vehicle	30	30
Building	21,013	19,978
Construction in process	472	6,645
Accumulated depreciation	(6,933)	(5,449)
Total	<u>\$ 29,640</u>	<u>\$ 30,120</u>

Depreciation expenses related to property and equipment amounted to approximately \$1,484,000, \$698,000, and \$699,000 and for the years ended December 31, 2017, 2016 and 2015, respectively. Construction in process is related to research and development and manufactory equipment.

4. Accrued Expenses

Accrued expenses consist of the following as of December 31, 2017, and 2016 (in thousands):

	2017	2016
Accrued compensation and related expenses	\$ 234	\$ 413
Accrued professional fees	32	95
Accrued building construction fees	-	521
Accrued clinical trial expenses	766	2,402
Other	30	101
Total	<u>\$ 1,062</u>	<u>\$ 3,532</u>

5. Common Stock

Pursuant to its Articles, the Company has an unlimited number of shares available for issuance with no par value.

From January through December 2016, 204 thousand shares of common stock were issued upon the exercise of stock options at a price of \$0.74 to \$19.09 per share for total proceeds of \$1.1 million.

From November through December 2016, under the Common Stock Sales Agreement with H.C. Wainwright & Co. LLC, the Company sold 145 thousand shares of common stock at a price between \$13.60 to \$14.17 per share for total proceeds of \$1.8 million.

In February 2017, under the Common Stock Sales Agreement with H.C. Wainwright & Co. LLC, the Company sold 87 thousand shares of common stock at a price between \$12.09 to \$12.37 per share for total proceeds of \$1.0 million.

In March 2017, the Company sold 2.4 million shares of common stock at a net price of \$13.00 for total proceeds of approximately \$31.6 million from investors.

From January through December 2017, 290 thousand shares of common stock were issued upon the exercise of stock options at a price of \$2.50 to \$14.71 per share for a total of \$703 thousand.

6. Common Stock Options

On November 11, 2005, the board of directors of the Company adopted a stock option plan (“the Plan”) pursuant to which the Company may grant incentive stock and non-qualified stock options to directors, officers, employees or consultants of the Company or an affiliate or other persons as the Compensation Committee may approve.

All options will be non-transferable and may be exercised only by the participant, or in the event of the death of the participant, a legal representative until the earlier of the options’ expiry date or the first anniversary of the participant’s death, or such other date as may be specified by the Compensation Committee.

The term of the options is at the discretion of the Compensation Committee, but may not exceed 10 years from the grant date. The options expire on the earlier of the expiration date or the date three months following the day on which the participant ceases to be an officer or employee of or consultant to the Company, or in the event of the termination of the participant with cause, the date of such termination. Options held by non-employee Directors have an exercise period coterminous with the term of the options.

The number of common shares reserved for issuance to any one person pursuant to this Plan shall not, in aggregate, exceed 5% of the total number of outstanding common shares. The exercise price per common share under each option will be the fair market value of such shares at the time of the grant. Upon stock option exercise, the Company issues new shares of common stock.

A summary of changes in common stock options issued under the Plan is as follows:

	Options	Exercise Price	Weighted-Average Exercise Price
Options outstanding at December 31, 2014	4,884,165	\$0.55 - \$15.00	\$ 7.03
Granted	375,928	8.47 - 21.99	17.95
Exercised	(359,141)	0.53 - 10.00	3.75
Forfeitures	(114,375)	0.55 - 20.93	11.05
Options outstanding at December 31, 2015	4,786,577	\$0.53 - \$21.99	\$ 8.56
Granted	1,059,990	7.71 - 19.10	11.72
Exercised	(204,159)	0.74 - 19.09	5.56
Forfeitures	(453,750)	0.52 - 16.91	12.79
Options outstanding at December 31, 2016	5,188,658	\$0.52 - \$21.99	\$ 8.49
Granted	1,251,000	4.15 - 12.62	4.85
Exercised	(406,667)	0.93 - 14.71	2.28
Forfeitures	(729,367)	0.94 - 21.99	11.90
Options outstanding at December 31, 2017	5,303,624	\$2.5 - \$21.99	\$ 7.69

The weighted average fair value of the options issued to directors, employees and consultants during the fiscal years ended December 31, 2017, 2016 and 2015, was \$2.97, \$7.29 and \$17.95, respectively. Options with an intrinsic value of \$(3.75), \$1.63 and \$2.86, became vested during 2017, 2016 and 2015, respectively. The total intrinsic value of options exercisable and total options outstanding at December 31, 2017 was \$746,000. The total fair value of options vested during the years ended December 31, 2017, 2016 and 2015 was \$1,601,000, \$5,728,000 and \$5,463,000, respectively.

As of December 31, 2017, there was approximately \$3.1 million of unrecognized compensation cost, related to stock options granted under the Plan which will be amortized to stock compensation expense over the next 2.23 years.

7. Net Loss Per Share

The following summarizes the computation of basic and diluted net loss per share for the years ended December 31, 2017, 2016 and 2015 (in thousands, except share and per share data):

	Year Ended December 31,		
	2017	2016	2015
Net loss	\$ (33,150)	\$ (52,761)	\$ (37,483)
Weighted-average number of common shares—basic and diluted	34,875,814	32,403,391	30,801,994
Net loss per share—basic and diluted	\$ (0.95)	\$ (1.63)	\$ (1.22)

The following potentially dilutive securities outstanding, prior to the use of the treasury stock method or if-converted method, have been excluded from the computation of diluted weighted-average common shares outstanding, because including them would have had an anti-dilutive effect due to the losses reported.

	Year Ended December 31,		
	2017	2016	2015
Stock options	5,303,624	5,188,658	4,786,577
Warrants to purchase common stock	-	-	-
Total	5,303,624	5,188,658	4,786,577

8. Income Taxes

The Company recorded no provision for income taxes for the years ended December 31, 2017, 2016 and 2015 due to the reported net losses in each year and reported valuation allowance.

A reconciliation of the Company's Canadian federal statutory income tax rate to the Company's effective income tax rate is as follows for the years ended December 31, 2017, 2016 and 2015:

	2017	2016	2015
Income tax benefit computed at federal tax rate	26.0%	26.0%	26.0%
Change in valuation allowance	(15.3%)	(22.1%)	(27.2%)
Impacts of US tax reform	(13.4%)	-	-
Stock compensation and other	2.7%	(3.9%)	1.2%
Total	—%	—%	—%

During the years ended December 31, 2017, 2016 and 2015, the Company had no interest and penalties related to income taxes.

As of December 31, 2017, and 2016, the Company has unused net operating losses of approximately \$167.6 million (approximately \$132.3 million in Canada, \$27.7 million in the U.S., \$6.7 million in Germany and \$0.9 million in Switzerland and Japan) and \$133.0 million (approximately \$108.9 million in Canada, \$18.6 million in the U.S., \$4.8 million in Germany and \$0.6 million in Switzerland and Japan), respectively, available to reduce taxable income of future years. The tax benefit of net operating losses begin to expire in 2025 in Canada, 2028 in U.S., 2034 in Germany 2018 in Switzerland, and 2022 in Japan.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The Company has established a valuation allowance due to uncertainties regarding the realization of deferred tax assets based upon the Company's lack of earnings history. Significant components of the Company's deferred tax assets and liabilities as of December 31, 2017, 2016 and 2015 as follows (in thousands):

	2017	2016	2015
Deferred tax assets:			
Noncapital losses	\$ 41,551	\$ 35,064	\$ 23,038
Qualifying research and development credits	2,833	2,408	1,591
Stock based compensation	1,618	2,737	3,982
Share issue costs	42	27	30
Accrued liabilities	49	286	356
Deferred rent	4	8	6
Total deferred tax assets	46,097	40,530	29,003
Deferred tax liabilities:			
Depreciation	282	31	13
Share issuance costs	35	16	23
Total deferred tax liabilities	317	47	36
Net deferred tax asset	45,780	40,483	28,967
Valuation allowance for deferred tax assets	(45,780)	(40,483)	(28,967)
Net deferred tax asset including valuation allowance	\$ —	\$ —	\$ —

On December 22, 2017, the President of the United States signed into law the Tax Cuts and Jobs Act, or TCJA, tax reform legislation. The TCJA makes significant changes in U.S. tax law including a reduction in the corporate tax rates, changes to net operating loss carryforwards and carrybacks, and a repeal of the corporate alternative minimum tax. The TCJA reduced the U.S. corporate tax rate from the current rate of 34 percent down to 21 percent starting on January 1, 2018. As a result of the TCJA, the Company was required to revalue deferred tax assets and liabilities at 21 percent. This revaluation resulted in a provision of \$4.5 million to income tax expense in continuing operations and a corresponding reduction in the valuation allowance. As a result, there was no impact to the Company's consolidated statements of comprehensive loss as a result of the reduction in tax rates.

As the Company does not have all of the necessary information to analyze all income tax effects of the TCJA, the Company will continue to make and refine calculations and estimates as additional information is obtained, which could potentially affect the provisional amounts relating to the deferred income taxes, including but not limited to deferred tax assets related to share-based compensation expenses. Where the Company has not yet been able to make reasonable estimates of the impact of certain elements, the Company has not recorded any amounts related to those elements and has continued accounting for them in accordance with ASC 740 on the basis of the tax laws in effect immediately prior to the enactment of the TCJA. The Company expects to complete a detailed analysis no later than the fourth quarter of 2018.

Due to additional current year losses, offset by the decrease of the U.S. tax rate from 34% to 21% in 2017, the valuation allowance increased by approximately \$5.3 million and \$11.5 million during the year ended December 31, 2017 and 2016 respectively.

The Company applies the accounting guidance in ASC 740 related to accounting for uncertainty in income taxes. The Company's reserves related to taxes are based on a determination of whether, and how much of, a tax benefit taken by the Company in its tax filings or positions is more likely than not to be realized following resolution of any potential contingencies present related to the tax benefit. As of December 31, 2017 and 2016, the Company had no unrecognized tax benefits.

The Company files federal income tax returns in Canada, U.S, Switzerland, Germany, and Japan. The Company also files income tax returns in the state of Texas in the U.S. The statute of limitations for assessment by local taxing authorities is open for tax years ended after December 2011. There are currently no federal or state income tax audits in progress.

The components of income before income taxes are as follows:

(In thousands)	Years Ended December 31,		
	2017	2016	2015
Domestic	\$ (5,765)	\$ (8,749)	\$ (6,544)
Canada	(26,034)	(41,625)	(28,129)
Other Foreign	(1,351)	(2,387)	(2,810)
Total	<u>\$ (33,150)</u>	<u>\$ (52,761)</u>	<u>\$ (37,483)</u>

In November 2015, the FASB issued ASU 2015-17, "Balance Sheet Classification of Deferred Taxes". The Company adopted these accounting changes on a prospective basis during the three months ended December 31, 2016. To simplify the presentation of deferred income taxes, the amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The adoption of this standard did not have a material effect on the Company's financial statements or disclosures.

9. Commitments and Contingencies

On January 12, 2008, the Company entered a lease agreement to lease its facility in Austin, Texas, U.S. On September 15, 2010, the Company entered into a second lease agreement to lease additional space in Austin, Texas, U.S. On March 20, 2013, the company extended the lease for another 21 months with the same terms and rental rates as the current leases. On February 28, 2015, the Company extended the leases for another four years with two years early termination right. The future minimum lease payments are as follows as of December 31, 2017 (in thousands):

2018	\$ 470
2019	\$ 79

Rent expense was approximately \$741,000, \$761,000 and \$688,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

XBiotech Corporate officers, Queena Han (VP of Finance) and John Simard (President and CEO), XBiotech Inc., and certain directors were named defendants in securities class action civil suits filed in federal court at the U.S. District Court for the Western District of Texas, in Austin, Texas and state court at the Los Angeles County Superior Court, in California. In the California action, the underwriter WR Hambrecht & Co., LLC was also named as a defendant. These civil suits were filed on December 1, 2015. The foundation for both suits are similar in that the plaintiffs allege the officers of the Company made false and misleading statements, violating the securities laws, in the IPO documents in April 2015. Specifically, these alleged false statements in the IPO documents are in relation to the European Phase III clinical trial for Xilonix™. The allegations focus on a press release posted by XBiotech on November 23, 2015, explaining certain issues with patient data. Plaintiffs allege the company knew of these issues during the IPO and neglected to disclose them in supporting documentation filed with the Security and Exchange Commission (SEC). As a result of the news release, XBiotech (traded on the NASDAQ) stock declined. The resulting securities class action lawsuits are seeking relief for plaintiffs who report financial losses due to the alleged false and misleading statements. In September 2016, a stay was granted in the California case. Plaintiffs were, at that time, left with the opportunity to re-file in Texas prior to the decision on the motion to dismiss. Plaintiffs did not re-file in Texas before the case was dismissed with prejudice in October 2016. Plaintiffs sought to re-open the case in California. A hearing to address whether the case should be dismissed, was scheduled June 7, 2017. At the hearing, counsel for XBiotech argued that California was a forum non conveniens given the nexus of the allegations in the suit took place in Texas. The judge granted the forum non conveniens motion, finding that the case does not belong in California. As a result, the case is stayed rather than dismissed per California procedural rules. Plaintiffs were compelled to re-file in Texas.

The plaintiffs re-filed their suit in Travis County district court, located in Austin, Texas, on July 6, 2017. A hearing date has yet to be scheduled in this matter. Subsequently, XBiotech won on its motion to remove the case from state court to federal court at the U.S. District Court for the Western District of Texas, Austin Division. Counsel further argued for a motion to stay the case, which was granted on October 6, 2017, taking into account the upcoming hearings at the U.S. Supreme Court for Cyan, Inc. v. Beaver County Employees Retirement Fund. At issue in this case is whether state courts lack subject matter jurisdiction over covered class actions that allege only Securities Act of 1933 claims. Arguments before the Supreme Court were held in November 2017. A decision from the Court is expected in the first half of 2018, at which time we will learn more about its impact on whether plaintiffs may return to litigate Rezko v. XBiotech in state court.

10. Subsequent Events

On January 16, 2018, Daniel Vasella resigned from the Board of Directors of XBiotech Inc. effective immediately. On January 16th, 2018, the Company promptly notified the NASDAQ Listing Qualifications Department (“NLQD”) of this event. Subsequently, the Company received a letter from the NLQD which noted the Company’s non-compliance with NASDAQ’s independent director and audit committee composition requirements set forth in Listing Rules 6505(b)(1) and 5605(c)(2), respectively. The Company was given 45 days to submit a plan to regain compliance related to NASDAQ’s independent director requirement and a cure period to regain compliance with the compensation committee requirements.

As described in a Form 8-K filing on March 1, 2018, on February 27, 2018, Mr. Jan-Paul Waldin was elected as a member of the Board of Directors the Company, as well as appointed as a member of the Company’s Audit Committee and Compensation Committee, to serve until his successor is duly elected and qualified or until his earlier resignation, removal or death. With the addition of Mr. Waldin to the Company’s Board of Directors, Audit Committee and Compensation Committee, the Company has regained compliance and is no longer subject to the requirements set forth in the Letter from NASDAQ dated January 18, 2018 and referenced in a Form 8-K filing on January 19, 2018. Therefore, the Company is currently only subject to the requirements set forth in the Letter from NASDAQ dated November 9, 2017 and referenced in the Company’s Form 10-Q filing on that same day in which it has been given a cure period until the earlier of the Company’s next annual shareholders’ meeting or November 8, 2018 in order to regain compliance with NASDAQ’s audit committee requirements as set forth in Listing Rule 5605. The Company plans to fill the vacancy and regain compliance on this matter within the cure period provided by NASDAQ.

11. Selected Quarterly Financial Data (Unaudited)

Selected Quarterly Financial Data (Unaudited) for the year ended December 31, 2017 and 2016 is presented below (in thousands except per share data):

2017	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Loss from operations	(10,271)	(9,688)	(6,593)	(7,507)
Net Loss	(10,563)	(9,133)	(6,205)	(7,249)
Net loss per share—basic and diluted	(0.32)	(0.26)	(0.18)	(0.20)
2016	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Loss from operations	(10,248)	(13,615)	(12,459)	(16,441)
Net Loss	(10,257)	(13,622)	(12,484)	(16,398)
Net loss per share—basic and diluted	(0.32)	(0.42)	(0.38)	(0.50)

ITEM 9A. CONTROLS AND PROCEDURES.

Management's Evaluation of our Disclosure Controls and Procedures

As of the end of the year covered by this Annual Report on Form 10-K, an evaluation was carried out by the Company's management, with the participation of the Chief Executive Officer and Principal Financial Officer, of the effectiveness of the Company's disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934. Based on such evaluation, the Chief Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and regulations, and are operating in an effective manner.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). We conducted an assessment of the effectiveness of our internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on our assessment, we have concluded that our internal control over financial reporting was effective as of December 31, 2017, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fourth quarter of the year ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

EXHIBIT INDEX

Exhibit Number	Description
<u>3.1</u>	<u>Certificate of Continuation dated September 23, 2005, issued by the Registrar of Companies, Province of British Columbia, Canada (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>3.2</u>	<u>Notice of Articles, dated December 8, 2005, issued by the Registrar of Companies, Province of British Columbia, Canada (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>3.3</u>	<u>Articles of XBiotech Inc. (incorporated by reference to Exhibit 3.3 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>10.1+</u>	<u>Executive Employment Agreement dated as of March 22, 2005 between XBiotech and John Simard (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>10.2+</u>	<u>Change in Control Agreement dated as of March 22, 2005 between XBiotech and John Simard (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>10.3</u>	<u>Confidentiality and Assignment of Inventions Agreement dated as of March 22, 2005 between XBiotech and John Simard (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>10.4+</u>	<u>XBiotech 2005 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>10.5+</u>	<u>Form of indemnification agreement between XBiotech and each director of XBiotech (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015)</u>
<u>10.6</u>	<u>Agreement of Lease by and between NNN Met Center 4-9, LP and XBiotech USA, Inc. dated January 14, 2008 and the First Amendment dated January 17, 2008, the Second Amendment dated August 2010 and the Third Amendment dated March 2013 and the Fourth Amendment dated February 28, 2015 (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1/A filed with the SEC on March 10, 2015)</u>
<u>10.7</u>	<u>Agreement of Lease by and between NNN Met Center 4-9, LLP and XBiotech USA, Inc. for Suite 600 dated August 16, 2010 and First Amendment dated March 2013 and the Second Amendment dated February 28, 2015 (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1/A filed with the SEC on March 10, 2015)</u>
<u>10.9</u>	<u>Licensing Agreement dated January 16, 2015 between XBiotech USA, Inc. and Lonza Sales AG (portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 406 of the Securities Act, incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1/A filed with the SEC on March 10, 2015)</u>
<u>10.10</u>	<u>Research and Collaboration Agreement dated December 15, 2014 by and between XBiotech USA, Inc. and the South Texas Blood & Tissue Center (portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 406 of the Securities Act of 1933, incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1/A filed with the SEC on March 10, 2015)</u>

- [10.11](#) [XBiotech Inc. 2015 Equity Incentive Plan \(incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1/A filed with the SEC on March 10, 2015\)](#)
- [10.12](#) [Common Stock Sales Agreement with H.C. Wainwright & Co. LLC which establishes an at-the-market equity program \(filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on September 26, 2016 \(File No. 001-37347\) and incorporated herein by reference\)](#)
- [10.13](#) [Subscription agreements with accredited investors \(the "Subscription Agreements"\) providing for the issuance and sale by the Company of approximately \\$31 million of common shares in a registered direct offering \(filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on March 03, 2017 \(File No. 001-37347\) and incorporated herein by reference\)](#)
- [21.1](#) [List of subsidiaries](#)
- [23.1](#) [Consent of Ernst & Young LLP](#)
- [31.1*](#) [Certification of the Principal Executive Officer Required Under Rules 13a-14\(a\) and 15d-14\(a\) of the Securities Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- [31.2*](#) [Certification of the Principal Financial Officer Required Under Rules 13a-14\(a\) and 15d-14\(a\) of the Securities Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002](#)
- [32.1](#) [Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- [32.2](#) [Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101 The following financial statements from the Xbiotech, Inc. Annual Report on Form 10-K for the year ended December 31, 2017, formatted in Extensive Business Reporting Language (XBRL): (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of stockholders' equity, (iv) consolidated statements of cash flows, and (v) notes to consolidated financial statements (detail tagged).

+ Indicates management contract or compensatory plan
* Filed herewith

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on September 4, 2018.

XBIOTECH INC.,

/s/ JOHN SIMARD

Name:	John Simard
Title:	President and Chief Executive Officer (Principal Executive Officer)

CERTIFICATIONS

I, John Simard, certify that:

1. I have reviewed this Annual Report on Form 10-K of XBiotech Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 4, 2018

/S/ John Simard

John Simard Chief Executive Officer and President (Principal Executive Officer)

CERTIFICATIONS

I, Queena Han, certify that:

1. I have reviewed this Annual Report on Form 10-K of XBiotech Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: September 4, 2018

/S/ Queena Han Queena Han
Vice President, Finance and Human Resources and Secretary (Principal
Financial Officer)