As filed with the Securities and Exchange Commission on March 10, 2015

Registration No. 333-201813

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

Amendment No. 1 to
FORM S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

XBIOTECH INC.
(Exact name of registrant as specified in its charter)

Canada	2834	N/A
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

8201 E. Riverside Drive
Building 4, Suite 100
Austin, TX 78744
(512) 386-2900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

John Simard, Chief Executive Officer
XBiotech Inc.
8201 E. Riverside Drive
Building 4, Suite 100
Austin, TX 78744
(512) 386-2900
(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

John F. Anderson, Esq.	Laura M. Holm, Esq.	James R. Tanenbaum Esq.	Pamela S. Hughes, Esq.
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(604) 631-1307			

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ☐

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ☐

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 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	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

Calculation of Registration Fee

Title of Each Class of Securities to be Registered	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee(1)(2)
Common stock, no par value per share	$80,000,000	$9,296.00
Total registration fee		$9,296.00

(1) Calculated pursuant to Rule 457(o) of the rules and regulations under the Securities Act of 1933.
(2) The Registrant previously paid $5,810 of the registration fee in connection with the Form S-1 Registration Statement filed on February 2, 2015.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the Securities and Exchange Commission declares our registration statement effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MARCH 10, 2015.

XBiotech Inc.
4,000,000 Common Stock Shares

This is our initial public offering. No public market currently exists for our shares. We are selling 4,000,000 shares of our common stock. We expect that the initial public offering price will be between $18 and $20 per share.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act, of the JOBS Act, and, as such, may elect to comply with certain reduced reporting requirements for this prospectus and future filings after this offering.

THE OFFERING	PER SHARE	TOTAL MINIMUM OFFERING
Initial Public Offering Price	$19.00	$76,000,000
Underwriting Discounts and Commissions	$ 0.95	$ 3,800,000
Proceeds to us	$18.05	$72,200,000

The underwriters expect to deliver the shares of our common stock on , 2015.

Proposed NASDAQ Symbol: XBIT

Best Efforts Offering: The method of distribution being used by the underwriters in this offering differs somewhat from that traditionally employed in underwritten public offerings. The underwriters have agreed to use their best efforts to procure potential purchasers for the shares of common stock offered pursuant to this prospectus.

The shares are being offered on an all or none basis. The offering will commence on the date of this prospectus. All investor funds received from the date of this prospectus to the closing date of this offering, which shall take place three business days following the date of this prospectus, will be deposited into escrow with an escrow agent until closing. The closing date is also the termination date of this offering. If, on the closing date, investor funds are not received for the full amount of shares to be sold in this offering, the offering will terminate and any funds received will be returned promptly.

A more detailed description of this process is included in "Underwriting" beginning on page 105.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 8.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed on the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

WR HAMBRECHT+CO

The date of this prospectus is , 2015.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with different or additional information. If anyone provides you with different or inconsistent information, you should not rely on it. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of securities described in this prospectus. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus, as well as information we have previously filed with the Securities and Exchange Commission ("SEC") is accurate as of the date on the front of those documents only. Our business, financial condition, results of operations and prospects may have changed since those dates.

PROSPECTUS SUMMARY

This summary highlights certain information about us, this offering and information appearing elsewhere in this prospectus. This summary is not complete and does not contain all of the information that you should consider before investing in our securities. To fully understand this offering and its consequences to you, you should carefully read this entire prospectus and any free writing prospectus we distribute, including the information contained under the heading "Risk Factors" in this prospectus beginning on page 9 and the financial statements and related notes thereto. Unless the context requires otherwise, in this prospectus, the term "XBiotech," "we," "us," "our," the "Company" and "our company" refer to XBiotech, Inc. and its subsidiaries.

Our Business

XBiotech is a clinical-stage biopharmaceutical company engaged in discovering and developing "True Human™" monoclonal antibodies for treating a variety of diseases. True Human™ monoclonal antibodies are those which occur naturally in human beings—as opposed to being derived from animal immunization or otherwise engineered. We believe that naturally occurring monoclonal antibodies have the potential to be safer and more effective than their non-naturally occurring counterparts. While focused on bringing our lead product candidate, Xilonix™, to market, we also have developed a "True Human™" pipeline and manufacturing system.

The majority of our efforts to date have been concentrated on developing MABp1 (also known as Xilonix™, CA-18C3, CV-18C3, RA-18C3, and T2-18C3), a therapeutic antibody which specifically neutralizes interleukin-1 alpha (IL-1a). IL-1a is a pro-inflammatory protein produced by leukocytes and other cells, where it plays a key role in inflammation. When unchecked, inflammation can contribute to the development and progression of a variety of different diseases, such as cancer, vascular disease, inflammatory skin disease, and diabetes. Our clinical studies have shown that blocking IL-1a with MABp1 may have a beneficial effect in several diseases.

We completed a Phase I/II clinical trial for MABp1 (Xilonix™) as a treatment for cancer at MD Anderson Cancer Center. The results of this study, published in *Lancet Oncology* in April 2014, found that in the 52 patients with metastatic cancer (18 tumor types) who participated, MABp1 was well tolerated, with no dose-limiting toxicities or immunogenicity. Moreover, within eight weeks of starting therapy many patients began to improve with respect to constitutional symptoms. An imaging method, known as dual energy X-ray absorptiometry (DEXA), revealed that many of the patients improved physically, in terms of gaining lean body mass (LBM); and patient reported outcomes documented that many were recovering from pain, fatigue and appetite loss. Finally, we found that in the patients with colorectal cancer, DEXA-measured recovery was associated with significant improvement in survival.

We received a fast track designation from the Food and Drug Administration ("FDA") in October 2012 to develop Xilonix™ as a treatment in the setting of metastatic colorectal cancer. The purpose of the fast track designation is to aid in the development, and expedite the review, of drugs that have the potential to treat a serious or life-threatening disease. Currently we have two Phase III studies underway — one launched in the United States for advanced refractory colorectal cancer and another in Europe for symptomatic colorectal cancer. If these trials are successful, we will seek marketing approvals for MABp1 (Xilonix™) in Europe and/or in the United States. Assuming such marketing approvals are obtained, we would distribute and sell this product through our own direct sales force or with a commercial partner.

We are also investigating MABp1 in clinical trials for other indications including the treatment of vascular disease, Type 2 diabetes, acne and psoriasis. In a randomized Phase II study involving 43 patients, we evaluated MABp1 for its ability to reduce adverse events after balloon angioplasty, atherectomy or stent placement in patients undergoing revascularization procedures for blockage of the superficial femoral artery (SFA), a major artery in the leg. While the study did not involve a large enough patient population to provide a statistically significant outcome, results from this study showed an important trend towards the reduction of restenosis and

reduced incidence of Major Adverse Cardiovascular Events ("MACE") in treated patients compared to the control group. In 2012, we obtained a fast track designation to develop MABp1 as a therapy to reduce the need for re-intervention after treatment of peripheral vascular disease with angioplasty or other endovascular methods of treatment.

In a Phase II pilot study completed in 2012, we tested MABp1 in patients with Type 2 diabetes. A treatment-related decline in HbA1c, and increased serum levels of pro-insulin and C-peptide (indicators of improved glucose control and pancreas function, respectively) were observed. We also conducted two Phase II pilot studies in skin disease, evaluating the potential benefit of MABp1 in subjects with (1) moderate to severe plaque psoriasis and (2) moderate to severe acne vulgaris. The psoriasis study revealed rapid improvements in the Psoriasis Area and Severity Index (PASI), with patients having a median of 43% improvement within 35 days. In the acne study, treated patients exhibited a continual improvement in lesions over the course of therapy, with up to 42% reduction in eight weeks; and interestingly, these patients had a statistically significant improvement in anxiety, as measured by the Hospital Anxiety and Depression Scale (HADS). We continue to analyze our clinical results, and prioritize further clinical initiatives for MABp1 in oncology, SFA, diabetes, psoriasis and acne.

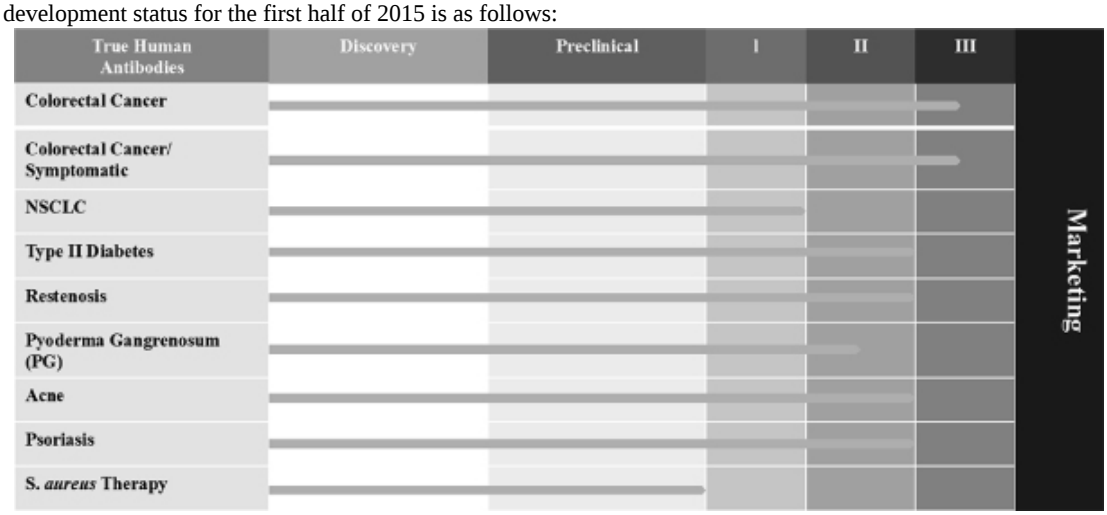
We recently filed an Investigational New Drug Application (IND) for a Phase I/II randomized clinical study to assess our True Human antibody therapy for the treatment of serious infections due to Staphylococcus *aureus.* This product candidate was identified from an individual that harbored a natural antibody capable of neutralizing S. *aureus*, including drug-resistant strains of the bacteria. The study is currently on clinical hold while, at the request of the FDA, we complete an animal toxicology study. We expect to complete the animal study during the first quarter of 2015.

More recently, we have begun using our True Human™ antibody technology to begin developing a therapy for Ebola virus infection. We recently received blood donations from Ebola-recovered patients which we have now confirmed contain high levels of anti-Ebola antibodies. A product candidate derived from these donations is expected to go into animal studies in 2015.

Our True Human™ antibody therapeutics are developed in-house using our proprietary discovery platform. Identifying True Human™ antibodies useful for therapeutics may involve screening thousands of blood donors. To distinguish the clinically relevant antibodies from irrelevant background antibody molecules in donor bloods, we use our Super High Stringency Antibody Mining (SHSAM™) technology. After we identify antibodies through our in-house discovery platform, we undertake a complex process to identify the genes responsible for producing the native antibody. Once the nucleic acid sequence is isolated, we are able to clone these genes into production cells. All patents and other intellectual property relating to both the composition of matter and methods of use of our True Human™ antibodies were developed internally by us. We manufacture these antibodies that includes using a proprietary expression system licensed from Lonza Sales AG. The other components of our manufacturing system – some proprietary and some non-proprietary – were all developed internally by us.

A key aspect of our manufacturing system involves the use of simple disposable bioreactor technology. Our manufacturing operation is currently located within our 46,000 square foot facility in Austin, Texas. To accommodate larger-scale commercial manufacturing needs, we purchased 48 acres of industrial-zoned property located five miles from Austin's central business district. In September 2014, we commenced ground-breaking on a new manufacturing facility on this property. Construction is estimated to be completed by late 2015, and we expect to begin operating in the new facility in early 2016. The new facility will be capable of producing several hundred thousand doses of antibody annually.

Our product development status for the first half of 2015 is as follows:



Our Strategy

Our objective is to fundamentally change the way therapeutic antibodies are developed and commercialized, and become a leading biopharmaceutical company focused on the discovery, development and commercialization of therapeutic True Human™ antibodies. The key goals of our business strategy are to:

- Obtain regulatory approval to market and sell Xilonix™ in the United States, Europe and other markets, and begin commercial sale of Xilonix™;
- Continue our research and clinical work on infectious diseases, including S. *aureus*;
- Review our clinical results for SFA, diabetes, psoriasis and acne and determine additional research or clinical studies which we may conduct in the future;
- Discover other True Human™ antibody therapies using our proprietary platform; and
- Leverage our manufacturing technology.

Risks Associated with Our Business

An investment in our common stock involves a high degree of risk. We are subject to a number of risks of which you should be aware of before you decide to buy our common stock. These risks are discussed more fully in "Risk Factors." The following highlights a few of the most significant risks which we face:

- We have a history of operating losses. As of December 31, 2014, we had an accumulated deficit of $93.2 million. We expect to continue to incur operating losses for the foreseeable future, and we have never achieved or sustained profitability.
- We will likely need to obtain additional capital, beyond capital raised in this offering, to continue operations.
- Our success depends on the regulatory approval and commercialization of Xilonix™ and any future product candidates.
- We are subject to regulatory approval processes that are lengthy, time consuming and unpredictable; we may not obtain approval for Xilonix™ or any of our future product candidates from the FDA or foreign regulatory authorities.

- It is difficult and costly to protect our intellectual property rights.

Implications of Being an Emerging Growth Company

As a company with less than $1.0 billion in revenues during our last fiscal year, we qualify as an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. An emerging growth company may take advantage of specified reduced reporting requirements that are otherwise applicable generally to public companies. These provisions include:

- A requirement to have only two years of audited financial statements and only two years of related Management's Discussion and Analysis of Financial Condition and Results of Operations;
- An exemption from compliance with the auditor attestation requirement on the effectiveness of our internal controls over financial reporting;
- An exemption from compliance with any requirement that the Public Company Accounting Oversight Board may adopt regarding mandatory audit firm rotation or a supplement to the auditor's report providing additional information about the audit and the financial statements;
- Reduced disclosure about our executive compensation arrangements; and
- Exemptions from the requirements to obtain a non-binding advisory vote on executive compensation or a shareholder approval of any golden parachute arrangements.

Under the JOBS Act, we will remain an "emerging growth company" until the earliest of: (a) the last day of the fiscal year during which we have total annual gross revenue of $1.0 billion or more; (b) the last day of the fiscal year following the fifth anniversary of the effective date of the registration statement of which this prospectus forms a part; (c) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt; or (d) the date on which we are deemed to be a "large accelerated filer" under the Securities Exchange Act of 1934, as amended, or the Exchange Act (we will qualify as a large accelerated filer as of the first day of the first fiscal year after we have (i) more than $700 million in outstanding common equity held by our non-affiliates and (ii) been public for at least 12 months; the value of our outstanding common equity will be measured each year on the last day of our second fiscal quarter).

We may choose to take advantage of some of the available benefits under the JOBS Act, and have taken advantage of some reduced reporting requirements in this prospectus. Accordingly, the information contained herein may be different from the information contained in prospectuses from other United States public companies.

In addition, the JOBS Act provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This provision allows an emerging growth company to delay the adoption of some accounting standards until those standards would otherwise apply to private companies. However, we are choosing to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Corporate Information

We were incorporated under the Canada Business Corporations Act on March 22, 2005 and were continued under the British Columbia Business Corporations Act on September 23, 2005. We have four wholly-owned subsidiaries: XBiotech USA, Inc., formed under the laws of Delaware, XBiotech Switzerland AG formed under the laws of Switzerland; XBiotech Japan K.K,. formed under the laws of Japan and XBiotech Germany GmbH formed under the laws of Germany.

Unless the context otherwise requires, any reference to “XBiotech”, “we”, “our” and “us” in this prospectus refers to XBiotech, Inc. and its subsidiaries. Our principal place of business is at 8201 E. Riverside Side, Building 4, Suite 100, Austin, Texas 78744. Our telephone number is (512) 386-2900 and our facsimile number is (512) 386-5505. We also maintain a web site at *www.xbiotech.com*. The information contained in, or that can be accessed through our website is not a part of this prospectus.

The Offering	
Common stock to be offered:	4,000,000 shares of common stock
Common stock to be outstanding after the offering	31,716,631 shares(1)
Trading symbol:	We have applied to list our common stock on the NASDAQ Global Market under the trading symbol "XBIT."
Use of proceeds:	We estimate that the net proceeds from this offering will be approximately $70.9 million, based upon an assumed initial public offering price of $19 per share (the midpoint of the price range set forth on the cover page of this prospectus), after deducting the estimated underwriting discounts and commissions, and estimated offering expenses payable by us. We currently expect to use the net proceeds from this offering: to fund clinical trials for Xilonix™ and our other products, and for working capital and general corporate purposes. See "Use of Proceeds" for more information.
Risk factors:	This offering involves a high degree of risk. You should not consider a purchase of the shares unless you can afford to lose your entire investment. See "Risk Factors," as well as other cautionary statements throughout this prospectus, before investing in shares of our common stock.

(1) The number of shares of common stock outstanding after this offering is based on 27,716,631 shares of common stock outstanding at March 9, 2015 and excludes as of that date: (a) 208,333 shares of common stock issuable upon exercise of warrants outstanding at a weighted-average exercise price of $15.00 per share; (b) 4,884,165 shares issuable upon exercise of stock options at a weighted-average exercise price of $7.03 per share, (c) 1,018,635 shares of common stock available for grant under our 2005 Incentive Stock Option Plan and (d) 1 million shares available for grant under our 2015 Equity Incentive Plan.

Summary Financial Data

The following summary consolidated statements of operations data for the years ended December 31, 2012, 2013 and 2014 and the following selected consolidated balance sheet data as of December 31, 2014 are derived from our audited financial statements included elsewhere in this prospectus. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus.

Consolidated Statements of Operations

	Year Ended December 31,		
	2012	2013	2014
Statement of Operations Data			
Operating expenses:			
Research and development	$ 13,334	$ 7,935	$ 14,329
General and administrative	1,829	1,990	7,449
Total operating expenses	15,163	9,925	21,778
Loss from operations	(15,163)	(9,925)	(21,778)
Other income (loss):			
Interest income	3	1	1
Foreign exchange gain (loss)	—	(3)	53
Total other income (loss):	3	(2)	54
Net loss	(15,160)	(9,927)	(21,724)
Net loss per common share—basic and diluted	$ (0.71)	$ (0.45)	$ (0.90)
Weighted average number of common shares—basic and diluted	21,294,369	22,220,416	24,162,700

The pro forma balance sheet gives further effect to our issuance and sale of 4,000,000 shares of our common stock in this offering at an assumed initial public offering price of $19 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	At December 31, 2014	
	Actual	Pro forma
	(in thousands)	
Balance sheet data		
Cash and cash equivalents	$57,329	$128,266
Working capital	54,917	125,854
Total assets	62,177	133,114
Total shareholders' equity	59,030	129,967

RISK FACTORS

Investing in our common stock involves a number of risks. You should not invest unless you are able to bear the complete loss of your investment. In addition to the risks and investment considerations discussed elsewhere in this prospectus, the following factors should be carefully considered by anyone purchasing the securities offered by this prospectus. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business could be harmed. In such case, the trading price of our common stock could decline and investors could lose all or a part of the money paid to buy our common stock.

Risks Related to our Financial Condition and Capital Requirements

We have incurred significant operating losses every quarter since our inception and anticipate that we will continue to incur significant operating losses in the future.

We are a clinical-stage pharmaceutical company with no revenue and a limited operating history. Investment in pharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate efficacy or an acceptable safety profile, gain regulatory approval or become commercially viable. We do not have any products approved by regulatory authorities for marketing or commercial sale and have not generated any revenue from product sales, or otherwise, to date, and we continue to incur significant research, development and other expenses related to our ongoing operations. As a result, we are not profitable and have incurred losses in every reporting period since our inception in 2005. For the years ended December 31, 2012, 2013 and 2014, we reported a net loss of $15.2 million, $9.9 million and $21.7 million, respectively. As of December 31, 2014, we had an accumulated deficit since inception of $93.2 million.

We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate these losses will increase as we continue the research and development of, and seek regulatory approvals for, Xilonix™ and any of our other product candidates, and potentially begin to commercialize any products that may achieve regulatory approval. We may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our financial condition. The amount of our future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenues. Our prior losses and expected future losses have had, and will continue to have, an adverse effect on our financial condition. If Xilonix™ or any other product candidate fails in clinical trials or does not gain regulatory approval, or if approved, fails to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

Even if this offering is successful, we will need to raise significant additional funding, which may not be available on acceptable terms, if at all. Failure to obtain this necessary capital when needed may force us to delay, limit or terminate our product development efforts or other operations.

Since inception, we have dedicated a majority of our resources to the discovery and development of our proprietary preclinical and clinical product candidates, and we expect to continue to expend substantial resources doing so for the foreseeable future. These expenditures will include costs associated with conducting research and development, manufacturing product candidates and products approved for sale, conducting preclinical experiments and clinical trials and obtaining and maintaining regulatory approvals, as well as commercializing any products later approved for sale. During the year ended December 31, 2014, we recognized approximately $14.3 million in expenses associated with research and development and clinical trials.

Our anticipated net proceeds from this offering are not expected to be sufficient to complete clinical development of any of our product candidates nor prepare to commercialize any product candidate which

receives regulatory approval. Accordingly, we will likely require substantial additional capital beyond this offering to continue our clinical development and potential commercialization activities. Our future capital requirements depend on many factors, including but not limited to:

- the number and characteristics of the future product candidates we pursue;
- the scope, progress, results and costs of independently researching and developing any of our future product candidates, and conducting preclinical research and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for any future product candidates we develop independently;
- the cost of future commercialization activities for Xilonix™ and the cost of commercializing independently any future products approved for sale;
- the cost of manufacturing our future products; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patents, including litigation costs and the outcome of any such litigation.

We are unable to estimate the funds we will actually require to complete research and development of our product candidates or the funds required to commercialize any resulting product in the future or the funds that will be required to meet other expenses.

Upon the completion of this offering, based upon our anticipated operating expenditures, we expect that the net proceeds from this offering, together with our cash and cash equivalents of approximately $57.3 million as of December 31, 2014, will be sufficient to fund our current operations for the next 30 months. However, we plan to substantially expand our operations, and as a result of many factors, some of which may be currently unknown to us, our expenses may be higher than expected. We may need to seek additional funds sooner than planned, through public or private equity or debt financings, government or other third-party funding, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements or a combination of these approaches. Raising funds in the future may present additional challenges and future financing may not be available in sufficient amounts or on terms acceptable to us, if at all.

Raising additional capital may cause dilution to our existing shareholders, restrict our operations or require us to relinquish rights to our technologies or product candidates.

The terms of any financing arrangements we enter into may adversely affect the holdings or the rights of our shareholders and the issuance of additional securities, by us, or the possibility of such issuance, may cause the market price of our shares to decline. The sale of additional equity or convertible securities would dilute all of our shareholders. The incurrence of indebtedness would result in increased fixed payment obligations and, potentially, the imposition of restrictive covenants. Those covenants may include limitations on our ability to incur additional debt, limitations on our ability to acquire, sell or license intellectual property rights and other operating restrictions that could adversely impact our ability to conduct our business. We could also be required to seek funds through arrangements with collaborators or otherwise at an earlier stage than otherwise would be desirable resulting in the loss of rights to some of our product candidates or other unfavorable terms, any of which may have a material adverse effect on our business, operating results and prospects. In addition, additional fundraising efforts may divert our management from their day-to-day activities, which may adversely affect our ability to develop and commercialize our products.

Risks Related to Our Business

We currently have no source of product revenue and may never become profitable.

To date, we have not generated any revenues from commercial product sales, or otherwise. Our ability to generate revenue in the future from product sales and achieve profitability will depend upon our ability, alone or with any future collaborators, to commercialize products successfully, including Xilonix™ or any future product

candidates that we may develop, in-license or acquire in the future. Even if we are able to achieve regulatory approval successfully for Xilonix™ or any future product candidates, we do not know when any of these products will generate revenue from product sales, if at all. Our ability to generate revenue from product sales from Xilonix™ or any of our other product candidates also depends on a number of additional factors, including our ability to:

- complete development activities, including the necessary clinical trials;
- complete and submit new drug applications, or NDAs, to the United States Food and Drug Administration, or FDA, and obtain regulatory approval for indications for which there is a commercial market;
- complete and submit applications to, and obtain regulatory approval from, foreign regulatory authorities;
- establish our manufacturing operations;
- develop a commercial organization capable of sales, marketing and distribution for Xilonix™ and any products for which we obtain marketing approval and intend to sell ourselves in the markets in which we choose to commercialize on our own;
- find suitable distribution partners to help us market, sell and distribute our approved products in other markets;
- obtain coverage and adequate reimbursement from third-party payors, including government and private payors;
- achieve market acceptance for our products, if any;
- establish, maintain and protect our intellectual property rights; and
- attract, hire and retain qualified personnel.

In addition, because of the numerous risks and uncertainties associated with pharmaceutical product development, including that Xilonix™ or any other product candidates may not advance through development or achieve the endpoints of applicable clinical trials, we are unable to predict the timing or amount of increased expenses, or when or if we will be able to achieve or maintain profitability. In addition, our expenses could increase beyond expectations if we decide to or are required by the FDA, or foreign regulatory authorities, to perform studies or trials in addition to those that we currently anticipate. Even if we are able to complete the development and regulatory process for Xilonix™ or any other product candidates, we anticipate incurring significant costs associated with commercializing these products.

Even if we are able to generate revenues from the sale of Xilonix™ or any other product candidates that may be approved, we may not become profitable and may need to obtain additional funding to continue operations. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce our operations.

Our future success is dependent on the regulatory approval and commercialization of Xilonix™ and any of our other product candidates.

We do not have any products that have gained regulatory approval. Our lead product, Xilonix™, is currently in two Phase III clinical trials in the United States and in Europe, respectively. As a result, our near-term prospects, including our ability to finance our operations and generate revenue, are substantially dependent on our ability to obtain regulatory approval for, and, if approved, to successfully commercialize Xilonix™ in a timely manner. We cannot commercialize Xilonix™ or our other product candidates in the United States without first obtaining regulatory approval for each product and each indication for use from the FDA; similarly, we cannot commercialize Xilonix™ or any of our other potential product candidates outside of the United States without obtaining regulatory approval from comparable foreign regulatory authorities. The FDA review process

typically takes years to complete and approval is never guaranteed. Before obtaining regulatory approvals for the commercial sale of any Xilonix™ or our other product candidates for a target indication, we must demonstrate with substantial evidence gathered in preclinical and well-controlled clinical studies, generally including two well-controlled Phase 3 trials, and, with respect to approval in the United States, to the satisfaction of the FDA, that the product candidate is safe and effective for use for that target indication and that the manufacturing facilities, processes and controls are adequate. Obtaining regulatory approval for marketing of Xilonix™ or our future product candidates in one country does not ensure we will be able to obtain regulatory approval in other countries but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in other countries.

Even if Xilonix™ or any of our other product candidates were to successfully obtain approval from the FDA and comparable foreign regulatory authorities, any approval might contain significant limitations related to use restrictions for specified age groups, warnings, precautions or contraindications, or may be subject to burdensome post-approval study or risk management requirements. If we are unable to obtain regulatory approval for Xilonix™ in one or more jurisdictions, or any approval contains significant limitations, we may not be able to obtain sufficient funding or generate sufficient revenue to continue the development of any of our other product candidates that we are developing or may discover, in-license, develop or acquire in the future. Also, any regulatory approval of any of Xilonix™ or our other product candidates, once obtained, may be withdrawn. Furthermore, even if we obtain regulatory approval for Xilonix™, the commercial success of Xilonix™ will depend on a number of factors, including the following:

- development of a commercial organization or establishment of a commercial collaboration with a commercial infrastructure;
- establishment of commercially viable pricing and obtaining approval for adequate reimbursement from third-party and government payors;
- our ability to manufacture quantities of Xilonix™ using commercially sufficient processes and at a scale sufficient to meet anticipated demand and enable us to reduce our cost of manufacturing;
- our success in educating physicians and patients about the benefits, administration and use of Xilonix™;
- the availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing treatments;
- the effectiveness of our own or our potential strategic collaborators' marketing, sales and distribution strategy and operations;
- acceptance of Xilonix™ as safe and effective by patients and the medical community; and
- a continued acceptable safety profile of Xilonix™ following approval.

Many of these factors are beyond our control. If we are unable to successfully commercialize Xilonix™, we may not be able to earn sufficient revenues to continue our business.

Because the results of earlier clinical trials are not necessarily predictive of future results, Xilonix™ which is currently in Phase III clinical trials, or any other product candidate we advance into clinical trials, may not have favorable results in later clinical trials or receive regulatory approval.

Success in preclinical testing and early clinical trials does not ensure that later clinical trials will generate adequate data to demonstrate the efficacy and safety of an investigational drug. A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience, have suffered significant setbacks in clinical trials, even after seeing promising results in earlier clinical trials. Despite the results reported in earlier clinical trials for Xilonix™, we do not know whether the clinical trials we are conducting, or may conduct, will demonstrate adequate efficacy and safety to result in regulatory approval to market Xilonix™ or any of our other product candidates in any particular jurisdiction. Even if we believe that we

have adequate data to support an application for regulatory approval to market our product candidates, the FDA or other applicable foreign regulatory authorities may not agree and may require us to conduct additional clinical trials. If later-stage clinical trials do not produce favorable results, our ability to achieve regulatory approval for any of our product candidates may be adversely impacted.

If we are unable to enroll subjects in clinical trials, we will be unable to complete these trials on a timely basis.

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population, the proximity of subjects to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, ability to obtain and maintain patient consents, risk that enrolled subjects will drop out before completion, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating. Furthermore, we rely on Clinical Research Organizations (CROs) and clinical trial sites to ensure the proper and timely conduct of our clinical trials, and while we have agreements governing their committed activities, we have limited influence over their actual performance. We may experience delays in enrolling subjects in our trials and may not be able to enroll sufficient subjects to complete the trials.

If we experience delays in the completion or termination of, any clinical trial of Xilonix™ or any future product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do, and jeopardize our ability to commence product sales, which would impair our ability to generate revenues and may harm our business, results of operations, financial condition and cash flows and future prospects. In addition, many of the factors that could cause a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of Xilonix™ or our other product candidates.

The regulatory approval processes of the FDA and comparable foreign regulatory authorities are lengthy, time consuming and inherently unpredictable, and if we are ultimately unable to obtain regulatory approval for Xilonix™ or our other product candidates, our business will fail.

The time required to obtain approval by the FDA and comparable foreign regulatory authorities is unpredictable, but typically takes many years following the commencement of preclinical studies and clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. We have not obtained regulatory approval for any product candidate, and it is possible that neither Xilonix™ nor any other product candidates we are developing or may discover, in-license or acquire and seek to develop in the future will ever obtain regulatory approval.

Our product candidates could fail to receive marketing approval from the FDA or a comparable foreign regulatory authority for many reasons, including:

- disagreement over the design or implementation of our clinical trials;
- failure to demonstrate that a product candidate is safe;
- failure of clinical trials to meet the level of statistical significance required for approval;
- failure to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;
- disagreement over our interpretation of data from preclinical studies or clinical trials;
- disagreement over whether to accept efficacy results from clinical trial sites outside the United States where the standard of care is potentially different from that in the United States;

- the insufficiency of data collected from clinical trials of Xilonix™ or our other product candidates to support the submission and filing of an NDA or other submission or to obtain regulatory approval;
- irreparable or critical compliance issues relating to our manufacturing process; or
- changes in the approval policies or regulations that render our preclinical and clinical data insufficient for approval.

The FDA or a comparable foreign regulatory authority may require more information, including additional preclinical or clinical data to support approval, which may delay or prevent approval and our commercialization plans, or we may decide to abandon the development program altogether. Even if we do obtain regulatory approval, Xilonix™ or our other product candidates may be approved for fewer or more limited indications than we request, approved contingent on the performance of costly post-marketing clinical trials, or approved with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. In addition, if Xilonix™ or our other product candidate produces undesirable side effects or safety issues, the FDA may require the establishment of Risk Evaluation Mitigation Strategies, or REMS, or a comparable foreign regulatory authority may require the establishment of a similar strategy, that may, restrict distribution of our products and impose burdensome implementation requirements on us. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates.

Even if we believe our current or planned clinical trials are successful, the FDA may not agree that our completed clinical trials provide adequate data on the safety or efficacy of Xilonix™ or our other product candidates to permit us to proceed to additional clinical trials. Approval by comparable foreign regulatory authorities does not ensure approval by the FDA and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. We may not be able to file for regulatory approvals and even if we file we may not receive the necessary approvals to commercialize our products in any market.

Xilonix™ or our other product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following any marketing approval.

Undesirable side effects caused by Xilonix™ or our other product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other comparable foreign regulatory authority. If toxicities occur in our current or future clinical trials, they could cause delay or even discontinuance of further development of Xilonix™ or other product candidates, which would impair our ability to generate revenues and would have a material adverse effect our business, results of operations, financial condition and cash flows and future prospects. To date, the majority of adverse events observed in clinical trials of Xilonix™ have been mild and have not resulted in discontinuation of therapy. There have been no serious side effects observed that appear to be related to administration of Xilonix in our clinical trials. There can be no assurance that side-effects from Xilonix™ in future clinical trials will continue to be mild or that side-effects in general will not prompt the discontinued development of Xilonix™ or other product candidates. If serious side effects or other safety or toxicity issues are experienced in our clinical trials in the future, we may not receive approval to market Xilonix™ or any other product candidates, which could prevent us from ever generating revenues or achieving profitability. Results of our trials could reveal an unacceptably high severity and prevalence of side effects. In such an event, our trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our product candidates for any or all targeted indications. The drug-related side effects could affect patient recruitment or the ability of enrolled subjects to complete the trial or result in potential product liability claims. Any of these occurrences may have a material adverse effect on our business, results of operations, financial condition and cash flows and future prospects.

Additionally, if Xilonix™ or any of our other product candidates receives marketing approval, and we or others later identify undesirable side effects caused by such product, a number of potentially significant negative consequences could result, including:

- we may be forced to suspend marketing of such product;
- regulatory authorities may withdraw their approvals of such product;
- regulatory authorities may require additional warnings on the label that could diminish the usage or otherwise limit the commercial success of such product;
- the FDA or other regulatory bodies may issue safety alerts, Dear Healthcare Provider letters, press releases or other communications containing warnings about such product;
- the FDA may require the establishment or modification of REMS or a comparable foreign regulatory authority may require the establishment or modification of a similar strategy that may, for instance, restrict distribution of our product and impose burdensome implementation requirements on us;
- we may be required to change the way the product is administered or conduct additional clinical trials;
- we could be sued and held liable for harm caused to subjects or patients;
- we may be subject to litigation or product liability claims; and
- our reputation may suffer.

Any of these events could prevent us from achieving or maintaining market acceptance of the particular product candidate, if approved.

Even if Xilonix™ or our other product candidates receive regulatory approval, they may still face future development and regulatory difficulties.

Even if we obtain regulatory approval for Xilonix™ or another product candidate, it would be subject to ongoing requirements by the FDA and comparable foreign regulatory authorities governing the manufacture, quality control, further development, labeling, packaging, storage, distribution, safety surveillance, import, export, advertising, promotion, recordkeeping and reporting of safety and other post-market information. The safety profile of any product will continue to be closely monitored by the FDA and comparable foreign regulatory authorities after approval. If the FDA or comparable foreign regulatory authorities become aware of new safety information after approval of Xilonix™ or any other product candidate, they may require labeling changes or establishment of a REMS or similar strategy, impose significant restrictions on a product's indicated uses or marketing, or impose ongoing requirements for potentially costly post-approval studies or post-market surveillance. For example, the label ultimately approved for Xilonix™, if it achieves marketing approval, may include restrictions on use.

In addition, manufacturers of drug products and their facilities are subject to continual review and periodic inspections by the FDA and other regulatory authorities for compliance with current good manufacturing practices, or GMP, and other regulations. If we or a regulatory agency discover previously unknown problems with a product, such as adverse events of unanticipated severity or frequency, or problems with the facility where the product is manufactured, a regulatory agency may impose restrictions on that product, our manufacturing facility, including requiring recall or withdrawal of the product from the market or suspension of manufacturing. If we, our product candidates or our manufacturing facilities for our product candidates fail to comply with applicable regulatory requirements, a regulatory agency may:

- issue warning letters or untitled letters;
- impose restrictions on the marketing or manufacturing of the product candidates;

- mandate modifications to promotional materials or require us to provide corrective information to healthcare practitioners;
- require us or any future collaborator to enter into a consent decree, which can include imposition of various fines, reimbursements for inspection costs, required due dates for specific actions and penalties for noncompliance;
- seek an injunction or impose civil or criminal penalties or monetary fines;
- suspend or withdraw regulatory approval;
- suspend any ongoing clinical trials;
- refuse to approve pending applications or supplements to applications filed by us;
- suspend or impose restrictions on operations, including costly new manufacturing requirements; or
- seize or detain products, refuse to permit the import or export of products, or require us to initiate a product recall.

The occurrence of any event or penalty described above may inhibit our ability to commercialize Xilonix™ or any other product candidates and generate revenue.

The FDA strictly regulates the advertising and promotion of drug products, and drug products may only be marketed or promoted for their FDA approved uses, consistent with the product's approved labeling. Advertising and promotion of any product candidate that obtains approval in the United States will be heavily scrutinized by the FDA, the Department of Justice, or the DOJ, the Office of Inspector General of the Department of Health and Human Services, or HHS, state attorneys general, members of Congress and the public. Violations, including promotion of our products for unapproved or off-label uses, are subject to enforcement letters, inquiries and investigations, and civil, criminal and/or administrative sanctions by the FDA. Additionally, advertising and promotion of, any product candidate that obtains approval outside of the United States will be heavily scrutinized by comparable foreign regulatory authorities.

In the United States, engaging in impermissible promotion of our future products for off-label uses can also subject us to false claims litigation under federal and state statutes, which can lead to civil, criminal and/or administrative penalties and fines and agreements that materially restrict the manner in which we promote or distribute our drug products. These false claims statutes include the federal False Claims Act, which allows any individual to bring a lawsuit against a pharmaceutical company on behalf of the federal government alleging submission of false or fraudulent claims, or causing to present such false or fraudulent claims, for payment by a federal program such as Medicare or Medicaid. If the government prevails in the lawsuit, the individual may share in any fines or settlement funds. Since 2004, these False Claims Act lawsuits against pharmaceutical companies have increased significantly in volume and breadth, leading to several substantial civil and criminal settlements based on certain sales practices promoting off-label drug uses. This growth in litigation has increased the risk that a pharmaceutical company will have to defend a false claim action, pay settlement fines or restitution, agree to comply with burdensome reporting and compliance obligations, and be excluded from the Medicare, Medicaid and other federal and state healthcare programs. If we do not lawfully promote our approved products, we may become subject to such litigation and, if we are not successful in defending against such actions, those actions could have a material adverse effect our business, results of operations, financial condition and cash flows and future prospects.

Existing government regulations may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of Xilonix™ or any other product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and/or be subject to fines or enhanced government oversight and reporting obligations, which would adversely affect our business, prospects and ability to achieve or sustain profitability.

Failure to obtain regulatory approval in foreign jurisdictions would prevent Xilonix™ or any other product candidates from being marketed in those jurisdictions.

In order to market and sell our products in the European Union and many other jurisdictions, we must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, it is required that the product be approved for reimbursement before the product can be approved for sale in that country. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for us and could delay or prevent the introduction of our products in certain countries. We may not obtain approvals from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. A failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory approval process in others. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our products in any market. If we are unable to obtain approval of Xilonix™ for any of our other product candidates by regulatory authorities in the European Union or another jurisdiction, the commercial prospects of that product candidate may be significantly diminished and our business prospects could decline.

Even if we are able to commercialize Xilonix™ or our other product candidates, the products may not receive coverage and adequate reimbursement from third-party payors, which could harm our business.

Our ability to commercialize any products successfully will depend, in part, on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government authorities, private health insurers, health maintenance organizations and third-party payors. Patients who are prescribed medications for the treatment of their conditions generally rely on third-party payors to reimburse all or part of the costs associated with their prescription drugs. Coverage and adequate reimbursement from government healthcare programs, such as Medicare and Medicaid, and private health insurers are critical to new product acceptance. Patients are unlikely to use Xilonix™ or our other product candidates unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our product candidates. A primary trend in the United States healthcare industry and elsewhere is cost containment. As a result, government authorities and other third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Third-party payors may also seek additional clinical evidence, beyond the data required to obtain marketing approval, demonstrating clinical benefits and value in specific patient populations before covering our products for those patients. We cannot be sure that coverage and adequate reimbursement will be available for any product that we commercialize and, if reimbursement is available, what the level of reimbursement will be. Coverage and reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If coverage and reimbursement are not available or are available only at limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval.

There may be significant delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or comparable foreign regulatory authorities. Moreover, obtaining coverage does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sales and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may only be temporary. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used. Reimbursement rates may also be based in part on existing reimbursement amounts for lower cost drugs or may be bundled into the payments for other services. Net prices for drugs may be reduced by

mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Coverage and reimbursement for drug products can differ significantly from payor to payor. As a result, the coverage and reimbursement determination process is often a time-consuming and costly process with no assurance that coverage and adequate reimbursement will be obtained or applied consistently. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own coverage and reimbursement policies. Our inability to promptly obtain coverage and profitable reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

We have never marketed a drug before, and if we are unable to establish an effective sales force and marketing infrastructure, or enter into acceptable third-party sales and marketing or licensing arrangements, we may be unable to generate any revenue.

We do not currently have an infrastructure for the sales, marketing and distribution of pharmaceutical drug products and the cost of establishing and maintaining such an infrastructure may exceed the cost-effectiveness of doing so. In order to market any products that may be approved by the FDA and comparable foreign regulatory authorities, we must build our sales, marketing, managerial and other non-technical capabilities or make arrangements with third parties to perform these services for which we would incur substantial costs. If we are unable to establish adequate sales, marketing and distribution capabilities, whether independently or with third parties, we may not be able to generate product revenue and may not become profitable. We will be competing with many companies that currently have extensive and well-funded sales and marketing operations. Without an internal commercial organization or the support of a third party to perform sales and marketing functions, we may be unable to compete successfully against these more established companies.

Xilonix™ and our other product candidates, if approved, may not achieve adequate market acceptance among physicians, patients, and healthcare payors and others in the medical community necessary for commercial success.

Even if we obtain regulatory approval for Xilonix™ or any of our other product candidates, such product(s) may not gain market acceptance among physicians, healthcare payors, patients or the medical community. Our commercial success also depends on coverage and adequate reimbursement of our product candidates by third-party payors, including government payors, generally, which may be difficult or time-consuming to obtain, may be limited in scope and may not be obtained in all jurisdictions in which we may seek to market our products. Market acceptance of any of our product candidates for which we receive approval depends on a number of factors, including:

- the efficacy and safety of such product candidates as demonstrated in clinical trials;
- the clinical indications for which the product candidate is approved;
- acceptance by physicians and patients of the product candidate as a safe and effective treatment;
- the potential and perceived advantages of product candidates over alternative treatments;
- the safety of product candidates seen in a broader patient group, including a product candidate’s use outside the approved indications;
- the prevalence and severity of any side effects;
- product labeling or product insert requirements of the FDA or other regulatory authorities;
- the timing of market introduction of our products as well as competitive products;
- the cost of treatment in relation to alternative treatments;
- the availability of coverage and adequate reimbursement and pricing by third-party payors and government authorities;

- relative convenience and ease of administration;
- the effectiveness of our sales and marketing efforts and those of our collaborators; and
- unfavorable publicity relating to the product candidate.

If any of our product candidates are approved but fail to achieve market acceptance among physicians, patients, or healthcare payors, we will not be able to generate significant revenues, which would compromise our ability to become profitable.

Our Ebola research may not succeed.

We have received blood donations from two patients that had each recently recovered from Ebola infection. The blood donations are to be used in development of a True Human™ antibody therapeutic that could be used to treat patients infected by the virus. In the case of one patient, we agreed to comply with the patent's wishes that in the event an Ebola therapy derived from the donation was marketed, a percentage of the gross proceeds of all sales from such product would be used to provide drugs at no cost for those persons unable to afford therapy. However, there is no assurance that we will be able to develop a therapy. Even if we succeed in isolating appropriate antibodies, the regulatory process to determine their safety and effectiveness would likely take years to complete at substantial expense, with no assurance that a drug will ever be approved for marketing.

Even an effective ebola drug might not be commercially successful.

Even if we ultimately succeed in creating a safe and effective drug based on human antibodies that resist Ebola, there is no assurance it would be commercially successful. Competitive products might become available faster or with lower costs or adverse risks to patients, resulting in few sales of any product developed by XBiotech. Occurrences of Ebola might become sufficiently rare, or victims of Ebola might be sufficiently impoverished, making commercial production uneconomic. XBiotech's promises regarding donation of five percent of any gross revenues from an Ebola drug developed using the blood sample it recently received may adversely impact XBiotech and its shareholders. In addition, we received the blood donations from two patients that had each recently recovered from Ebola infection through our contractual relationship with the South Texas Blood & Tissue Center, a 501(c) not for profit organization (STBTC), and have an obligation to pay STBTC a royalty on any Ebola product that we develop based on these donations, which could further impact the profitability of this drug.

We face substantial competition, which may result in others discovering, developing or commercializing products before or more successfully than we do.

The development and commercialization of new drug products is highly competitive. We face competition with respect to our current lead product candidate, Xilonix™ for the treatment of colorectal cancer from Vectibix ® by Amgen; Erbitux by Bristol Myers Squibb; Cyramza ® by Eli Lilly and Company, Stivarga by Bayer Healthcare Pharmaceuticals and Avastin by Genentech/Roche. Our competitors in the other therapeutic categories that we are addressing which are non-small cell lung cancer, restenosis in peripheral vascular disease, diabetes and psoriasis are Humira from AbbVie, Remicade and Stellara from J&J, Enbrel from Amgen and Necitmumab from Eli Lilly and Company. In the infectious disease area, there are no currently approved monoclonal antibody products, although many have been tried. The leading small-molecule antibiotics are Vancomycin, originally from Eli Lilly and Company now in a generic form from Baxter, Sandoz, Akorn and Hospira; Cubicin (Daptomycin) from Cubist and Dalvance from Durata.

There are a number of large pharmaceutical and biotechnology companies that currently market and sell products or are pursuing the development of products for the treatment of the disease indications for which we are developing our future product candidates. Some of these competitive products and therapies are based on scientific approaches that are the same as or similar to our approach, and others are based on entirely different

approaches. Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization.

More established companies may have a competitive advantage over us due to their greater size, cash flows and institutional experience. Compared to us, many of our competitors may have significantly greater financial, technical and human resources. As a result of these factors, our competitors may obtain regulatory approval of their products before we do, which will limit our ability to develop or commercialize Xilonix™ or any of our other product candidates. In addition, many companies are developing new therapeutics, and we cannot predict what the standard of care will be as our product candidates progress through clinical development.

Our failure to identify, acquire, develop and commercialize successfully additional product candidates or approved products other than Xilonix™ could impair our ability to grow.

Although a substantial amount of our efforts will focus on the continued clinical testing and potential approval of our most advanced product candidate, Xilonix™, a key element of our growth strategy is to develop and/or market additional products and product candidates. All of these potential product candidates remain in the discovery and clinical study stages. Research programs to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Because our internal research capabilities are limited, we may be dependent upon pharmaceutical and biotechnology companies, academic scientists and other researchers to sell or license products or technology to us. The success of this strategy depends partly upon our ability to identify, select and acquire promising pharmaceutical product candidates and products. The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. Any product candidate that we acquire may require additional development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to risks of failure typical of pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities. In addition, we cannot provide assurance that any products that we develop or approved products that we acquire will be manufactured profitably or achieve market acceptance.

Product liability lawsuits against us could cause us to incur substantial liabilities and to limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure related to the testing of Xilonix™ and any other product candidates in clinical trials and will face an even greater risk if we commercially sell any products that we may develop. Product liability claim may be brought against us by subjects enrolled in our clinical trials, patients, healthcare providers or others using, administering or selling our products. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we could incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or products that we may develop;
- termination of clinical trial sites or entire trial programs;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards to trial subjects or patients;

- loss of revenue;
- diversion of management and scientific resources from our business operations; and
- the inability to commercialize our product candidates.

We intend to obtain insurance coverage for products to include the sale of commercial products if we obtain marketing approval for Xilonix™ or our other product candidates, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

We will need to expand our operations and grow the size of our organization, and we may experience difficulties in managing this growth.

As of March 9, 2015, we had 56 employees. As our development and commercialization plans and strategies develop, or as a result of any future acquisitions, we will need additional managerial, operational, sales, marketing, scientific, and financial headcount and other resources. Our management, personnel and systems currently in place may not be adequate to support this future growth. Future growth would impose significant added responsibilities on members of management, including:

- managing our clinical trials effectively, which we anticipate being conducted at numerous clinical sites;
- identifying, recruiting, maintaining, motivating and integrating additional employees with the expertise and experience we will require;
- managing our internal development efforts effectively while complying with our contractual obligations to licensors, licensees, contractors and other third parties;
- managing additional relationships with various strategic partners, suppliers and other third parties;
- improving our managerial, development, operational and finance reporting systems and procedures; and
- expanding our facilities.

Our failure to accomplish any of these tasks could prevent us from successfully growing our Company.

We are highly dependent on our Chief Executive Officer.

Our future success depends in significant part on the continued service of our Chief Executive Officer, John Simard. Mr. Simard is critical to the strategic direction and overall management of our Company as well as our research and development process. Although we have an employment agreement with Mr. Simard, it has no specific duration. The loss of Mr. Simard could adversely affect our business, financial condition and operating results.

We depend on key personnel to operate our business, and many members of our current management team are new. If we are unable to retain, attract and integrate qualified personnel, our ability to develop and successfully grow our business could be harmed.

In addition to the continued services of Mr. Simard, we believe that our future success is highly dependent on the contributions of our significant employees, as well as our ability to attract and retain highly skilled and experienced sales, research and development and other personnel in the United States and abroad. Some of our executives, include our Medical Director, our Vice President of Manufacturing, our Vice President of Quality, our Director of Research, our Director of Quality Control and our Vice President of Finance and Human Resources. Changes in our management team may be disruptive to our business.

All of our employees, including our Chief Executive Officer, are free to terminate their employment relationship with us at any time, subject to any applicable notice requirements, and their knowledge of our business and industry may be difficult to replace. If one or more of our executive officers or significant employees leaves, we may not be able to fully integrate new personnel or replicate the prior working relationships, and our operations could suffer. Qualified individuals with the breadth of skills and experience in the pharmaceutical industry that we require are in high demand, and we may incur significant costs to attract them. Many of the other pharmaceutical companies that we compete against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. Competition for qualified personnel is particularly intense in the Austin area, where our headquarters are located. Our failure to retain key personnel could impede the achievement of our research, development and commercialization objectives.

If we fail to comply with environmental, health and safety laws and regulations, we could become subject to fines or penalties or incur costs that could have a material adverse effect on the success of our business.

We are subject to numerous environmental, health and safety laws and regulations in the United States and elsewhere, including, as a result of our leased laboratory space, those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes.

We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological or hazardous materials. In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

Business disruptions could seriously harm our future revenues and financial condition and increase our costs and expenses.

Our operations could be subject to power shortages, telecommunications failures, water shortages, floods, hurricanes, typhoons, fires, extreme weather conditions, medical epidemics and other natural or manmade disasters or business interruptions, for which we are predominantly self-insured. We do not carry insurance for all categories of risk that our business may encounter. The occurrence of any of these business disruptions could seriously harm our operations and financial condition and increase our costs and expenses. We rely on third-parties to supply various items which are critical for producing our product candidates. Our ability to produce clinical and commercial supplies of product candidates could be disrupted, if the operations of these suppliers are affected by a man-made or natural disaster or other business interruption. The ultimate impact on us, our significant suppliers and our general infrastructure of being consolidated in certain geographical areas is unknown, but our operations and financial condition could suffer in the event of a major earthquake, fire or other natural disaster. Further, any significant uninsured liability may require us to pay substantial amounts, which would adversely affect our business, results of operations, financial condition and cash flows from future prospects.

Risks Related to Intellectual Property

If we are unable to obtain or protect intellectual property rights, our competitive position could be harmed.

We depend on our ability to protect our proprietary technology. We rely on trade secret, patent, copyright and trademark laws, and confidentiality, licensing and other agreements with employees and third parties, all of which offer only limited protection. Our commercial success will depend in large part on our ability to obtain and maintain patent protection in the United States and other countries with respect to our proprietary technology and products. Where we deem appropriate, we seek to protect our proprietary position by filing patent applications in the United States and abroad related to our novel technologies and products that are important to our business. The patent positions of biotechnology and pharmaceutical companies generally are highly uncertain, involve complex legal and factual questions and have in recent years been the subject of much litigation. As a result, the issuance, scope, validity, enforceability and commercial value of our patents, including those patent rights licensed to us by third parties, are highly uncertain.

The steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, both inside and outside the United States. The rights already granted under any of our currently issued patents and those that may be granted under future issued patents may not provide us with the proprietary protection or competitive advantages we are seeking. If we are unable to obtain and maintain patent protection for our technology and products, or if the scope of the patent protection obtained is not sufficient, our competitors could develop and commercialize technology and products similar or superior to ours, and our ability to successfully commercialize our technology and products may be adversely affected.

With respect to patent rights, we do not know whether any of existing patents or pending patent applications for any of our technologies or product candidates will result in the issuance of patents that protect such technologies or products candidates, or if any of our issued patents will effectively prevent others from commercializing competitive technologies and products. Our pending patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless and until a patent issues from such applications. Further, the examination process may require us to narrow the claims for our pending patent applications, which may limit the scope of patent protection that may be obtained if these applications issue. Because the issuance of a patent is not conclusive as to its inventorship, scope, validity or enforceability, issued patents that we own or have licensed from third parties may be challenged in the courts or patent offices in the United States and abroad. Such challenges may result in the loss of patent protection, the narrowing of claims in such patents or the invalidity or unenforceability of such patents, which could limit our ability to stop others from using or commercializing similar or identical technology and products, or limit the duration of the patent protection for our technology and products. Protecting against the unauthorized use of our patented technology, trademarks and other intellectual property rights is expensive, difficult and, in some cases, may not be possible. In some cases, it may be difficult or impossible to detect third-party infringement or misappropriation of our intellectual property rights, even in relation to issued patent claims, and proving any such infringement may be even more difficult.

Intellectual property rights do not necessarily address all potential threats to any competitive advantage we may have.

The degree of future protection afforded by our intellectual property rights is uncertain because intellectual property rights have limitations, and may not adequately protect our business, or permit us to maintain our competitive advantage. The following examples are illustrative:

- Others may be able to make compounds that are the same as or similar to MABp1 or our future product candidates but that are not covered by the claims of the patents that we own or have exclusively licensed.
- We might not have been the first to make the inventions covered by the issued patent or pending patent application that we own or have exclusively licensed.

- We or any of our licensors or strategic partners might not have been the first to file patent applications covering certain of our inventions.
- Others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights.
- It is possible that our pending patent applications will not lead to issued patents.
- Issued patents that we own or have exclusively licensed may not provide us with any competitive advantages, or may be held invalid or unenforceable, as a result of legal challenges by our competitors.
- Our competitors might conduct research and development activities in the United States and other countries that provide a safe harbor from patent infringement claims for certain research and development activities, as well as in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets.
- We may not develop additional proprietary technologies that are patentable.
- The patents of others may have an adverse effect on our business.

Our technology may be found to infringe third-party intellectual property rights.

Third parties may in the future assert claims or initiate litigation related to their patent, copyright, trademark and other intellectual property rights in technology that is important to us. The asserted claims and/or litigation could include claims against us, our licensors or our suppliers alleging infringement of intellectual property rights with respect to our products or components of those products. Regardless of the merit of the claims, they could be time consuming, result in costly litigation and diversion of technical and management personnel, or require us to develop a non-infringing technology or enter into license agreements. We cannot assure you that licenses will be available on acceptable terms, if at all. Furthermore, because of the potential for significant damage awards, which are not necessarily predictable, it is not unusual to find even arguably unmeritorious claims resulting in large settlements. If any infringement or other intellectual property claim made against us by any third party is successful, or if we fail to develop non-infringing technology or license the proprietary rights on commercially reasonable terms and conditions, our business, operating results and financial condition could be materially adversely affected.

If our products, methods, processes and other technologies infringe the proprietary rights of other parties, we could incur substantial costs and we may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all;
- abandon an infringing drug or therapy candidate;
- redesign our products or processes to avoid infringement;
- stop using the subject matter claimed in the patents held by others;
- pay damages; or
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our financial and management resources.

We may need to license intellectual property from third parties, and such licenses may not be available or may not be available on commercially reasonable terms.

A third party may hold intellectual property, including patent rights, that are important or necessary to the development of our products. It may be necessary for us to use the patented or proprietary technology of a third party to commercialize our own technology or products, in which case we would be required to obtain a license

from such third party. A license to such intellectual property may not be available or may not be available on commercially reasonable terms, which could have a material adverse effect on our business and financial condition.

If we are unable to protect the confidentiality of our trade secrets, our business and competitive position would be harmed.

In addition to seeking patents for some of our technology and product candidates, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, contract manufacturers, consultants, advisors and other third parties. We also enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts inside and outside of the United States are less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent them, or those to whom they communicate it, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, our competitive position would be harmed.

Risks Related to This Offering and Owning Shares of Our Common Stock

Purchasers in this offering will suffer immediate dilution.

If you purchase common stock in this offering, the value of your shares based on our actual book value will immediately be less than the offering price you paid. This reduction in the value of your equity is known as dilution. Based upon the pro forma net tangible book value of our common stock at December 31, 2014, your shares may be worth less per share than the price you paid in the offering. If the options and warrants we previously granted are exercised, additional dilution will occur. As of March 9, 2015, options to purchase 4,934,165 shares of common stock at a weighted-average exercise price of $7.15 per share were outstanding, and warrants to purchase 208,333 shares of common stock at a weighted-average exercise price of $15.00 per share were outstanding. Furthermore, if we raise additional funding by issuing additional equity securities, the newly-issued shares will further dilute your percentage ownership of our shares and may also reduce the value of your investment.

Our share price may be volatile, which could subject us to securities class action litigation and prevent you from being able to sell your shares at or above the offering price.

Our stock could be subject to wide fluctuations in response to many risk factors listed in this section, and others beyond our control, including:

- results and timing of our clinical trials and clinical trials of our competitors' products;
- failure or discontinuation of any of our development programs;
- regulatory developments or enforcements in the United States and non-U.S. countries with respect to our product candidates or our competitor's products.
- failure to achieve pricing and/or reimbursement;
- regulatory actions with respect to our products or our competitors' products;
- actual or anticipated fluctuations in our financial condition and operating results;
- actual or anticipated changes in our growth rate relative to our competitors;
- actual or anticipated fluctuations in our competitors' operating results or changes in their growth rate;

- competition from existing products or new products that may emerge;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- issuance of new or updated research or reports by securities analysts;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- additions or departures of key management or scientific personnel;
- disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain patent protection for our technologies;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our insiders or our other shareholders;
- market conditions for biopharmaceutical stocks in general; and
- general economic and market conditions.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, may negatively impact the market price of shares of our common stock. In addition, such fluctuations could subject us to securities class action litigation, which could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business. If the market price of shares of our common stock after this offering does not exceed the initial public offering price, you may not realize any return on your investment in us and may lose some or all of your investment.

There was no public market for our common stock prior to this offering, and an active market in the shares may not develop in which investors can resell our common stock.

Prior to this offering there was no public market for our common stock. We cannot predict the extent to which an active market for our common stock will develop or be sustained after this offering, or how the development of such a market might affect the market price for our common stock. The initial public offering price of our common stock in this offering was agreed between us and the underwriters based on a number of factors, including market conditions in effect at the time of the offering, which may not be indicative of the price at which our common stock will trade following completion of the offering. Investors may not be able to sell their common stock at or above the initial public offering price.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. We cannot assure you that analysts will cover us or provide favorable coverage. If one or more of the analysts who cover us downgrade our stock or change their opinion of our stock, our share price would likely decline. If one or more of these analysts cease coverage of our Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

Insiders will continue to have substantial control over our Company after this offering and could delay or prevent a change in corporate control.

After this offering, our directors, executive officers and principal shareholders, together with their affiliates, will beneficially own, in the aggregate, at least 10,869,263 shares or approximately 34% of our outstanding common stock, and could own up to 13,805,595 shares or 40% of our outstanding common stock if they fully exercise their outstanding stock options or shares. As a result, these shareholders, if acting together, will have the ability to determine the outcome of matters submitted to our shareholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these persons, acting together, will have the ability to control the management and affairs of our Company. Accordingly, this concentration of ownership may harm the market price of our common stock by:

- delaying, deferring or preventing a change in control of our Company;
- impeding a merger, consolidation, takeover or other business combination involving our Company; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of our Company.

We have broad discretion in the use of the net proceeds from this offering and may not use them effectively.

We currently intend to allocate the net proceeds that we will receive from this offering as described below in the “Use of Proceeds” section of this prospectus. However, our management will have broad discretion in the actual application of the net proceeds, and we may elect to allocate proceeds differently from that described in “Use of Proceeds” if we believe it would be in our best interests to do so. Our shareholders may not agree with the manner in which our management chooses to allocate and spend the net proceeds. The failure by our management to apply these funds effectively could have a material adverse effect on our business. Pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value.

Provisions in our charter documents and under Canadian law could make an acquisition of us, which may be beneficial to our shareholders, more difficult and may prevent attempts by our shareholders to replace or remove our current management.

Our authorized preferred capital stock is available for issuance from time to time at the discretion of our board of directors, without shareholder approval. Our articles of incorporation (Articles) grant our board of directors the authority, subject to the corporate law of British Columbia, to determine or alter the special rights and restrictions granted to or imposed on any wholly unissued series of preferred shares, and such rights may be superior to those of our common shares.

Limitations on the ability to acquire and hold our common shares may be imposed by the Competition Act (Canada). This legislation permits the Commissioner of Competition of Canada to review any acquisition of a significant interest in us. This legislation grants the Commissioner jurisdiction to challenge such an acquisition before the Canadian Competition Tribunal if the Commissioner believes that it would, or would be likely to, result in a substantial lessening or prevention of competition in any market in Canada. The Investment Canada Act (Canada) subjects an acquisition of control of a company by a non-Canadian to government review if the value of our assets as calculated pursuant to the legislation exceeds a threshold amount. A reviewable acquisition may not proceed unless the relevant minister is satisfied that the investment is likely to be a net benefit to Canada.

Any of the foregoing could prevent or delay a change of control and may deprive or limit strategic opportunities for our shareholders to sell their shares and/or affect the market price of our shares.

We may be a passive foreign investment company for US tax purposes which may negatively affect US investors.

For US federal income taxation purposes, we will be a passive foreign investment company, or PFIC, if in any taxable year either: (a) 75% or more of our gross income consists of passive income; or (b) 50% or more of the value of our assets is attributable to assets that produce, or are held for the production of, passive income. If we meet either test, our shares held by a US person in that year will be PFIC shares for that year and all subsequent years in which they are held by that person. Because in the past our gross income consisted mostly of interest, we have been a PFIC in prior taxable years. We may also be a PFIC in future taxable years. Gain realized by a US investor from the sale of PFIC shares is taxed as ordinary income, as opposed to capital gain, and subject to an interest charge unless the US person has timely made one of the tax elections described in the section titled "Material United States and Canadian Tax Considerations—United States Material Federal Income Tax Consequences."

We are governed by the corporate laws in British Columbia, Canada, which in some cases have a different effect on shareholders than the corporate laws in Delaware, United States.

The material differences between the BCBCA as compared to the Delaware General Corporation Law, or the DGCL, which may be of most interest to shareholders include the following: (i) for material corporate transactions (such as mergers and amalgamations, other extraordinary corporate transactions, amendments to our articles) the BCBCA generally requires two-thirds majority vote by shareholders, whereas DGCL generally only requires a majority vote of shareholders for similar material corporate transactions; (ii) under the BCBCA a holder of 5% or more of our common shares can requisition a special meeting at which any matters that can be voted on at our annual meeting can be considered, whereas the DGCL does not give this right; (iii) our articles require two-thirds majority vote by shareholders to pass a resolution for one or more directors to be removed, whereas DGCL only requires the affirmative vote of a majority of the shareholders; however, many public company charters limit removal of directors to a removal for cause; and (iv) our articles may be amended by resolution of our directors to alter our authorized share structure, in certain limited ways, including by setting the special rights and restrictions applicable to series of preferred shares, or to consolidate or subdivide any of our shares, whereas under DGCL, a majority vote by shareholders is generally required to amend a corporation's certificate of incorporation and a separate class vote may be required to authorize alterations to a corporation's authorized share structure. We cannot predict if investors will find our common shares less attractive because of these material differences. If some investors find our common shares less attractive as a result, there may be a less active trading market for our common shares and our share price may be more volatile.

Future sales, or the possibility of future sales, of a substantial number of our common shares could adversely affect the price of the shares and dilute shareholders.

Future sales of a substantial number of our common shares, or the perception that such sales will occur, could cause a decline in the market price of our common shares. Following the completion of this offering and based on the midpoint of the price range stated on the front cover of this prospectus, we will have 31,716,631 common shares outstanding. This includes the common shares sold in this offering, which may be resold in the public market immediately without restriction, unless purchased by our affiliates. Approximately 87% of the common shares outstanding after this offering is expected to be held by existing shareholders. Our CEO, board members and officers will be subject to the lock-up agreements described in the "Shares Available for Future Sale" section of this prospectus. If, after the end of such lock-up agreements, these shareholders sell substantial amounts of common shares in the public market, or the market perceives that such sales may occur, the market price of our common shares and our ability to raise capital through an issue of equity securities in the future could be adversely affected.

In addition, in the future, we may issue additional common shares or other equity or debt securities convertible into common shares in connection with a financing, acquisition, litigation settlement, employee

arrangements or otherwise. Any such issuance could result in substantial dilution to our existing shareholders and could cause our common share price to decline.

We are an "emerging growth company" as that term is used in the JOBS Act, and we intend to take advantage of reduced disclosure and governance requirements applicable to emerging growth companies, which could result in our common stock being less attractive to investors and adversely affect the market price of our common stock or make it more difficult to raise capital as and when we need it.

We are an "emerging growth company" as that term is used in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved and exemptions from any rules that the Public Company Accounting Oversight Board may adopt requiring mandatory audit firm rotation or a supplement to the auditor's report on the financial statements. We currently intend to take advantage of some, but not all, of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act, so long as we qualify as an "emerging growth company." For example, so long as we qualify as an "emerging growth company," we may elect not to provide you with certain information, including certain financial information and certain information regarding compensation of our executive officers, that we would have otherwise been required to provide in filings we make with the SEC, which may make it more difficult for investors and securities analysts to evaluate our Company.

We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company, which in certain circumstances could be for up to five years. See "Prospectus Summary—Implications of Being an Emerging Growth Company."

Because of the exemptions from various reporting requirements provided to us as an "emerging growth company" we may be less attractive to investors and it may be difficult for us to raise additional capital as and when we need it. Investors may be unable to compare our business with other companies in our industry if they believe that our financial accounting is not as transparent as other companies in our industry. If we are unable to raise additional capital as and when we need it, our business, results of operations, financial condition and cash flows and future prospects may be materially and adversely affected.

If we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results or prevent fraud. As a result, shareholders could lose confidence in our financial and other public reporting, which would harm our business and the trading price of our common shares.

Effective internal controls over financial reporting are necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation could cause us to fail to meet our reporting obligations. In addition, any testing by us conducted in connection with Section 404 or any subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses or that may require prospective or retroactive changes to our financial statements or identify other areas for further attention or improvement. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common shares.

We will be required to disclose changes made in our internal controls and procedures on a quarterly basis and our management will be required to assess the effectiveness of these controls annually. However, for as long as we are an “emerging growth company” under the JOBS Act, our independent registered public accounting firm will not be required to attest to the effectiveness of our internal controls over financial reporting pursuant to Section 404. We could be an “emerging growth company” for up to five years. An independent assessment of the effectiveness of our internal controls could detect problems that our management’s assessment might not. In addition, our management and independent registered public accounting firm did not perform an evaluation of our internal control over financial reporting as of December 31, 2014 or December 31, 2013, in accordance with the provisions of the Sarbanes-Oxley Act. Had we and our independent registered public accounting firm performed such an evaluation, control deficiencies may have been identified by management or our independent registered public accounting firm, and those control deficiencies could have also represented one or more material weaknesses. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated by reference herein contain forward-looking statements that involve substantial risks and uncertainties. All statements, other than statements of historical facts, included in this prospectus, including, without limitation, statements regarding the assumptions we make about our business and economic model, our dividend policy, business strategy and other plans and objectives for our future operations, are forward-looking statements.

These forward-looking statements include declarations regarding our management's beliefs and current expectations. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "would," "could," "expects," "plans," "contemplate," "anticipates," "believes," "estimates," "predicts," "projects," "intend" or "continue" or the negative of such terms or other comparable terminology, although not all forward-looking statements contain these identifying words. Forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions that could cause the actual results to differ materially from those projected in these forward-looking statements. Some, but not all, of the forward-looking statements contained in this prospectus and the documents incorporated by reference herein include, among other things, statements about the following:

- our ability to obtain regulatory approval to market and sell Xilonix™ in the United States, Europe and elsewhere;
- the initiation, timing, cost, progress and success of our research and development programs, preclinical studies and clinical trials for Xilonix™ and other product candidates;
- our ability to advance product candidates into, and successfully complete, clinical trials;
- our ability to successfully commercialize the sale of Xilonix™ in the United States, Europe and elsewhere;
- our ability to recruit sufficient numbers of patients for our future clinical trials for our pharmaceutical products;
- our ability to achieve profitability;
- our ability to obtain funding for our operations, including research funding;
- our ability to identify additional new products using our True Human™ antibody discovery platform;
- the implementation of our business model and strategic plans;
- our ability to develop and commercialize product candidates for orphan and niche indications independently;
- our commercialization, marketing and manufacturing capabilities and strategy;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our expectations regarding federal, state and foreign regulatory requirements;
- the therapeutic benefits, effectiveness and safety of our product candidates;
- the accuracy of our estimates of the size and characteristics of the markets that may be addressed by our products and product candidates;
- the rate and degree of market acceptance and clinical utility of Xilonix™ and future products, if any;
- the timing of and our collaborators' ability to obtain and maintain regulatory approvals for our product candidates;
- our use of proceeds from this offering;

- our expectations regarding market risk, including interest rate changes and foreign currency fluctuations;
- our belief in the sufficiency of our cash flows to meet our needs for at least the next 12 to 24 months;
- our expectations regarding the timing during which we will be an emerging growth company under the JOBS Act;
- our ability to engage and retain the employees required to grow our business;
- our future financial performance and projected expenditures;
- developments relating to our competitors and our industry, including the success of competing therapies that are or become available; and
- estimates of our expenses, future revenue, capital requirements and our needs for additional financing.

You should also read the matters described in the “Risk Factors” and the other cautionary statements made in this prospectus as being applicable to all related forward-looking statements wherever they appear in this prospectus. We cannot assure you that the forward-looking statements in this prospectus will prove to be accurate and therefore you are encouraged not to place undue reliance on forward-looking statements. You should read this prospectus completely.

USE OF PROCEEDS

We estimate that the net proceeds to us from the sale of the common shares in this offering will be approximately $70.9 million, based upon an assumed initial public offering price of $19.00 per common share (the midpoint of the price range set forth on the cover page of this prospectus) and after deducting estimated underwriting discounts and commissions, and estimated offering expenses payable by us.

We currently expect to use the net proceeds from this offering as follows:

- approximately $30 million to complete our Phase III trials for Xilonix™ in the United States and in Europe;
- approximately $12 million on plant and equipment infrastructure to complete the manufacturing and R&D facilities under construction, and;
- approximately $4 million to complete a Phase I/II study for a treatment for S. *aureus* infections;
- approximately $2 million to complete our Phase II PG study;
- the remainder for working capital and general corporate purposes.

This expected use of the net proceeds of this offering represents our intentions based on our current plans and business conditions, which could change in the future as our plans and business conditions evolve. As of the date of this prospectus, we cannot predict with certainty all of the particular uses for the net proceeds to be received upon the closing of this offering or the amounts that we will actually spend on the uses set forth above. The amounts, allocation and timing of our actual expenditures will depend upon numerous factors, including:

- the focus and results of our research, drug discovery and preclinical development activities;
- the type, number, costs and results of any clinical trials for our product candidates;
- regulatory actions relating to our product candidates;
- competitive and technological developments; and
- the rate of growth, if any, of our business.

DIVIDEND POLICY

To date, we have not declared or paid cash dividends on our shares of common stock. We do not anticipate paying cash dividends to the holders of common stock at any time in the foreseeable future. As a result, you will benefit only from your investment in our common stock through any stock appreciation, and should not expect to receive any dividend payments.

DILUTION

If you invest in our common stock, your ownership interest will be diluted to the extent of the difference between the offering price per share of our common stock and the net tangible book value per share of our common stock immediately after completion of this offering. Net tangible book value per share represents total tangible assets less total liabilities, divided by the number of shares of common stock outstanding. As of December 31, 2014, the net tangible book value of our common stock was approximately $59.0 million, or approximately $2.14 per share based upon 27,546,632 shares outstanding.

After giving effect to our sale of common stock in this offering at the offering price of $19.00 per share and the receipt and application of the estimated net proceeds, our pro forma net tangible book value as of December 31, 2014 would be $130 million or $4.12 per share. This represents an immediate increase $70.9 million in net tangible book value, or $1.98 per share to existing shareholders, and an immediate dilution in net tangible book value of $14.88 per share to purchasers of securities in this offering. The following table illustrates this pro forma per share dilution:

Assumed public offering price per share		$19.00
Net tangible book value per share as of December 31, 2014	$2.14	
Pro forma increase per share attributable to existing investors	$1.98	
Pro forma net book value per share after this offering		$ 4.12
Dilution per share to new investors		$14.88

A $1.00 increase (decrease) in the assumed initial public offering price per share of $19 per share, the mid-point of the price range set forth on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value after this offering by $3.8 million and the pro forma as adjusted net tangible book value per share after this offering by $0.12 per share, in each case, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same, after deducting the estimated underwriting discounts and commissions and estimated offering cost payable by us. The information discussed above is illustrative only and will adjust based on the actual initial public offering price and other terms of this offering determined at pricing.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and capitalization as of December 31, 2014:

- on an actual basis; and
- on a pro forma to give effect to our sale of 4,000,000 shares of common stock in this offering at an offering price of $19.00 per share (the mid-point of our Offering range on the cover of this prospectus), after deducting the estimated underwriters commissions and estimated offering expenses payable by us.

The pro forma information below is illustrative only, and our cash and cash equivalents and capitalization following the completion of our offering will be adjusted based on the actual initial public offering price, the closing of the offering made hereby and other terms of the offering determined at pricing. You should read this table in conjunction with the "Use of Proceeds" above as well as our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and financial statements and the related notes appearing elsewhere in this prospectus.

	Actual, as of December 31 2014	Pro forma
	(in thousands)	
Cash and cash equivalents	$ 57,329	$128,266
Shareholders' equity:		
Common stock, no par value, unlimited shares authorized, 27,546,632 and 31,546,632 shares outstanding at December 31, 2014 and after this offering, respectively	$ 152,351	$223,288
Accumulated deficit	(93,168)	(93,168)
Accumulated other comprehensive loss	(153)	(153)
Total Shareholders' Equity	59,030	129,967
Total Capitalization	$ 59,030	$129,967

The number of shares of common stock outstanding after this offering is based on 27,546,632 shares of common stock outstanding at December 31, 2014 and excludes as of that date: (a) 493,000 shares of common stock issuable upon exercise of warrants outstanding at a weighted-average exercise price of $15.00 per share; (b) 4,884,165 shares issuable upon exercise of stock options at a weighted-average exercise price of $7.03 per share and (c) 1,018,635 shares of common stock available for grant under our 2005 Incentive Stock Option Plan and (d) 1 million shares of common stock available for grant under our 2015 Equity Incentive Plan.

SELECTED FINANCIAL DATA

The following selected consolidated statements of operations data for the years ended December 31, 2012, 2013 and 2014, and the following selected consolidated balance data as of December 31, 2014 are derived from our audited financial statements included elsewhere in this prospectus. The following data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,		
	2012	2013	2014
	(in thousands, except share and per share data)		
Statement of Operations Data			
Operating expenses:			
Research and development	$ 13,334	$ 7,935	$ 14,329
General and administrative	1,829	1,990	7,449
Total operating expenses	15,163	9,925	21,778
Loss from operations	(15,163)	(9,925)	(21,778)
Other income (loss):			
Interest income	3	1	1
Foreign exchange gain (loss)	—	(3)	53
Total other income (loss):	3	(2)	54
Net loss	(15,160)	(9,927)	(21,724)
Net loss per common share—basic and diluted	$ (0.71)	$ (0.45)	$ (0.90)
Weighted average number of common shares—basic and diluted	21,294,369	22,220,416	24,162,700

The pro forma balance sheet gives further effect to our issuance and sale of 4,000,000 shares of our common stock in this offering at an assumed initial public offering price of $19 per share, which is the midpoint of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

	At December 31, 2014	
	Actual	Pro forma
	(in thousands)	
Balance sheet data		
Cash and cash equivalents	$57,329	$128,266
Working capital	54,917	125,854
Total assets	62,177	133,114
Total shareholders' equity	59,030	129,967

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and the related notes appearing at the end of this prospectus. Some of the information contained in this discussion and analysis is set forth elsewhere in this prospectus and includes forward-looking statements that involve risks and uncertainties. You should review the "Risk Factors" section of this prospectus for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Overview

XBiotech is a clinical-stage biopharmaceutical company engaged in discovering and developing "True Human™" monoclonal antibodies for treating a variety of different diseases. True Human™ monoclonal antibodies are those which occur naturally in human beings—as opposed to being derived from animal immunization technologies or otherwise engineered. We believe that naturally occurring monoclonal antibodies have the potential to be safer and more effective than their non-naturally occurring counterparts. While primarily focused on bringing our lead product candidate to market, we have also developed a proprietary "True Human™" monoclonal antibody discovery platform and manufacturing system.

We have never been profitable and, as of December 31, 2014, we had an accumulated deficit of $93.2 million. We had net losses of $15.2 million, $9.9 million and $21.7 million for the years ended December 31, 2012, 2013, and 2014, respectively. We expect to incur significant and increasing operating losses for the foreseeable future as we advance our drug candidates from discovery through preclinical testing and clinical trials and seek regulatory approval and eventual commercialization. In addition to these increasing research and development expenses, we expect general and administrative costs to increase as we add personnel and begin to operate as a public company. We will need to generate significant revenues to achieve profitability, and we may never do so.

Revenues

To date, we have not generated any revenue. Our potential ability to generate revenue and become profitable depends on our ability to successfully commercialize our lead product candidate, Xilonix™, or any other product candidate we may advance in the future.

Research and Development Expenses

Research and development expense consists of expenses incurred in connection with identifying and developing our drug candidates. These expenses consist primarily of salaries and related expenses, stock-based compensation, the purchase of equipment, laboratory and manufacturing supplies, facility costs, costs for preclinical and clinical research, development of quality control systems, quality assurance programs and manufacturing processes. We charge all research and development expenses to operations as incurred.

Clinical development timelines, likelihood of success and total costs vary widely. We do not currently track our internal research and development costs or our personnel and related costs on an individual drug candidate basis. We use our research and development resources, including employees and our drug discovery technology, across multiple drug development programs. As a result, we cannot state precisely the costs incurred for each of our research and development programs or our clinical and preclinical drug candidates. From inception through December 31, 2014, we have recorded total research and development expenses, including stock-based compensation, of $70 million. Our total research and development expenses for the years ended December 31, 2012, 2013 and 2014 were $13.3 million, $7.9 million and $14.3 million, respectively. Stock-based compensation accounted for $2.2 million, $0.6 million and $1.3 million for the years ended December 31, 2012, 2013 and 2014.

Research and development expenses, as a percentage of total operating expenses for the years ended December 31, 2012, 2013 and 2014, were 88%, 80% and 66%, respectively. The percentages, *excluding* stock-based compensation, for the years ended December 31, 2012, 2013 and 2014, were 90%, 80%, 88%, respectively.

We expect our clinical costs to be substantial and to increase as we advance Xilonix™ through Phase III clinical trials in Europe and the United States and research and development costs to increase as we move other drug candidates into preclinical testing and clinical trials. Based on the results of our preclinical studies, we expect to selectively advance some drug candidates into clinical trials. We anticipate that we will select drug candidates and research projects for further development on an ongoing basis in response to their preclinical and clinical success and commercial potential.

During 2015, we intend to continue our Phase II study in Pyoderma Gangrenosum, or PG. Given that we continue to see positive results in the Phase II study, we may seek breakthrough designation from the FDA. After evaluation of the Phase II data, we will also determine our interest in conducting a pivotal Phase III study in this indication. As this is an orphan condition, with a relatively small incidence (estimated at less than 3,000 patients) in the United States, a pivotal study would likely need to be conducted in both the United States and Europe.

A Phase I/II randomized, placebo controlled, dose escalation study for our antibody therapy for *S. aureus* infections is planned in 2015. We filed an IND in December 2014 for the study, which is currently on clinical hold, while at the request of the FDA, we complete an animal toxicology study. The results of the toxicology study is expected to be submitted to the FDA in the 1st half of 2015.

Due to the fact that our drug candidates are in the early stage of development, we cannot estimate anticipated completion dates and when, if ever, we might receive material net cash inflows, if any, from our research and development projects.

General and Administrative Expenses

General and administrative expense consists primarily of salaries and related expenses for personnel in administrative, finance, business development and human resource functions, as well as the legal costs of pursuing patent protection of our intellectual property and patent filing and maintenance expenses, stock–based compensation, and professional fees for legal services. Our total general and administration expenses for the years ended December 31, 2012, 2013 and 2014, were $1.8 million, $2.0 million and $7.4 million, respectively. Stock-based compensation accounted for $0.6 million, $0.2 million and $5.7 million for the years the ended December 31, 2012, 2013 and 2014, respectively.

After this offering, we anticipate increases in general and administrative expense relating to operating as a public company. These increases will likely include legal fees, accounting fees and directors' and officers' insurance premiums as well as fees for investor relations services.

Critical Accounting Policies

Our Management's Discussion and Analysis of our Financial Condition and Results of Operations is based on our financial statements, which have been prepared in conformity with generally accepted accounting principles in the United States, or US GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and expenses incurred during the reported periods.

We base estimates on our historical experience, known trends and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are more fully described in the notes to our financial statements appearing in this prospectus, we believe that the following accounting policies are the most critical to understanding and evaluating our reported financial results.

Stock-Based Compensation

Stock-based awards are measured at fair value at each grant date. We recognize stock-based compensation expenses ratably over the requisite service period of the option award.

Determination of the Fair Value of Stock-Based Compensation Grants

The determination of the fair value of stock-based compensation arrangements is affected by a number of variables, including estimates of the fair value of our common stock, expected stock price volatility, risk-free interest rate and the expected life of the award. We value stock options using the Black-Scholes option-pricing model, which was developed for use in estimating the fair value of traded options that are fully transferable and have no vesting restrictions. Black-Scholes and other option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. If we made different assumptions, our stock-based compensation expenses, net loss, and net loss per common share could be significantly different. During all of the periods presented, we issued common stock for cash consideration to new investors. We believe that such transactions represent the best evidence of fair value of our common stock. Therefore, we used the sales price of our common stock during these periods as the fair value of our common stock.

The following summarizes the assumptions used for estimating the fair value of stock options granted during the periods indicated:

	Year Ended December 31,		
	2012	2013	2014
Weighted-average grant date fair value per share	$10.09	$11.37	$8.23
Expected volatility	79%	73%	70%-73%
Risk-free interest rate	1.57%-1.93%	2.04%-3.84%	0.69%-2.73%
Expected life (in years)	6.25-10	6.25-10	3-10
Dividend yield	—	—	—

We have assumed no dividend yield because we do not expect to pay dividends in the foreseeable future, which is consistent with our past practice. The risk-free interest rate assumption is based on observed interest rates for U.S. Treasury securities with maturities consistent with the expected life of our stock options. The expected life represents the period of time the stock options are expected to be outstanding and is based on the simplified method when the stock option includes “plain vanilla” terms. Under the simplified method, the expected life of an option is presumed to be the midpoint between the vesting date and the end of the agreement term. We used the simplified method due to the lack of sufficient historical exercise data to provide a reasonable basis upon which to otherwise estimate the expected life of the stock options. For stock options that did not include “plain vanilla” terms we used the contractual life of the stock option as the expected life. Such stock options consisted primarily of options issued to our board of directors that were immediately vested at issuance. Expected volatility is based on historical volatilities for publicly traded stock of comparable companies over the estimated expected life of the stock options.

We based our estimate of pre-vesting forfeitures, or forfeiture rate, on historical forfeiture rates. We apply the estimated forfeiture rate to the total estimated fair value of the awards, as derived from the Black-Scholes model, to compute the stock-based compensation expenses, net of pre-vesting forfeitures, to be recognized in our consolidated statements of operations.

Determination of the Fair Value of Common Stock on Grant Dates

Prior to this offering, we have been a private company with no active public market for our common stock. Our board of directors periodically determined for financial reporting purposes the estimated per share fair value of our common stock at various dates. The board of directors considered all objective and subjective factors that they believed to be relevant including most notably the recent sales activity of our common stock. Significant factors considered were:

- the recent sales of our common stock to new investors for cash consideration;
- the fact that we are a privately-held biotechnology company and our common stock is illiquid;
- the nature and history of our business;
- current and forecasted economic conditions, both generally and specific to our industry; and
- the state of the initial public offering market for similarly situated privately-held technology companies.

The following table summarizes by issuance date the number of shares of our common stock sold to investors, including new unrelated investors, from January 1, 2012 to December 31, 2014.

Issuance Date	Number of Shares	Price Per Share
May to September 2012	476,548	$ 15.00
August 2013	1,204,510	$ 10.00
January to June 2014	1,195,000	$ 10.00
July to December 2014	3,584,530	$ 15.00

Pursuant to the AICPA Audit and Accounting Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*, privately held enterprises may sometimes engage in arm's-length cash transactions with unrelated parties for issuances of their equity securities, and the cash exchanged in such a transaction is, under certain conditions, an observable price that serves the same purpose as a quoted market price. Our board of directors believes the sale of common stock by the Company to new unrelated investors represents an observable price since the equity securities in the transaction are the same securities as those for which the fair value determination is being made, and the transaction is a current transaction between willing parties, that is, other than in a forced or liquidation sale and other than under terms or conditions arising from a previous transaction.

We recognized $2.8 million, $0.74 million and $7.0 million of stock-based compensation expenses for the years ended December 31, 2012, 2013 and 2014, respectively.

Results of Operations

Revenue. We did not record any revenue during the years ended December 31, 2012, 2013 or 2014.

Years Ended December 31, 2013 and 2012

Research and Development. Research and development expenses decreased by $5.4 million to $7.9 million for the year ended December 31, 2013, compared to $13.33 million for the year ended December 31, 2012. This decrease was due to a $1.67 million decrease in stock-based compensation and a $1.7 million decrease in salaries due to a reduction in employees in September 2012. In addition the cost for clinical trials and research and development expenses decreased by almost $1 million each.

General and Administrative. General and administrative expense increased to $1.99 million for the year ended December 31, 2013 compared to $1.82 million for the year ended 2012. The increase was primarily related to increases in expenses related to professional fees.

Years Ended December 31, 2014 and 2013

Research and Development. Research and development expenses increased by $6.4 million to $14.3 million for the year ended December 31, 2014, compared to $7.9 million for the year ended December 31, 2013. This increase was due to a $3.1 million increase in clinical trial activities in Europe and the United States, a $1.6 million increase in research and development use of chemicals, reagents as well as laboratory materials; a $0.8 million increase in salaries and up $0.7 million increase in stock-based compensation.

General and Administrative. General and administrative expense increased by $5.5 million to $7.5 million for the year ended December 31, 2014, compared to $2.0 million for the year ended December 31, 2013. The increase was primarily related to increases in expenses related to stock – based compensation of $5.7 million.

Liquidity and Capital Resources

Our cash requirements could change materially as a result of the progress of our research and development and clinical programs, licensing activities, acquisitions, divestitures or other corporate developments.

Since our inception on March 22, 2005, we have funded our operations principally through the private placement of equity securities, which have provided aggregate cash proceeds of approximately $134 million.

In evaluating alternative sources of financing we consider, among other things, the dilutive impact, if any, on our shareholders, the ability to leverage shareholder returns through debt financing, the particular terms and conditions of each alternative financing arrangement and our ability to service our obligations under such financing arrangements.

As of December 31, 2014, we had cash and cash equivalents on hand of approximately $57.3 million.

We expect to continue to incur substantial operating losses in the future. We will not receive any product revenue until a drug candidate has been approved by the FDA or similar regulatory agencies in other countries and successfully commercialized. We expect to expend between $30 million and $50 million over the next twelve months to fund our current operations. We currently anticipate that our cash and cash equivalents of approximately $57.3 million as of December 31, 2014, together with the proceeds from this offering and cash flow, will be sufficient to fund our operations over the next 30 months. However, we plan to substantially expand our operations, and as a result of many factors, some of which may be currently unknown to us, our expenses may be higher than expected. We may need to raise substantial additional funds to continue our operations and bring future products to market. We cannot be certain that any of our programs will be successful or that we will be able to raise sufficient funds to complete the development and commercialization of any of our drug candidates currently in development, should they go to markets. Additionally, we plan to continue to evaluate in-licensing and acquisition opportunities to gain access to new drugs or drug targets that would fit with our strategy. Any such transaction would likely increase our funding needs in the future.

Our future funding requirements will depend on many factors, including but not limited to:

- the size and complexity of our research and development programs;
- the scope and results of our preclinical testing and clinical trials;
- continued scientific progress in our research and development programs;
- the time and expense involved in seeking regulatory approvals;
- competing technological and market developments;
- the acquisition, licensing and protection of intellectual property rights; and
- the cost of establishing manufacturing capabilities and conducting commercialization activities.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through public or private equity offerings, debt financings or strategic collaborations. We do not know whether additional funding will be available on acceptable terms, or at all. Moreover, without the proceeds from this offering, or if we are unable to obtain alternative sources of funding, we do not expect to be able to continue our operations.

Sources and Uses of Cash

Net cash used in operating activities was $11.6 million in fiscal year 2012; $8.9 million in fiscal year 2013, and $11.7 million in fiscal year 2014. Net cash used in operating activities for these periods consisted primarily of our net loss, partially offset by depreciation and stock- based compensation.

In fiscal year 2012, 2013 and 2014, net cash of $0.6 million, $0.1 million and $1.4 million, respectively, was used in investing activities to purchase property and equipment.

Net cash provided by financing activities was $7.3 million, $12.0 million and $63.2 million in fiscal year 2012, 2013 and 2014, respectively; substantially all of which was from the sale of shares of our common stock to investors.

Contractual Obligations and Commitments

On January 12, 2008, we entered a lease agreement to lease our facility in Austin, Texas. On September 15, 2010, we entered into a second lease agreement to lease additional space in Austin, Texas. On March 20, 2013, we extended the lease for another 21 months on the same terms and rental rates as the current lease. Rent expense was $485,000, $553,000 and $535,000 for the years ended December 31, 2012, 2013 and 2014, respectively. On February 28, 2015, we have extended the lease for another 4 years. The future minimum lease payments are as follows as of December 31, 2014 (in thousands):

Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More than 5 Years
Operating facility leases	$1,888	$ 430	$ 909	$ 549	$ —
Total contractual obligations	$1,888	$ 430	$ 909	$ 549	$ —

Income Taxes

We have established four wholly-owned subsidiaries, XBiotech USA, Inc., a United States based company incorporated in Delaware, which employs all of our employees, XBiotech Switzerland AG, XBiotech Japan K.K. and XBiotech Germany GmbH. We are required to file separate income tax returns for all the subsidiaries. Canadian income tax rules require us to treat the United States based operations as an arm’s length company and require the services provided by the United States subsidiary to be charged to us at fair market value. All profit and losses are eliminated upon consolidation.

All Operations

We have incurred net operating losses on a consolidated basis for the years ended December 31, 2012, 2013 and 2014. Accordingly, we did not pay or record any Canadian or United States federal taxes. As of December 31, 2014, we had non-capital loss carry forwards of $62.6 million (approximately $51.2 million in Canada; $9.7 million in the United States; $1.1 million in Germany and $0.6 million in Japan and Switzerland), which expire over various periods beginning in 2018.

A full valuation allowance is provided to offset our deferred tax assets because the realization of the benefit does not meet the more likely than not criteria. In the event that we determine that we will be able to utilize our deferred tax assets in the future, an adjustment to the valuation allowance would increase net income in the period such a determination is made.

Inflation

We do not believe that inflation has had a material impact on our business and operating results during the periods presented.

Foreign Currency Fluctuations

For a description of the effect on us of foreign currency fluctuations, see “Quantitative and Qualitative Disclosure of Market Risks”.

Related Party Transactions

For a description of our related party transactions, see “Certain Relationships and Related Party Transactions”.

Off-Balance Sheet Arrangements

Since inception, we have not engaged in any off-balance sheet activities, including the use of structured finance, special purpose entities or variable interest entities.

Quantitative and Qualitative Disclosure of Market Risks

Our concentration of credit risk consists principally of cash and cash equivalents. Our exposure to market risk is limited primarily to interest income sensitivity, which is affected by changes in the general level of Canadian and United States interest rates, particularly because the majority of our investments are in money market accounts.

Our investment policy restricts investments to high-quality investments and limits the amounts invested with any one issuer, industry, or geographic area. The goals of our investment policy are as follows: preservation of capital; assurance of liquidity needs; best available return on invested capital; and minimization of capital taxation and a reduction of impact on Scientific Research and Experimental Development refundable tax credits under the Income Tax Act (Canada). Some of the securities in which we invest may be subject to market risk. This means that a change in prevailing interest rates may cause the principal amount of the investment to fluctuate. For example, if we hold a security that was issued with an interest rate fixed at the then-prevailing rate and the prevailing interest rate later rises, the principal amount of our investment will probably decline. To minimize this risk, in accordance with our investment policy, we maintain our portfolio of cash equivalents, short-term marketable securities and restricted cash in a variety of securities, including money market mutual funds, T-bills, GICs, and commercial papers. The risk associated with fluctuating interest rates is limited to our investment portfolio. Due to the short term nature of our investment portfolio we believe we have minimal interest rate risk arising from our investments.

We are also exposed to market risk related to change in foreign currency exchange rates. We contract with CROs that are located in Europe, which are denominated in foreign currencies. We are subject to fluctuations in foreign currency rates in connection with these agreements. We do not currently hedge our foreign currency exchange rate risk. As of December 31, 2013 and December 31, 2014, we had minimal or no liabilities denominated in foreign currencies.

Recent Accounting Pronouncements

The Jumpstart Our Business Startups Act of 2012, or JOBS Act, provides that an emerging growth company can take advantage of an extended transition period for complying with new or revised accounting standards. This allows an emerging growth company to delay the adoption of certain accounting standards until those

standards would otherwise apply to private companies. However, we are choosing to **"**opt out**"** of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

In June 2014 the Financial Accounting Standards Board (FASB) issued ASU 2014-10, *Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810 Consolidation*. These updates remove the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification, thereby removing the financial reporting distinction between development stage entities and other reporting entities from US GAAP. In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. This standard is effective for annual reporting periods beginning after December 15, 2014. We have early adopted this standard in the presentation of our 2014 financial statements.

BUSINESS

Overview

XBiotech is a clinical-stage biopharmaceutical company engaged in discovering and developing "True Human™" monoclonal antibodies for treating a variety of diseases. True Human™ monoclonal antibodies are those which occur naturally in human beings—as opposed to being derived from animal immunization or otherwise engineered. We believe that naturally occurring monoclonal antibodies have the potential to be safer and more effective than their non-naturally occurring counterparts. While focused on bringing our lead product candidate to market, we also have developed a "True Human™" pipeline and manufacturing system.

The majority of our efforts to date have been concentrated on developing MABp1 (also known as Xilonix™, CA-18C3, CV-18C3, RA-18C3, and T2-18C3), a therapeutic antibody which specifically neutralizes interleukin-1 alpha (IL-1a). IL-1a is a pro-inflammatory protein produced by leukocytes and other cells, where it plays a key role in inflammation. When unchecked, inflammation can contribute to the development and progression of a variety of different diseases such as cancer, vascular disease, inflammatory skin disease, and diabetes. Our clinical studies have shown that blocking IL-1a with MABp1 may have a beneficial effect in several diseases.

We completed a Phase I/II clinical trial for MABp1 (Xilonix™) as a treatment for cancer at MD Anderson Cancer Center. The results of this study, published in *Lancet Oncology* in April 2014, found that in the 52 patients with metastatic cancer (18 tumor types) who participated, MABp1 was well tolerated, with no dose-limiting toxicities or immunogenicity. Moreover, within eight weeks of starting therapy many patients began to improve with respect to constitutional symptoms. An imaging method, known as dual energy X-ray absorptiometry (DEXA), revealed that many of the patients improved physically, in terms of gaining lean body mass; and patient reported outcomes documented that many were recovering from pain, fatigue and appetite loss. Finally, we found that in the patients with colorectal cancer, DEXA-measured recovery was associated with significant improvement in survival.

We received a fast track designation from the FDA in October 2012 to develop Xilonix™ as a treatment in the setting of metastatic colorectal cancer. The purpose of the fast track designation is to aid in the development, and expedite the review, of drugs that have the potential to treat a serious or life-threatening disease. Currently we have two Phase III studies underway — one launched in the United States for advanced refractory colorectal cancer and another in Europe for symptomatic colorectal cancer. If these trials are successful, we will seek marketing approvals for MABp1 (Xilonix™) in Europe and/or in the United States. Assuming such marketing approvals are obtained, we would distribute and sell this product through our own direct sales force or with a commercial partner.

We are also investigating MABp1 in clinical trials for other indications including the treatment of vascular disease, type II diabetes, acne and psoriasis. In a randomized Phase II study involving 43 patients, we evaluated MABp1 for its ability to reduce adverse events after balloon angioplasty, atherectomy or stent placement in patients undergoing revascularization procedures for blockage of the superficial femoral artery (SFA), a major artery in the leg. While the study did not involve a large enough patient population to provide a statistically significant outcome, results from this study showed an important trend towards the reduction of restenosis and reduced incidence of Major Adverse Cardiovascular Events ("MACE") in treated patients compared to the control group. In 2012, we obtained a fast track designation to develop MABp1 as a therapy to reduce the need for re-intervention after treatment of peripheral vascular disease with angioplasty or other endovascular methods of treatment.

In a Phase II pilot study completed in 2012, we tested MABp1 in patients with Type 2 diabetes. A treatment-related decline in HbA1c, and increased serum levels of pro-insulin and C-peptide (indicators of improved glucose control and pancreas function, respectively) were observed. We also conducted two Phase II

pilot studies in skin disease, evaluating the potential benefit of MABp1 in subjects with (1) moderate to severe plaque psoriasis and (2) moderate to severe acne vulgaris. The psoriasis study revealed rapid improvements in the Psoriasis Area and Severity Index (PASI), with patients having a median of 43% improvement within 35 days. In the acne study, treated patients exhibited a continual improvement in lesions over the course of therapy, with up to 42% reduction in eight weeks; and interestingly, these patients had a statistically significant improvement in anxiety, as measured by the Hospital Anxiety and Depression Scale (HADS). We continue to analyze our clinical results, and prioritize further clinical initiatives for MABp1 in oncology, SFA, diabetes, psoriasis and acne.

We recently filed an Investigational New Drug Application (IND) for a True Human™ Antibody therapy we are developing to treat infections due to Staphylococcus *aureus.* This product candidate was identified from an individual that harbored a natural antibody capable of neutralizing drug-resistant strains of S. *aureus*. This study is currently on clinical hold while, on the request of the FDA, we complete an animal toxicology study.

More recently, we have begun using our True Human™ antibody technology to begin developing a therapy for Ebola virus infection. We recently received blood donations from Ebola-recovered patients which we have now confirmed, contain high levels of anti-Ebola antibodies. A product candidate derived from this blood is expected to go into animal studies in 2015.

Our True Human™ antibody therapeutics are developed in-house using our proprietary discovery platform. Identifying True Human™ antibodies useful for therapeutics may involve screening thousands of blood donors. To distinguish the clinically relevant antibodies from irrelevant background antibody molecules in donor bloods, we use our Super High Stringency Antibody Mining (SHSAM™) technology. After we identify antibodies through our in-house discovery platform, we undertake a complex process to identify the genes responsible for producing the native antibody. Once the nucleic acid sequence is isolated, we are able to clone these genes into production cells. All patents and other intellectual property relating to both the composition of matter and methods of use of our True Human™ antibodies were developed internally by us. We manufacture these antibodies using a proprietary expression system licensed from Lonza Sales AG. The other components of our manufacturing system—some proprietary and some non-proprietary—were all developed internally by us.

A key aspect of our manufacturing system involves the use of simple disposable bioreactor technology. Our manufacturing operation is currently located within our 46,000 square foot facility in Austin, Texas. To accommodate larger-scale commercial manufacturing needs, we purchased 48 acres of industrial-zoned property located five miles from Austin’s central business district. In September 2014, we commenced ground-breaking on a new manufacturing facility on this property. Construction is estimated to be completed by late 2015, and we expect to begin operating in the new facility in early 2016. The new facility will be capable of producing several hundred thousand doses of antibody annually.

A Background on Therapeutic Antibodies

A century ago scientists and physicians envisioned being able to custom design therapeutic agents that were highly specific for a single biological target. By selectively attacking disease while sparing healthy tissue, these “magic bullets” were thought to be ideal therapeutic agents. It was not until the early 1970s, however, that this vision was realized when Kohler and Milstein developed a ground-breaking method for making target-specific monoclonal antibodies—a Nobel prize-winning endeavor. Using this new approach, numerous monoclonal antibody-based research, diagnostic, and therapeutic products have been developed.

Kohler and Milstein’s discovery was based on their knowledge that the immune system of higher animals produces antibodies as a method of protecting them from various potentially damaging agents such as viruses, bacteria, and diseased cells. White blood cells known as B cells produce billions of different types of antibodies, each with a unique potential to selectively attach to and neutralize different disease targets. The vast array of possible treatments based on antibodies lead to the development of what is now a major industry around the use of therapeutic antibodies.

True Human™ Antibodies

White blood cells in the human body secrete billions of different antibodies that circulate through the blood to react and protect us from toxins, infectious agents or even other unwanted substances produced by our body. True human™ antibodies, as the name implies, are simply those that are derived from a natural antibody identified from the blood of an individual.

To develop a True Human™ antibody therapy, donors are screened to find an individual that has a specific antibody that matches the desired characteristics needed to obtain the intended medical benefit. White blood cells from that individual are obtained, the unique gene that produced the antibody is cloned, and the genetic information is used to produce an exact replica of the antibody sequence. A True Human™ antibody is therefore not to be confused with other marketed antibodies, such as so-called fully human antibodies—where antibody reactivity is developed through gene sequence engineering in the laboratory.

Fundamental Science of True Human™ Antibodies

To appreciate the background safety and tolerability of True Human™ antibodies, it is important to consider the fundamental biology of natural antibody production.

Billions of different white blood cells secrete billions of unique antibodies every day into the circulation. The vast number of different antibodies (and cells that produce them) is essential to enable adequate molecular diversity to ward off all potential infectious or toxic threats. In other words, since antibodies act to bind and thereby neutralize unwanted agents, any given circulating antibody must be able to react with a potentially limitless number of existing or evolving disease entities.

The staggering number of different antibodies needed to achieve this level of preparedness, however, is a daunting concept from a genetics point of view. If an individual antibody gene was needed to encode each of a billion different antibodies, there would be 20,000-times as many genes needed just for antibodies as there would be needed to encode the rest of the entire human genome! Individual cells would need to be gigantic, and monumental resources would be required to make, copy and maintain all of the DNA. Clearly, the system of antibodies could not have evolved to protect us, had not an elegant solution emerged to deal with this genetic conundrum.

Thus a hallmark of the immune physiology of all vertebrates (all have antibodies) is the ability to recombine and selectively mutate a relatively small number of gene segments to create a phenomenal and effectively unlimited number of antibody genes. By rearranging, recombining and mutating the genetic code, specialized white blood cells, or B lymphocytes, are able to create an unlimited array of antibody genes. The consequence of this genetic engineering, however, is that each antibody gene is unique to the individual B lymphocyte that created it—and no copy of the gene exists in the human germline. The only place to find a unique antibody gene is in the individual cells that created it.

The extraordinary process of gene rearrangement and mutation results in a multitude of unique B lymphocytes and consequently an incredibly diverse repertoire of antibodies in any given individual.

Elucidating the mechanisms behind the production of unique antibody genes must be considered one of the major achievements of medical research in the 20th century. Yet unfolding this mystery created another problem to solve: If antibodies were not produced from human germline sequences and the products of these genes were new to the body, why were these antibody molecules not recognized by the immune system as foreign substances—like any other foreign substance that they were intended to eradicate? How could the body distinguish the apparently “foreign” antibody molecules from the bona fide infectious intruders?

Unraveling the genetics of antibody production led to another major advance in medicine: the discovery of how an endless array of antibody proteins could be made in a way that individual molecules were always tolerated by the body.

In the early 1990s research began to demonstrate that the production of antibodies was not an unregulated process. Rather, it was learned that the antibodies produced by each and every B lymphocyte were subject to intense scrutiny. Studies showed that B lymphocytes which produced acceptable antibodies were stimulated to grow while those that produced "autoreactive" antibodies were not. B lymphocytes that produced "good" antibodies were stimulated to proliferate, and enabled to produce copious amounts of antibody in the event it was needed to ward off a harmful agent. B lymphocytes that rearranged genes to produce antibodies that were ineffective or were autoreactive were given signals that instructed them to engage in a process of programmed cell death. Thus B lymphocytes producing harmful or useless antibodies are simply killed off. This mechanism for creating antibody diversity on the one hand, while protecting the individual from a mass of unwanted or intolerable antibody molecules on the other, was as elegant as it was fundamental to the success of vertebrate immune physiology.

This process of "selection" has been elucidated in great detail. There can be no more important feature of immune physiology than the process of selection. Selection is a fundamental step to enable the body to produce an extremely diverse set of antibody molecules without, in the process, producing an array of novel molecules that cause harm.

Industry Context

To our knowledge, it appears that every therapeutic antibody on the market has been derived from animals and/or through gene sequence modification in the laboratory to produce a desired antibody reactivity. Marketed antibodies to date, described as "fully human", are not derived from human gene sequences that have undergone the crucial process of selection in a human.

Marketed products to date that are described as "fully human", are in fact engineered and are not selected based on natural tolerance in the human body. The use of the term fully human to describe these products has thus created considerable confusion. To our knowledge, there are at present no True Human™ antibodies currently marketed. If successful in clinical development, our lead product Xilonix™ is expected to be the first True Human™ therapeutic antibody to be commercialized.

Platform Technology

There are significant technical challenges in identifying and cloning genes for True Human™ antibodies. A key problem to overcome can be to first identify individuals with the desired antibody reactivity. This can involve screening hundreds of donors to enable the identification of a single, clinically relevant antibody—discovered from literally trillions of irrelevant background antibody molecules in the blood of donors. We screen human donors to find an individual who has in his or her blood a specific antibody that we believe will be protective against a certain disease. White blood cells from that individual can then be isolated, and the unique gene that produced the antibody obtained. We currently obtain blood donor samples through a Research and Collaboration Agreement with the South Texas Blood & Tissue Center, a Texas 501(c)(3) not for profit corporation. See "Intellectual Property—Other Commercial Licenses."

Novel cloning technologies developed at XBiotech have enabled us to clone the crucial antibody gene sequences from these donors in order to reproduce a True Human™ antibody for use in clinical therapy. A True Human™ monoclonal antibody should therefore not be confused with other marketed therapeutic monoclonal antibodies, such as those currently referred to as fully human antibodies.

Market Opportunity

We have a number of indications in various stages of clinical or pre-clinical development with significant market opportunities. These include oncology, diabetes, dermatology and infectious disease indications. At present, our therapy for colorectal cancer, in which we are conducting two Phase III clinical studies, is the most advanced.

Cancer Business and the Market for Colorectal Therapies

The development of new therapies for the treatment of cancer continues to be a fundamental area of focus and growth in the pharma and biopharmaceutical industry. Detailed and thorough analysis of the oncology business, including that for colorectal cancer, is available from a number of research specialists. In brief, over the past decade expenditures in R&D and revenues derived from oncology related sales have continued to grow largely as anticipated. According to the independent research group IMS Health, the market for cancer drugs grew at an annual rate of about 5% between 2008 and 2013, which is slower than previous years, but still makes it by far the largest sector of the pharmaceutical industry. In 2017, they predict between $74 and $84 billion in sales, double that of the second place area of sales, which is diabetes.

The three major regional markets for cancer drugs are the United States, Europe and Japan, with US sales representing about 40% of the global market share. The largest revenue earners in the oncology space are the therapeutic antibodies Avastin, Herceptin and Rituximab, with combined sales reported to be over $16 billion in 2010.

The market for colorectal cancer (CRC) drugs is expected to grow, according to the independent research group RnRMarketResearch.com, at a compound annual growth rate of 1.8%, to reach $9.4 billion in annual sales over the next 5 years. The US market for CRC therapeutics commands about 44% of the global business, more than double that of the next biggest market, Japan.

According to RnRMarketResearch.com, however, growth for the CRC drug business is expected to be tempered by increasing availability of biosimilar competitors, particularly those challenging leading products such as Avastin and Herceptin. There is also a substantial pipeline for CRC therapeutics across the industry in various stages of commercialization that are expected to bring new drugs to patients and competition to the market place.

An intense industry focus on developing new therapies for CRC is not surprising since this a highly prevalent form of cancer. According the American Cancer Society, Surveillance Research 2015, nearly 130,000 men and women in the United States will be diagnosed with CRC in 2015. This represents almost 20% of all forms of cancer that will be diagnosed in 2015. In terms of mortality, as many as 50,000 people are expected to die from the disease in 2015 and many more will be refractory to existing therapy.

Our therapeutic antibody Xilonix™ is being evaluated as a monotherapy to treat advanced stages of colorectal cancer. If Xilonix™ therapy proves successful in both its Phase III clinical programs, it will have demonstrated the ability to not only increase survival of patients, but also to facilitate recovery and reduce debilitating symptoms of the disease.

We are aware of no other cancer therapy either marketed or in development that achieves overall survival benefit and in the course of treatment improves quality of life, and facilitates physical recovery of advanced cancer patients. While the market for CRC drugs is competitive and dynamic, in the event marketing approval is established for Xilonix™, we expect this therapy to be a highly valued and unique therapy in oncology, providing for significant market share in advanced CRC.

Our Strategy

Our objective is to fundamentally change the way therapeutic antibodies are developed and commercialized, and become a leading biopharmaceutical company focused on the discovery, development and commercialization of therapeutic True Human™ antibodies. The key goals of our business strategy are to:

Obtain regulatory approval to market and sell Xilonix™ in the United States, Europe and other markets, and begin commercial sales of Xilonix.

We are currently conducting two Phase III studies for Xilonix™ — one in the United States for advanced refractory colorectal cancer and another in Europe for symptomatic colorectal cancer. We are currently projecting the following milestones for Xilonix™ in colorectal cancer:

- Europe
  - Complete Phase III enrollment is Second-Half 2015
  - Submit our Biologics License Application ("BLA") to the European Medicines Agency ("EMA") in the fourth quarter of 2015
  - Subject to approval from the EMA, enter the European market in the fourth quarter of 2016 or the first quarter of 2017
- U.S.
  - Complete Phase III enrollment is expected in the second-half of 2016
  - Interim analysis upon 250 events is expected second-half-2016
  - File the BLA in the fourth quarter of 2016 or the first quarter of 2017
  - Subject to approval from the FDA, enter the U.S. market in 2017

Continue our research and clinical work on infectious diseases, including S. aureus.

We recently filed an Investigational New Drug Application (IND) for a Phase I/II randomized clinical study to assess our True Human antibody therapy for the treatment of serious infections due to Staphylococcus *aureus.* This product candidate was identified from an individual that harbored a natural antibody capable of neutralizing S. *aureus*, including drug-resistant strains of the bacteria. The study was on clinical hold while, at the request of the FDA, we complete an animal toxicology study.

More recently, we have begun using our True Human™ antibody technology to begin developing a therapy for Ebola virus infection. We recently received a blood donation from an Ebola-recovered patient in January 2015 which we have now confirmed contains high levels of anti-Ebola antibodies. A product candidate derived from this blood is expected to go into animal studies in 2015.

The milestones associated with our infections disease program are:

- An IND for Phase I/II randomized human trial was submitted in December 2014, which is subject to clinical hold while we complete certain animal toxicology studies.
- Subject to FDA approval, the enrollment of the first patient in our infectious disease study is expected in the second-half of 2015 and the completion of our study is expected in the fourth quarter of 2015.
- Subject to FDA approval, begin the pivotal trial of several hundred patients in the second-quarter of 2016 and Complete enrollment in U.S. pivotal trial in the first-quarter of 2017
- Obtain FDA approval, enter U.S. market in the first half of 2018

Review our clinical results for peripheral vascular disease, diabetes, psoriasis and acne and determine additional research or clinical studies which we may conduct in the future

We have completed several studies using our MABp1 antibody in various indications, including peripheral vascular disease, diabetes, psoriasis and acne. We are analyzing this data and determining which additional clinical studies we will conduct in the future.

Discover other True Human™ antibody therapies using our proprietary platform

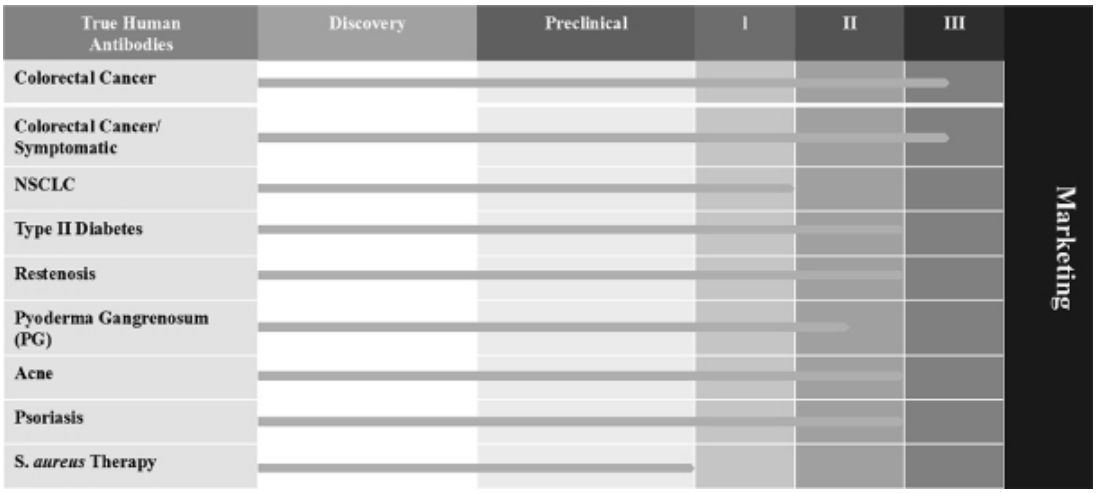
We intend to continue to leverage our antibody discovery platform to identify new antibodies that are potentially safer and more effective than current therapies. We believe that our discovery platform helps us identify new antibodies more quickly than our competitors. We have already several uses for MABp1 antibody and are working on developing antibodies for S. aureus infections and Ebola.

Leverage our manufacturing technology

Our disposable manufacturing technology dramatically reduces capital requirements and go-forward infrastructure and operational complexities, compared to conventional processes centered on clean-in-place, stainless steel bioreactor technology. The flexibility, scalability and low infrastructure requirements allows us to move as quickly and efficiently as possible to transition from clinical programs, to commercial launch of products. We plan to substantially expand our output capabilities using these manufacturing processes.

Product Pipeline

Our product development status for the first half of 2015 is as follows:



Competition

There continues to be a highly active commercial pipeline of therapeutic antibodies globally, involving a complex array of development cycles as products reach the end of their patent life and as new candidate products proceed into pivotal studies and approach registration. While there are numerous independent reviews on the subject in both trade journals and academic press, XBiotech has analyzed and attempted to synthesize these publicly available data in order to understand, at least at the broadest level, the competitive landscape for its products.

While we believe True Human™ therapeutic antibodies are an important positive differentiating factor from other monoclonal antibodies currently marketed, we also believe the unique activity of our anti-cancer therapeutic Xilonix™, which is being tested for its ability to both improve well being and extend life, if proven in our Phase III clinical programs, will be highly differentiated in the market place for colorectal cancer therapeutics. However, regardless of the potential advantages or uniqueness of Xilonix™ in the market, we do nevertheless expect these products to compete head-to-head with the numerous existing candidate antibody products in development, including emerging biosimilar therapeutic antibodies.

Colorectal Cancer

Most patients with advanced colorectal cancer receive chemotherapy and/or targeted therapies to control the cancer. These targeted drugs work differently from standard chemotherapy drugs. They often have different (and less severe) side effects. They can be used either along with chemo or by themselves if chemo is no longer working. Some of the drugs that currently are often used to combat colorectal cancer (and which we believe may be competitive with Xilonix™ for this condition) are discussed below. Other drugs may be developed or may gain acceptance in the future that would also be competitive with Xilonix™.

VEGF targeted drugs

Bevacixumab (Avastin®) and ziv-aflibercept (Zaltrap®) are drugs used for colon cancer that target vascular endothelial growth factor (VEGF). VEGF is a protein that helps tumors form new blood vessels to get nutrients (a process known as *angiogenesis*). Bevacizumab is a man-made version of a type of immune system protein called a monoclonal antibody. It is often combined with chemo to treat advanced colon cancer. Ziv-aflibercept (Zaltrap®) is a different kind of protein that targets VEGF. It can also be combined with chemo to treat advanced colon cancer, although it was approved to be combined only with a certain chemo combination. Both of these drugs are given as infusions into a vein (IV) every 2 or 3 weeks. When combined with chemo, these drugs can help patients with advanced colon or rectal cancers live longer, but they do come with some side effects.

Common side effects include high blood pressure, tiredness, bleeding, low white blood cell counts, headaches, mouth sores, loss of appetite, and diarrhea. Rare but possibly serious side effects include blood clots, severe bleeding, holes forming in the colon (called *perforations*), heart problems, and slow wound healing. If a hole forms in the colon it can lead to severe infection and may require surgery to correct.

EGFR targeted drugs

Cetuximab (Erbitux®) and panitumumab (Vectibix®) are both monoclonal antibodies that specifically attack the epidermal growth factor receptor (EGFR), a molecule that often appears in high amounts on the surface of cancer cells and helps them grow. Cetuximab is used in metastatic colorectal cancer, either as part of first-line treatment or after other treatments have been tried. Most often it is used either with irinotecan or by itself in those who can’t take irinotecan or whose cancer is no longer responding to it. Panitumumab is used to treat metastatic colorectal cancer, usually after other treatments have been tried. About 4 out of 10 colorectal cancers have mutations (defects) in the *KRAS* gene, which make these drugs ineffective. Doctors now commonly test the tumor for this gene change and only use these drugs in people who do not have the mutation. Doctors may also test for a mutation in the *BRAF* gene, which would also indicate that these drugs would not work.

Both of these drugs are given by IV infusion, either once a week or every other week. The most common side effects are skin problems such as an acne-like rash on the face and chest during treatment, which in some cases can lead to infections. The skin problems with panitumumab can be more serious and lead to the skin peeling off. Other side effects may include headache, tiredness, fever, and diarrhea. A rare but serious side effect of these drugs is an allergic reaction during the infusion, which could cause problems with breathing and low blood pressure. Patients may be given medicine before treatment to help prevent this.

Other targeted drugs

Regorafenib (Stivarga®) is another targeted drug for advanced colorectal cancer. It is a type of targeted therapy known as a *kinase inhibitor*. Kinases are proteins on or near the surface of a cell that transmit important signals to the cell's control center. Regorafenib blocks several kinase proteins that either prompt tumor cells to grow or help form new blood vessels to feed the tumor. Blocking these proteins can help stop the growth of cancer cells.

In a study of patients who had already been treated with most of the other drugs used to treat colorectal cancer, regorafenib helped these patients live on average about 6 weeks longer. This drug is given in pill form. Common side effects include fatigue, decreased appetite, hand-foot syndrome (redness and irritation of the hands and feet), diarrhea, sores in the mouth and throat, weight loss, voice change, infections, and high blood pressure. Some serious side effects that can occur include liver damage, severe bleeding, and perforations in the stomach or intestines.

Xilonix™

While we believe True Human™ therapeutic antibodies are an important positive differentiating factor from other monoclonal antibodies currently marketed, we also believe the unique activity of our anti-cancer therapeutic Xilonix™, which is being tested for its ability to both improve well being and extend life, if proven in our Phase III clinical programs, will be highly differentiated in the market place for colorectal cancer therapeutics. While Xilonix™ may compete with many existing drug and other therapies, it might also be used in combination with or as an adjunct to these therapies.

Other Products under Development

The other therapeutic categories that we are currently addressing which are non-small cell lung cancer, restenosis in peripheral vascular disease, diabetes and psoriasis. Our principal competitors in these categories include Humira from AbbVie, Remicade and Stellara from J&J, Enbrel from Amgen and Necitmumab from Eli Lilly and Company. In the infectious disease area, there are no currently approved monoclonal antibody products, although many have been tried. The leading small-molecule antibiotics are Vancomycin, originally from Eli Lilly and Company now in a generic form from Baxter, Sandoz, Akorn and Hospira; Cubicin (Daptomycin) from Cubist and Dalvance from Durata.

As reported in the National Review of Drug Discovery (October 2010), more than 140 “fully human” antibodies had entered clinical studies and from 2004-2013 nineteen antibody therapeutics were approved in the United States for marketing, with some antibodies receiving marketing approval in multiple indications (Reichert JM, Antibodies to Watch in 2014. mAbs. 6:4, 799-802). Thus the competitive landscape is both broad and complex (See below Table).

Drug	Company	Generic Name	Status of Drug	Indication
Cancer Treatments				
Yervoy ®	Bristol-Myers Squibb	Ipilmumab	FDA Approved	Melanoma
Vectibix ®	Amgen	Panitumumab	FDA Approved	Colorectal Cancer
Arzerra®	GlaxoSmithKline	Ofatumumab	FDA Approved	Leukemia
Cyramza™	Lilly	Ramucirumab	FDA Approved	Non Small-Cell Lung Cancer
Opdivo™	Bristol-Myers Squibb	Nivolumab	FDA Approved	Melanoma
Cyramza™	Lilly	Ramucirumab	FDA Approved	Gastric and Colorectal Cancer
Sylvant®	Janssen	Siltuximab	FDA Approved	Myeloma (Multicentric Castleman’s Disease)
Entyvio®	Takeda Pharmaceuticals	Vedolizumab	FDA Approved	Ulcerative Colitis and Crohn’s disease
Daratumumab	Janssen	Daratumumab		Multiple Myeloma
Necitumumab	Eli Lilly	Necitumumab	Pending FDA	Non Small-Cell Lung Cancer
Patritumab	Daiichi Sanko	Patritumab	Phase 3	Non Small-Cell Lung Cancer; Head and Neck Cancer
MEDI-4736	AstraZeneca	MEDI-4736	Phase 3	Non Small-Cell Lung Cancer
RG7446	Roche/Genentech	RG7446	Phase 3	Non Small-Cell Lung Cancer
Cardiovascular Disease Treatments	Novartis	Canakinumab	Phase 3	Recurrent CV events
Pyoderma Gangrenosum Treatments	Xoma/Servier	Gevokizumab	Phase 3	PG
Acne or Psoriasis Treatments				
Secukinumab	Novartis		Pending FDA	Psoriasis
Brodalumab	Amgen		Phase 3	Psoriasis
Guselkumab	Janssen		Phase 3	Psoriasis

Recent Developments

In 2014, at least four antibody drugs—ramucirumab, siltuximab, vedolizumab and pembrolizumab—for the treatment of gastric cancer, Castleman disease, Crohn’s disease and melanoma achieved regulatory approval for marketing authorization in the United States. While this was the first marketing approval for each of these molecules, we can assume more approvals will be forthcoming for other indications for these agents in the future.

Ramucirumab is a classical anti-angiogenic, targeting the VEGF receptor system similar to that of the highly successful Avastin™ product. Such an anti-angiogenic does have overlap with Xilonix™, since the latter is expected, albeit not proven, to have anti-angiogenic properties through its inhibition of several downstream

pathways related to IL-1 signaling. However, there are numerous anti-VEGF antibodies, in addition to several small molecule inhibitors of the pathway, and we expect that some of these may be seen as “me too” therapies and may suffer from difficulties with differentiation in the market place. Moreover, ramucirumab is indicated for treatment of advanced gastric cancer or gastro-esophageal adenocarcinoma and may not find utility for the treatment of colorectal cancer or other cancers relevant to Xilonix™. Also the approved dosage of 8 mg/kg is quite high, and considering the conventional production processes involved in manufacturing this product, pricing of the drug will be highly constrained at the upper end of the spectrum compared to what would be possible for Xilonix™. Ramucirumab is reported to be involved in a Phase 3 clinical study for non-small cell lung cancer (NCT01168973) and colorectal cancer (NCT01183780), but there is no indication of efficacy at this time.

The approval for the anti-IL-6 antibody siltuximab does indicate that it has potential anti-cancer applications, although Castleman’s disease is a rare and poorly defined malignancy and therapeutic activity for the drug in other cancer indications is uncertain. This approval is of interest to XBiotech, since we have both a True Human™ anti-IL-6 antibody in the pre-clinical pipeline and have seen responsiveness to Xilonix™ in Castleman’s disease. In our Phase I/II clinical study conducted at MD Anderson Cancer Center with Xilonix™, a single patient with Castleman’s who had previously received and failed anti-IL-6 therapy had a durable response to Xilonix™ therapy, including dramatic reduction in IL-6 levels in the blood. In the same study, in patients with other cancer types treated with Xilonix™, the therapy was found to have an effect on reducing IL-6 levels. This link between Xilonix™ therapy and reduction in IL-6 levels was anticipated, since Xilonix™ neutralizes a target that mediates signals to induce IL-6 production in the body. Our True Human™ anti-IL-6 antibody is not currently scheduled for clinical development nor is there any immediate plans to launch a clinical program with the antibody. While we have considered launching a Castleman’s clinical study with Xilonix™, the extremely small size of the patient population led us to focus Xilonix™ development in other areas where there is much greater unmet patient need.

The FDA granted marketing approval for Vedolizumab to treat ulcerative colitis and Crohn’s disease (CD). MABp1 is considered to have the potential to treat gastro-intestinal ailments with important inflammatory features. Excellent preclinical reports in animal models support the use of MABp1 in these indications, but no clinical programs have been initiated or are in the immediate scope at this time. It would be some time before XBiotech could launch a clinical study for these indications and vedolizumab would be expected to be well established in the market before we could complete clinical development and receive approval for such a therapy. Vedolizumab is a humanized murine antibody that is unlikely to achieve good tolerability or long term efficacy due to immunogenicity. Therefore, providing comparable efficacy, we expect that an opportunity to effectively compete with this product, even with its foothold in the market, would be available given that MABp1 is a True Human™ antibody.

Pembrolizumab is an anticancer agent that was approved late in 2014 for the treatment of melanoma. This antibody works by activating the immune system, such that it may stimulate an immune-mediated anti-tumor cytotoxicity. There are a number of antibodies that are in development for, or have reached the oncology market, such as ipilimumab, based on this general mechanism of action. While approvals have been forthcoming with these therapies, these agents share in common severe side effects without achieving high rates of durable remission. In advanced malignant disease, these agents have and will likely continue to achieve success in the market place. Both pembrolizumab and ipilimumab are approved for the treatment of melanoma, a disease for which we currently have no clinical development plans for Xilonix™. However, with respect to the overall competitiveness of these approaches vis-a-is Xilonix™, our Phase III clinical programs are intended to demonstrate overall survival benefit that is generally consistent with those observed with cytotoxic therapies in refractory disease. Additionally, in the case of Xilonix™, we are also attempting to demonstrate improved life quality and physical recovery. We expect that Xilonix™ will therefore compete favorably with this new and emerging class of anti-cancer antibodies.

CURRENT CLINICAL INVESTIGATION ACTIVITY

Current Clinical Activity

European Registration Study Oncology

Currently, we have a double-blinded, placebo-controlled Phase III registration study underway in Europe. Clinical sites are located in a number of different European Union member states, and the addition of sites in Russia is expected soon. The study aims to evaluate MABp1, or Xilonix™, as an anticancer therapy in patients with symptomatic colorectal cancer.

The primary objective of this study is to assess the efficacy of Xilonix™ in reversing symptoms in patients with symptomatic colorectal cancer. By blocking a substance that helps tumors grow and spread, Xilonix™ therapy may not only slow tumor growth, but also may improve symptoms of muscle loss, fatigue, appetite loss, and pain in patients with colorectal cancer.

The efficacy of the therapy will be measured by assessing the change in these symptoms for patients treated with Xilonix™ versus those treated with placebo. Reversal of muscle loss will be assessed with a type of X-ray called a DEXA scanner. Improvement in pain, appetite loss, and fatigue will be measured with a questionnaire that is completed by patients enrolled in the trial.

The study, which started in July 2014, will enroll at least 276 patients and is expected to be completed by mid-2015. As of March 3, 2015 about 122 patients had been enrolled. If the study endpoints are satisfactorily achieved, we expect to submit a registration package to the EMA and possible other foreign regulatory agencies.

US Registration Study Oncology

A Phase III randomized study using Xilonix™ was started in March 2013 (IND #114,759). The study, which was recruiting patients at over sixty cancer centers in the United States, was halted by us in September 2014 to propose changes in inclusion criteria to the FDA to enable faster patient recruitment. Amendments were proposed and agreed to by the FDA in order to correct what we believed to be unnecessary enrollment barriers.

Changes to the study protocol included eliminating the 5% weight loss requirement for patients and terminating the use of megesterol acetate (megace) in the control arm. The new agreed upon protocol will enable recruitment of all advanced, refractory colorectal patients regardless of weight loss, and use a 2:1 double-blinded randomization against placebo rather than a 1:1 randomization against megace. We expect to begin treating patients under the new protocol in March 2015. Enrollment under the revised protocol is expected to be completed in 2016.

While we regretted the disruption to the Phase III study and impact on patients and caregivers, the protocol revision allowed an important analysis to be performed on the intended primary and secondary endpoints of the study. This analysis provided important insights into the activity of Xilonix™ in the patient population. Forty patients had entered the study with approximately equal numbers in each arm. The findings were not statistically significant due to the relatively small number of patients (the statistical model was designed for 656 patients), but the trends observed were encouraging and suggest continuation of the study.

Phase II study Pyoderma Gangrenosum (“PG”)

A Phase II open-label exploratory study is underway to evaluate MABp1 for treatment of the rare skin disorder PG (IND# 112,459). PG is a chronic condition characterized by inflamed, non-healing skin ulcerations. The study is evaluating safety and efficacy of the therapy to facilitate wound healing and is being conducted at 5 sites in the United States. Primary endpoints of study involve clinicians’ and patients’ global assessment at day 28 from baseline. Patients who are found to be responding to therapy, but who have not yet experienced complete resolution of their lesion(s) after 28 days of therapy may participate in up to 3 additional 28 day cycles.

Ten patients are scheduled to be enrolled. We plan to evaluate patient responses in the first quarter of 2015 and based on these results may elect to seek breakthrough designation with the FDA.

Phase I/II Study for Staphylococcus Aureus

We recently filed an Investigational New Drug Application (IND) for a Phase I/II randomized clinical study to assess our True Human™ antibody therapy for the treatment of serious infections due to Staphylococcus *aureus* in December 2014. This product candidate was identified from an individual that harbored a natural antibody capable of neutralizing S. *aureus*, including drug-resistant strains of the bacteria. The study is currently on clinical hold while, at the request of the FDA, we complete an animal toxicology study. We expect to complete the animal study in the first quarter of 2015.

SUMMARY OF CLINICAL FINDINGS TO DATE

Safety

Our lead product under development, MABp1, is derived from a natural human immune response. We expected that this will facilitate better tolerability when used as a therapeutic compared to humanized or "fully human" monoclonal antibodies. Antibody therapies are known to be associated with significant risk of infusion reactions, including serious anaphylactic reactions. We believe that these reactions are the result of using antibodies that are not derived from natural human immunity but rather have engineered specificities. Based on scientific principles of antibody physiology, a fundamentally important premise is that our True Human™ antibody therapy should be safer and result in less infusion-related complications than engineered human antibodies when used in clinical studies.

As illustrated in the table below, therapeutic monoclonal antibodies, even those so-called "fully human," have been associated with infusion reactions (see table below). MABp1 has been administered over 700 times to 170 patients in seven different clinical trials. As of March 1, 2015, there has not been an incident of an infusion reaction with MABp1, nor has there been a single reported incidence of "probably" or "definitely" drug-related serious adverse events (SAEs) of any kind across all of the studies.

Reports of Infusions Reactions from Leading marketed "Fully Human" Antibody Products Versus MABp1 (Table below).

Fully Human Antibodies	Target	Incidence of Infusion Reactions*
Trastuzumab	HER-2	40%
Alemtuzumab	CD52	10-35% had Grade ³3
Natalizumab	a4-integrin	11-24%
Tocilizumab	IL-6	8%, Fatal Anaphylaxis
Bevacizumab	VEGF	3%
True Human™		
Xilonix	IL-1a	0%

* Source of data: Herceptin® [trastuzumab]. Package Insert; San Francisco, CA: Genentech, Inc; June 2014. Campath® [alemtuzumab]. Package Insert; Cambridge, MA: Genzyme Corporation; August 2009. Tysabri® [natalizumab]. Package Insert; Cambridge, MA: Biogen Idec Inc.; December 2013. Actemra® [tocilizumab]. Package Insert; San Francisco, CA: Genentech, Inc.; November 2014. Avastin® [bevacizumab]. Package Insert; San Francisco, CA: Genentech, Inc.; November 2014.

Interpretation of Results from a Previous Phase I/II Oncology Study with Xilonix

Non-Small-Cell Lung Cancer ("NSCLC")

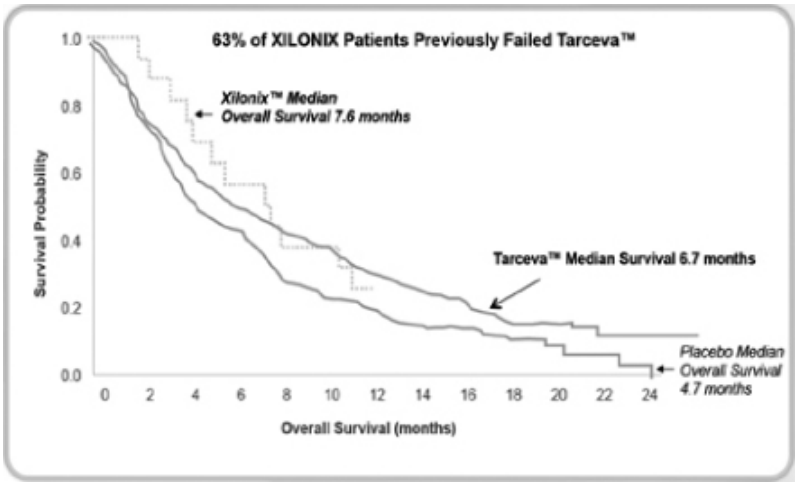
A subset of sixteen evaluable NSCLC patients were treated as part of the Phase 1/II clinical trial of Xilonix at MD Anderson Cancer Center in Houston, Texas under IND # 105,958. The study design was single arm, and examined radiographic tumor response, change in lean body mass as measured by DEXA, change in quality of life, and overall survival. NSCLC Patients with both pulmonary and non-pulmonary or only non-pulmonary metastases have been reported to have median time to death from date of disease progression of 3.2 months[1] as reported in *Changes in the Natural History of Non-small Cell Lung Cancer (NSCLC))—Comparison of Outcomes and Characteristics in Patients with Advanced NSCLC Entered in Eastern Cooperative Oncology Group Trials Before and After 1990* (Heather Wakelee and et al, 2006 American Cancer Society).

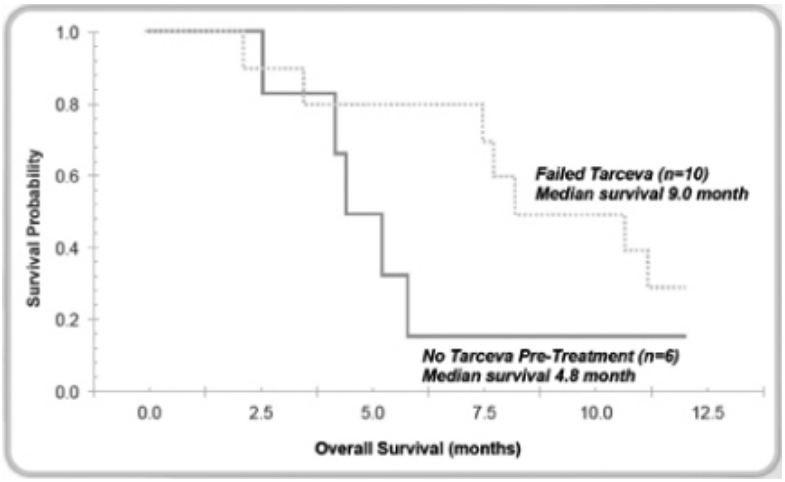
The NSCLC patients treated with MABp1 monotherapy all entered the study with progressive refractory disease and all had pulmonary and/or non-pulmonary metastasis.

Overall survival for the NSCLC patients treated in this study was 7.6 months, which is notably greater than 3.2 months. Stratification based on prior anti-EGFR therapy revealed a median survival of 9.4 months (IQR 7.6-12.5) for those pretreated with Tarceva® (N=10) versus a survival of 4.8 months (IQR 4.3-5.7) for those without (N=6, logrank p=0.187).

The first figure below compares patient overall survival after treatment with MABp1 with that observed in another study with Tarceva®, a drug recently approved for treating NSCLC. The median survival for patients treated with Xilonix™ was 7.6 months. It should be noted that 63% of the Xilonix™ patients had taken Tacerva® and failed. This compares with median survival for a similar patient population treated with Tarceva®, which is a historical control group, where survival was only 6.7 months. Overall survival in the control population in the Tarceva® study was 4.7 months. The comparison between overall survival observed with Xilonix™ and that of the Tarceva® study should be viewed with caution, since the patient populations or supportive care or other factors may have been different between the two studies, making a direct comparison difficult.

The second figure compares overall survival of MABp1 treated patients based on whether or not they received pre-treatment with Tarceva®. These findings suggest a remarkable interaction between Tarceva® pre-treatment and MABp1. Survival in the Tarceva® pre-treated group was nearly double compared to those who had not previously received Tarceva®.

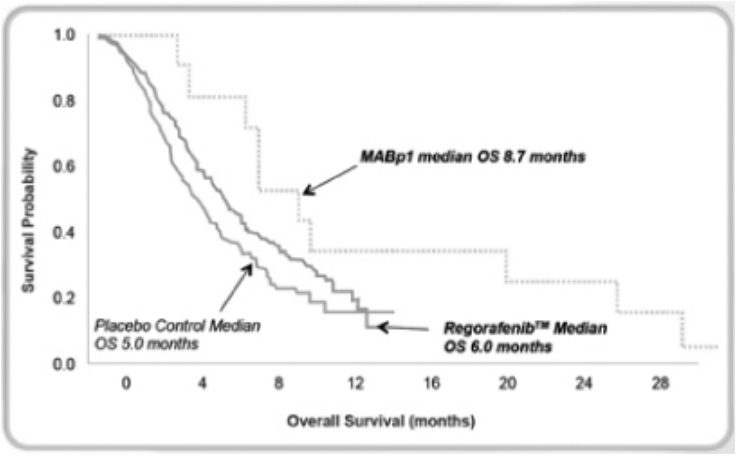




When overall survival was analyzed according to pre-treatment status, it was found that having received, but failed Tarceva®, correlated with significantly increased survival. The Kaplan-Meier curves compare survival of patients who had either received and failed (green line) or had not received (gray line) treatment of Tarceva® prior to receiving MABp1 treatment. This subset analysis reveals that patients who had received Tarceva® treatment prior to receiving MABp1 live longer on average than patients who did not receive Tarceva®. This type of analysis may help in designing future trials of MABp1.

Colorectal Cancer

A subset of 14 colorectal carcinoma patients were treated using Xilonix™ as part of a trial of the Phase I/II clinical trials at MD Anderson Cancer Center in Houston, Texas. The study design was single arm, and examined radiographic tumor response, change in lean body mass as measured by DEXA, change in quality of life, and overall survival. Patients with colorectal cancer (n=14) were assessed for overall survival and the median overall survival for these patients was 8.7 months (IQR 6.4–22.1). Survival outcomes in patients with colorectal cancer who had increases in lean body mass showed numerically longer survival than those who lost lean body mass during the study (median 19.3 months *vs* 6.6 months; log-rank p=0.098). Overall survival for colorectal cancer patients was determined to be significantly greater than what is expected for this patient population irrespective of treatment strategies. The advanced, refractory colorectal cancer patients treated with MABp1 had a median survival of 8.7 months. Based on large clinical studies where similar patient populations were involved, median survival for this patient group receiving only placebo is expected to be about 4.7 months (Jonker D., et al. Cetuximab for the Treatment of Colorectal Cancer. N Engl J Med 2007;357:2040-8.). A recently approved drug, Regorafinib™, improved survival in this patient population to a median of 6.0 months.



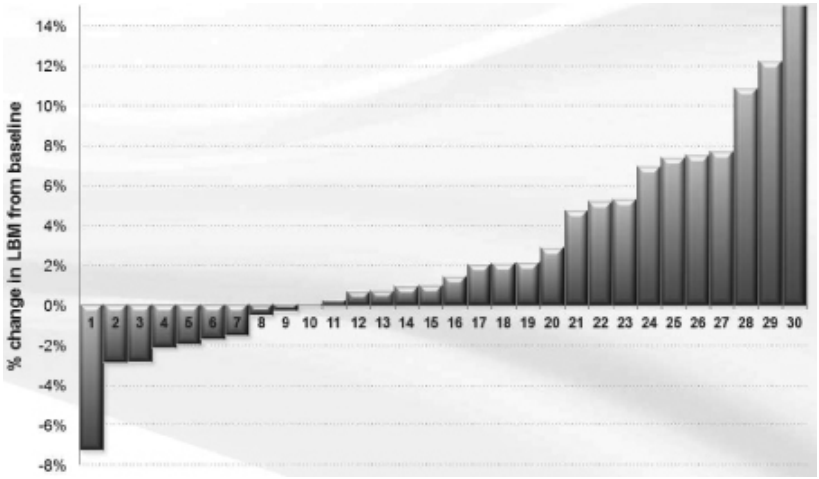
The Kaplan-Meier curves show overall survival of colorectal cancer patients treated with MABp1 (green line) compared to overall survival observed for the drug Regorafenib™, which was used in a similar patient population, a historical control group, and a study that recently resulted in marketing approval for the drug. The median overall survival (“OS”) of the cohort of refractory colorectal cancer patients treated with MABp1 was 8.7 months. Patients treated in the Regorafenib™ pivotal trial had a median OS of 6.0 months compared with 5.0 months for the placebo controls. The comparison between overall survival observed with Xilonix™ and that of the historical control group Regorafenib™ study should be viewed with caution, since the patient populations or supportive care or other factors may have been different between the two studies making direct comparison difficult.

Anorexia/Cachexia

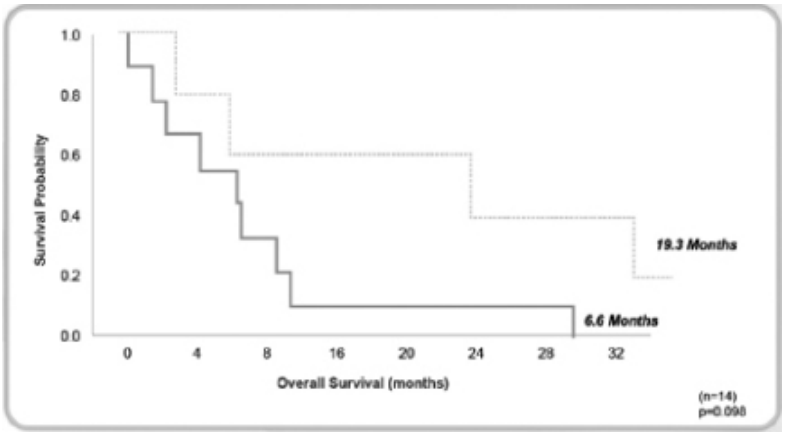
A subset of thirty advanced cancer patients that were treated as part of the Phase I/II clinical trial at MD Anderson Cancer Center in Houston, Texas were assessed for anorexia/cachexia using a variety of means, including dual energy X-ray absorptiometry (DEXA) scans at screening and after an 8-week follow-up period. Cachexia is an irreversible loss of muscle mass observed in the setting of a chronic disease. All patients had very advanced stage disease, having failed a median of five previous treatment regimens, including chemo/radiotherapy. Seventy-seven percent (23 of 30) of the patients evaluated had demonstrable weight loss as formal evidence of cachexia, while otherwise the advanced disease status also suggested cachexia.

Cachexia in advanced cancer is well known to correlate with poor survival outcomes. Yet in the absence of therapeutic agents to reverse this cachexia process, it has never been formally established that a measure of LBM, on its own, might offer a means to predict survival outcomes in cancer patients. XBiotech believes that the observed increases in LBM, and improved survival outcomes seen with increased LBM, were due to a combination of anti-cachexia, anti-tumor and anti-metastatic effects of the antibody therapy, which resulted in blocking tumor-associated inflammatory processes.

A measure of LBM is a means of assessing weight gain that is attributable to tissue other than fat. Gain of fat is not considered to be a crucial indicator of recovery from cachexia, since it is wasting of muscle (i.e. diaphragmatic or pulmonary) that can result in death. Most cachexia patients (21/30 or 70%) showed an average increase in LBM of 1.9 kg after three infusions of antibody therapy ($p<.001$). Patients were evaluated with DEXA no more than 2 weeks prior to the start of treatment. Antibody infusions were given at day 0, day 21 and day 42 and DEXA scans were performed at day 57.



Each vertical bar on the chart above represents the change in lean body mass (LBM) for a single patient during 8 weeks of therapy. LBM change is expressed as a percentage of total body weight from baseline. The statistical significance of the result was was determined by comparing the LBM change for responders vs. non-responders 3.0±1.4 kg (p=0.002).



Overall survival was analyzed in the above Kaplan-Meyer graph for patients with advanced colorectal cancer treated with Xilonix according to whether or not they had gained LBM. An increase in LBM was measured in 5 of 14 (36%) patients. The median survival time for LBM gainers was 19.3 months compared to 6.6 months in those with no evidence of gain (p= 0.098).

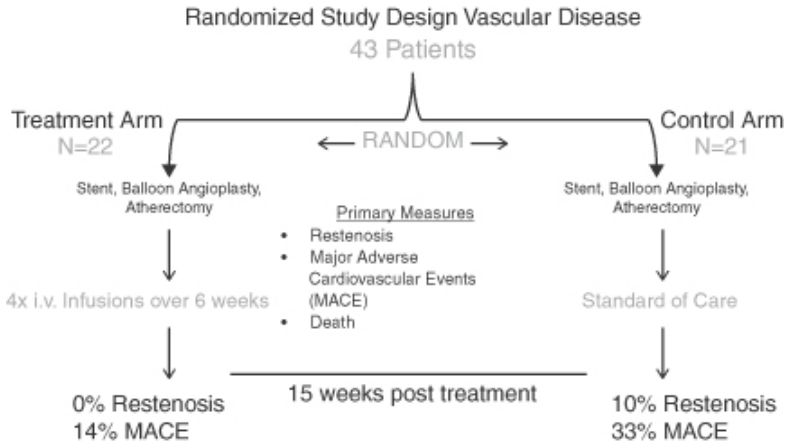
Results from a Phase II Randomized Study in Cardiovascular Disease

XBiotech completed a multi-center Phase II clinical study in cardiovascular medicine with 43 patients in 2013 (IND# 110,908). The study was conducted at nine investigative sites in the United States. This Phase II randomized clinical study evaluated the therapeutic antibody MABp1 for its ability to reduce adverse events after balloon angioplasty, atherectomy or stent placement in patients undergoing revascularization procedures for blockage of a major artery (superficial femoral artery or SFA) in the leg. Interim data from this study was submitted to the FDA and resulted in fast track designation for this drug development program in the fall of 2012.

While the study was exploratory in nature and not powered with patient numbers to provide a statistically significant outcome, clinical results to date have shown an important trend towards the reduction of restenosis, and reduced incidence of Major Adverse Cardiovascular Events (MACE) in treated patients compared to controls. Patients were monitored for restenosis, or MACE, including heart attack or stroke.

All of the subjects included in this trial had symptomatic peripheral vascular disease, characterized by claudication, rest pain, or limited gangrene. All patients had hemodynamically significant occlusion of the femoral artery. Subjects eligible for enrollment had to be undergoing endovascular intervention as a part of standard of care treatment. Enrolled subjects were randomized to receive (i) study drug plus standard of care or (ii) standard of care following surgery.

Data analyzed from the study suggests a beneficial treatment effect at 15 weeks. The patients received intravenous infusions of MABp1 at day 0 peri-operative, and at days 14, 28 and 42 post-operative. At 15 weeks no patients (0/22) in the treatment arm had experienced re-occlusion (restenosis) of the treated artery, whereas 3 patients (3/21) had restenosis in the control arm. Three patients (3/22) had MACE in the treatment arm compared to 5 (5/21) in the control group.



These data, together with the FDA fast track designation, have supported advancement of the clinical trial program for the treatment of vascular injury and disease.

Dermatology

Inflammatory skin conditions encompass a wide range of diagnoses from common conditions such as acne, eczema, and psoriasis, to more rare conditions such as pyoderma gangrenosum. One common factor unifying the pathophysiology of these conditions is IL-1a, a pro-inflammatory cytokine present in keratinocytes and inflammatory cells present in skin lesions. We believe that blockade of IL-1a will prove to be a safe and effective treatment for numerous dermatologic conditions.

Psoriasis

XBiotech completed a multicenter, single arm Phase II study of MABp1 in eight patients with moderate to severe plaque psoriasis (IND# 112,459). This clinical trial was launched after a dramatic response was observed in a psoriasis patient who was treated with MABp1 on a compassionate basis. The patient seen was a 48 year-old male with Type I psoriasis vulgaris. After a single treatment, the patient showed almost complete resolution of psoriasis lesions within 10 days. The Phase II exploratory study involved providing psoriasis patients three subcutaneous injections of the antibody to evaluate safety, pharmacokinetics and preliminary efficacy of the treatment. Numerous efficacy assessments were made, including the Psoriasis Area and Severity Index (PASI) and performance measures, assessed with the use of the Dermatology Life Quality Index (DLQI) Questionnaire and Physicians Global Assessment (PGA). Findings revealed rapid improvement in patients treated with MABp1, with a median response of 43% improvement in PASI score in just 35 days.

Acne

We launched a Phase II single-arm, multi-center study in 2012 and completed it in 2013 which evaluated MABp1 therapy in moderate to severe acne vulgaris in the United States (IND # 112,459). This study examined changes in the number of inflammatory acne lesions, as well as patient reported changes in psychiatric symptoms. Eleven patients were administered open-label, subcutaneous injections of MABpl over a six-week period (ClinicalTrials.gov NCT01474798). The objectives were assessment of safety, change in inflammatory lesion count and change in psychosocial functioning using two validated questionnaires.

Patients showed significant improvement in the number of facial inflammatory lesions after treatment with MABp1. Median inflammatory lesion counts decreased 36% (IQR -44% to 1%). Anxiety scores improved (from

median 6 to 1) as well as self-image assessment (2.3±0.9 to 2.1±0.1) as measured by the Hospital Anxiety and Depression Scale and the modified Body Image Disturbance Questionnaire, respectively. There were no serious adverse events, or adverse events greater than grade I.

Diabetes (Type 2)

We conducted a Phase II pilot study to test MABp1 in seven patients with Type 2 diabetes at the University Hospital in Basel, Switzerland in 2012. The study was headed by an endocrinologist and expert on the role of inflammatory disease in diabetes, Dr. Marc Donath, Head of Endocrinology, Diabetes and Metabolism at University Hospital of Basel. This study was conducted under the Swiss regulatory authority SwissMedic.

The clinical study assessed safety and pharmacokinetics of MABp1 in the diabetic patient population. The study also examined patients to determine if their diabetes improved, including assessing pancreas function and glucose control.

Patients were given a low dose of MABp1 intravenously every two weeks for a total of four doses (Days 0, 14, 28, and 42). To be eligible for treatment, patients needed to have been diagnosed with Type 2 diabetes according to American Diabetes Association diagnostic criteria at least three months prior to the study.

To examine the trend of glycated hemoglobin (HbA1c) levels along the study time points, a trend analysis was performed on patients who completed all visits. Compared to baseline, after the 60 days period of treatment HbAlc was reduced by 0.14±0.21% (p=0.15), fasting C-peptide was increased by 88% (p=0.03), pro-insulin by 48% (p=0.03) and insulin by 74% (P=0.ll). Systolic blood pressure decreased by 11 mmHg (p=0.2). Both HbAlc and blood pressure rebounded to baseline levels thirty days after the end of MABp1 application. Treatment with MABpl was well tolerated and no adverse events occurred during the study. This increase in HbA1c after removal of the drug, further suggested the activity for antibody therapy in these type 2 diabetic patients.

Intellectual property

We have has developed a large international intellectual property (IP) portfolio to protect important aspects of our technology, services and products. Our IP portfolio includes patents, trademarks and trade secrets. To date, XBiotech's patent portfolio consists of 16 patent families, and includes 39 issued/allowed patents and approximately 100 pending patent applications in various countries around the world. XBiotech's IP portfolio is designed to protect XBiotech's drug products, therapies and to some extent, its discovery technology. It includes patents and applications that protect MABp1 as a composition of matter and methods of using anti-IL-1a antibodies for the treatment of various diseases including cancer, vascular disorders, inflammatory skin diseases, diabetes, and arthritis. XBiotech's IP portfolio also includes patents and applications directed to some aspects of our proprietary antibody discovery platform, as well as treating *Staphylococcus aureus (S. aureus)* infections.

With respect to its 39 issued/allowed patents, XBiotech owns the rights to the patent families as described in more detail below.

A. Interleukin-1 Alpha Antibodies and Methods of Use. This patent family relates to the development of specific True Human™ monoclonal antibodies, including MABp1, that include (i) an antigen-binding variable region that exhibits very high binding affinity for human IL-1a and (ii) a constant region that is effective at both activating the complement system though C1q binding and binding to several different Fc receptors. XBiotech has been granted 25 patents in this family for interleukin-1 alpha antibodies and methods of use; including ten in the U.S. (two allowed, but not issued), four in Australia, one in China, one in Hong Kong, two in Israel, one in Japan, one in Mexico, one in New Zealand, one in the Philippines, one in Russia and two in South Africa. Patents in this family have a term at least through 2029.

B. Treatment of Cancer with Anti-IL-1a Antibodies. This patent family relates to the use of anti-IL-1a antibodies to inhibit the metastatic potential of tumors by interrupting the physiological role tumor-derived IL-1a plays in tumor metastasis. XBiotech has been granted three patents for this family; including one in Australia, one in Canada and one in Europe. Patents in this family have a term at least through 2027.

C. Treatment of Neoplastic Diseases. This patent family relates to the administration of anti-IL-1a antibodies to treat various tumor-associated diseases and the administration of a monoclonal antibody that specifically binds IL-1a to reduce the size of tumors in human patients suffering from cancer. We have been issued one patent in New Zealand. Patents in this family have a term at least through 2027.

D. Diagnosis, Treatment, and Prevention of Vascular Disorders. This patent family relates to methods of diagnosing, treating and preventing a variety of vascular disorders using IL-1a autoantibody. We have been issued six patents in this family, including one in the U.S., two in Australia, two in Europe and one in Japan. Patents in this family have a term at least through 2027.

E. Compositions and Methods for Treating *S. Aureus* Infections. This patent family relates to new antibodies for treating *S. aureus* infections. XBiotech acquired use of these patents pursuant to its exclusive license agreement with STROX Biopharmaceuticals, LLC. This patent family includes three patents in the U.S. and one patent in Australia. Patents in this family have a term at least through 2027.

Because the patent positions of pharmaceutical, biotechnology, and diagnostics companies are highly uncertain and involve complex legal and factual questions, the patents owned and licensed by us, or any future patents, may not prevent other companies from developing similar or therapeutically equivalent products or ensure that others will not be issued patents that may prevent the sale of our products or require licensing and the payment of significant fees or royalties. Furthermore, to the extent that any of our future products or methods are not patentable, that such products or methods infringe upon the patents of third parties, or that our patents or future patents fail to give us an exclusive position in the subject matter claimed by those patents, we will be adversely affected. We may be unable to avoid infringement of third party patents and may have to obtain a license, defend an infringement action, or challenge the validity of the patents in court. A license may be unavailable on terms and conditions acceptable to us, if at all. Patent litigation is costly and time consuming, and we may be unable to prevail in any such patent litigation or devote sufficient resources to even pursue such litigation.

Other Commercial Agreements

License Agreement with Lonza

We have licensed certain proprietary technology that we use to manufacture antibodies on a clinical and commercial scale from Lonza Sales AG (“Lonza”), a Swiss company, pursuant to a license agreement dated as of January 16, 2015. . This proprietary technology consists of vectors, cell lines and system know-how which we use to manufacture antibodies. Our license for this proprietary technology is worldwide, non-exclusive and continues until the expiration of Lonza’s last valid claim of a patent has expired. We also have the right to sublicense this proprietary technology. We are required to make royalty payments once we commence commercial sale of our products, which were developed using this proprietary technology. We also are required to make royalty payments when we, or a strategic partner, are manufacturing a product which was manufactured with this proprietary technology, and have initiated Phase II clinical trials for the product. We have the right to terminate the license upon sixty days written notice.

Research Agreement with STBTC

We entered into a research collaboration agreement (the “Research Agreement”) with the South Texas Blood & Tissue Center, a 501(c)(3) organization (“STBTC”), on December 15, 2014 in which we agreed to collaborate on (a) the identification and development of therapeutic monoclonal antibodies for use in individuals

that have recovered from the Ebola virus and from other diseases and (b) the analysis of whole blood from healthy individuals to discover various antibodies (collectively, the "Project").

Under the Research Agreement, STBTC has agreed to use commercially reasonable efforts to provide XBiotech with blood samples from at least one recent survivor of an Ebola infection and blood samples for testing, B-cell and RNA isolation per protocol and certain other services, including obtaining informed patient consent from blood donors, reporting the results of all tests to XBiotech and maintaining all records required for business and regulatory purposes. In January and February 2015 STBTC provided XBiotech with a blood samples from survivors of Ebola infection. XBiotech has agreed to provide nominal per sample financial compensation to STBTC for blood collected at STBTC facilities or with use of STBTC equipment. XBiotech will reimburse reasonable costs for a donor's time and travel, if applicable. XBiotech has agreed to develop the scientific protocols for conducting STBTC's blood collection and analysis efforts in the Project, prepare the joint patient informed consent for blood donors, submit to a suitable IRBC and is solely responsible for any product, plasma, blood or cell sample provided by STBTC to XBiotech, including responsibility for shipping, storage, distribution and use of any product, plasma, blood or cell sample.

The Research Agreement provides that any jointly developed technology, which consists of antibodies and antibody-encoding nucleic acids derived from blood or cell samples isolated from one or more blood samples which STBTC makes available to XBiotech pursuant to the Research Agreement, shall be owned solely by XBiotech and STBTC shall assign all right and title in this technology to XBiotech. In consideration of the foregoing, XBiotech has agreed to pay STBTC a royalty equal to a certain percentage of the global net sales of the Ebola virus therapeutic antibody if such antibody was derived from blood or cell samples provided by STBTC and a certain percentage of global net sales for each therapeutic antibody product other than an Ebola virus therapeutic if such antibody was derived from blood or cell samples provided by STBTC pursuant to the Project.

The Research Agreement will remain in effect until the earlier of (i) the completion of the Project or (ii) termination by either party upon 30 days written notice.

Contract Research Organizations

We enter into contracts in the normal course of business with CRO's for clinical trials. These contracts generally provide for termination on notice, and therefore we believe that our non-cancelable obligations under these agreements are not material.

Government Regulation

The development, manufacture, distribution, marketing and advertising of drug products is subject to extensive regulation by federal, state and local governmental authorities in the United States, including the FDA, and by similar agencies in other countries. Any product that we develop must receive all relevant regulatory approvals or clearances before it may be marketed in a particular country. To gain regulatory approval of a drug product candidate requires the expenditure of substantial resources over an extended period of time is required. As a result, larger companies with greater financial resources will likely have a competitive advantage over us.

Development Activities

To gain regulatory approval of our products, we must demonstrate, through experiments, preclinical studies and clinical trials that each of our drug product candidates meets the safety and efficacy standards established by the FDA and other international regulatory authorities. In addition, we must demonstrate that all development-related laboratory, clinical and manufacturing practices comply with regulations of the FDA, other international regulators and local regulators.

Regulations establish standards for such things as drug substances and materials; drug manufacturing operations and facilities and analytical laboratories and medical development laboratories processes and

environments; in each instance, in connection with research, development, testing, manufacture, quality control, labeling, storage, record keeping, approval, advertising and promotion, and distribution of product candidates, on a product-by-product basis.

Pre-clinical Studies and Clinical Trials

Development testing generally begins with laboratory testing and experiments, as well as research studies using animal models to obtain preliminary information on a product's efficacy and to identify any safety issues. The results of these studies are compiled along with other information in an IND application, which is filed with the FDA. After resolving any questions raised by the FDA, which may involve additional testing and animal studies, clinical trials may begin. Regulatory agencies in other countries generally require a Clinical Trial Application (CTA) to be submitted and approved before each trial can commence in each country.

Clinical trials normally are conducted in three sequential phases and may take a number of years to complete. Phase 1 consists of testing the drug product in a small number of humans, normally healthy volunteers, to determine preliminary safety and tolerable dose range. Phase II usually involves studies in a limited patient population to evaluate the effectiveness of the drug product in humans having the disease or medical condition for which the product is indicated, to determine dosage tolerance and optimal dosage and to identify possible common adverse effects and safety risks. Phase III consists of additional controlled testing at multiple clinical sites to establish clinical safety and effectiveness in an expanded patient population of geographically dispersed test sites to evaluate the overall benefit-risk relationship for administering the product and to provide an adequate basis for product labeling. Phase 4 clinical trials may be conducted after approval to gain additional experience from the treatment of patients in the intended therapeutic indication.

The conduct of clinical trials is subject to stringent medical and regulatory requirements. The time and expense required to establish clinical sites, provide training and materials, establish communications channels and monitor a trial over a long period of time is substantial. The conduct of clinical trials at institutions located around the world is subject to foreign regulatory requirements governing human clinical trials, which vary widely from country to country. Delays or terminations of clinical trials could result from a number of factors, including stringent enrollment criteria, slow rate of enrollment, size of patient population, having to compete with other clinical trials for eligible patients, and geographical considerations. Clinical trials are monitored by regulatory agencies as well as medical advisory and standards boards, which could determine at any time to reevaluate, alter, suspend, or terminate a trial based upon accumulated data, including data concerning the occurrence of adverse health events during or related to the treatment of patients enrolled in the trial, and the regulator's or monitor's risk/benefit assessment with respect to patients enrolled in the trial. If they occur, such delays or suspensions could have a material impact on our clinical trial programs.

Regulatory Review

The results of preclinical and clinical trials are submitted to the FDA in an NDA, with comparable filings submitted to other international regulators. After the initial submission, the FDA has a period of time in which it must determine if the NDA is complete. After an NDA is submitted, although the statutory period provided for the FDA's review is less than one year, dealing with questions or concerns of the agency and, taking into account the statutory timelines governing such communications, may result in review periods that can take several years. If an NDA is accepted for filing, following the FDA's review, the FDA may grant marketing approval, request additional information, or deny the application if it determines that the application does not provide an adequate basis for approval. If the FDA grants approval, the approval may be conditioned upon the conduct of post-marketing clinical trials or other studies to confirm the product's safety and efficacy for its intended use. Until the FDA has issued its approval, no marketing activities can be conducted in the United States. Similar regulations apply in other countries.

Fast Track and Breakthrough Designations

The FDA has various programs, including fast track and breakthrough therapy designations, which are intended to expedite the process for reviewing drugs. Even if a drug qualifies for one or more of these programs, the FDA may later decide that the drug no longer meets the conditions for qualification. Generally, drugs that are eligible for these programs are those for serious or life-threatening conditions, those with the potential to address unmet medical needs, and those that offer meaningful benefits over existing treatments.

Fast track designation is intended to facilitate the development and expedite the review of drugs to treat serious conditions and fill an unmet medical need. Designation may be granted on the basis of preclinical data. A sponsor of a drug that receives fast track designation will typically have more frequent interactions with FDA during drug development. In addition, products that have been designated as fast track can obtain rolling review.

Breakthrough therapy designation is intended to expedite the development and review of drugs for serious or life-threatening conditions. The criteria for breakthrough therapy designation require preliminary clinical evidence that demonstrates the drug may have substantial improvement on at least one clinically significant endpoint over available therapy. A breakthrough therapy designation conveys all of the fast track program features, more intensive FDA guidance on an efficient drug development program, an organizational commitment involving senior managers, and eligibility for rolling review and priority review.

A key difference between fast track designation and breakthrough designation is what needs to be demonstrated to qualify for the programs. A breakthrough therapy designation is for a drug that treats a serious or life-threatening condition and preliminary clinical evidence indicates that the drug may demonstrate substantial improvement on a clinically significant endpoint(s) over available therapies. In contrast, a fast track designation is for a drug that treats a serious or life-threatening condition, and nonclinical or clinical data demonstrate the potential to address unmet medical needs for the serious condition.

Although FDA has granted fast track designations for Xilonix™ to treat colorectal cancer and for MABp1 to reduce the need for re-intervention after SFA, such designations may not result in a faster development or review time, do not increase the odds of approval, and may be rescinded at any time if these drug candidates do not continue to meet the qualifications for these programs.

Orphan Drug Designation

Under the Orphan Drug Act, the FDA may grant orphan designation to a drug intended to treat a rare disease or condition, which is generally a disease or condition that affects fewer than 200,000 individuals in the United States, or more than 200,000 individuals in the United States and for which there is no reasonable expectation that the cost of developing and making a drug product available in the United States for this type of disease or condition will be recovered from sales of the product. Because of the small population of sufferers and severity of PG, we expect that PG will be classified as an orphan indication by the FDA. Orphan product designation must be requested before submitting an NDA. After the FDA grants orphan product designation, the identity of the therapeutic agent and its potential orphan use are disclosed publicly by the FDA. Orphan product designation does not convey any advantage in or shorten the duration of the regulatory review and approval process.

If a product that has orphan designation subsequently receives the first FDA approval for such drug for the disease or condition for which it has such designation, the product is entitled to orphan product exclusivity, which means that the FDA may not approve any other applications to market the same drug product for the same indication for seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan exclusivity. Competitors, however, may receive approval of different products for the indication for which the orphan product has exclusivity or obtain approval for the same product but for a different indication for which the orphan product has exclusivity. Orphan product exclusivity also could block the approval of one of our products for seven years if a competitor obtains approval of the same product as

defined by the FDA or if our product candidate is determined to be contained within the competitor's product for the same indication or disease. If a drug designated as an orphan product receives marketing approval for an indication broader than what is designated, it may not be entitled to orphan product exclusivity. Orphan drug status in the European Union has similar, but not identical, benefits, including up to ten years of exclusivity.

Manufacturing Standards

The FDA and other international regulators establish standards and routinely inspect facilities and equipment, analytical and quality laboratories and processes used in the manufacturing and monitoring of products. Prior to granting approval of a drug product, the agency will conduct a pre-approval inspection of the manufacturing facilities, and the facilities of suppliers, to determine that the drug product is manufactured in accordance with current good manufacturing practices ("cGMP") regulations and product specifications. Following approval, the FDA will conduct periodic inspections. If, in connection with a facility inspection, the FDA determines that a manufacturer does not comply with cGMP regulations and product specifications, the FDA will issue an inspection report citing the potential violations and may seek a range of remedies, from administrative sanctions, including the suspension of our manufacturing operations, to seeking civil or criminal penalties.

International Approvals

If we succeed in gaining regulatory approval to market our products in the United States, we will still need to apply for approval with other international regulators. Regulatory requirements and approval processes are similar in approach to that of the United States. With certain exceptions, although the approval of the FDA carries considerable weight, international regulators are not bound by the findings of the FDA and there is a risk that foreign regulators will not accept a clinical trial design or may require additional data or other information not requested by the FDA. In Europe, there is a centralized procedure available under which the EMA will conduct the application review and recommend marketing approval to the European Commission, or not, for the sale of drug products in the EU countries.

Post-approval Regulation

Following the grant of marketing approval, the FDA regulates the marketing and promotion of drug products. Promotional claims are generally limited to the information provided in the product package insert for each drug product, which is negotiated with the FDA during the NDA review process. In addition, the FDA enforces regulations designed to guard against conflicts of interest, misleading advertising and improper compensation of prescribing physicians. The FDA will review, among other things, direct-to-consumer advertising, prescriber-directed advertising and promotional materials, sales representative communications to healthcare professionals, promotional programming and promotional activities on the Internet. The FDA will also monitor scientific and educational activities. If the FDA determines that a company has promoted a product for an unapproved use ("off-label"), or engaged in other violations, it may issue a regulatory letter and may require corrective advertising or other corrective communications to healthcare professionals. Enforcement actions may also potentially include product seizures, injunctions and civil or criminal penalties. The consequences of such an action and the related adverse publicity could have a material adverse effect on a developer's ability to market its drug and its business as a whole.

Following approval, the FDA and other international regulators will continue to monitor data to assess the safety and efficacy of an approved drug. A post-approval discovery of previously unknown problems or failure to comply with the applicable regulatory requirements may result in restrictions on the marketing of a product or a recall or withdrawal of the product from the market, as well as possible civil or criminal sanctions. Similar oversight is provided by regulators in jurisdictions outside the US.

None of our products under development has been approved for marketing in the United States or elsewhere. We may not be able to obtain regulatory approval for any of our products under development. If we do not obtain the requisite governmental approvals or if we fail to obtain approvals of the scope we request, we or our licensees or strategic alliance or marketing partners may be delayed or precluded entirely from marketing our products, or the commercial use of our products may be limited. Such events would have a material adverse effect on our business, financial condition and results of operations.

Other Healthcare Laws and Regulations

If we obtain regulatory approval for any of our product candidates, we may also be subject to healthcare regulation and enforcement by the federal government and the states and foreign governments in which we conduct our business. These laws may impact, among other things, our proposed sales, marketing and education programs. In addition, we may be subject to patient privacy regulation by both the federal government and the states in which we conduct our business. The laws that may affect our ability to operate include:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, receiving, offering or paying remuneration, directly or indirectly, in exchange for or to induce either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal healthcare programs such as the Medicare and Medicaid programs;
- federal false claims laws which prohibit, among other things, individuals or entities from knowingly presenting, or causing to be presented, claims for payment from Medicare, Medicaid, or other third-party payers that are false or fraudulent;
- federal criminal laws that prohibit executing a scheme to defraud any healthcare benefit program or making false statements relating to healthcare matters;
- the federal Physician Payment Sunshine Act, which requires certain manufacturers of drugs, devices, biologics and medical supplies to report annually to the Centers for Medicare & Medicaid Services information related to payments and other transfers of value to physicians, other healthcare providers, and teaching hospitals, and ownership and investment interests held by physicians and other healthcare providers and their immediate family members;
- HIPAA, as amended by HITECH, which governs the conduct of certain electronic healthcare transactions and protects the security and privacy of protected health information; and
- state and foreign law equivalents of each of the above federal laws, such as anti-kickback and false claims laws which may apply to items or services reimbursed by any third-party payer, including commercial insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry’s voluntary compliance guidelines and the relevant compliance guidance promulgated by the federal government, or otherwise restrict payments that may be made to healthcare providers and other potential referral sources; state laws that require drug manufacturers to report information related to payments and other transfers of value to physicians and other healthcare providers or marketing expenditures; and state laws governing the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

If our operations are found to be in violation of any of the laws described above or any other governmental laws and regulations that apply to us, we may be subject to penalties, including civil and criminal penalties, damages, fines, the curtailment or restructuring of our operations, the exclusion from participation in federal and state healthcare programs and imprisonment, any of which could adversely affect our ability to operate our business and impact our financial results.

Manufacturing

Our drug product candidates, including Xilonix™, are manufactured at our corporate headquarters in Austin, Texas. Currently, manufacturing scale is largely suitable for supplying clinical trial demands. If and when we receive regulatory approval from the FDA and other regulatory agencies, we will need to manufacture these pharmaceutical products on a commercial scale. We will manufacture these antibodies on a clinical and commercial scale pursuant to our License Agreement with Lonza. See "Intellectual Property – License."

Our manufacturing program involves a disposable bioreactor, in-house designed bioreactor platforms, and a mostly disposable downstream process. The disposable "bioreactor" is a single use container, essentially a large plastic bag, which is used to contain growth media. Cells suspended in the growth media proliferate and secrete antibody, which can then be harvested and purified for use in preparation of a drug product.

The plastic bags used as bioreactors come pre-sterilized and are simply discarded after use. Other components of the manufacturing process are also disposable. These include many "downstream" systems used in the antibody purification. This simple bioreactor system and other disposable components translate into minimal plant infrastructure and dramatically less capital costs and staffing. We believe that it results in a more reliable production process with less risk of contamination.

Simple, disposable technology, together with in-house engineering, dramatically reduces capital requirements and go-forward infrastructure and operational complexities, compared to conventional processes centered on clean-in-place, stainless steel bioreactor technology. The 1,000 liter bioreactor systems we are using permit seamless and continuous production scale-up, from clinical study programs to market. The flexibility, scalability and low infrastructure requirements allows us to move as quickly and efficiently as possible to transition from clinical programs, to commercial launch of products.

Sales and Marketing

We intend to build the commercial infrastructure in the United States and Europe necessary to effectively support the commercialization of all of our product candidates, if and when we believe a regulatory approval of the first of such product candidates in a particular geographic market appears imminent. The commercial infrastructure for Xilonix™, our oncology product, typically consists of a targeted, specialty sales force that calls on a limited and focused group of physicians supported by sales management, medical liaisons, internal sales support, an internal marketing group, and distribution support. To develop the appropriate commercial infrastructure, we will have to invest significant amounts of financial and management resources, some of which will be committed prior to any confirmation that any of our product candidates will be approved.

Outside of the United States and Europe, where appropriate, we may elect in the future to utilize strategic partners, distributors, or contract sales forces to assist in the commercialization of our products. In certain instances we may consider building our own commercial infrastructure.

Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. We are not presently a party to any legal proceedings that, in the opinion of our management, would reasonably be expected to have a material adverse effect on our business, financial condition, operating results or cash flows if determined adversely to us. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Environmental Matters

Our operations require the use of hazardous materials (including biological materials) which subject us to a variety of federal, provincial and local environmental and safety laws and regulations. Some of the regulations under the current regulatory structure provide for strict liability, holding a party potentially liable without regard to fault or negligence. We could be held liable for damages and fines as a result of our, or others', business operations should contamination of the environment or individual exposure to hazardous substances occur. We cannot predict how changes in laws or development of new regulations will affect our business operations or the cost of compliance.

Employees

As of March 9, 2015, we had 56 employees, 14 of whom hold a Ph.D. or M.D. (or equivalent) degree. None of our employees are represented by a labor union. We have not experienced any work stoppages, and we consider our relations with our employees to be good.

Facilities

We operate in a 46,000 square foot facility in Austin, Texas, which includes our corporate headquarters, research and development, clinical and manufacturing activities. We are in the process of constructing a new manufacturing and research facility on a 48 acre site in Austin, Texas. We began construction at our new site in September 2014 and expect it to be completed by mid-2015.

MANAGEMENT

The following table set forth information with respect to our executive officers and directors as of March 9, 2015:

NAME	AGE	POSITION(S)
Executive Officer		
John Simard	53	Founder, President, Chief Executive Officer & Chairman
Dr. Sushma Shivaswamy, Ph.D.	37	Vice President of Research and Development
Dr. Michael Stecher, M.D.	38	Medical Director
Queena Han, C.P.A, C.G.A.	48	Vice President, Finance and Human Resource
Dr. David J. Combs, Ph.D.	36	Vice President, Manufacturing
Norma I. Gonzalez	58	Vice President, Quality
Non-Employee Directors		
Fabrizio Bonanni	68	Director
W. Thorpe McKenzie	67	Director
Daniel Vasella, M.D.	61	Director

Executive Officers

John Simard, is founder and Chief Executive Officer of XBiotech. Prior to XBiotech, he was founder and Chief Executive Officer of CTL ImmunoTherapies Corp., a developer of therapeutic vaccines to treat cancer and chronic infectious disease; he also founded of AlleCure Corp., of Valencia, California, a developer of allergy treatments and immune-modulating therapies. In 2001, AlleCure and CTL ImmunoTherapies merged to form MannKind Corp., where Mr. Simard served as Corporate Vice President and board member. Mr. Simard holds a degree in Biochemistry from the University of Saskatchewan and attended graduate studies in Medical Biophysics/Immunology at the University of Toronto. He has over 140 issued and pending patents related to cancer therapy, therapeutic vaccines and therapeutic antibodies, as well as substantial peer-reviewed scientific publications and the textbook "Immune Response Genes."

Our board of directors believes that Mr. Simard possesses specific attributes that qualify him to serve as a director, including his extensive executive leadership experience, his role as founder of the company, his many years of service on our board of directors and as our Chief Executive Officer, and extensive knowledge of our company and industry.

Dr. David J. Combs, Ph.D. has been employed by XBiotech since April 2010, initially as manufacturing process development scientist and now as Vice President Manufacturing**.** Dr. Combs oversees a team that manages all aspects of the manufacturing program—from initiation of cell culture process to fill and finish of drug product. Dr. Combs previously worked for The Cancer Research Institute at Scott and White Memorial Hospital, where he headed-up manufacturing.

Norma I. Gonzalez has served as our Vice President of Quality since February 2008. Before joining XBiotech, Ms. Gonzalez was Director of Quality at Carbomedics, where she held various roles including Director of R&D, Director of Manufacturing Mechanical Heart Valve, and Director of Tissue Valve and Quality.

Queena Han has been employed by XBiotech since April 2008 beginning as our controller, and now as our Vice President of Finance and Human Resources. Prior to joining XBiotech, she served as Chief Financial Officer (CFO) for a public company with a nation-wide pay phone hardware and service business. Ms. Han has a B.A in accounting, holds a Chartered Professional Accountants designation in Canada, is a professional member of SHRM and holds the Human Resource Management Certification from the University of Texas at Austin.

Dr. Sushma Shivaswamy, Ph.D. has been with XBiotech since May 2009 when she joined as a senior research scientist and quickly advanced to lead the R&D group as Director of Research. Dr. Shivaswamy's academic studies involved elucidating mechanisms for regulation of gene expression. Prior to joining XBiotech, Dr. Shivaswamy was a postdoctoral researcher at the Center for Systems and Synthetic Biology at the University of Texas at Austin. She has a Ph.D. degree in Molecular Biology from the Center for Cellular and Molecular Biology, India.

Dr. Michael Stecher, M.D. has served as our Medical Director since June 2010. Dr. Stecher has worked to develop our clinical program to treat chronic inflammatory diseases through targeting the interleukin-1 system, collaborating with key opinion leaders in fields of endocrinology, oncology, cardiovascular medicine and dermatology. Dr. Stecher is board certified in family medicine and a graduate from the University of Kansas School of Medicine.

Non-Employee Directors

Fabrizio Bonanni has served as a director since August 2013. For over a decade, Dr. Bonanni headed up the manufacturing program for biological drugs at Amgen, Inc. In one capacity or another, Dr. Bonanni was the senior operating officer responsible for Amgen Inc.'s biological drug production from 1999 to 2012. His titles included Executive Vice President Operations (2007 to 2012), Senior Vice President of Manufacturing and Senior Vice President, Quality and Compliance. Earlier, Dr. Bonanni held various management positions at Baxter International, Inc. from 1974 to 1999, including positions as Corporate Vice President of Regulatory and Clinical Affairs and Corporate Vice President of Quality Systems. Dr. Bonanni received his Doctorate in Chemistry (magna cum laude and with mention of honor) from the University of Florence, Italy and has done postdoctoral work in Physiological Chemistry at the Massachusetts Institute of Technology.

Dr. Bonnani was selected to serve on our board of directors based on his extensive experience with biopharmaceutical companies and their operations.

W. Thorpe McKenzie has served as a director since February 2009. Mr. McKenzie is Managing Director of Pointer Management Company, Chattanooga, Tennessee, which he co-founded in 1990 to invest in hedge funds and similar types of partnerships utilizing a fund of funds approach. From 1982 until 1990, he was a private investor in New York City, and a director of several public and private companies. From 1980 until 1982, he was a cofounding general partner of TIGER, a global hedge fund. From 1971 until 1980, he was a Vice President of Kidder, Peabody & Co., Inc. in New York City. Mr. McKenzie is a graduate of the University of North Carolina in Chapel Hill, and the Wharton Graduate division of the University of Pennsylvania in Philadelphia.

Mr. McKenzie was selected to serve on our board of directors based on his experience with corporate financings and his role as an investor in XBiotech.

Dr. Daniel Vasella has served as a director since November 2014. Dr. Vasella is the Honorary Chairman and Former Chairman and Chief Executive Officer of Novartis AG, a company that engages in the research, development, manufacture and marketing of health care products worldwide. Dr. Vasella served as Chairman of Novartis from 1999 to February 2013 and as Chief Executive Officer from 1996 to January 2010. From 1992 to 1996, Dr. Vasella held the positions of Chief Executive Officer, Chief Operating Officer, Senior Vice President and Head of Worldwide Development and Head of Corporate Marketing at Sandoz Pharma Ltd. Dr. Vasella is a director of American Express, Inc., PepsiCo, Inc., a member of the International Business Leaders Advisory Council for the Mayor of Shanghai, a foreign honorary member of the Academy of Arts and Sciences, a trustee of the Carnegie Endowment for International Peace and a member of several industry associations and educational institutions. Dr. Vasella holds an M.D. degree in medicine from the University of Berne.

Dr. Vasella was selected to serve on our board of directors based on his extensive senior management, operating and leadership experience through his business career at Novartis and elsewhere. Dr. Vasella brings to the board his core business and leadership skills, his global marketing experience, and his experience leading a highly regulated, global business in rapidly changing markets, as well as his public company director experience.

Board Composition

Our board of directors is currently composed of four members. Three of our directors are independent within the meaning of the independent director guidelines of The NASDAQ Global Market, or NASDAQ. Our articles provide that the number of directors shall be at least three and will be fixed from time to time by resolution of the board of directors. Each of our directors is subject to election at each annual meeting of our shareholders. There are no family relationships among any of the directors or executive officers.

Director Independence

Upon the completion of this offering, we anticipate that our common shares will be listed on NASDAQ. Rule 5605 of the NASDAQ Marketplace Rules, or the NASDAQ Listing Rules, requires that independent directors compose a majority of a listed company's board of directors within one year of listing. In addition, the NASDAQ Listing Rules require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent and that audit committee members also satisfy independence criteria set forth in Rule 10A-3 under the Exchange Act of 1934. Under NASDAQ Listing Rule 5605(a)(2), a director will only qualify as an "independent director" if, in the opinion of our board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In order to be considered independent for purposes of Rule 10A-3 under the Exchange Act, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries.

In addition members of the compensation committee also must satisfy additional independence requirements set forth in NASDAQ Listing. In order to be considered independent for purposes of NASDAQ Listing Rule 5605(d)(2), a member of a compensation committee of a listed company may not, other than in his or her capacity as a member of the compensation committee, the board of directors, or any other board committee, accept, directly or indirectly any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries. Additionally, the board of directors of the listed company must consider whether the compensation committee member is an affiliated person of the listed company or any of its subsidiaries and if so, must determine whether such affiliation would impair the director's judgment as a member of the compensation committee.

In March 2015, our board of directors undertook a review of its composition, the composition of its committees and the independence of each director. Based upon information requested from and provided by each director concerning his background, employment and affiliations, including family relationships, our board of directors determined that Dr. Bonanni and Dr. Vasella do not have any relationships that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each is considered an "independent" director as that term is defined under the applicable SEC rules and the NASDAQ Listing Rules. The board also determined that Mr. McKenzie does not have any relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that he is considered an "independent" director as that term is defined under the NASDAQ Listing Rules. In making those determinations, our board of directors considered the current and prior relationships that each non-employee director has with our Company and all other facts and circumstances our board of directors deemed relevant in determining their independence, including the beneficial ownership of our capital stock by each non-employee director.

Lead Independent Director

Our corporate governance guidelines provide that one of our independent directors shall serve as a lead independent director at any time when an independent director is not serving as the Chairman of the board of directors. Our board of directors has appointed Dr. Vasella to serve as our lead independent director. As lead independent director, Dr. Vasella will preside over periodic meetings of our independent directors, coordinate activities of the independent directors and perform such additional duties as our board of directors may otherwise determine and delegate.

Role of the Board in Risk Oversight

We face a number of risks, including those described in the section of this prospectus captioned "Risk Factors." Our board of directors believes that risk management is an important part of establishing, updating and executing on our business strategy. Our board of directors, as a whole and at the committee level, has oversight responsibility relating to risks that could affect the corporate strategy, business objectives, compliance, operations, and the financial condition and our performance. Our board of directors focuses its oversight on our most significant risks and on our processes to identify, prioritize, assess, manage and mitigate those risks. Our board of directors and its committees receive regular reports from members of our senior management on areas of material risk to the Company, including strategic, operational, financial, legal and regulatory risks. While our board of directors has an oversight role, management is principally tasked with direct responsibility for management and assessment of risks and the implementation of processes and controls to mitigate their effects on us.

The audit committee, as part of its responsibilities, oversees the management of financial risks, including accounting matters, liquidity and credit risks, corporate tax positions, insurance coverage, and cash investment strategy and results. The audit committee is also responsible for overseeing the management of risks relating to the performance of our internal audit function, if required, and its independent registered public accounting firm, as well as our systems of internal controls and disclosure controls and procedures. The compensation committee is responsible for overseeing the management of risks relating to our executive compensation and overall compensation and benefit strategies, plans, arrangements, practices and policies. The nominating and corporate governance committee oversees the management of risks associated with our overall compliance and corporate governance practices, and the independence and composition of our board of directors. These committees provide regular reports, on at least a quarterly basis, to the full board of directors.

Board Committees

Our board of directors has established an audit committee, a compensation committee and a nominating and corporate governance committee. Our board of directors may establish other committees to facilitate the management of our business. The composition and functions of each committee are described below. Members serve on these committees until their resignation or until otherwise determined by our board of directors.

Audit Committee

Our audit committee consists of Dr. Bonanni, Mr. McKenzie and Dr. Vasella. Our board of directors determined that Dr. Bonanni and Dr. Vasella are independent under the Nasdaq Listing Rules and Rule 10A-3 and that Mr. McKenzie is independent under the Nasdaq Listing Rules. Mr. McKenzie beneficially owns more than 10% of our common stock; therefore, we are not be able to rely upon the safe harbor position of Rule 10A-3, which provides that a person will not be deemed to be an affiliate of a company if he or she is not the beneficial owner, directly or indirectly, of more than 10% of a class of voting equity securities of that company. Under the Nasdaq Listing rules, we are given a one-year transition period before we are required to have an audit committee comprised of three independent directors, who are independent under both the Nasdaq Listing Rules and Rule 10A-3. Dr. Bonanni will serve as the chair of our audit committee, is the "audit committee financial expert"

within the meaning of the SEC regulations and possesses financial sophistication as defined under the Nasdaq Listing Rules. Our board of directors also determined that each member of our audit committee can read and understand fundamental financial statements in accordance with applicable requirements. In arriving at these determinations, the board of directors examined each audit committee member's scope of experience and the nature of their employment in the corporate finance sector. The functions of this committee include:

- direct responsibility for the appointment, compensation, retention (including termination) and oversight of our independent auditors (our independent auditors report directly to the audit committee);
- helping to ensure the independence and performance of the independent registered public accounting firm;
- discussing the scope and results of the audit with the independent registered public accounting firm, and reviewing, with management and the independent accountants, our interim and year-end operating results;
- developing procedures for employees to submit concerns anonymously about questionable accounting or audit matters;
- reviewing our policies on risk assessment and risk management;
- reviewing related party transactions;
- preparation of the audit committee report that the SEC requires to be included in our annual proxy statement;
- obtaining and reviewing a report by the independent registered public accounting firm at least annually, that describes our internal quality-control procedures, any material issues with such procedures, and any steps taken to deal with such issues when required by applicable law; and
- approving (or, as permitted, pre-approving) all audit and all permissible non-audit services, other than de minimis non-audit services, to be performed by the independent registered public accounting firm.

Compensation Committee

Our compensation committee consists of Dr. Bonanni, and Dr. Vasella. Our board of directors determined that Dr. Bonanni, and Dr. Vasella are independent under the NASDAQ Listing Rules, are "non-employee directors" as defined in Rule 16b-3 promulgated under the Exchange Act and are "outside directors" as that term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended, or Section 162(m). The chair of our compensation committee is Dr. Vasella. The functions of this committee include:

- reviewing and approving, or recommending that our board of directors approve, the compensation of our chief executive officer and other executive officers including in all cases base salary, bonus, benefits and other perquisites;
- reviewing and recommending to our board of directors the compensation of our directors;
- reviewing and approving, or recommending that our board of directors approve, the terms of compensatory arrangements with our executive officers;
- administering our stock and equity incentive plans;
- selecting independent compensation consultants and assessing conflict of interest compensation advisers;
- reviewing and approving, or recommending that our board of directors approve, incentive compensation and equity plans; and
- reviewing and establishing general policies relating to compensation and benefits of our employees and reviewing our overall compensation philosophy and objectives.

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee consists of Mr. McKenzie and Dr. Bonanni. Our board of directors determined that Mr. McKenzie and Dr. Bonanni are independent under the NASDAQ Listing Rules. The chair of our nominating and corporate governance committee is Mr. McKenzie. The functions of this committee include:

- identifying, evaluating and selecting, or recommending that our board of directors approve, nominees for election to our board of directors and its committees;
- evaluating the performance of our board of directors and of individual directors;
- considering and making recommendations to our board of directors regarding the composition and structure of our board of directors and its committees;
- reviewing developments in corporate governance practices;
- evaluating the adequacy of our corporate governance practices and reporting;
- reviewing management succession plans;
- developing and making recommendations to our board of directors regarding corporate governance guidelines and matters; and
- overseeing an annual evaluation of the board of directors' performance.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all of our employees, officers, including our principal executive officer, principal financial officer and principal accounting officer or controller, or persons performing similar functions and agents and representatives, including directors, officers and consultants responsible for financial reporting. The full text of our Code of Business Conduct and Ethics will be posted on our website at www.xbiotech.com. We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics, or waivers of such provisions applicable to any principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, and our directors, on our website identified above.

Compensation Committee Interlocks and Insider Participation

In fiscal year 2014, Dr. Bonanni and Mr. McKenzie served on our compensation committee. None of the members of the compensation committee is currently or has been at any time an officer or an employee of our Company. None of our executive officers currently serves, or has served during the last three years, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Non-Employee Director Compensation

Our non-employee directors do not receive cash compensation for their services as directors or as members of committees of the board, but are reimbursed for their reasonable expenses incurred for attending meetings. At the discretion of the board, non-employee directors are eligible to receive stock options under our 2005 Plan as compensation for serving as directors.

The following table presents the total compensation for each person who served as a member of our board of directors during 2014. Mr. Simard does not receive compensation for his service as a director and is not included in this table.

Director Names	Fees Earned or Paid in Cash Stock Awards ($)	Stock Awards ($)(1)	Total ($)
Fabrizio Bonanni	—	643,884	643,884
Hector MacKay-Dunn(2)	—	912,750	912,750
W. Thorpe McKenzie	—	1,029,600	1,029,600
Daniel Vasella	—	1,129,825	1,129,825

(1) The amounts reported reflect the aggregate grant date fair value of each award computed in accordance with FASB ASC Topic 718 for each year shown in the table. For a description of the assumptions used in the calculation of these amounts see note 2 of the note to Consolidated Financial Statements in this prospectus

(2) Mr. MacKay-Dunn resigned as a director effective as of January 28, 2015.

We entered into a Board Member Agreement with Dr. Vasella on November 4, 2014, when he joined our board of directors. This agreement provides that Dr. Vasella would receive an initial option grant to purchase 125,000 shares of our common stock upon joining the board and will receive an annual option grant to purchase an additional 125,000 shares of our common stock during each year of service on our board. These options will be fully vested upon the grant date and the expiration date is ten years after the grant date. The exercise price of the options is equal to closing price of the our common stock on the most recent day of trading prior to grant, if we are public, or the price in the most recent equity financing. We also agreed to provide indemnification to Dr. Vasella and to reimburse him for all ordinary business expenses incurred in connection with his service on the board, including first class airfare for all international travel on our behalf.

The following table sets forth, as of and for the year ended December 31, 2014, all options held by our non-employee directors as of December 31, 2014.

Name	Aggregate Option Awards At December 31, 2014
Hector MacKay-Dunn(1)	150,000
W. Thorpe McKenzie	1,340,000
Fabrizio Bonanni	66,666
Daniel Vasella	125,000

(1) Mr. MacKay-Dunn resigned as a director effective as of January 28, 2015.

On January 1, 2015, we granted to W. Thorpe McKenzie and Hector MacKay-Dunn options to acquire up to 15,000 shares of our common stock each at an exercise price of $15.00 per share and a term expiring 10 years following the effective date of grant.

On January 1, 2015, 1 Hector MacKay-Dunn, exercised 15,000 stock options at an exercise price of $0.6 per share for a total purchase price of $9,000.

Future Director Compensation

Following the completion of this offering, we intend to implement a formal policy pursuant to which our non-employee directors will be eligible to receive annual cash retainers and stock options as compensation for service on our board of directors and committees of our board of directors.

EXECUTIVE COMPENSATION

The following table provides information regarding the total compensation for services rendered in all capacities that was earned by each individual who served as our principal executive officer at any time in 2014, and our two other most highly compensated executive officers who were serving as executive officers as of December 31, 2014 (our "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Bonus ($)(1)	Stock-based Compensation ($)(2)	All other Compensation ($)(3)	Total ($)
John Simard	2013	240,000	168,000	-	4,893	412,893
President, Chief Executive Officer	2014	551,380	-	918,000	5,976	1,475,356
Dr. Michael Stecher, M.D.	2013	240,000	-	-	4,893	244,893
Medical Director	2014	241,380	-	11,139	5,976	258,495
Dr. Sushma Shivaswamy, Ph.D.	2013	121,831	-	-	-	121,831
Vice President, Research & Development	2014	129,980	-	22,277	-	152,257

(1) Amounts represent annual discretionary bonuses earned pursuant to the CEO's employment agreement.

(2) The amounts reported reflect the aggregate grant date fair value of each award computed in accordance with FASB ASC Topic 718 for each year shown in the table. For a description of the assumptions used in the calculation of these amounts see note 2 of the note to Consolidated Financial Statements in this prospectus

(3) Amounts represent premiums for health insurance.

Employment Agreement

We entered into an employment agreement and change of control agreement with John Simard, our Chief Executive Officer and President on March 22, 2005. The employment agreement is for an indefinite term. Mr. Simard's current annual base salary is $550,000 per year, pursuant to an increase the board approved in January 2014, and he is eligible for an annual incentive cash payment of up to 35% of his base salary, subject to the achievement of short-term and long-term business performance objectives as well as personal performance objectives, as established from time to time by the board or compensation committee. The employment agreement contains customary non-competition and non-solicitation provisions which apply for a period of six (6) months after Mr. Simard's employment is terminated for any reason. In addition, Mr. Simard agrees that all intellectual property developed by him during the term of his employment agreement shall be our property. If Mr. Simard is terminated without cause, if he resigns for good reason or if there is a change in control, he is entitled to certain severance benefits. For details regarding our current obligations under such circumstances, please see "Termination Benefits."

We do not have employment agreements with Dr. Stecher or Dr. Shivaswamy.

Potential Payments and Benefits upon Termination or Change in Control

Mr. Simard may voluntarily resign for any reason by providing us with three months prior notice. We may elect to waive all or a portion of such notice by paying to Mr. Simard his base salary that he would have earned if he had remained employed by us for the full duration of such notice period.

If Mr. Simard terminates his employment within 12 months after a "change of control" for "good reason" (as such terms are defined in his change of control agreement) or if he is terminated without cause, we will make a lump sum payment to him equal to twelve month of his base salary, plus other sum owed to him for arrears of salary, vacation pay and, if awarded, his performance bonus, subject to his prior resignation as a director.

Additionally, if Mr. Simard terminates his employment within 12 months after a change of control or for good reason, all unvested stock options held by him will immediately vest on such termination and will survive and be exercisable by Mr. Simard, along with his vested options, in accordance with the terms of the option agreements. To the extent permitted by applicable law, we will provide health, medical, dental and other insurance benefits to Mr. Simard for a period of one year after his termination date.

Outstanding Equity Awards at Fiscal Year-End December 31, 2014

The following table contains information regarding outstanding equity awards held at December 31, 2014, by our Named Executive Officers.

	Option Awards			
Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date
John Simard	240,000	—	$ 1.17	4/16/17
	50,000	—	$ 2.50	12/31/17
	50,000	—	$ 2.50	1/1/19
	500,000		$ 7.50	4/11/21
	100,000	400,000	$10.00	4/30/24
Michael Stecher	60,000		$ 5.00	6/1/20
	5,000		$15.00	12/11/22
		15,000	$15.00	11/4/24
Sushma Shivaswamy	4,500		$ 2.50	5/26/19
	5,000		$15.00	12/11/22
	40,000		$ 7.50	2/27/21
		30,000	$15.00	11/4/24

Option Exercises and Stock Vested 2014 by Named Executive Officers

On March 31, 2014, we granted to Mr. Simard options to acquire up to 500,000 shares of our common stock at an exercise price of $10.00 per share and a term expiring 10 years following the effective date of grant. As of March 9, 2015, 100,000 options were vested.

On November 10, 2014, we granted to Dr. Shivaswamy and Dr. Stecher options to acquire up to 30,000 and 15,000 shares of our common stock at an exercise price of $15.00 per share and a term expiring 10 years following the effective date of grant. Fifty percent of the stock options shall vest on the first and second anniversaries of the effective date of grant.

Except for the foregoing, our Named Executive Officers did not exercise any options or receive option grants or any stock awards in fiscal year 2014.

Securities Authorized for Issuance under Incentive Compensation Plans

The following table sets forth certain information regarding grants under XBiotech's equity compensation plans as of December 31, 2014:

Equity Compensation Plans as of December 31, 2014

Plan category	Number of securities to be issued upon exercise of outstanding options (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under Incentive Compensation Plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by shareholders(1)	4,884,165	$ 7.03	1,018,635
Total	4,884,165	$ 7.03	1,018,635

(1) All options or shares relate to XBiotech's 2005 Equity Incentive Plan, which was approved by its shareholders in 2005.

2005 Plan

We have reserved an aggregate of 6,000,000 shares of common stock for issuance under our 2005 Plan which provides for the grants of stock options to directors, officers, employees and consultants. Our board of directors administers the 2005 Plan including, without limitation, the selection of recipients of stock options under the 2005 Plan, the grant of stock options, the determination of the terms and conditions of any such options, the interpretation of the 2005 Plan and any other action they deem appropriate in connection with the administration of the 2005 Plan.

The exercise price of any options granted under our 2005 Plan must at least be equal to the fair market value of our common stock on the date of grant, as determined by the board of directors, in its sole discretion, provided that such price may not be less than the lowest price permitted under the applicable rules and regulations of all regulatory authorities to which XBiotech is subject, including the stock exchange on which XBiotech's shares are listed.

The term of the options is at the discretion of the board of directors, 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 a director, officer or employee of, or consultant to, XBiotech, or in the event of the termination of the participant with cause, the date of such termination, and in all cases is subject to extension at the discretion of the board of directors. All options are nontransferable 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 of the first anniversary of the participants' death or such other date as may be specified by the board of directors. As of December 31, 2014, we had granted an aggregate of 4,884,165 options under the 2005 Plan which remain outstanding.

2015 Equity Incentive Plan

In March 2015, the shareholders of XBiotech approved a new equity compensation plan (the "2015 Plan") which is similar to the 2005 Plan, except that in addition to incentive stock options, it permits the board of directors to award various other types of equity compensation awards, including restricted stock units, performance stock units and share appreciation rights. We have reserved an aggregate of 1,000,000 shares of common stock for issuance under our 2015 Plan.

OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information relating to the beneficial ownership of our common shares as of March 9, 2015 as adjusted to reflect the sale of common shares offered by us in this offering, for:

- each of our Named Executive Officers;
- each of our directors;
- our Named Executive Officer and directors as a group; and
- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our outstanding common shares.

We have determined beneficial ownership in accordance with the rules of the SEC, and thus it represents sole or shared voting or investment power with respect to our securities. Unless otherwise indicated below, to our knowledge, the persons and entities named in the table have sole voting and sole investment power with respect to all shares that they beneficially owned, subject to community property laws where applicable. The information does not necessarily indicate beneficial ownership for any other purpose, including for purposes of Sections 13(d) and 13(g) of the Securities Act.

NAME OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED	PERCENTAGE OF SHARES BENEFICIALLY OWNED BEFORE OFFERING	PERCENTAGE OF SHARES BENEFICIALLY OWNED AFTER OFFERING
Named Executive Officers and Directors (1)			
John Simard	7,593,267	23.22%	20.37%
Fabrizio Bonanni	66,666	*	*
W. Thorpe McKenzie(2)	5,540,996	14.40%	12.66%
Dr. Daniel Vasella	155,000	*	*
Sushma Shivaswamy	49,500	*	*
Michael Stecher	65,000	*	*
All current directors and executive officers as a group 6 persons(3)	13,470,429	35.85%	31.67%
5% or greater shareholders			
Joseph Karl Gut	2,461,000	8.88%	7.76%

* **Less than 1%**

(1) These figures include shares of common stock underlying stock options held by our Chief Executive Officer and directors that are immediately exercisable or scheduled to become immediately exercisable within 60 days of March 9, 2015. Underlying stock options include the following amounts: —Dr. Bonanni—66,666; Mr. McKenzie—1,355,000; Mr. Simard—940,000 and Dr. Vasella—125,000; Sushma Shivaswamy—49,500; Michael Stecher —65,000

(2) Includes 610,996 shares held by McBiotech, LLC, a corporation controlled by Mr. McKenzie, 100,000 shares held by the McKenzie Charity and 100,000 shares held by Mr. McKenzie's spouse.

(3) Includes 2,601,166 shares of common stock underlying stock options held by our Chief Executive Officers and directors (6 persons in total) that are immediately exercisable or are scheduled to become exercisable within 60 days of March 9, 2015.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Related Transactions

Since January 1, 2013, we have not been a party, to any transaction or series of transactions in which the amount involved exceeds $120,000, in which any of our directors, executive officers, or holders of more than 5% of our shares, or an affiliate or immediate family member thereof, had or will have a direct or indirect material interest, other than compensation arrangements which are described under the sections of this prospectus captioned “Management —Director Compensation” and “Executive Compensation.”

Related Person Transaction Policy

We have adopted a formal, written policy, which will become effective as of the effective date of the registration statement of which this prospectus forms a part, that our executive officers, directors (including director nominees), holders of more than 5% of any class of our voting securities, and any member of the immediate family of or any entities affiliated with any of the foregoing persons, are not permitted to enter into a related party transaction with us without the prior approval or, in the case of pending or ongoing related party transactions, ratification of our audit committee. For purposes of our policy, a related party transaction is a transaction, arrangement or relationship where we were, are or will be involved and in which a related party had, has or will have a direct or indirect material interest, other than transactions available to all of our employees.

Indemnification Agreements and Directors’ and Officers’ Liability Insurance

We will enter into indemnification agreements with our directors in addition to the indemnification provided for under the British Columbia Business Corporations Act (BCBCA) and in our articles. These agreements, among other things, require us to indemnify our directors for certain expenses, including attorneys’ fees, judgments, fines and settlement amounts incurred by a director in any action or proceeding arising out of their services as one of our directors or any other company or enterprise to which the person provides services at our request. We believe that these indemnification agreements are necessary to attract and retain qualified persons as directors.

Requirements under the British Columbia Business Corporations Act

Pursuant to the BCBCA, directors and officers are required to act honestly and in good faith with a view to the best interests of the company. Under the BCBCA, subject to certain limited exceptions, a director who holds a disclosable interest in a material contract or transaction is not entitled to vote on any director’s resolution approving such contract or transaction. A director or senior officer, with certain exceptions, has a disclosable interest in a contract or transaction if:

(a) the contract or transaction is material to the company;

(b) the company has entered, or proposes to enter, into the contract or transaction;

(c) either of the following applies to the director or senior officer:

  (i) the director or senior officer has a material interest in the contract or transaction;

  (ii) the director or senior officer is a director or senior officer of, or has a material interest in, a person who has a material interest in the contract or transaction.

DESCRIPTION OF CAPITAL STOCK

Authorized and Outstanding Stock

Our authorized share capital as described in our articles consists of an unlimited number of common shares and preferred shares without par value.

As of March 9, 2014, we had outstanding 27,716,631 shares of common stock and no preferred shares.

Voting Rights

Holders of common stock are entitled to one vote in respect of each share of common stock held at any meeting of the Company. Except as otherwise provided with respect to any particular series of preferred shares and except as otherwise required by law, the registered holders of preferred shares shall not be entitled as a class to receive notice of or to attend to vote at any meetings of the Company.

Under our articles, the holders of our common stock will be entitled to one vote for each share of common stock held on all matters submitted to a vote of the shareholders, including the election of directors. Our articles do not provide for cumulative voting rights. Because of this, the holders of a plurality of our common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose.

Dividends

Subject to the BCBCA, and subject to the prior rights of any holders of preferred shares, the holders of the common stock in the absolute discretion of the directors, shall be entitled to receive, and the Company shall pay thereon, out of moneys of the Company properly applicable to the payment of dividends, when declared by the directors, only such dividends as may be declared from time to time in respect of the shares of common stock. The preferred shares are entitled to preference over the shares of common stock with respect to the payment of dividends.

Liquidation Rights

Subject to the prior payment to the holders of the preferred shares described below, in the event of the liquidation, dissolution or winding-up of the Company or other distribution of the assets of the Company among its shareholders, the holders of the shares of our common stock shall be entitled to share pro rata in the distribution of the balance of the assets. The preferred shares shall be entitled to a preference over the common stock with respect to the distribution of assets of the Company, whether voluntary or involuntary, or in the event of any other distribution of assets of the Company among its shareholders for the purpose of winding up its affairs; and the preferred stock may be given such other preference not inconsistent with our articles.

Corporate Governance

Under the BCBCA, we are required to hold a general meeting of our shareholders at least once every year, provided that the meeting must not be held later than 15 months after the preceding annual general meeting. Under our articles, the location of the shareholders meeting shall be anywhere in North America, as determined by the directors. Subject to limited exceptions under the BCBCA, a notice specifying the date, time and location of a shareholders meeting must be sent to each shareholder entitled to attend the meeting and to each director not less than 21 days prior to the meeting and not more than 2 months before the meeting.

Under our articles, all business transacted at a special meeting of shareholders that is not an annual general meeting, except business relating to the conduct of or voting at the meeting, is deemed to be special business. At an annual general meeting, all business is special business except for the following: (a) business relating to the conduct of or voting at the meeting; (b) consideration of any financial statements of Xbiotech presented to the meeting; (c) consideration of any reports of the directors or auditor; (d) the setting or changing of the number of

directors; (e) the election or appointment of directors; (f) the appointment of an auditor; (g) the setting of the remuneration of an auditor; (h) business arising out of a report of the directors not requiring the passing of a special resolution or an exceptional resolution; and (i) any other business which, under our articles or the BCBCA, may be transacted at a meeting of shareholders without prior notice of the business being given to the shareholders.

Notice of a meeting of shareholders at which special business is to be transacted must:

(a) state the general nature of the special business; and

(b) if the special business includes considering, approving, ratifying, adopting or authorizing any document or the signing of or giving of effect to any document, have attached to it a copy of the document or state that a copy of the document will be available for inspection by shareholders:

(i) at the meeting; or

(ii) at the Company's records office, or at such other reasonably accessible location in British Columbia as is specified in the notice, during statutory business hours on any one or more specified days before the day set for the holding of the meeting.

Under our articles, our board of directors has the power at any time to call a meeting of our shareholders. In addition, subject to the requirements of the BCBCA, the holders of not less than 5% of our shares that carry the right to vote at a meeting sought to be held can also requisition our board of directors to call a meeting of our shareholders for the purposes stated in the requisition. If our board of directors does not call the meeting within 21 days after receiving the requisition, our shareholders can call the meeting and the expenses reasonably incurred by such shareholders in requisitioning, calling and holding the meeting must be reimbursed by us, unless otherwise resolved by a majority of shareholders at the meeting.

Those entitled to vote at a meeting are entitled to attend meetings of our shareholders. Every shareholder entitled to vote may appoint a proxyholder to attend the meeting in the manner and to the extent authorized and with the authority conferred by the proxy. Directors, auditors, legal counsels, secretary (if any), and any other persons invited by the chair of the meeting or with the consent of those at the meeting are entitled to attend any meeting of our shareholders but will not be counted in quorum or be entitled to vote at the meeting unless he or she or it is a shareholder or proxyholder entitled to vote at the meeting.

Certain Takeover Bid Requirements

Unless such offer constitutes an exempt transaction, an offer made by a person, an "offeror", to acquire outstanding shares of a Canadian entity that, when aggregated with the offeror's holdings (and those of persons or companies acting jointly with the offeror), would constitute 20% or more of the outstanding shares in a class, would be subject to the take-over provisions of Canadian securities laws. The foregoing is a limited and general summary of certain aspects of applicable securities law in the provinces and territories of Canada, all in effect as of the date hereof.

In addition to those takeover bid requirements noted above, the acquisition of our shares may trigger the application of statutory regimes including among others, the Investment Canada Act (Canada) and the Competition Act (Canada).

Limitations on the ability to acquire and hold our common stock may be imposed by the Competition Act (Canada). This legislation permits the Commissioner of Competition, or the Commissioner, to review any acquisition of control over or of a significant interest in us. This legislation grants the Commissioner jurisdiction, for up to one year, after any such acquisition, to challenge this type of acquisition before the Canadian Competition Tribunal on the basis that it would, or would be likely to, substantially prevent or lessen competition in any market in Canada.

This legislation also requires any person who intends to acquire our common stock to file a pre-closing notification with the Canadian Competition Bureau if certain financial thresholds are exceeded and if that person (and their affiliates) would hold more than 20% of our common stock. If a person (and its affiliates) already owns 20% or more of our common stock, a notification must be filed when the acquisition of additional shares would bring that person's holdings to over 50%. Where a notification is required, the legislation prohibits completion of the acquisition until the expiration of a statutory waiting period, unless the Commissioner provides written notice that she does not intend to challenge the acquisition.

The Investment Canada Act requires any person that is a "non-Canadian" (as defined in the Investment Canada Act) who acquires control of an existing Canadian business, where the acquisition of control is not a reviewable transaction, to file a notification with Industry Canada. The Investment Canada Act generally prohibits the implementation of a reviewable transaction unless, after review, the relevant minister is satisfied that the investment is likely to be of net benefit to Canada. Under the Investment Canada Act, the acquisition of control of us (either through the acquisition of our common stock or all or substantially all our assets) by a non-Canadian who is a World Trade Organization member country investor, including a US investor, would be reviewable only if the value of our assets was equal to or greater than a specified amount. The specified amount for 2015 is CAD$3,694.0 million. We believe that we are not a cultural business for Investment Canada Act purposes and that the lower threshold for reviews of acquisitions of such businesses does not apply. The threshold amount is subject to an annual adjustment on the basis of a prescribed formula in the Investment Canada Act to reflect changes in Canadian gross domestic product.

As a result of recent amendments to the Investment Canada Act substantial changes to the review threshold are pending. If and when these amendments come into force, the review threshold will increase to CAD$600.0 million (and eventually to CAD$1.0 billion) and will no longer be calculated on the basis of the book value of the Canadian business assets, but rather its "enterprise value".

The acquisition of a majority of the voting interests of an entity is deemed to be acquisition of control of that entity. The acquisition of less than a majority but one-third or more of the voting shares of a corporation or an equivalent undivided ownership interest in the voting shares of a corporation is presumed to be an acquisition of control of that corporation unless it can be established that, on the acquisition, the corporation is not controlled in fact by the acquirer through the ownership of voting shares. The acquisition of less than one-third of the voting shares of a corporation is deemed not to be an acquisition of control of that corporation.

Under the new national security regime in the Investment Canada Act, review on a discretionary basis may also be undertaken by the federal government in respect of a much broader range of investments by a non-Canadian to "acquire, in whole or in part, or to establish an entity carrying on all or any part of its operations in Canada." The relevant test is whether such an investment by a non-Canadian could be "injurious to national security." The Minister of Industry has broad discretion to determine whether an investor is a non-Canadian and may be subject to national security review. Review on national security grounds is at the discretion of the federal government and may occur on a pre- or post-closing basis, subject to certain limitation provisions. The government has the power in a national security review to direct that the investment not be implemented, the investor provides undertakings or the investor implements the investment on prescribed terms or conditions and to order the investor to divest itself of the investment.

There is no law, governmental decree or regulation in Canada that restricts the export or import of capital or which would affect the remittance of dividends or other payments by us to non-Canadian holders of our common shares or preferred shares, other than withholding tax requirements.

Our articles do not contain any change of control limitations with respect to a merger, acquisition or corporate restructuring that involves us.

This summary is not a comprehensive description of relevant or applicable considerations regarding such requirements and, accordingly, is not intended to be, and should not be interpreted as, legal advice to any

prospective purchaser and no representation with respect to such requirements to any prospective purchaser is made. Prospective investors should consult their own Canadian legal advisors with respect to any questions regarding securities law in the provinces and territories of Canada.

Actions Requiring a Special Majority

Under the BCBCA and our articles, certain corporate actions require the approval of a special majority of shareholders, meaning holders of shares representing not less than 66 ⅔% of those votes cast in respect of a shareholder vote addressing such matter. Subject to the BCBCA, those items requiring the approval of a special majority generally relate to fundamental changes with respect to our business, and include among others, resolutions: (i) to alter its articles or authorized share structure; (ii) to remove a director before the expiry of his or her term; and (iii) to provide for a sale, lease or exchange of all or substantially all of the Company's property.

Shareholder Proposals

Under the BCBCA, shareholders may make proposals for matters to be considered at the annual general meeting of shareholders. Such proposals must be sent to us in advance of any proposed meeting by delivering a timely written notice in proper form to our registered office in accordance with the requirements of the BCBCA. The notice must include information on the business the shareholder intends to bring before the meeting.

Advance Notice Provisions

Our articles contain provisions (the "Advance Notice Provisions") which provide that advance notice to the Company must be made and the procedures set out in the articles must be followed for persons to be eligible for election to the our board of directors. Nomination of persons for election to the board of directors may only be made at an annual meeting of shareholders or at a special meeting of shareholders called for any purpose which includes the election of directors.

Among other things, the Advance Notice Provisions fix a deadline by which holders of record of common shares must submit director nominations to us prior to any annual or special meeting of shareholders and set forth the specific information that a shareholder must include in the written notice to the Company for an effective nomination to occur. No person will be eligible for election as a director of the Company unless nominated in accordance with the provisions of the Advance Notice Provisions.

In the case of an annual meeting of shareholders, notice to us must be made not less than 30 or more than 65 days prior to the date of the annual meeting; provided, however, that if the annual meeting is to be held on a date that is less than 50 days after the date on which the first public announcement of the date of the annual meeting was made, notice may be made not later than the close of business on the 10th day following such public announcement. In the case of a special meeting of shareholders (which is not also an annual meeting), notice to us must be made not later than the close of business on the 15th day following the day on which the first public announcement of the date of the special meeting was made.

The board of directors may, in its sole discretion, waive any requirement of the Advance Notice Provisions.

Transfer Agent and Registrar

The Transfer Agent and Registrar for shares of our common stock is American Stock Transfer & Trust Company, LLC . ("AST"). The address for AST is 6201 15th Avenue, Brooklyn, New York 11219 and its telephone number is (718) 921-8206.

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, there has been no public market for our common stock, and although we expect that our common stock will be approved for listing on The NASDAQ Global Market, we cannot assure investors that there will be an active public market for our common stock following this offering. We cannot predict what effect, if any, sales of our shares in the public market or the availability of shares for sale will have on the market price of our common stock. Future sales of substantial amounts of common stock in the public market, including shares issued upon exercise of outstanding options, or the perception that such sales may occur, however, could adversely affect the market price of our common stock and also could adversely affect our future ability to raise capital through the sale of our common stock or other equity-related securities of ours at times and prices we believe appropriate.

As at March 9, 2015, we have 27,716,631 shares of common stock issued and outstanding. Upon completion of this offering, we will have 31,716,631 shares of common stock issued and outstanding. All of the common stock expected to be sold in this offering will be freely tradable without restriction or further registration under the Securities Act of 1933, as amended, or the Securities Act, unless held by our "affiliates," as that term is defined in Rule 144 under the Securities Act. The remaining 10,869,263 outstanding shares of common stock will be deemed "restricted securities" as that term is defined under Rule 144. Restricted securities may be sold in the public market only if their offer and sale is registered under the Securities Act or if the offer and sale of those securities qualify for an exemption from registration, including exemptions provided by Rules 144 and 701 under the Securities Act, which are summarized below.

As a result of the lock-up agreements described below and the provisions of Rules 144 or 701, the common stock that will be deemed "restricted securities" will be available for sale in the public market following the completion of this offering as follows:

- shares will be eligible for sale on the date of this prospectus; and
- shares will be eligible for sale upon expiration of the lock-up agreements and market stand-off provisions described below, beginning more than 180 days after the date of this prospectus.

We may issue common stock from time to time for a variety of corporate purposes, including in capital-raising activities through future public offerings or private placements, in connection with exercise of stock options, vesting of restricted stock units and other issuances relating to our employee benefit plans and as consideration for future acquisitions, investments or other purposes. The number of shares of common stock that we may issue may be significant, depending on the events surrounding such issuances. In some cases, the shares we issue may be freely tradable without restriction or further registration under the Securities Act; in other cases, we may grant registration rights covering the shares issued in connection with these issuances, in which case the holders of the common stock will have the right, under certain circumstances, to cause us to register any resale of such shares to the public.

Lock-Up Agreements

We, our directors and officers and substantially all of the holders of five percent or more of our equity securities have agreed, subject to certain exceptions, not to offer, sell or transfer any of our shares of common stock or securities convertible into or exchangeable or exercisable for our common stock, for 180 days after the date of this prospectus without first obtaining the written consent of WR Hambrecht + Co on behalf of the underwriters, after the date of this prospectus. These agreements are described in the section of this prospectus captioned "Underwriting."

Our underwriters have advised us that they have no present intent or arrangement to release any shares of common stock subject to a lock-up, and will consider the release of any lock-up on a case-by-case basis. There are no existing agreements between the underwriters and any of our shareholders who have or will execute a lock-up agreement, providing consent to the sale of common stock prior to the expiration of the lock-up period.

Following the lock-up periods set forth in the agreements described above, and assuming WR Hambrecht + Co does not release any parties from these agreements and that there is no extension of the lock-up period, all of the shares of common shares that are restricted securities or are held by our affiliates as of the date of this prospectus will be eligible for sale in the public market in compliance with Rule 144 under the Securities Act.

Rule 144

In general, under Rule 144, as currently in effect, once we have been subject to the public company reporting requirements of the Exchange Act, for at least 90 days, a person (or persons whose common shares are required to be aggregated) who is not deemed to have been one of our "affiliates" for purposes of Rule 144 at any time during the three months preceding a sale, and who has beneficially owned restricted securities within the meaning of Rule 144 for at least six months, including the holding period of any prior owner other than one of our "affiliates," is entitled to sell those shares in the public market (subject to the lock-up agreement referred to above, if applicable) without complying with the manner of sale, volume limitations or notice provisions of Rule 144, but subject to compliance with the public information requirements of Rule 144. If such a person has beneficially owned the shares proposed to be sold for at least one year, including the holding period of any prior owner other than "affiliates," then such person is entitled to sell such shares in the public market without complying with any of the requirements of Rule 144 (subject to the lock-up agreement referred to above, if applicable). In general, under Rule 144, as currently in effect, once we have been subject to the public company reporting requirements of the Exchange Act for at least 90 days, our "affiliates," as defined in Rule 144, who have beneficially owned the common shares proposed to be sold for at least six months are entitled to sell in the public market, upon expiration of any applicable lock-up agreements and within any three-month period, a number of those common shares that does not exceed the greater of:

- 1% of the number of shares of common stock then outstanding, which will equal approximately 31,700 shares of common stock immediately after this offering (calculated on the basis of the assumptions described above and assuming no exercise of outstanding options or warrants); or
- the average weekly trading volume of our common shares on The NASDAQ Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to such sale.

Such sales under Rule 144 by our "affiliates" or persons selling shares on behalf of our "affiliates" are also subject to certain manner of sale provisions, notice requirements and to the availability of current public information about us. Notwithstanding the availability of Rule 144, the holders of substantially all of our restricted securities have entered into lock-up agreements as referenced above and their restricted securities will become eligible for sale (subject to the above limitations under Rule 144) upon the expiration of the restrictions set forth in those agreements.

Rule 701

In general, under Rule 701 as currently in effect, any of our employees, directors, officers, consultants or advisors who acquired common shares from us in connection with a written compensatory stock or option plan or other written agreement in compliance with Rule 701 under the Securities Act before the effective date of the registration statement of which this prospectus is a part (to the extent such common shares are not subject to a lock-up agreement) is entitled to rely on Rule 701 to resell such common shares beginning 90 days after we become subject to the public company reporting requirements of the Exchange Act in reliance on Rule 144, but without compliance with the holding period requirements contained in Rule 144. Accordingly, subject to any applicable lock-up agreements, beginning 90 days after we become subject to the public company reporting requirements of the Exchange Act, under Rule 701 persons who are not our "affiliates," as defined in Rule 144, may resell those common shares without complying with the minimum holding period or public information requirements of Rule 144, and persons who are our "affiliates" may resell those common shares without compliance with Rule 144's minimum holding period requirements (subject to the terms of the lock-up agreement referred to above, if applicable).

Equity Incentive Plans

We intend to file with the SEC a registration statement under the Securities Act covering the common stock that we may issue upon exercise of outstanding options under our 2005 Plan and the common stock that we may issue pursuant to future awards under our 2005 Plan and 2015 Plan. Such registration statement is expected to be filed and become effective as soon as practicable after the completion of this offering. Accordingly, common stock registered under such registration statement will be available for sale in the open market following its effective date, subject to Rule 144 volume limitations and the lock-up agreements described above, if applicable.

CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

In the opinion of Stikeman Elliott LLP, Canadian counsel to us, the following is, as of the date hereof, a general summary of the principal Canadian federal income tax considerations under the Tax Act generally applicable to purchasers who acquire common shares pursuant to this offering and who, for the purposes of the Tax Act and at all relevant times, beneficially own such common shares as capital property and deal at arm's length and are not affiliated with us and the underwriter (each a "Holder"). Common shares will generally be considered to be capital property to a Holder unless such common shares are held by such Holder in the course of carrying on a business, or were acquired by such Holder in a transaction or transactions considered to be an adventure in the nature of trade.

This summary does not apply to a purchaser of common shares (i) that is a "financial institution", as defined in the Tax Act for purposes of the mark-to-market rules; (ii) an interest in which is or would constitute a "tax shelter investment" as defined in the Tax Act; (iii) that is a "specified financial institution" as defined in the Tax Act; (iv) that reports its Canadian tax results in a currency other than the Canadian currency; or (v) that has or will enter into a "synthetic disposition arrangement" or a "derivative forward agreement", as those terms are defined in the Tax Act, in respect of common shares pursuant to this offering. All such purchasers should consult their own tax advisors with respect to an investment in common shares. Additional considerations, not discussed herein, may be applicable to a Holder that is a corporate resident in Canada, and is, or becomes as part of a transaction or event or series of transactions or events that includes the acquisition of the common shares, controlled by a non-resident corporation for purposes of the "foreign affiliate dumping" rules in section 212.3 of the Tax Act. Such Holders should consult their tax advisors with respect to the consequences of acquiring common shares.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, counsel's understanding of the current published administrative practices and assessing policies of the Canada Revenue Agency (the "CRA"), and all specific proposals to amend the Tax Act and the regulations thereunder announced by the Minister of Finance (Canada) prior to the date hereof ("Tax Proposals"). This summary assumes that the Tax Proposals will be enacted in their current form and does not otherwise take into account or anticipate any changes in the law or in the administrative practices and assessing policies of the CRA, whether by judicial, governmental or legislative decisions or action, and whether prospective or retroactive in effect, nor does it take into account tax legislation or considerations of any province or territory of Canada or any jurisdiction other than Canada. No assurances can be given that the Tax Proposals will be enacted in the form proposed or at all.

The summary is of a general nature only, is not exhaustive of all income tax considerations, and is not intended to be, and should not be construed to be, legal or tax advice to any particular Holder of the common shares and no representation with respect to the Canadian tax consequences to any particular Holder is made. The relevant tax considerations applicable to the acquiring, holding and disposing of common shares pursuant to this offering may vary according to the status of the purchaser, the jurisdiction in which the purchaser resides or carries on business and the purchaser's own particular circumstances. Accordingly, holders should consult with their own tax advisors with respect to the income tax consequences to them of acquiring, holding or disposing of the common shares.

Residents of Canada

The following portion of the summary is applicable to a Holder who at all relevant times is resident or deemed to be resident in Canada for the purposes of the Tax Act and any applicable tax treaty or convention (a "Canadian Holder"). Certain Canadian Holders to whom common shares might not constitute capital property may make the irrevocable election provided by subsection 39(4) of the Tax Act, in qualifying circumstances, to have the common shares and every other "Canadian security" (as defined in the Tax Act) owned by such Canadian Holder in the taxation year of the election and in all subsequent taxation years deemed to be capital property to the Holder. Canadian Holders should consult their own tax advisors for advice as to whether an election under subsection 39(4) of the Tax Act is available and/or advisable in their particular circumstances.

Dividends

A Canadian Holder will be required to include in computing such Canadian Holder's income for a taxation year the amount of any taxable dividends (including deemed dividends) received on common shares. In the case of a Canadian Holder who is an individual (other than certain trusts) such dividends will be subject to the gross-up and dividend tax credit rules applicable to taxable dividends received by an individual from taxable Canadian corporations, including the enhanced gross-up and dividend tax credit for "eligible dividends" properly designated as such by us. There may be restrictions on the ability of the Company to so designate any dividend as an eligible dividend, and the Company has made no commitments in this regard. Taxable dividends received by such Canadian Holder may give rise to alternative minimum tax under the Tax Act.

In the case of a Canadian Holder that is a corporation, the amount of any taxable dividends (including deemed dividends) received on common shares that is included in its income will generally be deductible in computing such Canadian Holder's taxable income for that taxation year. A Canadian Holder that is a "private corporation" (as defined in the Tax Act) or any other corporation resident in Canada and controlled, whether by reason of a beneficial interest in one or more trusts or otherwise, by or for the benefit of an individual (other than a trust) or a related group of individuals (other than trusts), may be liable to pay a 33 ⅓% refundable tax under Part IV of the Tax Act on dividends received on the common shares to the extent that such dividends are deductible in computing the Canadian Holder's taxable income for the taxation year.

Disposition of Common Shares

A Canadian Holder who disposes of or is deemed to have disposed of a common share (except to the Company) will generally realize a capital gain (or capital loss) equal to the amount by which such Canadian Holder's proceeds of disposition in respect of the common share exceeds (or is exceeded by) the aggregate of the adjusted cost base of such common share to the Canadian Holder and any reasonable expenses associated with the disposition. The cost to a Canadian Holder of a common share acquired pursuant to this offering generally will be averaged with the adjusted cost base of any other common shares owned by such Canadian Holder as capital property for the purposes of determining the adjusted cost base of each such common share to such Canadian Holder.

A Canadian Holder will generally be required to include in computing such Canadian Holder's income for a taxation year of a disposition, one-half of the amount of any capital gain (a "taxable capital gain") realized in such taxation year, and subject to and in accordance with the provisions of the Tax Act, will generally be required to deduct one-half of the amount of any capital loss incurred by a Canadian Holder (an "allowable capital loss") against taxable capital gains realized by the Canadian Holder in the taxation year. Allowable capital losses in excess of taxable capital gains realized in a taxation year may generally be deducted by the Canadian Holder against taxable capital gains realized in any of the three preceding taxation years or any subsequent taxation year, subject to detailed rules contained in the Tax Act in this regard. Capital gains realized by a Holder who is an individual (other than certain trusts) may be subject to alternative minimum tax.

The amount of any capital loss realized on the disposition or deemed disposition of a common share by a Canadian Holder that is a corporation may, in certain circumstances, be reduced by the amount of dividends previously received or deemed to have been received by the Canadian Holder on such common share to the extent and in the circumstances prescribed by the Tax Act. Similar rules may apply to a corporation that is a member of a partnership or beneficiary of a trust that owns common shares or that is itself a member of a partnership or a beneficiary of a trust that owns common shares.

A Canadian Holder that is, throughout the relevant taxation year, a "Canadian-controlled private corporation" (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 ⅔% on its "aggregate investment income" for the taxation year, which is defined to include an amount in respect of taxable capital gains.

Non-Resident Holders

The following portion of the summary is applicable to a Holder that, at all relevant times for the purposes of the Tax Act and any applicable tax treaty: (i) is not (and is not deemed to be) a resident in Canada, (ii) does not use or hold (and will not use or hold) and is not deemed to use or hold the common shares in, or in the course of, carrying on a business in Canada, and (iii) does not carry on an insurance business in Canada and elsewhere and (iv) is not an "authorized foreign bank" as defined in the Tax Act (a "Non-Canadian Holder").

This summary does not apply to a Non-Canadian Holder that is subject to the proposed "treaty shopping" rule proposed in the 2014 Canadian Federal Budget released on February 11, 2014. Non-Canadian Holders should consult their own tax advisors with respect to the potential application of these rules to their particular circumstance.

Dividends

Dividends paid or credited (or deemed to be paid or credited) on the common shares to a Non-Canadian Holder will generally be subject to withholding tax under the Tax Act at a rate of 25%, subject to a reduction under the provisions of an applicable tax treaty. For Non-Canadian Holders who are resident in the United States for purposes of and entitled to the benefits of the Canada-U.S. Tax Treaty, and are the beneficial owner of such dividends on the common shares (a "U.S. Holder"), the Canadian withholding tax will generally be reduced to the rate of 15%. This rate is further reduced to 5% in the case of such U.S. Holder that is a company for purposes of the Canada-U.S. Treaty that owns at least 10% of our issued and outstanding voting shares at the time the dividend is paid or deemed to be paid. In addition, under the Canada United States Income Tax Convention (1980) as amended (the "Canada-U.S. Treaty"), dividends may be exempt from Canadian withholding tax if paid to certain U.S. Holders that are qualifying religious, scientific, literary, educational or charitable tax-exempt organizations and qualifying trusts, companies, organizations or other arrangements operated exclusively to administer or provide pension, retirement or employee benefits that are exempt from tax in the U.S. and that have complied with specific administrative procedures.

Disposition of Common Shares

A Non-Canadian Holder will not be subject to tax under the Tax Act in respect of a capital gain realized upon the disposition of common shares unless the common shares are "taxable Canadian property" (as defined in the Tax Act) to the Non-Canadian Holder, and the gain is not otherwise exempt from tax in Canada pursuant to the terms of an applicable tax treaty. Provided the common shares are listed on a designated stock exchange (which currently includes the Toronto Stock Exchange ("TSX") and NASDAQ) at the time of disposition, the common shares generally will not constitute taxable Canadian property to a Non- Canadian Holder unless at any time during the 60 months immediately preceding the disposition, (i) (a) the Non-Canadian Holder, (b) persons with whom the Non-Canadian Holder does not deal at arm's length, and (c) partnerships in which the Non-Canadian Holder or persons referred to in (b) hold a membership interest directly or indirectly through one or more partnerships, individually or collectively owned at least 25% of the issued shares of any class or series of our capital stock and (ii) more than 50% of the fair market value of the common stock of the Company was derived directly or indirectly from one or any combination of real or immoveable property situated in Canada, "Canadian resource properties" (as defined in the Tax Act), "timber resource properties" (as defined in the Tax Act) or an option, interest or right in such property, whether or not such property exists. For a U.S. Holder, even if the common shares are taxable Canadian property, no Canadian taxes will generally be payable on a capital gain realized on the disposition of the common shares unless the value of the common shares is derived principally from real property situated in Canada.

In the event the common shares are (or are deemed to be) taxable Canadian property to a Non-Canadian Holder and a capital gain realized on the disposition of such common shares is not exempt from tax under the Tax Act by virtue of the terms of an applicable tax treaty, such Non-Resident Holder will realize a capital gain

(or capital loss) generally in the circumstances and computed in the manner described above under “Certain Canadian Federal Income Tax Considerations for Canadian Holders—Disposition of Common Shares”. A Non-Canadian Holder whose common shares are taxable Canadian property may be required to file a Canadian income tax return reporting the disposition of such common shares. Non-Canadian Holders whose common shares are taxable Canadian property should consult their own tax advisors for advice having regard to their particular circumstances.

Eligibility for Investment

Based on the current provisions of the Tax Act and the regulations (the “Regulations”) thereunder, provided that XBiotech’s common stock is listed on a “designated stock exchange”, as defined in the Tax Act (which currently includes the Toronto Stock Exchange and NASDAQ), on the closing date, common stock acquired under this prospectus will be on that date a “qualified investment” under the Tax Act and the Regulations for a trust governed by a “registered retirement savings plan” (“RRSP”), a “registered retirement income fund” (“RRIF”), a “tax-free savings account” (“TFSA”), a “registered education savings plan”, a “deferred profit sharing plan” or a “registered disability savings plan” (as those terms are defined in the Tax Act).

Notwithstanding that a common share may be a qualified investment for a TFSA, RRSP or RRIF (a “Registered Plan”), if the common share is a “prohibited investment” within the meaning of the Tax Act for a Registered Plan, the holder or annuitant of the Registered Plan, as the case may be, will be subject to penalty taxes as set out in the Tax Act. A common share will generally not be a “prohibited investment” for a Registered Plan if the holder or annuitant, as the case may be, (i) deals at arm’s length with the company for the purposes of the Tax Act, and (ii) does not have a “significant interest” (as defined in the Tax Act) in the company. In addition, a common share will not be a “prohibited investment” if the common share is “excluded property” as defined in the Tax Act for a Registered Plan.

Purchasers of the common shares should consult their own tax advisers with respect to whether common shares would be prohibited investments having regard to their particular circumstances.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES

The following is a summary of certain material U.S. federal income tax consequences to a U.S. Holder (as defined below) arising from and relating to the acquisition, ownership, and disposition of our common shares. Except where noted, this summary deals only with common stock that is held as a capital asset by a U.S. Holder.

This summary is for general information purposes only and does not purport to be a complete analysis or listing of all potential U.S. federal income tax consequences that may apply to a U.S. Holder as a result of the acquisition, ownership, and disposition of our common shares. In addition, this summary does not take into account the individual facts and circumstances of any particular U.S. Holder that may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares. In addition, taxes other than federal income taxes, such as foreign (in addition to Canadian as discussed above in "Certain Canadian Federal Income Tax Consequences"), state and local taxes, and federal estate and gift taxes, may affect U.S. Holder's acquisition, ownership and disposition of our common shares.

This summary is not intended to be, and should not be construed as, legal or U.S. federal income tax advice with respect to any U.S. Holder. Each U.S. Holder should consult, and must rely upon, its own tax advisor regarding the U.S. federal income, U.S. state and local, and foreign tax consequences of the acquisition, ownership, and disposition of our common shares with specific reference to its own tax situation.

SCOPE OF THIS SUMMARY

Authorities

This summary is based on the Internal Revenue Code of 1986, as amended (the "Code"), Treasury regulations ("Regulations") (whether final, temporary, or proposed), published rulings of the Internal Revenue Service (the "IRS"), published administrative positions of the IRS, the Treaty and U.S. court decisions that are applicable and, in each case, as in effect and available, as of the date of this prospectus. Any of the authorities on which this summary is based could be changed in a material and adverse manner at any time, and any such change could be applied on a retroactive basis. This summary does not discuss the potential effects, whether adverse or beneficial, of any proposed legislation that, if enacted, could be applied on a retroactive basis. The authorities on which this summary is based are subject to various interpretations. No rulings have been or will be sought from the IRS with respect to the transactions described herein. Accordingly, there can be no assurance that the IRS will not challenge the views expressed herein or that a court will not sustain such a challenge.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of our common shares that, for U.S. federal income tax purposes, is (a) an individual who is a citizen or resident of the U.S., (b) a corporation, or any other entity classified as a corporation for U.S. federal income tax purposes, that is created or organized in or under the laws of the U.S., any state in the U.S., or the District of Columbia, (c) an estate if the income of such estate is subject to U.S. federal income tax regardless of the source of such income, or (d) a trust if (i) such trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or (ii) a U.S. court is able to exercise primary supervision over the administration of such trust and one or more U.S. persons have the authority to control all substantial decisions of such trust.

Non-U.S. Holders

For purposes of this summary, a "non-U.S. Holder" is a beneficial owner of common shares other than a U.S. Holder. This summary does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of our common shares by non-U.S. Holders. Accordingly, a non-U.S. Holder should consult, and must rely upon, its own tax advisor regarding the U.S. federal income, U.S. state and local, and foreign tax consequences (including the potential application of and operation of any income tax treaties) of the acquisition, ownership, and disposition of our common shares.

U.S. Holders Subject to Special U.S. Federal Income Tax Rules Not Addressed

This summary is general and does not address the U.S. federal income tax consequences of the acquisition, ownership, and disposition of our common shares by U.S. Holders that are subject to special provisions under the Code, including, but not limited to:

- Tax consequences to holders of common shares that are tax-exempt organizations, or qualified retirement plans, individual retirement accounts or other tax-deferred accounts;
- Tax consequences to holders of common shares that are dealers in securities or currencies or holders that are traders in securities that elect to apply a mark-to-market accounting method, financial institutions, insurance companies, real estate investment trusts, or regulated investment companies;
- Tax consequences to holders of common shares that have a "functional currency" other than the U.S. dollar;
- Tax consequences to holders of common shares that are liable for the alternative minimum tax under the Code;
- Tax consequences to persons holding the common shares as part of a straddle, hedging transaction, conversion transaction, constructive sale, or other arrangement involving more than one position;
- Holders that acquired our common shares in connection with the exercise of employee stock options or otherwise as compensation for services;
- Tax consequences to holders of common shares that are held other than as a capital asset within the meaning of Section 1221 of the Code; or
- Holders of common shares that own (directly, indirectly, or constructively) 10 percent or more of the total combined voting power of all classes of our shares entitled to vote.

U.S. Holders that are subject to special provisions under the Code, including U.S. Holders described immediately above, should consult, and must rely upon, their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of our common shares.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds our common shares, the U.S. federal income tax consequences of the acquisition, ownership, and disposition of our common shares to such partnership and the partners of such partnership generally will depend on the activities of the partnership and the status of such partners. Partners of entities that are classified as partnerships for U.S. federal income tax purposes should consult, and must rely upon, their own tax advisors regarding the U.S. federal income tax consequences of the acquisition, ownership, and disposition of our common shares.

Tax Consequences Other than U.S. Federal Income Tax Consequences Not Addressed

This summary does not address the U.S. state and local, U.S. federal estate and gift, or foreign tax consequences to U.S. Holders of the acquisition, ownership, and disposition of our common shares. Each U.S. Holder should consult, and must rely upon, its own tax advisor regarding the U.S. state and local, U.S. federal estate and gift, and foreign tax consequences of the acquisition, ownership, and disposition of our common shares. (See, however, "Certain Canadian Federal Income Tax Consequences).

If you are considering the purchase of the common shares, you should consult, and must rely upon, your own tax advisors concerning the particular U.S. federal income tax consequences to you of the purchase, ownership and disposition of the common shares, as well as the consequences to you arising under the laws of any other taxing jurisdiction.

U.S. Federal Income Tax Consequences of the Acquisition, Ownership, and Disposition of Common Shares

Distributions on Common Shares

General Taxation of Distributions

Subject to the "passive foreign investment company", or PFIC, rules discussed below, a U.S. Holder that receives a distribution, including a constructive distribution, with respect to our common shares will be required to include the amount of such distribution in gross income as a dividend (without reduction for any Canadian income tax withheld from such distribution) to the extent of our current or accumulated "earnings and profits." To the extent that a distribution exceeds our current and accumulated "earnings and profits," such distribution will be treated (a) first, as a tax-free return of capital to the extent of a U.S. Holder's tax basis in the common shares and, (b) thereafter, as gain from the sale or exchange of such common shares. (See "Disposition of common shares" below). Dividends received on the common shares generally will not be eligible for the "dividends received deduction".

Reduced Tax Rates for Certain Dividends

A dividend paid by us generally will be taxed at the preferential tax rates applicable to long-term capital gains if (a) we are a "qualified foreign corporation" (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust, and (c) such dividend is paid on common shares that have been held by such U.S. Holder for at least 61 days during the 121-day period beginning 60 days before the "ex-dividend date."

We generally will be a "qualified foreign corporation" under Section 1(h)(11) of the Code (a QFC) if (a) we were incorporated in a possession of the U.S., (b) we are eligible for the benefits of the Treaty, or (c) the common shares are readily tradable on an established securities market in the U.S. However, even if we satisfy one or more of such requirements, we will not be treated as a QFC if we are a PFIC for the taxable year during which we pay a dividend or for the preceding taxable year.

As discussed herein, we believe that we were a PFIC for previous taxable years, expect that we will be a PFIC for the current taxable year and may be a PFIC in subsequent taxable years. (See "Passive Foreign Investment Company" below). Accordingly, we do not expect to be a QFC for the current taxable year and may not be a QFC in subsequent taxable years.

Distributions Paid in Foreign Currency

The amount of a distribution received on the common shares in foreign currency generally will be equal to the U.S. dollar value of such distribution based on the exchange rate applicable on the date of receipt. A U.S. Holder that does not convert foreign currency received as a distribution into U.S. dollars on the date of receipt generally will have a tax basis in such foreign currency equal to the U.S. dollar value of such foreign currency on the date of receipt. Such a U.S. Holder generally will recognize ordinary income or loss on the subsequent sale or other taxable disposition of such foreign currency (including an exchange for U.S. dollars).

Disposition of Common Shares

A U.S. Holder will recognize gain or loss on the sale or other taxable disposition of our common shares in an amount equal to the difference, if any, between (a) the amount of cash plus the fair market value of any property received and (b) such U.S. Holder's adjusted tax basis in the common shares sold or otherwise disposed of. Subject to the PFIC rules discussed below, any such gain or loss generally will be capital gain or loss, which will be long-term capital gain or loss if the common shares are held for more than one year.

Preferential tax rates apply to long-term capital gains of a U.S. Holder that is an individual, estate, or trust. Deductions for capital losses are subject to significant limitations under the Code.

Foreign Tax Deduction or Credit

A U.S. Holder that pays (whether directly or through withholding) Canadian income tax with respect to dividends received on our common shares generally will be entitled, at the election of such U.S. Holder, to receive either a deduction or a credit for such Canadian income tax paid. Generally, a credit will reduce a U.S. Holder's U.S. federal income tax liability on a dollar-for-dollar basis, whereas a deduction will reduce a U.S. Holder's income subject to U.S. federal income tax. This election is made on a year-by-year basis and applies to all foreign taxes paid (whether directly or through withholding) by a U.S. Holder during a taxable year.

Complex limitations apply to the foreign tax credit, including the general limitation that the credit cannot exceed the proportionate share of a U.S. Holder's U.S. federal income tax liability that such U.S. Holder's "foreign source" taxable income bears to such U.S. Holder's worldwide taxable income. In applying this limitation, a U.S. Holder's various items of income and deduction must be classified, under complex rules, as either "foreign source" or "U.S. source." In addition, this limitation is calculated separately with respect to specific categories of income (including "passive income," "general income," and certain other categories of income). Gain or loss recognized by a U.S. Holder on the sale or other taxable disposition of common shares and foreign currency gains generally will be treated as "U.S. source" for purposes of applying the foreign tax credit rules.

Dividends received on the common shares generally will be treated as "foreign source" and generally will be categorized as "passive income" or, in the case of certain U.S. Holders, "general income" for purposes of applying the foreign tax credit rules. The foreign tax credit rules are complex, and each U.S. Holder should consult, and must rely upon, its own tax advisor regarding the foreign tax credit rules.

Information Reporting; Backup Withholding Tax

Generally, information reporting requirements will apply to all payments made within the United States or by a U.S. payor or U.S. middleman, of dividends on, or proceeds arising from the sale or other taxable disposition of our common shares, unless you are an exempt recipient, such as a corporation. Additionally, if you fail to provide your taxpayer identification number, or in the case of dividend payments, fail either to report in full dividend income or to make certain certifications, you may be subject to backup withholding at the rate of 28 percent.

Any amounts withheld under the backup withholding rules will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is timely furnished to the IRS. Each U.S. Holder should consult with and rely upon its own tax advisor regarding the information reporting and backup withholding tax rules.

Medicare Tax

For taxable years beginning after December 31, 2012, a U.S. Holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from such tax, will be subject to a 3.8% tax (the "Medicare Tax") on the lesser of (a) the U.S. Holder's "net investment income" in the case of individuals, and the "undistributed net investment income" in the case of estates and trusts, for the relevant taxable year, and (b) the excess of the U.S. Holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between $125,000 and $250,000, depending on the individual's circumstances). A U.S. Holder's net investment income will generally include its income from dividends, interest, rents, royalties and annuities and its net gains from the disposition of the common stock, unless such interest income or net gains are derived in the ordinary course of the conduct of a trade or business (other than a trade or business that consists of certain passive or trading activities). See the discussion below under "Passive Foreign Investment Company" regarding application of Medicare Tax to PFICs. If you are a U.S. Holder that is an individual, estate or trust, you should consult with, and must rely upon, your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in our common stock.

Foreign Asset Reporting

Certain U.S. Holders who are individuals (and under proposed regulations, certain entities) may be required to report information relating to an interest in our ordinary shares, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult with, and must rely upon, their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our ordinary shares.

Passive Foreign Investment Company

We generally will be a PFIC under Section 1297(a) of the Code if, for a taxable year, (a) 75 percent or more of our gross income for such taxable year is passive income, or (b) on average, 50 percent or more of the assets held by us either produce passive income or are held for the production of passive income, based on the fair market value of such assets (or on the adjusted tax basis of such assets, if we are not publicly traded and make an election). "Passive income" includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, excess of foreign currency gains over foreign currency losses and certain gains from commodities transactions.

For purposes of the PFIC income test and asset test described above, if we own, directly or indirectly, 25 percent or more of the total value of the outstanding shares of another foreign corporation, we will be treated as if we (a) held a proportionate share of the assets of such other foreign corporation, and (b) received directly a proportionate share of the income of such other foreign corporation. In addition, for purposes of the PFIC income test and asset test described above, "passive income" does not include any interest, dividends, rents, or royalties that are received or accrued by us from a "related person" (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to the income of such related person that is not passive income. Finally, if a foreign corporation that subject to the accumulated earnings tax and would otherwise be a PFIC owns 25% of more of the stock, by value, of a U.S. corporation, in determining whether such a foreign corporation is a PFIC, the stock of the U.S. subsidiary is not treated as a passive asset, and any income received with respect to that stock is not treated as passive income.

Because we are a clinical-stage biopharmaceutical company which has not yet recognized significant operating income and our gross income consists mostly of interest, we have been a PFIC for previous taxable years. We may also be a PFIC in the current taxable year as well as future taxable years until we generate significant operating income. A U.S. Holder can avoid the adverse U.S. federal income tax consequences of holding shares in a PFIC by making a QEF Election (see "QEF Election", below). Under a QEF Election, generally, an electing U.S. Holder will be required each taxable year in which we are a PFIC to recognize, as ordinary income, a pro rata share of our earnings, and to recognize, as capital gain, a pro rata share of our net capital gain. Accordingly, because we expect that we only will be a PFIC in taxable years in which we do not generate any net income, an electing U.S. Holder would not have any income inclusions as a result of the QEF Election. Furthermore, in any taxable year in which we generate significant operating income, we may cease to be a PFIC and the QEF Election will not be applicable.

The determination of whether we were, or will be, a PFIC for a taxable year depends, in part, on the application of complex U.S. federal income tax rules, which are subject to various interpretations. In addition, whether we will be a PFIC for the current taxable year and each subsequent taxable year depends on our assets and income over the course of each such taxable year and, as a result, cannot be predicted with certainty as of the date of this prospectus. Accordingly, there can be no assurance that the IRS will not challenge the determination made by us concerning our PFIC status or that we were not, or will not be, a PFIC for any taxable year.

Default PFIC Rules Under Section 1291 of the Code

If we are a PFIC, the U.S. federal income tax consequences to a U.S. Holder of the acquisition, ownership, and disposition of common shares will depend on whether such U.S. Holder makes an election to treat us as a

"qualified electing fund" or "QEF" under Section 1295 of the Code (a QEF Election) or a mark-to-market election under Section 1296 of the Code (a Mark-to-Market Election). A U.S. Holder that does not make either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a "Non-Electing U.S. Holder."

A Non-Electing U.S. Holder will be subject to the rules of Section 1291 of the Code with respect to (a) any gain recognized on the sale or other taxable disposition of common shares, and (b) any excess distribution received on the common shares. A distribution generally will be an "excess distribution" to the extent that such distribution (together with all other distributions received in the current taxable year) exceeds 125 percent of the average of actual distributions received during the three preceding taxable years (or during a U.S. Holder's holding period for the common shares, if shorter).

Under Section 1291 of the Code, any gain recognized on the sale or other taxable disposition of our common shares, and any excess distribution received on our common shares, must be ratably allocated to each day in a Non-Electing U.S. Holder's holding period for such common shares. The amount of any such gain or excess distribution allocated to prior years of such Non-Electing U.S. Holder's holding period for the common shares (other than years prior to our first taxable year beginning after December 31, 1986 for which we were not a PFIC) will be subject to U.S. federal income tax at the highest tax rate applicable to ordinary income in each such prior year. A Non-Electing U.S. Holder will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year. Such a Non-Electing U.S. Holder that is not a corporation must treat any such interest paid as "personal interest," which is not deductible. The amount of any such gain or excess distribution allocated to the current year of such Non-Electing U.S. Holder's holding period for the common shares will be treated as ordinary income in the current year, and no interest charge will be incurred with respect to the resulting tax liability for the current year. In addition, dividend distributions made to a U.S. Holder will not qualify for preferential rates of taxation, as discussed above under "Reduced Tax Rates for Certain Dividends."

If we are a PFIC for any taxable year during which a Non-Electing U.S. Holder holds our common shares, we will continue to be treated as a PFIC with respect to such Non-Electing U.S. Holder, regardless of whether we cease to be a PFIC in one or more subsequent taxable years ("Once a PFIC, Always a PFIC Rule"). A Non-Electing U.S. Holder may terminate this deemed PFIC status by electing to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if such common shares were sold for their fair market value on the last day of the last taxable year for which we were a PFIC ("Deemed Sale Election"). If we continue to be a PFIC following a Deemed Sale Election, in order to make the Deemed Sale Election, the Non-Electing Shareholder must also make a QEF Election (discussed below).

Finally, if we are a PFIC and own shares of another foreign corporation that also is a PFIC, under certain indirect ownership rules, a disposition by us of the shares of such other foreign corporation or a distribution received by us from such other foreign corporation generally will be treated as an indirect disposition by a U.S. Holder or an indirect distribution received by a U.S. Holder, subject to the rules of Section 1291 of the Code discussed above. To the extent that gain recognized on the actual disposition by a U.S. Holder of our common shares or income recognized by a U.S. Holder on an actual distribution received on our common shares was previously subject to U.S. federal income tax under these indirect ownership rules, such amount generally should not be subject to U.S. federal income tax.

QEF Election

A U.S. Holder that makes a timely QEF Election generally will not be subject to the rules of Section 1291 of the Code as discussed above. A U.S. Holder that makes a timely QEF Election generally will recognize capital gain or loss on the sale or other taxable disposition of our common shares. Furthermore, for each taxable year in which we are a PFIC, an electing U.S. Holder will recognize, for U.S. federal income tax purposes, such U.S. Holder's pro rata share of (a) our net capital gain, which will be taxed as long-term capital gain to such U.S. Holder, and (b) and our ordinary earnings, which will be taxed as ordinary income to such U.S. Holder.

Accordingly, an electing U.S. Holder would not have any income inclusions as a result of the QEF Election so long as we do not generate any net income. Generally, "net capital gain" is the excess of (a) net long-term capital gain over (b) net short-term capital loss, and "ordinary earnings" are the excess of (a) "earnings and profits" over (b) net capital gain. A U.S. Holder that makes a QEF Election will include such U.S. Holder's pro rata share of our net capital gain and ordinary earnings for each taxable year in which we are a PFIC, even though such amounts may not be distributed to such U.S. Holder by us. A U.S. Holder that makes a QEF Election may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge. If such U.S. Holder is not a corporation, any such interest paid will be treated as "personal interest," which is not deductible.

A U.S. Holder that makes a timely QEF Election generally (a) may receive a tax-free distribution from us to the extent that such distribution represents our "earnings and profits" that were previously included in income by the U.S. Holder because of such QEF Election, and (b) will adjust such U.S. Holder's tax basis in our common shares to reflect the amount included in income or allowed as a tax-free distribution because of such QEF Election. A QEF Election generally will be "timely" if it is made for the first year in a U.S. Holder's holding period for our common shares in which we are a PFIC. In this case, a U.S. Holder may make a timely QEF Election by filing the appropriate QEF Election documents with such U.S. Holder's U.S. federal income tax return for such first year.

If we were a PFIC in a prior year in a U.S. Holder's holding period for the common shares and we continue to be a PFIC, then in order to purge the taint of the Once a PFIC, Always a PFIC Rule, such U.S. Holder must make a QEF Election and a Deemed Sale Election (discussed above). A Deemed Sale Election in this circumstance will require the U.S. Holder to recognize gain (which will be taxed under the rules of Section 1291 of the Code discussed above) as if the common shares were sold on the qualification date for an amount equal to the fair market value of the common shares on the qualification date. The "qualification date" is the first day of the first taxable year in which we were a QEF with respect to such U.S. Holder. Technically, a QEF Election can be made for any taxable year, regardless of the prior PFIC status of a foreign corporation. However, if the QEF Election is not made for first year of the U.S. Holder's holding period, and no Deemed Sale Election is made, both the QEF rules and the excess distribution rules of Section 1291 (discussed above) apply simultaneously because the PFIC taint remains. Thus, if we cease to be a PFC, QEF inclusions continue to be required, earnings from post-PFIC years continue to be tainted, distributions during post-PFIC years are subject to the excess distribution rules (to the extent not previously taxed under the QEF rules), and gain on disposition is treated as an excess distribution. Finally, under very limited circumstances, a U.S. Holder may make a retroactive QEF Election if such U.S. Holder failed to file the QEF Election documents in a timely manner.

A QEF Election will apply to the taxable year for which such QEF Election is made and to all subsequent taxable years, unless such QEF Election is invalidated or terminated or the IRS consents to revocation of such QEF Election. If a U.S. Holder makes a QEF Election and, in a subsequent taxable year, we cease to be a PFIC, the QEF Election will remain in effect (although it will not be applicable) during those taxable years in which we are not a PFIC. Accordingly, if we become a PFIC in another subsequent taxable year, the QEF Election will be effective and the U.S. Holder will be subject to the QEF rules described above during any such subsequent taxable year in which we qualify as a PFIC. In addition, the QEF Election will remain in effect (although it will not be applicable) with respect to a U.S. Holder even after such U.S. Holder disposes of all of such U.S. Holder's direct and indirect interest in our common shares. Accordingly, if such U.S. Holder reacquires an interest in our common stock, such U.S. Holder will be subject to the QEF rules described above for each taxable year in which we were a PFIC.

In the event we are a PFIC, we will satisfy record keeping requirements that apply to a QEF and supply U.S. Holders with information that such U.S. Holders require to report under the QEF rules. Each U.S. Holder should consult its own tax advisor regarding the availability of, and procedure for making, a QEF Election.

Mark-to-Market Election

A U.S. Holder may make a Mark-to-Market Election only if our common shares are marketable stock. Our common shares generally will be "marketable stock" if the common shares are regularly traded on a qualified exchange or other market. For this purpose, a "qualified exchange or other market" includes (a) a national securities exchange that is registered with the U.S. Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, or (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, surveillance, and other requirements designed to prevent fraudulent and manipulative acts and practices, remove impediments to and perfect the mechanism of a free, open, fair, and orderly market, and protect investors (and the laws of the country in which the foreign exchange is located and the rules of the foreign exchange ensure that such requirements are actually enforced), and (ii) the rules of such foreign exchange effectively promote active trading of listed stocks. If the common shares are traded on such a qualified exchange or other market, the common shares generally will be "regularly traded" for any calendar year during which the common shares are traded, other than in *de minimis* quantities, on at least 15 days during each calendar quarter.

A Mark-to-Market Election applies to the taxable year in which such Mark-to-Market Election is made and to each subsequent taxable year, unless our common shares cease to be "marketable stock" or the IRS consents to revocation of such election. Each U.S. Holder should consult, and must rely upon, its own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

A U.S. Holder that makes a Mark-to-Market Election generally will not be subject to the rules of Section 1291 of the Code discussed above. However, if a U.S. Holder makes a Mark-to-Market Election after the beginning of such U.S. Holder's holding period for the common shares and such U.S. Holder has not made a timely QEF Election, the rules of Section 1291 of the Code discussed above will apply to certain dispositions of, and distributions on, our common shares. A U.S. Holder that makes a Mark-to-Market Election will include in ordinary income, for each taxable year in which we are a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares as of the close of such taxable year over (b) such U.S. Holder's adjusted tax basis in such common shares. A U.S. Holder that makes a Mark-to-Market Election will be allowed a deduction in an amount equal to the lesser of (a) the excess, if any, of (i) such U.S. Holder's adjusted tax basis in the common shares over (ii) the fair market value of such common shares as of the close of such taxable year or (b) the excess, if any, of (i) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (ii) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years.

A U.S. Holder that makes a Mark-to-Market Election generally will adjust such U.S. Holder's tax basis in the common shares to reflect the amount included in gross income or allowed as a deduction because of such Mark-to-Market Election. In addition, upon a sale or other taxable disposition of our common shares, a U.S. Holder that makes a Mark-to-Market Election will recognize ordinary income or loss (not to exceed the excess, if any, of (a) the amount included in ordinary income because of such Mark-to-Market Election for prior taxable years over (b) the amount allowed as a deduction because of such Mark-to-Market Election for prior taxable years).

U.S. Tax Return Filing Requirements

In addition, all U.S. Holders (including certain deemed U.S. Holders) may be required to file annual tax returns (including IRS Form 8621) containing such information as the U.S. Treasury may require. For example, if a U.S. Holder owns ordinary shares during any year in which we are classified as a PFIC and the U.S. Holder recognizes gain on a disposition of our ordinary shares or receives distributions with respect to our ordinary shares, the U.S. Holder generally will be required to file an IRS Form 8621 with respect to the Company, generally with the U.S. Holder's federal income tax return for that year. The failure to file this form when required could result in substantial penalties.

Medicare Tax

Regulations issued under Section 1411 of the Code address the application of the Medicare Tax in the PFIC context. An inclusion from a PFIC as to which a QEF Election is in effect will not be taken into account as net investment income for purposes of the Medicare Tax. Instead, actual distributions out of previously taxed income will be treated as net investment income and taxable to U.S. Holders for purposes of the Medicare Tax, even though such distributions are excluded from gross income for regular income tax purposes. A U.S. Holder that is an individual, a trust, or an estate can elect to reflect the same inclusions in net investment income for Medicare Tax purposes as the inclusions taken into account for income tax purposes. The election is generally irrevocable. To the extent that an excess distribution under Section 1291 of the Code is allocated to prior years in a U.S. Holder's holding period during which we are a PFIC, the applicability of the Medicare Tax to such distributions is unclear. Each U.S. Holder should consult, and must rely upon, its own tax advisor regarding the application of the Medicare Tax in the PFIC context.

The PFIC rules are complex, and each U.S. Holder should consult its own tax advisor regarding the PFIC rules and how the PFIC rules may affect the U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares.

UNDERWRITING

We and the underwriters will enter into an underwriting agreement with respect to the shares being offered. Subject to certain conditions, each underwriter has severally agreed to use its best efforts to procure potential purchasers for the shares of our common stock offered hereby. This offering is being undertaken on a best efforts only basis. The underwriters are not required to take or pay for any specific number or dollar amount of our common stock. WR Hambrecht + Co is the representative of the underwriters.

Underwriters	Number of Shares
WR Hambrecht + Co	
Total	

The shares are being offered on an all or none basis. Investor funds will be deposited into an escrow account for the benefit of investors set up with AST. The offering will not be completed unless we sell the number of shares specified on the cover page of this prospectus. All investor funds received prior to the closing will be deposited into escrow with the escrow agent until closing. The escrow account will be opened on the date of this prospectus and will remain open until the closing date. The escrow agent will invest all funds it receives after the pricing of the offering in a non-interest bearing account in accordance with Rule 15c2-4 under the Exchange Act. The escrow agent will not accept any investor funds until the date of this prospectus. On the closing date, the escrow agent will notify the underwriters whether the full amount necessary to purchase the shares to be sold in this offering has been received. If, on the closing date, investor funds are not received in respect of the full amount of shares to be sold in this offering, then all investor funds that were deposited into the escrow account will be returned promptly to investors, and the offering will terminate.

The following table shows the per share and total underwriting discount to be paid to the underwriters.

Shares sold by the underwriters to the public will initially be offered at the initial public offering price set forth on the cover of this prospectus. Any shares sold by the underwriters to securities dealers may be sold at a discount of up to $ per share from the initial public offering price. After the initial offering of the shares, the representative may change the offering price and the other selling terms. The offering of the shares by the underwriters is subject to receipt and acceptance and subject to the underwriters' right to reject any order in whole or in part.

We and our officers, directors, and holders of five percent or more of our common stock have agreed, or will agree, with the underwriters, subject to certain exceptions, not to dispose of or hedge any of their common stock or securities convertible into or exchangeable for shares of common stock during the period from the date of this prospectus continuing through the date 180 days after the date of this prospectus, except with the prior written consent of the representative. This agreement does not apply, in our case, to securities issued pursuant to existing employee benefit plans or securities issued upon exercise of options and other exceptions, and in the case of our officers, directors and other holders of our securities, exercise of options issued pursuant to a stock option or similar plans, and other exceptions. See "Shares Eligible for Future Sale" for a discussion of certain transfer restrictions.

Prior to the offering, there has been no public market for the shares. We have applied to have our shares of common stock listed on The NASDAQ Global Market under the symbol "XBIT" In order to meet one of the requirements for listing the common stock on The NASDAQ Global Market, the underwriters have undertaken to sell lots of 100 or more shares to a minimum of 400 beneficial holders.

Any underwriter who is a qualified market maker on The NASDAQ Global Market may engage in passive market making transactions on The NASDAQ Global Market in accordance with Rule 103 of Regulation M, during the business day prior to the pricing of the offering, before the commencement of offers or sales. Passive market makers must comply with applicable volume and price limitations and must be identified as passive market makers. In general, a passive market maker must display its bid at a price not in excess of the highest independent bid for such security; if all independent bids are lowered below the passive market maker's bid, however, the passive market maker's bid must then be lowered when certain purchase limits are exceeded.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. Certain of the underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various financial advisory and investment banking services for us, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the underwriters and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments of the issuer. The underwriters and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or instruments, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

LEGAL MATTERS

Legal matters relating to Canadian law, the offering and the validity of the common shares offered in this offering are being passed upon for us by Stikeman Elliott LLP, Vancouver, British Columbia. Legal matters relating to U.S. law and the offering are being passed upon for us by Quarles & Brady LLP, Naples, Florida and Milwaukee, Wisconsin. The underwriters have been advised by Morrison & Foerster LLP, New York, New York and by Blake Cassels & Graydon LLP with respect to certain matters involving US law and Canadian law, respectively.

EXPERTS

The consolidated financial statements of XBiotech, Inc. as of December 31, 2013 and 2014, and for each of the three years in the period ended December 31, 2014 appearing in this prospectus and Registration Statement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

WHERE TO GET MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 (File Number 333-201813) under the Securities Act with respect to the securities we are offering. This prospectus, which constitutes part of the registration statement, does not contain all of the information included in the registration statement and exhibits. For further information pertaining to us and our common stock, you should refer to the registration statement and to its exhibits. Statements contained in this prospectus about the contents of any contract or any other document are not necessarily complete and, in each instance, we refer you to the copy of the contract or other documents filed as an exhibit to the registration statement. Each of these statements is qualified in all respects by this reference.

You may obtain copies of this information by mail from the Public Reference Section of the SEC, 100 F Street, N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov.

As a result of this offering, we will become subject to the information and reporting requirements of the Exchange Act and, in accordance with this law, will file periodic reports, proxy statements and other information with the SEC. These periodic reports, proxy statements and other information will be available for inspection and copying at the SEC's public reference facilities and the website of the SEC referred to above. We also maintain a website at www.xbiotech.com. Upon completion of this offering, you may access these materials free of charge as soon as reasonably practicable after they are electronically filed with, or furnished to, the SEC. Information contained on our website is not a part of this prospectus.

XBiotech, Inc.

Index to Financial Statements

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of
XBiotech, Inc.

We have audited the accompanying consolidated balance sheets of XBiotech, Inc. (the Company) as of December 31, 2014 and 2013, and 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, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of XBiotech, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Austin, Texas

March 9, 2015

XBiotech, Inc.

Consolidated Balance Sheets
(in thousands, except share data)

	December 31	
	2013	2014
Assets		
Current assets:		
Cash and cash equivalents	$ 7,244	$ 57,329
Prepaid expenses and other current assets	449	411
Deferred offering costs	—	324
Total current assets	7,693	58,064
Property and equipment, net	3,380	4,113
Total assets	$ 11,073	$ 62,177
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 561	$ 1,629
Accrued expenses	284	1,518
Total current liabilities	845	3,147
Shareholders' equity:		
Preferred stock, no par value, unlimited shares authorized, no shares outstanding	—	—
Common stock, no par value, unlimited shares authorized, 22,752,101 and 27,546,632 shares outstanding at December 31, 2013 and 2014, respectively	81,807	152,351
Accumulated other comprehensive loss	(135)	(153)
Accumulated deficit	(71,444)	(93,168)
Total shareholders' equity	10,228	59,030
Total liabilities and shareholders' equity	$ 11,073	$ 62,177

See accompanying notes.

XBiotech, Inc.

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

	Year Ended December 31,		
	2012	2013	2014
Operating expenses:			
Research and development	$ 13,334	$ 7,935	$ 14,329
General and administrative	1,829	1,990	7,449
Total operating expenses	15,163	9,925	21,778
Loss from operations	(15,163)	(9,925)	(21,778)
Other income (loss):			
Interest income	3	1	1
Foreign exchange gain (loss)	—	(3)	53
Total other income (loss)	3	(2)	54
Net loss	$ (15,160)	$ (9,927)	$ (21,724)
Net loss per share—basic and diluted	$ (0.71)	$ (0.45)	$ (0.90)
Shares used to compute basic and diluted net loss per share	21,294,369	22,220,416	24,162,700

See accompanying notes.

Consolidated Statements of Comprehensive Loss
(in thousands)

	Year Ended December 31,		
	2012	2013	2014
Net loss	$(15,160)	$(9,927)	$(21,724)
Foreign currency translation adjustment	—	(1)	(18)
Comprehensive loss	$(15,160)	$(9,928)	$(21,742)

See accompanying notes.

XBiotech, Inc.

Consolidated Statements of Shareholders' Equity
(in thousands, except per share data)

	Common Stock		Accumulated Other Comprehensive Loss	Accumulated Deficit	Total
	Number of Shares	Amount			
Balance at January 1, 2012	21,344,043	$ 58,924	$ (134)	$ (46,357)	$ 12,433
Net loss	—	—	—	(15,160)	(15,160)
Issuance of common stock	476,548	7,148	—	—	7,148
Cancellation of shares	(300,000)	—	—	—	—
Issuance of common stock under stock option plan	27,000	135	—	—	135
Share-based compensation expense	—	2,816	—	—	2,816
Balance at December 31, 2012	21,547,591	69,023	(134)	(61,517)	7,372
Net loss	—	—	—	(9,927)	(9,927)
Foreign currency translation adjustment	—	—	(1)	—	(1)
Issuance of common stock and warrants	1,204,510	12,045	—	—	12,045
Share-based compensation expense	—	739	—	—	739
Balance at December 31, 2013	22,752,101	81,807	(135)	(71,444)	10,228
Net loss	—	—	—	(21,724)	(21,724)
Foreign currency translation adjustment	—	—	(18)	—	(18)
Issuance of common stock, net of issuance costs	4,779,531	63,784	—	—	63,784
Stock subscription receivable	—	(410)	—	—	(410)
Issuance of common stock on exercise of stock options	15,000	150	—	—	150
Share-based compensation expense	—	7,020	—	—	7,020
Balance at December 31, 2014	27,546,632	$152,351	$ (153)	$ (93,168)	$ 59,030

See accompanying notes.

XBiotech, Inc.

Consolidated Statements of Cash Flows
(In Thousands)

	Year Ended December 31,		
	2012	2013	2014
Operating activities			
Net loss	$(15,160)	$ (9,927)	$(21,724)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation	946	784	664
Share-based compensation expense	2,816	739	7,020
Changes in operating assets and liabilities:			
Prepaid expenses and other current assets	(49)	(252)	38
Accounts payable	(199)	103	1,068
Accrued expenses	80	(326)	1,234
Deferred rent	(68)	(29)	—
Net cash used in operating activities	(11,634)	(8,908)	(11,700)
Investing activities			
Purchase of property and equipment	(550)	(59)	(1,397)
Net cash used in investing activities	(550)	(59)	(1,397)
Financing activities			
Issuance of common stock and warrants, net	7,148	12,045	63,374
Issuance of common stock under stock option plan	135	—	150
Deferred offering costs	—	—	(324)
Net cash provided by financing activities	7,283	12,045	63,200
Effect of foreign exchange rate on cash	—	(1)	(18)
Net change in cash and cash equivalents	(4,901)	3,077	50,085
Cash and cash equivalents beginning of year	9,068	4,167	7,244
Cash and cash equivalents end of year	$ 4,167	$ 7,244	$ 57,329

See accompanying notes.

XBiotech, Inc.
Notes to Consolidated Financial Statements
December 31, 2014

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 Schweiz AG, a wholly-owned subsidiary of the Company, was incorporated in Zug, Switzerland in August 2010. XBiotech Japan KK, a wholly-owned subsidiary of the Company, was incorporated in Tokyo, Japan in March 2013. XBiotech GmbH, a wholly-owned subsidiary of the Company, was incorporated in Germany in January 2014.

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’s headquarters are located in Austin, Texas.

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 $57.3 million at December 31, 2014, will enable the Company to maintain its current and planned operations for the foreseeable future.

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, or 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 United States 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.

The Company utilizes 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.

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 research services, the costs of laboratory 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.

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 accounts for income taxes in accordance with Accounting Standards Codification (ASC) 740, which provides for deferred taxes using an asset and liability approach. The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements or tax returns. The Company determines its deferred tax assets and liabilities based on differences between financial reporting and tax bases of assets and liabilities, which are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. Valuation allowances are provided if, based upon the weight of available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company accounts for uncertain tax positions in accordance with the provisions of ASC 740. When the uncertain tax positions exist, the Company recognizes the tax benefit of tax positions to the extent that the benefit will more likely than not be realized. The determination as to whether the tax benefit will more likely than not be realized is based upon the technical merits of the tax position as well as consideration of the available facts and circumstances. As of December 31, 2013 and 2014, the Company does not have any significant uncertain tax positions.

Stock-Based Compensation

The Company accounts for its stock-based compensation awards in accordance with ASC Topic 718, *Compensation-Stock Compensation ("ASC 718"). ASC 718* requires all stock-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 stock-based compensation expense, net of estimated forfeitures, equal to the grant date fair value of stock options on a straight-line basis over the requisite service period.

Stock-based compensation expense recognized for the years ended December 31, 2012, 2013, and 2014 was included in the following line items on the Consolidated Statement of Operations.

	Year Ended December 31,		
	2012	2013	2014
Research and development	$2,226	$551	$1,303
General and administrative	590	188	5,717
Total stock-based compensation expense	$2,816	$739	$7,020

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,		
	2012	2013	2014
Dividend yield	—	—	—
Expected volatility	79%	73%	70%–73%
Risk-free interest rate	1.57%–1.93%	2.04%–3.84%	0.69%–2.73%
Expected life (in years)	6.25–10	6.25–10	3-10
Weighted-average grant date fair value per share	$10.09	$11.37	$8.23

No related tax benefits were recognized for the years ended December 31, 2012, 2013 and 2014.

Cash and Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents, which consist 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 date (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, 2013 and 2014 the Company did not have any assets or liabilities that were remeasured 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, 2013 and 2014, 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 and vehicles are stated at cost and depreciated over the estimated useful lives of the assets, with the exception of land and construction in process which is 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

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 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, 2014.

Deferred Offering Costs

Deferred offering costs, which consist of direct incremental legal, accounting and other professional service fees relating to this proposed offering, are capitalized. The deferred offering costs will be offset against the proceeds from this proposed offering upon the consummation of the offering. In the event the offering is terminated, deferred offering costs will be expensed.

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, 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 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. Subsequent events have been evaluated through the date the financial statements were available to be issued.

Recent Accounting Pronouncements

In June 2014 the Financial Accounting Standards Board (FASB) issued ASU 2014-10, *Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810 Consolidation*. These updates remove the definition of a development stage entity from the Master Glossary of the ASC, thereby removing the financial reporting distinction between development stage entities and other reporting entities from U.S. generally accepted accounting principles (GAAP). In addition, the amendments eliminate the requirements for development stage entities to (1) present inception-to-date information in the statements of income, cash flows, and shareholder equity, (2) label the financial statements as those of a development stage entity, (3) disclose a description of the development stage activities in which the entity is engaged, and (4) disclose in the first year in which the entity is no longer a development stage entity that in prior years it had been in the development stage. This standard is effective for annual reporting periods beginning after December 15, 2014. The Company has early adopted this standard in the presentation of its financial statements.

3. Property and Equipment

Property and equipment consisted of the following as of December 31, 2013 and 2014 (in thousands):

	2013	2014
Computer and office equipment	$ 252	$ 262
Furniture and fixtures	126	126
Land	1,418	1,418
Leasehold improvements	731	762
Scientific equipment	3,629	4,648
Vehicle	30	30
Construction in process	738	1,074
Accumulated depreciation	(3,544)	(4,207)
	$ 3,380	$ 4,113

Depreciation expense related to property and equipment amounted to approximately $946,000, $784,000 and $644,000 for the years ended December 31, 2012, 2013 and 2014, respectively.

4. Accrued Expenses

Accrued expenses consist of the following as of December 31, 2013 and 2014 (in thousands):

	December 31, 2013	2014
Accrued compensation and related	$104	$1,037
Accrued professional fees	75	134
Accrued clinical trial	90	183
Other	15	164
	$284	$1,518

5. Common Stock

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

In 2012, the Company sold 477,000 shares of common stock at a price of $15.00 per share for total proceeds of approximately $7.1 million.

In 2012, the Company cancelled 300,000 shares of previously outstanding restricted common stock, such common stock had been previously issued to a consultant in return for specified services, Such services were never received by the Company and, accordingly, the Company chose to end the relationship. The Company had not recognized any share-based compensation related to such common stock as no services had been provided and vesting had not occurred. Accordingly, the cancellation of such common stock did not result in the recapture of any previously recognized share-based compensation.

In August 2013, we sold 1.2 million shares of common stock at a price of $10.00 per share for total proceeds of approximately $12.0 million. Each share had one warrant attached, exercisable for 180 days into a single common share in the Company at a price of $10.00 per share.

In February 2014, we sold 1.2 million shares of common stock for total proceeds of approximately $12 million from the exercise of warrants by common stock shareholders. From July through November 18, 2014, the

Company sold approximately 601,000 shares of common stock at a price of $15.00 per share for total proceeds of approximately $9.0 million. Each share had one warrant attached, which would be exercisable for 180 days into a single common share in the Company at a price of $15.00 per share. As of December 31, 2014, the Company had total warrants outstanding for the purchase of 493,000 shares of common stock at a price of $15.00 per share.

From November 24, 2014 through December 2014, the Company sold 3.0 million shares of common stock at $15.00 per share pursuant to stock subscription agreements for the total proceeds of $44.8 million of which $410,000 remained uncollected as of December 31, 2014 and was received in January 2015. We incurred issuance costs of approximately $1.9 million in cash and $0.4 million in non cash consideration.

In December 2014, 15,000 stock options were exercised at a price of $10.00 for total proceeds of $0.15 million.

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 options to directors, officers, employees or consultants of the Company or an affiliate or other persons as the Compensation Committee may approve.

In February and August 2011, the Company granted stock options to a non-employee consultant that vest over 3 and 4 years, respectively. The fair value of these awards is remeasured at each reporting date until the date the consultant's services are completed.

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 a director, 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.

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 January 1, 2012	3,884,999	$0.60–10.00	$ 4.53
Granted	302,167	7.50–15.00	14.89
Exercised	(27,000)	5.00	5.00
Forfeitures	(490,500)	1.25–7.50	4.74
Options outstanding at December 31, 2012	3,669,666	0.60–15.00	7.01
Granted	40,000	15.00	15.00
Exercised	—		
Forfeitures	(316,167)	2.50–15.00	8.39
Options outstanding at December 31, 2013	3,393,499	0.60–15.00	6.02
Granted	1,563,666	1.00–15.00	11.23
Exercised	(15,000)	10.00	10.00
Forfeitures	(58,000)	2.50–15.00	10.63
Options outstanding at December 31, 2014	4,884,165	0.60–15.00	7.03

The weighted average fair value of the options issued to directors, employees and consultants during the fiscal years ended December 31, 2012, 2013 and 2014, was $10.09, $11.37 and $8.23, respectively. Options with an intrinsic value of $4.22, $2.51 and $2.90, became vested during 2012, 2013 and 2014 respectively. The total intrinsic value of options exercisable and total options outstanding at December 31, 2014 was $36,284,000 and $38,948,000, respectively. The total fair value of options vested during the years ended December 31, 2012, 2013 and 2014 was $2,955,000, $632,500 and $6,999,000, respectively.

For the year ended December 31, 2014, there was approximately $6.1 million of unrecognized compensation cost, related to stock options granted under the Plan which will be amortized to stock compensation expense over the next 2.16 years.

The following table summarizes information concerning outstanding options under the Plan as of December 31, 2014:

	Options outstanding			Options Vested and Outstanding	
Exercise Price	Number	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number	Weighted-Average Exercise Price
$ 0.60	60,000	$ 0.72	0.60	60,000	$ 0.60
0.86	50,000	1.95	0.86	50,000	0.86
1.08	270,000	2.29	1.08	270,000	1.08
2.50	788,500	3.77	2.50	788,500	2.50
3.75	1,000,000	5.12	3.75	1,000,000	3.75
5.00	137,000	5.36	5.00	137,000	5.00
7.50	714,999	6.17	7.50	706,392	7.50
10.00	1,155,833	7.83	10.00	635,899	10.00
15.00	707,833	9.21	15.00	467,066	15.00
	4,884,165	6.05	7.03	4,114,857	6.18

7. Net Loss Per Share

The following summarizes the computation of basic and diluted net loss per share for the years ended December 31, 2012, 2013 and 2014 (in thousands, except share and per share data):

	Year Ended December 31,		
	2012	2013	2014
Net loss	$ (15,160)	$ (9,927)	$ (21,724)
Weighted-average number of common shares—basic and diluted	21,294,369	22,220,416	24,162,700
Net loss per share—basic and diluted	$ (0.71)	$ (0.45)	$ (0.90)

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,		
	2012	2013	2014
Stock options	3,669,666	3,393,499	4,884,165
Warrants to purchase common stock	—	1,204,510	493,000
Total	3,669,666	4,598,009	5,377,165

8. Income Taxes

The Company recorded no provision for income taxes for the years ended December 31, 2013 and 2014 due to the reported net losses in each year.

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, 2013 and 2014:

	2013	2014
Income tax benefit computed at federal tax rate	13.5%	26%
Change in valuation allowance	(10.0)	(18.0)
Stock compensation and other	(3.5)	(8.0)
Total	— %	— %

During the years ended December 31, 2013 and 2014, the Company had no interest and penalties related to income taxes.

As of December 31, 2014, the Company has unused net operating losses of approximately $62.6 million (approximately $51.2 million in Canada and $9.7 million in the U.S., $1.1 million in Germany and $0.6 million in Switzerland and Japan) available to reduce taxable income of future years. The net operating losses begin to expire in 2018.

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, 2013 and 2014 are as follows (in thousands):

	2013	2014
Deferred tax assets:		
Noncapital losses	$ 8,820	$ 16,901
Qualifying research and development credits	878	1,311
Stock based compensation	—	312
Share issue costs	—	4
Accrued liabilities		160
Depreciation	68	—
Total deferred tax assets	9,766	18,688
Deferred tax liabilities:		
Depreciation	—	40
Accrued liabilities	74	—
Share issuance costs	431	—
Total deferred tax liabilities	505	40
Net deferred tax asset	9,261	18,648
Valuation allowance for deferred tax assets	(9,261)	(18,648)
Net deferred tax asset including valuation allowance	$ —	$ —

The valuation allowance increased by approximately $9.4 million during the year ended December 31, 2014.

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, 2012 and 2013, the Company had no unrecognized tax benefits.

The Company files federal income tax returns in Canada, US, Switzerland, Germany, and Japan. The Company also files income tax returns in the state of Texas in the US. The statute of limitations for assessment by local taxing authorities is open for tax years ended after December 2010. There are currently no federal or state income tax audits in progress.

9. Related-Party Transactions

Legal fees of approximately $52,000, $35,000 and $37,000 were incurred to a law firm for legal services rendered in which a former director of the Company is a senior partner in 2012, 2013 and 2014, respectively. The Company had outstanding accounts payable to the same firm in the amount of approximately $37,000 as at December 31, 2014. No outstanding account payable to such law firm as of December 31, 2013.

10. Commitments

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, TX, U.S. Both leases expired in 2013. 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. Rent expense was approximately $485,000, $553,000 and $535,000 for the years ended December 31, 2012, 2013 and 2014, respectively. The future minimum lease payments are as follows as of December 31, 2014 (in thousands):

2015	$430
2016	$448
2017	$461
2018	$471
2019	$ 78

11. Subsequent Events

The Company has evaluated events subsequent to the year ended December 31, 2014 through March 9, 2015, the date of issuance of the financial statements.

Subsequent to December 31, 2014, the Company received requests from investors for the exercise of warrants to purchase a total of 154,999 shares of common stock at $15.00 per share for a approximately total of $2.3 million from these exercised warrants. Also, the Company received $9,000 in January 2015 from 15,000 exercised options at $0.60 per share.

On February 2, 2015, the Company publicly filed a Form S-1 Registration Statement with the Securities and Exchange Commission for its initial public offering.

Until [ ], 2015 (days after the date of this prospectus), all dealers that effect transactions in these securities, whether or not participating in this offering, may be required to deliver a prospectus.

XBIOTECH, INC.

4,000,000 Shares of Common Stock

Prospectus

WR HAMBRECHT+CO

, 2015

PART II
INFORMATION NOT REQUIRED IN THE PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution.

The following table sets forth the estimated costs and expenses of XBiotech, Inc. ("we," "us" or the "Company") in connection with the offering described in the registration statement.

SEC Registration Fee	$ 9,296
FINRA Filing Fee	8,000
Legal Fees and Expenses	500,000
Accounting Fees and Expenses	300,000
Transfer Agent Fees	4,500
Escrow Agent Fees	2,500
Printing Expenses	210,000
Reimbursed Placement Agent Expenses	75,000
Other Expenses	153,951
Total Expenses	$ 1,263,247

Item 14. Indemnification of Directors and Officers.

XBiotech Inc. ("we," "us" or "our Company") is subject to the provisions of Part 5, Division 5 of the Business Corporations Act (British Columbia) (the "BCBCA").

Under Section 160 of the BCBCA, we may, subject to Section 163 of the BCBCA:

(1) indemnify an individual who:

- is or was a director or officer of our Company;
- is or was a director or officer of another corporation (i) at a time when such corporation is or was an affiliate of our Company; or (ii) at our request, or
- at our request, is or was, or holds or held a position equivalent to that of, a director or officer of a partnership, trust, joint venture or other unincorporated entity, and including, subject to certain limited exceptions, the heirs and personal or other legal representatives of that individual (collectively, an "eligible party"), against all eligible penalties to which the eligible party is or may be liable; and

(2) after final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by an eligible party in respect of that proceeding, where:

"eligible penalty" means a judgment, penalty or fine awarded or imposed in, or an amount paid in settlement of, and eligible proceeding.

"eligible proceeding" means a proceeding in which an eligible party or any of the heirs and personal or other legal representatives of the eligible party, by reason of the eligible party being or having been a director or officer of, or holding or having held a position equivalent to that of a director or officer of, our Company or an associated corporation (i) is or may be joined as a party, or (ii) is or may be liable for or in respect of a judgment, penalty or fine in, or expenses related to, the proceeding.

"proceeding" includes any legal proceeding or investigative action, whether current, threatened , pending or completed.

Under Section 161 of the BCBCA, and subject to Section 163 of the BCBCA, we must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by an eligible party in

respect of that proceeding if the eligible party (i) has not been reimbursed for those expenses, and (ii) is wholly successful, on the merits or otherwise, in the outcome of the proceeding or is substantially successful on the merits in the outcome of the proceeding.

Under Section 162 of the BCBCA, and subject to Section 163 of the BCBCA, we may pay, as they are incurred in advance of the final disposition of an eligible proceeding, the expenses actually and reasonably incurred by an eligible party in respect of the proceeding, provided that we must not make such payments unless we first receive from the eligible party a written undertaking that, if it is ultimately determined that the payment of expenses is prohibited under Section 163 of the BCBCA, the eligible party will repay the amounts advanced.

Under Section 163 of the BCBCA, we must not indemnify an eligible party against eligible penalties to which the eligible party is or may be liable or pay the expenses of an eligible party in respect of that proceeding under Sections 160, 161 or 162 of the BCBCA, as the case may be, if any of the following circumstances apply:

- if the indemnity or payment is made under an earlier agreement to indemnify or pay expenses and, at the time that the agreement to indemnify or pay expenses was made, we were prohibited from giving the indemnity or paying the expenses by our memorandum or articles;
- if the indemnity or payment is made otherwise than under an earlier agreement to indemnify or pay expenses and, at the time that the indemnity or payment is made, we are prohibited from giving the indemnity or paying the expenses by our memorandum or articles;
- if, in relation to the subject matter of the eligible proceeding, the eligible party did not act honestly and in good faith with a view to the best interests of our Company or the associated corporation, as the case may be; or
- in the case of an eligible proceeding other than a civil proceeding, if the eligible party did not have reasonable grounds for believing that the eligible party's conduct in respect of which the proceeding was brought was lawful.

If an eligible proceeding is brought against an eligible party by or on behalf of our Company or by or on behalf of an associated corporation, we must not either indemnify the eligible party against eligible penalties to which the eligible party is or may be liable, or pay the expenses of the eligible party under Sections 160, 161 or 162 of the BCBCA, as the case may be, in respect of the proceeding.

Under Section 164 of the BCBCA, and despite any other provision of Part 5, Division 5 of the BCBCA and whether or not payment of expenses or indemnification has been sought, authorized or declined under Part 5, Division 5 of the BCBCA, on application of our Company or an eligible party, the Supreme Court of British Columbia may do one or more of the following:

- order us to indemnify an eligible party against any liability incurred by the eligible party in respect of an eligible proceeding;
- order us to pay some or all of the expenses incurred by an eligible party in respect of an eligible proceeding;
- order the enforcement of, or payment under, an agreement of indemnification entered into by us;
- order us to pay some or all of the expenses actually and reasonably incurred by any person in obtaining an order under Section 164 of the BCBCA; or
- make any other order the court considers appropriate.

Section 165 of the BCBCA provides that we may purchase and maintain insurance for the benefit of an eligible party or the heirs and personal or other legal representatives of the eligible party against any liability that may be incurred by reason of the eligible party being or having been a director or officer of, or holding or having held a position equivalent to that of a director or officer of, our Company or an associated corporation.

Under our articles, and subject to the BCBCA, we must indemnify an eligible party and his or her heirs and legal personal representatives against all eligible penalties to which such person is or may be liable, and we must, after the final disposition of an eligible proceeding, pay the expenses actually and reasonably incurred by such person in respect of that proceeding. Each eligible party is deemed to have contracted with our Company on the terms of the indemnity contained in our articles.

Under our articles, and subject to the BCBCA, we may agree to indemnify and may indemnify any person (including an eligible party) against eligible penalties and pay expenses incurred in connection with the performance of services by that person for us.

Under our articles, and subject to the BCBCA, we may advance expenses to an eligible party.

Pursuant to our articles, the failure of an eligible party to comply with the BCBCA or our articles does not, of itself, invalidate any indemnity to which he or she is entitled under our articles.

Under our articles, we may purchase and maintain insurance for the benefit of an eligible person (or his or her heirs or legal personal representatives) against any liability incurred by him or her as a director, officer or person who holds or held such equivalent position.

Item 15. Recent Sales of Unregistered Securities

The following list sets forth information regarding all unregistered securities sold by us by us since January 1, 2012. No underwriters were involved in the sales.

2012

During the month of May to September 2012, we raised approximately $7.1 million from the sale of 476,548 shares of common stock to 30 investors at a purchase price of $15 per share.

On December 21, 2012, one consultant exercised options to purchase 27,000 shares at an exercise price of $5.00 per share.

2013

In August 2013, we sold $12 million by selling 1.2 million units to 10 accredited investors at a purchase price of $10.00 per share. We issued approximately 1,204,510 shares of our common stock and each share had an attached warrant which allowed them to purchase shares within 180 days at an exercise price of $10.00 per share.

2014

In February 2014, we sold 1.2 million shares of common stock to 7 accredited investors for total proceeds of approximately $12 million from the exercise of warrants by common stock shareholders.

In July through November 18 of 2014, we sold approximately 601,000 shares of common stock at a price of $15.00 per share for total proceeds of approximately $9.0 million to 19 accredited investors . Each share had one warrant attached, which would be exercisable for 180 days into a single share of common stock at a price of $15.00 per share. As of December 31, 2014, we had total warrants outstanding for the purchase of 493,000 shares of common stock at a price of $15.00 per share.

In November 24, 2014 through December 2014, we sold 3.0 million shares of common stock at $15.00 per to 43 accredited investors for the total proceeds of $44.8 million of which $410,000 remained uncollected as of December 31, 2014 and was received in January 2015. we incurred issuance costs of approximately $1.9 million in cash and $0.4 million in non cash consideration.

In December 2014, 15,000 stock options were exercised at a price of $10.00 for total proceeds of $0.15 million.

2015

Subsequent to December 31, 2014, the Company received requests from investors for the exercise of warrants to purchase a total of 154,999 shares of common stock at $15.00 per share for a total of approximately $2.3 million. Also, the Company received $9,000 in January 2015 from 15,000 exercised options at $0.6 per share.

All of these issuances were deemed to be exempt from registration under the Securities Act in reliance on Section 4(a)(2) of the Securities Act, as transactions by an issuer not involving a public offering. The purchasers of securities in each such transaction represented their intention to acquire the securities for investment only and not with a view to offer or sell, in connection with any distribution of the securities, and appropriate legends were affixed to the share certificates and instruments issued in such transactions.

Item 16. Exhibits and Financial Statement Schedules.

A list of exhibits filed herewith is included on the Exhibit Index which immediately follows the signature page of this registration statement and is incorporated herein by reference.

The following exhibits are filed as part of this Registration Statement:

Exhibit Number	Description
1.1	Form of underwriting agreement
1.2	Form of Escrow Agreement
3.1	Certificate of Continuation dated September 23, 2005, issued by the Registrar of Companies, Province of British Columbia, Canada*
3.2	Notice of Articles, dated December 8, 2005, issued by the Registrar of Companies, Province of British Columbia, Canada*
3.3	Articles of XBiotech Inc*.
5.1	Legal opinion of Stikeman Elliott LLP regarding the legality of the securities issued**
8.1	Legal opinion of Stikeman Elliott LLP regarding certain tax matters**
10.1	Executive Employment Agreement dated as of March 22, 2005 between XBiotech and John Simard*+
10.2	Change in Control Agreement dated as of March 22, 2005 between XBiotech and John Simard*+
10.3	Confidentiality and Assignment of Inventions Agreement dated as of March 22, 2005 between XBiotech and John Simard*
10.4	XBiotech 2005 Incentive Stock Option Plan*+
10.5	Form of indemnification agreement between XBiotech and each director of XBiotech*+
10.6	Agreement of Lease by and between NNN Met Center 4-9, LP and XBiotech dated January 14, 2008 and the First Amendment dated January 17, 2008, the Second Amendment dated August 2010, the Third Amendment dated March 2013 and the Forth Amendment dated February 28, 2015
10.7	Agreement of Lease by and between NNN Met Center 4-9, LLP and XBiotech, Inc. for Suite 600 dated August 16, 2010 and First Amendment dated March 2013 and the Second Amendment dated February 28, 2015

Exhibit Number	Description
10.8	Board Member Agreement dated November 4, 2014 between XBiotech Inc. and Daniel Vasella *
10.9	Licensing Agreement dated January 16, 2015 between XBiotech 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 of 1933)
10.10	Research and Collaboration Agreement dated December 15, 2014 by and between XBiotech 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)
10.11	XBiotech Inc. 2015 Equity Incentive Plan
14.1	Code of conduct for directors, officers and employees *
21.1	List of subsidiaries*
23.1	Consent of Ernst & Young LLP
23.2	Consent of Stikeman Elliott LLP (included in Exhibit 5.1*
24.1	Power of attorney (included on signature page)*

+ Indicates management contract or compensatory plan
* Previously filed
** To be filed by amendment

Item 17. Undertakings

Insofar as indemnification for liabilities arising under the Securities Act may be permitted as to directors, officers and controlling persons of the registrant pursuant to the provisions described in Item 14, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, we will, unless in the opinion of our counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned Registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act, the information omitted from the form of prospectus as filed as part of this Registration Statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this Registration Statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new Registration Statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) For the purpose of determining liability under the Securities Act, if the Registrant is subject to Rule 430C, each prospectus filed pursuant to Rule 424(b) as part of a registration statement relating to an offering, other than registration statements relying on Rule 430B or other than prospectuses filed in

reliance on Rule 430A, shall be deemed to be part of and included in the registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in a registration statement or prospectus that is part of the registration statement or made in a document incorporated or deemed incorporated by reference into the registration statement or prospectus that is part of the registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in the registration statement or prospectus that was part of the registration statement or made in any such document immediately prior to such date of first use.

The undersigned Registrant hereby undertakes that, for the purpose of determining liability of the Registrant under the Securities Act to any purchaser in the initial distribution of the securities: The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this Registration Statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to such purchaser:

(i) Any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 424;

(ii) Any free writing prospectus relating to the offering prepared by or on behalf of the undersigned Registrant or used or referred to by the undersigned Registrant;

(iii) The portion of any other free writing prospectus relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(iv) Any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

SIGNATURES

Pursuant to the Securities Act of 1933, the registrant has duly caused this Amendment No. 1 to the Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Austin, State of Texas, on March 10, 2015.

XBIOTECH INC.,

/S/ JOHN SIMARD

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

Pursuant to the requirements of the Securities Act of 1933, this Amendment No. 1 to the Registration Statement on Form S-1 has been signed by the following persons in the capacities and on the dates indicated.

Signature and Title	Date
/S/ JOHN SIMARD John Simard, Chief Executive Officer (Principal Executive Officer) and Director	March 10, 2015
/S/ QUEENA HAN Queena Han, Vice President of Finance & Human Resources (Principal Financial Officer and Principal Accounting Officer)	March 10, 2015
/S/ FABRIZIO BONANNI Fabrizio Bonanni, Director	March 10, 2015
/S/ W. THORPE MCKENZIE W. Thorpe McKenzie, Director	March 10, 2015
/S/ DANIEL VASELLA Daniel Vasella, Director	March 10, 2015

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\+ Indicates management contract or compensatory plan
* Previously filed
** To be filed by amendment

Exhibit 1.1

MOFO DRAFT 3/3/2015

XBIOTECH, INC.

[ ] Shares of Common Stock
No par value per share

UNDERWRITING AGREEMENT

[ ], 2015

W.R. Hambrecht + Co., LLC
as Representative of the several
Underwriters named in Schedule 1 hereto
c/o W.R. Hambrecht + Co., LLC
909 Montgomery Street, 3rd Floor
San Francisco, California 94133

Dear Ladies and Gentlemen:

XBiotech, Inc., a Canadian corporation (the "**Company**"), proposes, subject to the terms and conditions contained in this Underwriting Agreement (this "**Agreement**"), to issue and sell up to an aggregate of [ ] shares of its common stock, no par value per share (the "**Common Stock**"), to investors (collectively, the "**Investors**") in an initial public offering through you as representative (the "**Representative**") and the other underwriters (the "**Underwriters**") named on Schedule 1 hereto, acting on a best efforts, all-or-none basis only, in connection with such sales. The shares of Common Stock to be sold in this offering are referred to herein as the "**Shares**." The Shares are more fully described in the Registration Statement (as hereinafter defined).

The Company hereby confirms as follows its agreements with the Underwriters.

1. Agreement to Act on a Best Efforts Basis. On the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions of this Agreement, the Underwriters agree to act on a best efforts, all-or-none basis only, in connection with the issuance and sale by the Company of the Shares to the Investors. Under no circumstances will the Underwriters be obligated to underwrite or purchase any of the Shares for their own account or otherwise provide any financing. The Company shall pay to the Underwriters a fee equal to [ ]% (the "**Fee**") of the gross offering proceeds received by the Company from the sale of the Shares as set forth on the cover page of the Final Prospectus (as hereinafter defined).

2. Delivery and Payment.

(i) Concurrently with the execution and delivery of this Agreement, the Company, the Representative and American Stock Transfer & Trust Company, LLC (the "**Escrow Agent**") shall enter into an Escrow Agreement substantially in the form included as an exhibit to the Registration Statement (the "**Escrow Agreement**"), pursuant to which an escrow account will be established, at the Company's expense, for the benefit of the Investors (the "**Escrow Account**").

(ii) Prior to the Closing Date (defined below), (i) each of the Underwriters will provide specific wire instructions for the Escrow Account to the Investors, and the Investors will promptly transfer an amount equal to the price per Share as shown on the cover page of the Final Prospectus (as defined below) multiplied by the number of Shares purchased by it to the Escrow Account in compliance with Rule 15c2-4 of the Exchange Act, and (ii) the Escrow Agent will notify the Company and the Representative in writing whether the Investors have transferred to the Escrow Account funds in the amount equal to the proceeds of the sale of the all of the Shares offered hereby (the "**Requisite Funds**") into the Escrow Account.

(a) If the Escrow Agent shall have received all of the Requisite Funds by [ ]:00 a.m., New York City time, on [ ], 2015, or at such other time on such other date as may be agreed upon by the Company and the Representative (such date is hereinafter referred to as the "**Closing Date**"), the Escrow Agent will release the Requisite Funds from the Escrow Account for collection by the Company and the Underwriters as provided in the Escrow Agreement and the Company shall deliver the Shares to the Investors , which delivery may be made through the facilities of the Depository Trust Company ("**DTC**"). The closing (the "**Closing**") shall take place at the office of the Representative. All actions taken at the Closing shall be deemed to have occurred simultaneously.

(b) If the Requisite Funds have not been received immediately prior to the Closing Date, the offering will not proceed and the Escrow Agent will promptly return the funds to the investors.

3. Representations and Warranties of the Company. The Company represents and warrants and covenants to the Underwriters that:

(a) The Company has filed with the Securities and Exchange Commission (the "**Commission**") a registration statement on Form S-1 (File No. 333-201813) (collectively, with the various parts of such registration statement, each as amended as of the Effective Date for such part, including any Preliminary Prospectus, Prospectus and all exhibits to such registration statement, the "**Initial Registration Statement**"), which has become effective, relating to the Shares, under the Securities Act of 1933, as amended (the "Act"), and the rules and regulations (collectively referred to as the "**Rules and Regulations**") of the Commission promulgated thereunder. As used in this Agreement:

(1) "**Applicable Time**" means [ ] (New York City time) on the date of this Agreement;

(2) "**Effective Date**" means any date as of which the Initial Registration Statement or the Rule 462(b) Registration Statement, became, or is deemed to have become, effective under the Act in accordance with the Rules and Regulations;

(3) "**Final Prospectus**" means the final prospectus relating to the public offering of the Shares as filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations;

(4) "**Issuer Free Writing Prospectus**" means each "free writing prospectus" (as defined in Rule 405 of the Rules and Regulations) prepared by or on behalf of the Company or used or referred to by the Company in connection with the offering of the Shares listed on Schedule 2 hereto;

(5) "**Preliminary Prospectus**" means any preliminary prospectus relating to the Shares included in the Registration Statement or filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations; and

(6) "**Pricing Disclosure Materials**" means, as of the Applicable Time, the most recent Preliminary Prospectus, together with each Issuer Free Writing Prospectus filed or used by the Company on or before the Applicable Time and the information included in Schedule 3 hereto.

(7) "**Testing-the-Waters Communication**" means any oral or written communication with potential investors undertaken in reliance on Section 5(d) of the Act.

(8) "**Written Testing-the-Waters Communication**" means any Testing-the-Waters Communication that is a written communication within the meaning of Rule 405 under the Act listed on Schedule 4 hereto.

(b) The Registration Statement has heretofore become effective under the Act or, with respect to any registration statement to be filed to register the offer and sale of Shares pursuant to Rule 462(b) under the Act (the "**Rule 462(b) Registration Statement**"), will be filed with the Commission and become effective under the Act no later than 10:00 p.m., New York City time, on the date of determination of the public offering price

for the Shares; no stop order of the Commission preventing or suspending the use of any Final Prospectus, or the effectiveness of the Initial Registration Statement, any post-effective amendment thereto, or the Rule 462(b) Registration Statement, if any, has been issued, and no proceedings for such purpose have been instituted or, to the Company's, knowledge, are contemplated by the Commission (the various parts of the Initial Registration Statement and the Rule 462(b) Registration Statement, if any, including all exhibits thereto and including the information contained in the form of Final Prospectus filed with the Commission pursuant to Rule 424(b) and deemed by virtue of Rule 430A under the Act to be part of the Initial Registration Statement at the time it was declared effective, each as amended at the time such part of the Initial Registration Statement became effective or such part of the Rule 462(b) Registration Statement, if any, became or hereafter becomes effective, are hereinafter collectively called the "**Registration Statement**").

(c) The Registration Statement, at the time it became effective, as of the date hereof, and as of the Closing Date, conformed and will conform in all material respects to the requirements of the Act and the Rules and Regulations. The Preliminary Prospectus conformed, and the Final Prospectus will conform in all material respects, when filed with the Commission pursuant to Rule 424(b) and on the Closing Date, to the requirements of the Act and the Rules and Regulations.

(d) The Registration Statement did not as of the Effective Date, and as of the date hereof does not, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(e) The Final Prospectus will not, as of its date and on the Closing Date, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representation or warranty with respect to those statements contained in the Final Prospectus described in Section 8(ii) as being provided by the Underwriters.

(f) The Pricing Disclosure Materials, and the individual Written Testing-the-Waters Communication, when considered with the Pricing Disclosure Materials, did not, as of the Applicable Time, contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, provided, however, that the Company makes no representation or warranty with respect to any statement contained in the Pricing Disclosure Materials or any Written Testing-the-Waters Communications described as being provided by the Underwriters in Section 8(ii).

(g) Each Issuer Free Writing Prospectus (including, without limitation, any road show that is a free writing prospectus under Rule 433 of the Rules and Regulations), as of the Applicable Time, did not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representation or warranty with respect to any statement contained in any Issuer Free Writing Prospectus (A) in reliance upon and in conformity with information concerning an Underwriter and furnished in writing by such Underwriter to the Company expressly for use in the Issuer Free Writing Prospectus, it being understood that the only such information furnished by or on behalf of any Underwriter consists of the information described as such in Section 8(ii), or (B) that was not made explicitly by the Company, or a director, officer or employee of the Company. For the avoidance of doubt, in the case of any Issuer Free Writing Prospectus filed with the Commission pursuant to Rule 433(f) of the Act, the representations contained in Sections 3(g) and 3(i) hereof shall not apply to statements contained in an article or other written communication published or distributed by media and reproduced in such Issuer Free Writing Prospectus, except to the extent such statements are directly attributable to a director, officer or employee of the Company and to the extent such statements are not otherwise clarified or corrected in such Issuer Free Writing Prospectus.

(h) Each Issuer Free Writing Prospectus conformed or will conform in all material respects to the requirements of the Act and the Rules and Regulations on the date of first use, and the Company has complied with any filing requirements applicable to such Issuer Free Writing Prospectus required by the Rules and Regulations. The Company has not made, and will not make, any offer relating to the Shares that would constitute an Issuer Free Writing Prospectus without the prior written consent of the Underwriters. The Company has retained in accordance with the Rules and Regulations all Issuer Free Writing Prospectuses that were not required to be filed with the Commission pursuant to the Rules and Regulations.

(i) There is no Issuer Free Writing Prospectus that includes any information that conflicts with the information contained in the Registration Statement, and any Preliminary Prospectus deemed to be a part thereof that has not been superseded or modified. The foregoing sentence does not apply to statements (A) in the Pricing Disclosure Materials described in Section 8(ii) as being provided by the Underwriters, or (B) in an Issuer Free Writing Prospectus that were not made explicitly by the Company, any Subsidiary thereof or a director, officer or employee of the foregoing.

(j) The Company has been duly incorporated and is validly existing as a corporation in good standing under the jurisdiction of its organization. The Company has full power and authority to conduct all the activities conducted by it, to own and lease all the assets owned and leased by it and to conduct its business as presently conducted and as described in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus. The Company is duly licensed or qualified to do business and in good standing as a foreign organization in all jurisdictions in which the nature of the activities conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary, except where the failure to be so qualified or in good standing or have such power or authority would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on or affecting the business, prospects, properties, management, financial position or results of operations of the Company and its Subsidiaries taken as a whole (a "**Material Adverse Effect**"). Complete and correct copies of the articles of incorporation and of the bylaws of the Company and all amendments thereto have been made available to the Underwriters, and no changes therein will be made subsequent to the date hereof and prior to the Closing Date.

(k) The Company has no subsidiaries, nor does it own a controlling interest in any entity other than those entities set forth on Schedule 6 to this Agreement (each a "**Subsidiary**" and collectively the "**Subsidiaries**"). Each Subsidiary has been duly organized and is validly existing and in good standing under the laws of its jurisdiction of formation. Each Subsidiary is duly qualified and in good standing as a foreign company in each jurisdiction in which the character or location of its properties (owned, leased or licensed) or the nature or conduct of its business makes such qualification necessary, except for those failures to be so qualified or in good standing which would not be reasonably expected to have a Material Adverse Effect. All of the shares of issued capital stock of each corporate subsidiary, and all of the share capital and equity interests of each subsidiary that is not a corporation, have been duly authorized and validly issued, are fully paid and non-assessable and are owned directly or indirectly by the Company, free and clear of any lien, encumbrance, claim, security interest, restriction on transfer, shareholders' agreement, voting trust or other defect of title whatsoever.

(l) The Company is not a "foreign private issuer," as such term is defined in Rule 405 under the Act.

(m) The Company has full legal right, power and authority to enter into this Agreement and the Escrow Agreement and perform the transactions contemplated hereby and thereby. This Agreement and the Escrow Agreement have each been authorized and validly executed and delivered by the Company and are each a legal, valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to the effect of applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally and equitable principles of general applicability.

(n) The issuance and sale of the Shares have been duly authorized by the Company, and, when issued and paid for in accordance with this Agreement, will be duly and validly issued, fully paid and nonassessable and will not be subject to preemptive or similar rights. The holders of the Shares will not be subject to personal liability by reason of being such holders. The Shares, when issued, will conform to the description thereof set forth in the Final Prospectus in all material respects.

(o) The Company (A) has not engaged in any Testing-the-Waters Communication other than Testing-the-Waters Communications with the consent of the Representative with entities that are qualified institutional buyers within the meaning of Rule 144A under the Act or institutions that are accredited investors within the meaning of Rule 501 under the Act and (B) has not authorized anyone other than the

Representative to engage in Testing-the-Waters Communications. The Company reconfirms that the Representative has been authorized to act on its behalf in undertaking Testing-the-Waters Communications. The Company has not distributed any Written Testing-the-Waters Communications other than those listed on Schedule 4 hereto.

(p) From the time of the initial filing of the Registration Statement with the Commission (or, if earlier, the first date on which the Company engaged directly or through any Person authorized to act on its behalf in any Testing-the-Waters Communication) through the date hereof, the Company has been and is an "emerging growth company," as defined in Section 2(a) of the Act (an "Emerging Growth Company").

(q) The financial statements and the related notes included in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus present fairly, in all material respects, the financial condition of the Company and its Subsidiaries as of the dates thereof and the results of operations and cash flows at the dates and for the periods covered thereby in conformity with United States generally accepted accounting principles ("**GAAP**"), except as may be stated in the related notes thereto. No other financial statements or schedules of the Company, any Subsidiary or any other entity are required by the Act or the Rules and Regulations to be included in the Registration Statement or the Final Prospectus. There are no off-balance sheet arrangements (as defined in Regulation S-K Item 303(a)(4)(ii)) that may have a material current or future effect on the Company's financial condition, changes in financial condition, results of operations, liquidity, capital expenditures or capital resources.

(r) Ernst & Young LLP (the "**Accountants**"), who have reported on the financial statements and schedules described in Section 3(p), are registered independent public accountants with respect to the Company as required by the Act and the Rules and Regulations and by the rules of the Public Accounting Oversight Board. The financial statements of the Company and the related notes and schedules included in the Registration Statement, the Pricing Disclosure Package and the Final Prospectus comply as to form in all material respects with the requirements of the Act and the Rules and Regulations and present fairly the information shown therein.

(s) The Company is not an "ineligible issuer" as defined under Rule 405 under the Act, and the Company has paid the registration fee for this offering as required under the Act or will pay such fees within the time period required by the Act.

(t) The Company is, and at the Closing Date will be, in compliance with all provisions of the Sarbanes-Oxley Act of 2002, as amended ("**SOX**"), which are applicable to it at such time. The Company and each Subsidiary maintain a system of internal controls, including, but not limited to, disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the "**Exchange Act**")), internal controls over accounting matters and financial reporting (as defined in Rule 13a-15(f) under the Exchange Act), an internal audit function and legal and regulatory compliance controls (collectively, "**Internal Controls**") sufficient to provide reasonable assurance that (1) transactions are executed in accordance with management's general or specific authorization; (2) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (3) access to assets is permitted only in accordance with management's general or specific authorization; (4) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (5) material information relating to the Company and its Subsidiaries is made known to the Company's principal executive officer and principal financial officer by others within those entities and such Internal Controls are effective. The Internal Controls are, or upon consummation of the offering of the Shares will be overseen by the Audit Committee (the "**Audit Committee**") of the Board in accordance with the Exchange Act and the rules promulgated thereunder. There is no significant deficiency, material weakness, change in Internal Controls or fraud involving management or other employees who have a role in Internal Controls (each, an "**Internal Control Event**"), or any violation of, or failure to comply with the Act, Exchange Act, the Rules and Regulations, or SOX, or any matter which, if determined adversely, would have a Material Adverse Effect. A member of the Audit Committee has confirmed to the principal executive officer or principal financial officer that, except as set forth in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus, the Audit Committee is not reviewing or investigating, and the Company's independent auditors have not recommended that the Audit Committee review or investigate, (A) adding to, deleting, changing the application of, any of the Company's material accounting policies, (B) any matter which could result in a

restatement of the Company's financial statements for any annual or interim period during the current or prior three fiscal years, or (C) any Internal Control Event that is not disclosed in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus.

(u) Since the date of the most recent financial statements of the Company included or incorporated by reference in the most recent Preliminary Prospectus and prior to Closing, other than as described in the Final Prospectus (A) there has not been and will not have been any change in the capital stock of the Company or long-term debt of the Company or any Subsidiary or any dividend or distribution of any kind declared, set aside for payment, paid or made by the Company on any class of capital stock or equity interests, or any material adverse change, or any development that would reasonably be expected to result in a material adverse change, in or affecting the business, prospects, properties, management, financial position, stockholders' equity, or results of operations of the Company and its Subsidiaries taken as a whole (a "**Material Adverse Change**") and (B) neither the Company nor any Subsidiary has sustained or will sustain any material loss or interference with its business from fire, explosion, flood or other calamity, whether or not covered by insurance, or from any labor disturbance or dispute or any action, order or decree of any court or arbitrator or governmental or regulatory authority, except in each case as otherwise disclosed in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus.

(v) Since the date as of which information is given in the most recent Preliminary Prospectus, neither the Company nor any Subsidiary has entered or will before the Closing enter into any transaction or agreement, not in the ordinary course of business, that is material to the Company and its Subsidiaries taken as a whole or incurred or will incur any liability or obligation, direct or contingent, not in the ordinary course of business, that is material to the Company and its Subsidiaries taken as a whole, and neither the Company nor any Subsidiary has any plans to do any of the foregoing.

(w) The Company and each Subsidiary has good and valid title in fee simple to all items of real property and good and valid title to all personal property described in the Registration Statement or the Final Prospectus as being owned by them, in each case free and clear of all liens, encumbrances and claims except those that (1) do not materially interfere with the use made and proposed to be made of such property by the Company and its Subsidiaries or (2) would not reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect. Any real property described in the Registration Statement or the Final Prospectus as being leased by the Company or any Subsidiary that is material to the business of the Company and its Subsidiaries taken as a whole is held by them under valid, existing and enforceable leases, except those that (A) do not materially interfere with the use made or proposed to be made of such property by the Company and its Subsidiaries or (B) would not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect.

(x) The Company is not, nor upon completion of the transactions contemplated herein will it be, an "investment company" or an "affiliated person" of, or "promoter" or "principal underwriter" for, an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended (the "**Investment Company Act**").

(y) There are no legal, governmental or regulatory actions, suits or proceedings pending, either domestic or foreign, nor, to the Company's knowledge, any legal, governmental or regulatory investigations, either domestic or foreign, to which the Company is a party or to which any property of the Company is the subject that, individually or in the aggregate, if determined adversely to the Company, would reasonably be expected to have a Material Adverse Effect or materially and adversely affect the ability of the Company to perform its obligations under this Agreement; to the Company's knowledge, no such actions, suits or proceedings are threatened or contemplated by any governmental or regulatory authority or threatened by others.

(z) The Company and each Subsidiary has, and at the Closing Date will have, (1) all governmental licenses, permits, consents, orders, approvals and other authorizations, including without limitation, all such Licenses required by the United States Food and Drug Administration (the "**FDA**") or any component thereof and/or by any other U.S., state, local or foreign government or drug regulatory agency, necessary to carry on its business as presently conducted except where the failure to have such governmental licenses, permits, consents, orders, approvals and other authorizations would not be reasonably expected to have a Material Adverse Effect, (2) complied with all federal, state, local and foreign laws, regulations and orders

applicable to either it or its business, except where the failure to so comply would not be reasonably expected to have a Material Adverse Effect, and (3) performed all its obligations required to be performed, and is not, and at the Closing Date will not be, in default, under any indenture, mortgage, deed of trust, voting trust agreement, loan agreement, bond, debenture, note agreement, lease, contract or other agreement or instrument (collectively, a "**contract or other agreement**") to which it is a party or by which its property is bound or affected, except where such default would not be reasonably expected to have a Material Adverse Effect, and, to the Company's knowledge, no other party under any material contract or other agreement to which it is a party is in default in any respect thereunder. The Company and its Subsidiaries are not in violation of any provision of its organizational or governing documents.

(aa) The Company has obtained all authorization, approval, consent, license, order, registration, exemption, qualification or decree of, any court or governmental authority or agency or any sub-division thereof is required for the performance by the Company of its obligations hereunder, in connection with the offering, issuance or sale of the Shares under this Agreement or the consummation of the transactions contemplated by this Agreement as may be required under federal, state, local and foreign laws, the Act or the rules and regulations of the Commission thereunder, state securities or Blue Sky laws, the rules and regulations of the Financial Industry Regulatory Authority, Inc. ("**FINRA**") or The NASDAQ Capital Market ("**Nasdaq**").

(bb) There is no actual or, to the knowledge of the Company, threatened, enforcement action or investigation by the FDA or any other governmental authority that has jurisdiction over the Company, and the Company has received no notice of any pending or threatened claim or investigation against the Company that would provide a legal basis for any enforcement action, and the Company has no reason to believe that any governmental authority is considering such action.

(cc) Neither the execution of this Agreement, nor the issuance, offering or sale of the Shares, nor the consummation of any of the transactions contemplated herein, nor the compliance by the Company with the terms and provisions hereof or thereof will conflict with, or will result in a breach of, any of the terms and provisions of, or has constituted or will constitute a default under, or has resulted in or will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any Subsidiary pursuant to the terms of any contract or other agreement to which the Company or any Subsidiary may be bound or to which any of the property or assets of the Company or any Subsidiary is subject, except such conflicts, breaches or defaults as may have been waived or would not, in the aggregate, be reasonably expected to have a Material Adverse Effect; nor will such action result in any violation, except such violations that would not be reasonably expected to have a Material Adverse Effect, of (1) the provisions of the organizational or governing documents of the Company or, or (2) any statute or any order, rule or regulation applicable to the Company or any Subsidiary or of any court or of any federal, state or other regulatory authority or other government body having jurisdiction over the Company or any Subsidiary.

(dd) There is no document or contract of a character required to be described in the Registration Statement or the Final Prospectus or to be filed as an exhibit to the Registration Statement which is not described or filed as required. All such contracts to which the Company or any Subsidiary is a party have been authorized, executed and delivered by the Company or any Subsidiary, constitute valid and binding agreements of the Company or any Subsidiary, and are enforceable against the Company in accordance with the terms thereof, subject to the effect of applicable bankruptcy, insolvency or similar laws affecting creditors' rights generally and equitable principles of general applicability. None of these contracts have been suspended or terminated for convenience or default by the Company or any of the other parties thereto, and the Company has not received notice of any such pending or threatened suspension or termination.

(ee) The Company and, to the Company's knowledge, its directors, officers or controlling persons have not taken, directly or indirectly, any action intended, or which might reasonably be expected, to cause or result, under the Act or otherwise, in, or which has constituted, stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Company's Common Stock.

(ff) The Company, or any person acting on behalf of the Company, has not and will not publish, advertise or otherwise make any announcements in Canada concerning the distribution of the Shares, and has not and will not conduct road shows, seminars or similar activities in Canada relating to the distribution of the Shares nor has it taken or will it take any other action for the purpose of, or that could reasonably be expected to have the effect of, preparing the market in Canada, or creating a demand in Canada, for the Shares.

(gg) No holder of securities of the Company has rights to the registration of any securities of the Company as a result of the filing of the Registration Statement or the transactions contemplated by this Agreement, except for such rights as have been waived or as are described in the Registration Statement.

(hh) The Company is not involved in any material labor dispute nor is any such dispute known by the Company to be threatened.

(ii) The Company and each of its subsidiaries: (i) are and have been in material compliance with applicable health care laws, including without limitation, the Federal Food, Drug and Cosmetic Act (21 U.S.C. § 301 et seq.), the Federal Anti-kickback Statute (42 U.S.C. § 1320a-7b(b)), Physician Payment Sunshine Act (42 U.S.C. § 1320a-7h), the civil False Claims Act (31 U.S.C. §§ 3729 et seq.), the administrative False Claims Law (42 U.S.C. § 1320a-7b(a)), the Anti-Inducement Law (42 U.S.C. § 1320a-7a(a)(5)), the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. § 1320d et seq.), as amended by the Health Information Technology for Economic and Clinical Health Act of 2009, the exclusion laws, Social Security Act § 1128 (42 U.S.C. § 1320a-7), Medicare (Title XVIII of the Social Security Act), Medicaid (Title XIX of the Social Security Act), and the regulations promulgated pursuant to such laws, and comparable state laws, and all other local, state, federal, national, supranational and foreign laws, manual provisions, policies and administrative guidance relating to the regulation of the Company and its subsidiaries (collectively, "Health Care Laws"); (ii) have not received notice of any ongoing claim, action, suit, proceeding, hearing, enforcement, investigation, arbitration or other action from any Regulatory Agency or third party alleging that any product operation or activity is in material violation of any Health Care Laws and has no knowledge that any such Regulatory Agency or third party is considering any such claim, litigation, arbitration, action, suit, investigation or proceeding; and (iii) are not a party to any corporate integrity agreement, deferred prosecution agreement, monitoring agreement, consent decree, settlement order, or similar agreements, or has any reporting obligations pursuant to any such agreement, plan or correction or other remedial measure entered into with any Governmental Authority. Neither the Company, its subsidiaries nor their officers, directors, employees, agents or contractors has been or is currently debarred, suspended or excluded from participation in the Medicare and Medicaid programs or any other state or federal health care program.

(jj) The business and operations of the Company, and each of its Subsidiaries, have been and are being conducted in compliance with all applicable laws, ordinances, rules, regulations, licenses, permits, approvals, plans, authorizations or requirements relating to occupational safety and health, or pollution, or protection of health or the environment (including, without limitation, those relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic substances, materials or wastes into ambient air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of chemical substances, pollutants, contaminants or hazardous or toxic substances, materials or wastes, whether solid, gaseous or liquid in nature) of any governmental department, commission, board, bureau, agency or instrumentality of the United States, any state or political subdivision thereof, or any foreign jurisdiction ("**Environmental Laws**"), and all applicable judicial or administrative agency or regulatory decrees, awards, judgments and orders relating thereto, except where the failure to be in such compliance would not be reasonably expected, individually or in the aggregate, to have a Material Adverse Effect; and the Company nor any of its Subsidiaries has received any notice from any governmental instrumentality or any third party alleging any material violation thereof or liability thereunder (including, without limitation, liability for costs of investigating or remediating sites containing hazardous substances and/or damages to natural resources).

(kk) There has been no storage, generation, transportation, use, handling, treatment, Release or threat of Release of Hazardous Materials (as defined below) by, relating to or caused by the Company or any of its Subsidiaries (or, to the knowledge of the Company, any other entity (including any predecessor) for whose acts or omissions the Company or any of its Subsidiaries is or could reasonably be expected to be liable) at, on, under or from any property or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries, or at, on, under or from any other property or facility, in violation of any Environmental Laws or in a manner or amount or to a location that could reasonably be expected to result in any liability under any Environmental Law, except for any violation or liability which would not, individually or in the aggregate, have a Material Adverse Effect. "**Hazardous Materials**" means any material, chemical, substance,

waste, pollutant, contaminant, compound, mixture, or constituent thereof, in any form or amount, including petroleum (including crude oil or any fraction thereof) and petroleum products, natural gas liquids, asbestos and asbestos containing materials, naturally occurring radioactive materials, brine, and drilling mud, regulated or which can give rise to liability under any Environmental Law. "**Release**" means any spilling, leaking, seepage, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, or migrating in, into or through the environment, or in, into from or through any building or structure.

(ll) The Company and its Subsidiaries own, possess, license or have other adequate rights to use, on reasonable terms, all material patents, patent applications, trade and service marks, trade and service mark registrations, trade names, copyrights, licenses, inventions, trade secrets, technology, know-how and other intellectual property necessary for the conduct of the Company's and each of its Subsidiary's business as now conducted (collectively, the "**Intellectual Property**"), except to the extent such failure to own, possess or have other rights to use such Intellectual Property would not result in a Material Adverse Effect. Except as set forth in the Disclosure Package and the Prospectus: (a) no party has been granted an exclusive license to use any portion of such Intellectual Property owned by the Company or its Subsidiaries; (b) to the knowledge of the Company, there is no material infringement by third parties of any such Intellectual Property owned by or exclusively licensed to the Company or its Subsidiaries; (c) the Company is not aware of any defects in the preparation and filing of any of material patent applications, as listed in Exhibit D, within the Intellectual Property; (d) to the knowledge of the Company, the material patent applications, as listed in Exhibit D, within the Intellectual Property are being prosecuted so as to avoid the abandonment thereof; (e) to the knowledge of the Company, the material patents, as listed in Exhibit D, within the Intellectual Property are being maintained and the required maintenance fees (if any) are being paid; (f) there is no pending or, to the knowledge of the Company, threatened action, suit, proceeding or claim by others challenging the Company's or any of its Subsidiaries' rights in or to any Intellectual Property, and the Company and its Subsidiaries are unaware of any facts which would form a reasonable basis for any such claim; (g) there is no pending or, to the knowledge of the Company, threatened action, suit, proceeding or claim by others challenging the validity or scope or enforceability of any such Intellectual Property, and the Company and its Subsidiaries are unaware of any facts which would form a reasonable basis for any such claim; and (h) there is no pending, or to the knowledge of the Company, threatened action, suit, proceeding or claim by others that the Company's or any of its Subsidiaries' business as now conducted infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and the Company and its Subsidiaries are unaware of any other fact which would form a reasonable basis for any such claim. To the knowledge of the Company, no opposition filings or invalidation filings have been submitted which have not been finally resolved in connection with any of the Company's patents and patent applications in any jurisdiction where the Company has applied for, or received, a patent.

(mm) The studies, tests and preclinical and clinical trials conducted by or on behalf of the Company or any of its Subsidiaries that are described in the Disclosure Package and the Prospectus were and, if still pending, are being, conducted in all material respects in accordance with the protocols submitted to an Institutional Review Board, the FDA or any foreign government exercising comparable authority, procedures and controls pursuant to, where applicable, accepted professional and scientific standards, and all applicable laws and regulations; the descriptions of the studies, tests and preclinical and clinical trials conducted by or on behalf of the Company or any of its Subsidiaries, and the results thereof, contained in the Prospectus are accurate and complete in all material respects; the Company and its Subsidiaries are not aware of any other studies, or tests or preclinical and clinical trials, the results of which reasonably call into question the results described or referred to in the Disclosure Package and the Prospectus; and the Company or its Subsidiaries have not received any notices or correspondence from the FDA, any foreign, state or local governmental body exercising comparable authority or any Institutional Review Board requiring the termination, suspension, material modification or clinical hold of any studies, tests or preclinical or clinical trials conducted by or on behalf of the Company, which termination, suspension, modification or clinical hold would reasonably be expected to have a Material Adverse Effect.

(nn) To the knowledge of the Company, the Company and each of its Subsidiaries have duly and properly filed or caused to be filed with the U.S. Patent and Trademark Office (the "**PTO**") and applicable foreign and international patent authorities all material patent applications as listed on Exhibit D and owned by the Company or any of its Subsidiaries (the "**Company Patent Applications**"). To the knowledge of the Company, the Company and each of its Subsidiaries have complied with the PTO's duty of candor and disclosure for all patent applications owned by the Company or any of its Subsidiaries and have made no

material misrepresentation therein. To the knowledge of the Company and its Subsidiaries, except as disclosed in the Prospectus, the Company Patent Applications disclose patentable subject matters, and the Company and its Subsidiaries have not been notified of any inventorship challenges nor has any interference been declared or provoked which has not been finally resolved nor is any material fact known by the Company and its Subsidiaries that would preclude the issuance of patents with respect to the Company Patent Applications or would render such patents invalid or unenforceable. To the Company's and its Subsidiaries' knowledge, except as disclosed in the Prospectus, no third party possesses rights to the Company's Intellectual Property, that, if exercised, could enable such party to develop products competitive to those the Company and its Subsidiaries intends to develop as described in each of the Prospectus.

(oo) Except as would not have, individually or in the aggregate, a Material Adverse Effect, the Company and each Subsidiary (1) has timely filed all federal, state, provincial, local and foreign tax returns which are required to be filed by such entity through the date hereof, which returns are true and correct, or has received timely extensions for the filing thereof, and (2) has paid all taxes, assessments, penalties, interest, fees and other charges due or claimed to be due from the Company, other than (A) any such amounts being contested in good faith and by appropriate proceedings and for which adequate reserves have been provided in accordance with GAAP or (B) any such amounts currently payable without penalty or interest. There are no tax audits or investigations pending, which if adversely determined could have a Material Adverse Effect; nor to the knowledge of the Company are there any proposed additional tax assessments against the Company or any Subsidiary which could have, individually or in the aggregate, a Material Adverse Effect. No transaction, stamp, capital or other issuance, registration, transaction, transfer or withholding tax or duty (in the case of such withholding tax, only to the extent that no services were rendered in Canada by or on behalf of any Underwriter which is not a resident of Canada for the purposes of the *Income Tax Act (Canada)*) is payable in Canada by or on behalf of the Underwriters to the Government of Canada or the Government of British Columbia or any political subdivision thereof or any authority or agency thereof or therein having the power to tax in connection with (i) the issuance, sale and delivery of the Shares by the Company to or for the account of the Underwriters; (ii) the purchase from the Company, and the initial sale and delivery by the Underwriters of the Shares to purchasers thereof; or (iii) the execution and delivery of this Agreement or any other document to be furnished hereunder.

(pp) On the Closing Date, all stock transfer or other taxes (other than income taxes) which are required to be paid in connection with the sale and transfer of the Shares to be sold hereunder will be, or will have been, fully paid or provided for by the Company and all laws imposing such taxes will be or will have been fully complied with.

(qq) The Company was a "passive foreign investment company" ("**PFIC**") as defined in Section 1297 of the United States Internal Revenue Code of 1986, as amended (the "**Code**") for certain previous taxable years, and, based on the Company's current projected income, assets and activities, the Company expects to continue to be classified as a PFIC for the current taxable year and may be a PFIC in subsequent taxable years. If the Company believes it is a PFIC for the current year or any subsequent taxable years, it shall notify all U.S. holders who have been at any time a record shareholder by mail within 60 days of the end of its taxable year ending December 31. The Company will provide all electing shareholders with all necessary information on a timely basis in order for such shareholders to make qualified electing fund elections (including with respect to any of the Company's subsidiaries that are classified as PFICs) and will provide all shareholders with any other information needed to comply with U.S. tax reporting obligations with respect to PFICs.

(rr) The Company and its Subsidiary are insured with insurers with appropriately rated claims paying abilities against such losses and risks and in such amounts as are prudent and customary for the businesses in which they are engaged; all policies of insurance and fidelity or surety bonds insuring the Company, each Subsidiary or their respective businesses, assets, employees, officers and directors are in full force and effect; and there are no claims by the Company or its Subsidiary under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; neither the Company nor any Subsidiary has been refused any insurance coverage sought or applied for; and neither the Company nor any Subsidiary has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that is not materially greater than the current cost. The Company has obtained director's and officer's insurance in such amounts as is customary for a similarly situated company engaging in an initial public offering.

(ss) Neither the Company and its Subsidiaries, nor any director, officer, agent or employee of either the Company or any Subsidiary has directly or indirectly, (1) made any unlawful contribution to any federal, state, local and foreign candidate for public office, or failed to disclose fully any contribution in violation of law, (2) made any payment to any federal, state, local and foreign governmental officer or official, or other person charged with similar public or quasi-public duties, other than payments required or permitted by the laws of the United States or any jurisdiction thereof, (3) violated or is in violation of any provisions of the U.S. Foreign Corrupt Practices Act of 1977, or (4) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment.

(tt) The operations of the Company and its Subsidiaries are and have been conducted at all times in compliance in all material respects with applicable financial recordkeeping and reporting requirements of the Currency and Foreign Transactions Reporting Act of 1970, as amended, the money laundering statutes of all jurisdictions, the rules and regulations thereunder and any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the "**Money Laundering Laws**") and no material action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company or any of its Subsidiaries with respect to the Money Laundering Laws is pending or, to the knowledge of the Company, threatened.

(uu) Neither the Company nor any of its Subsidiaries nor, to the knowledge of the Company, any director, officer, agent or employee of the Company or any of its Subsidiaries is currently subject to any U.S. sanctions (the "**Sanctions Regulations**") administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("**OFAC**"); and the Company will not directly or indirectly use the proceeds of the offering, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any U.S. sanctions administered by OFAC. Neither the Company nor, to the knowledge of the Company, any director, officer, agent or employee of the Company, is named on any denied party or entity list administered by the Bureau of Industry and Security of the U.S. Department of Commerce pursuant to the Export Administration Regulations ("**EAR**"); and the Company will not, directly or indirectly, use the proceeds of the offering of the Shares hereunder, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other person or entity, for the purpose of financing the activities of any person currently subject to any Sanctions Regulations or to support activities in or with countries sanctioned by said authorities, or for engaging in transactions that violate the EAR.

(vv) The Company has not distributed and, prior to the later to occur of the Closing Date and completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than any Preliminary Prospectus, the Final Prospectus or any Issuer Free Writing Prospectus to which the Underwriters have consented.

(ww) Each employee benefit plan, within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and all stock purchase, stock option, stock-based severance, employment, change-in-control, medical, disability, fringe benefit, bonus, incentive, deferred compensation, employee loan and all other employee benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA, that is maintained, administered or contributed to by the Company or any of its affiliates for employees or former employees, directors or independent contractors of the Company or its Subsidiaries, or under which the Company or any of its Subsidiaries has had or has any present or future obligation or liability, has been maintained in material compliance with its terms and the requirements of any applicable federal, state, local and foreign laws statutes, orders, rules and regulations, including but not limited to ERISA and the Code; no prohibited transaction, within the meaning of Section 406 of ERISA or Section 4975 of the Code, has occurred which would result in a material liability to the Company with respect to any such plan excluding transactions effected pursuant to a statutory or administrative exemption; no event has occurred (including a "reportable event" as such term is defined in Section 4043 of ERISA) and no condition exists that would subject the Company to any material tax, fine, lien, penalty, or liability imposed by ERISA, the Code or other applicable law; and for each such plan that is subject to the funding

rules of Section 412 of the Code or Section 302 of ERISA, no "accumulated funding deficiency" as defined in Section 412 of the Code has been incurred, whether or not waived, and the fair market value of the assets of each such plan (excluding for these purposes accrued but unpaid contributions) exceeds the present value of all benefits accrued under such plan determined using reasonable actuarial assumptions.

(xx) No relationship, direct or indirect, exists between or among the Company or any Subsidiary, on the one hand, and the directors, officers, stockholders, customers or suppliers of the Company or any Subsidiary, on the other, which is required by the Act to be disclosed in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus and is not so disclosed.

(yy) The Company has not sold or issued any securities that would be integrated with the offering of the Shares contemplated by this Agreement pursuant to the Act, the Rules and Regulations or the interpretations thereof by the Commission.

(zz) The Shares have been approved for listing, subject to notice of issuance, on Nasdaq, under the symbol "XBIT."

(aaa) There are no contracts, agreements or understandings between the Company and any person that would give rise to a valid claim against the Company or any Underwriter for a brokerage commission, finder's fee or other like payment in connection with the offering of the Shares.

(bbb) To the knowledge of the Company, there are no affiliations with the FINRA among the Company's directors, officers or any five percent or greater stockholder of the Company or any beneficial owner of the Company's unregistered equity securities that were acquired during the 180-day period immediately preceding the initial filing date of the Registration Statement.

(ccc) There are no outstanding loans, advances (except normal advances for business expenses in the ordinary course of business) or guarantees of indebtedness by the Company to or for the benefit of any of the officers or directors of the Company or any of their respective family members. The Company has not directly or indirectly, including through its Subsidiaries, extended or maintained credit, arranged for the extension of credit, or renewed an extension of credit, in the form of a personal loan to or for any director or executive officer of the Company, other than any extensions of credit that ceased to be outstanding prior to the initial filing of the Registration Statement. No transaction has occurred between or among the Company and any of its officers or directors, stockholders, customers, suppliers or any affiliate or affiliates of the foregoing that is required to be described or filed as an exhibit to in the Registration Statement, the Pricing Disclosure Materials or the Final Prospectus and is not so described.

(ddd) The Company has the power to submit, and pursuant to Section 14 of this Agreement, has legally, validly, effectively and irrevocably submitted, to the personal jurisdiction of each United States federal court and New York state court located in the Borough of Manhattan, in the City of New York, New York, U.S.A. (each, a "**New York Court**"), and the Company has the power to designate, appoint and authorize, and pursuant to Section 14 of this Agreement, has legally, validly, effectively and irrevocably designated, appointed and authorized an agent for service of process in any action arising out of or relating to this Agreement or the Shares in any New York Court, and service of process effected on such authorized agent will be effective to confer valid personal jurisdiction over the Company as provided in Section 14 hereof.

4. Agreements of the Company.

(a) The Registration Statement has become effective, and if Rule 430A is used or the filing of the Final Prospectus is otherwise required under Rule 424(b), the Company will file the Final Prospectus (properly completed if Rule 430A has been used), subject to the prior approval of the Underwriters, pursuant to Rule 424(b) within the prescribed time period and will provide a copy of such filing to the Underwriters promptly following such filing.

(b) The Company will not, during such period as the Final Prospectus would be required by law to be delivered in connection with sales of the Shares by an underwriter or dealer in connection with the offering contemplated by this Agreement (whether physically or through compliance with Rule 172 under the Act or any similar rule), file any amendment or supplement to the Registration Statement or the Final Prospectus unless a copy thereof shall first have been submitted to the Underwriters within a reasonable period of time prior to the filing thereof and the Underwriters shall not have reasonably objected thereto in good faith.

(c) The Company will notify the Underwriters promptly, and will, if requested, confirm such notification in writing: (1) when any post-effective amendment to the Registration Statement becomes effective; (2) of any request by the Commission for any amendments to the Registration Statement or any amendment or supplements to the Final Prospectus or any Issuer Free Writing Prospectus or for additional information; (3) of the issuance by the Commission of any stop order preventing or suspending the effectiveness of the Registration Statement, the Final Prospectus or any Issuer Free Writing Prospectus, or the initiation of any proceedings for that purpose or the threat thereof; (4) of becoming aware of the occurrence of any event that in the judgment of the Company makes any statement made in the Registration Statement or the Final Prospectus untrue in any material respect or that requires the making of any changes in the Registration Statement or the Final Prospectus in order to make the statements therein, in light of the circumstances in which they are made, not misleading; and (5) of receipt by the Company of any notification with respect to any suspension of the qualification of the Shares for offer and sale in any jurisdiction. If at any time the Commission shall issue any order suspending the effectiveness of the Registration Statement in connection with the offering contemplated hereby or in connection with sales of Common Stock pursuant to market making activities by the Representative, the Company will make every reasonable effort to obtain the withdrawal of any such order at the earliest possible moment. If the Company has omitted any information from the Registration Statement, pursuant to Rule 430A, it will use its best efforts to comply with the provisions of and make all requisite filings with the Commission pursuant to said Rule 430A and to notify the Underwriters promptly of all such filings.

(d) If, at any time when the Final Prospectus relating to the Shares is required to be delivered under the Act (whether physically or through compliance with Rule 172 under the Act or any similar rule), the Company becomes aware of the occurrence of any event as a result of which the Final Prospectus, as then amended or supplemented, would, in the reasonable judgment of counsel to the Company or counsel to the Underwriters, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or the Registration Statement, as then amended or supplemented, would, in the reasonable judgment of counsel to the Company or counsel to the Underwriters, include any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein not misleading, or if for any other reason it is necessary, in the reasonable judgment of counsel to the Company or counsel to the Underwriters, at any time to amend or supplement the Final Prospectus or the Registration Statement to comply with the Act or the Rules and Regulations, the Company will promptly notify the Underwriters and will promptly prepare and file with the Commission, at the Company's expense, an amendment to the Registration Statement or an amendment or supplement to the Final Prospectus that corrects such statement or omission or effects such compliance and will deliver to the Underwriters, without charge, such number of copies thereof as the Underwriters may reasonably request. The Company consents to the use of the Final Prospectus or any amendment or supplement thereto by the Underwriters, and the Underwriters agree to provide to each Investor, prior to the Closing, a copy of the Final Prospectus and any amendments or supplements thereto.

(e) The Company will furnish to the Underwriters and their counsel, without charge (a) one conformed copy of the Registration Statement as originally filed with the Commission and each amendment thereto, including financial statements and schedules, and all exhibits thereto, and (b) so long as a prospectus relating to the Shares is required to be delivered under the Act (whether physically or through compliance with Rule 172 under the Act or any similar rule), as many copies of each Issuer Free Writing Prospectus, Preliminary Prospectus or the Final Prospectus or any amendment or supplement thereto as the Underwriters may reasonably request.

(f) If at any time following the distribution of any Written Testing-the-Waters Communication there occurred or occurs an event or development as a result of which such Written Testing-the-Waters Communication included or would include an untrue statement of a material fact or omitted or would omit to

state a material fact necessary in order to make the statements therein, in the light of the circumstances existing at that subsequent time, not misleading, the Company will promptly notify the Representative and will promptly amend or supplement, at its own expense, such Written Testing-the-Waters Communication to eliminate or correct such untrue statement or omission.

(g) The Company will promptly notify the Representative if the Company ceases to be an Emerging Growth Company at any time prior to the later of (i) completion of the distribution of the Securities within the meaning of the Act and (ii) completion of the 180-day restricted period referred to in Section 4(o).

(h) The Company will comply with all the undertakings contained in the Registration Statement.

(i) The Company will not make any offer relating to the Shares that would constitute an Issuer Free Writing Prospectus without the prior written consent of the Underwriters.

(j) The Company will retain in accordance with the Rules and Regulations all Issuer Free Writing Prospectuses not required to be filed, and timely file and include the appropriate legends as required by the Rules and Regulations. The Company represents that it has satisfied and agrees that it will satisfy the conditions in Rule 433 to avoid a requirement to file with the Commission any electronic road show.

(k) Prior to the sale of the Shares to the Investors, the Company will cooperate with the Underwriters and their counsel in connection with the registration or qualification of the Shares for offer and sale under the state securities or Blue Sky laws of such jurisdictions as the Underwriters may reasonably request; provided, that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action which would subject it to general service of process in any jurisdiction where it is not now so subject.

(l) The Company will apply the net proceeds from the offering and sale of the Shares in the manner set forth in the Final Prospectus under the caption “Use of Proceeds.”

(m) The Company will use its reasonable best efforts to ensure that the Shares are listed for trading on Nasdaq at the time of the Closing.

(n) The Company will not at any time, directly or indirectly, take any action intended, or which might reasonably be expected, to cause or result in, or which will constitute, stabilization of the price of the Shares to facilitate the sale or resale of any of the Shares.

(o) The Company will not, directly or indirectly, without the prior written consent of the Underwriters, offer to sell, sell, contract to sell, grant any option or warrant to purchase, make any short sale, or otherwise dispose of (or announce any offer, sale, grant of any option or warrant to purchase or other disposition), any shares of capital stock of the Company or securities convertible into, or exchangeable or exercisable for, shares of capital stock of the Company, (the “**Lock-Up Securities**”) for a period of 180 days after the date of this Agreement (the “**Lock-Up Period**”), except with respect to (i) the Shares to be sold hereunder, (ii) the issuance of shares of Common Stock upon the exercise of stock options and warrants outstanding as of the date hereof and the issuance of Common Stock or stock options under any employee benefit or stock incentive plan of the Company existing on the date hereof, and described in the Final Prospectus, (iii) the issuance of Common Stock or stock options under any non-employee director stock plan or dividend reinvestment plan described in the Final Prospectus, (iv) the filing by the Company of any registration statement on Form S-8 or a successor form thereto, or (v) the issuance of any shares of Common Stock by the Company in connection with a licensing agreement, joint venture, acquisition or business combination or other collaboration or strategic transaction (including the filing of a registration statement on Form S-4 or other appropriate form with respect thereto), provided, however that recipients of such shares of Common Stock agree to be bound by the terms of the lock-up letter described in Section 7(xi) hereof and the sum of the aggregate number of shares of Common Stock so issued shall not exceed 10% of the total outstanding shares of Common Stock outstanding immediately following the consummation of this offering of Shares. If the Representative agrees to waive or release any Lock-Up Securities from the Lock-Up Period, the Company will announce the impending release or waiver by press release through a major news service at least two business days before the effective date of such release or waiver.

5. Agreements of the Underwriters. The Underwriters severally, and not jointly, agree that they shall not include any "issuer information" (as defined in Rule 433 under the Act) in any "free writing prospectus" (as defined in Rule 405) or any Written Testing-the-Waters Communication used or referred to by such Underwriter without the prior consent of the Company (any such issuer information with respect to whose use the Company has given its consent, "**Permitted Issuer Information**"); provided that (i) no such consent shall be required with respect to any such issuer information contained in any document filed by the Company with the Commission prior to the use of such free writing prospectus and (ii) "**issuer information**," (as defined in Rule 433 under the Act) used in this Section 5 shall not be deemed to include information prepared by such Underwriter on the basis of or derived from issuer information.

6. Expenses.

(i) Whether or not the transactions contemplated by this Agreement are consummated or this Agreement is terminated, the Company will pay, or reimburse if paid by the Representative, all costs and expenses incident to the performance of the obligations of the Company under this Agreement, including but not limited to costs and expenses of or relating to (i) the preparation, printing and filing of the Registration Statement (including each pre- and post-effective amendment thereto) and exhibits thereto, any Issuer Free Writing Prospectus, each Preliminary Prospectus, the Final Prospectus and any amendments or supplements thereto, including all fees, disbursements and other charges of counsel and accountants to the Company, (ii) the preparation and delivery of certificates representing the Shares, (iii) furnishing (including costs of shipping and mailing) such copies of the Registration Statement (including all pre- and post-effective amendments thereto), the Final Prospectus and any Preliminary Prospectus or Issuer Free Writing Prospectus, and all amendments and supplements thereto, as may be requested for use in connection with the direct placement of the Shares and market making activities of the Representative, (iv) all fees and expenses in connection with listing the Shares on Nasdaq including any supplemental listing application, (v) any filings required to be made by the Underwriters with FINRA, and the reasonable fees, disbursements and other charges of counsel for the Underwriters in connection therewith, and in connection with any required review by FINRA, not to exceed $7,500, (vi) the registration or qualification of the Shares for offer and sale under the securities or Blue Sky laws of such jurisdictions designated pursuant to Section 4(k), including the reasonable fees, disbursements and other charges of counsel to the Underwriters in connection therewith and the preparation and printing of preliminary, supplemental and final Blue Sky memoranda, (vii) fees, disbursements and other charges of counsel to the Company, (viii) all transfer taxes, if any, with respect to the sale and delivery of the Shares by the Company to the Investors, (ix) fees and disbursements of the Accountants incurred in delivering the letter(s) described in Section 7(viii) of this Agreement and (x) the fees and expenses of the Escrow Agent.

(ii) If this Agreement is terminated by the Underwriters in accordance with the provisions of Section 7, Section 9(i)(c), (d) or (f), the Company shall reimburse the Underwriters for all of their reasonably documented out-of-pocket expenses.

7. Conditions of the Obligations of the Underwriters. The obligations of the Underwriters hereunder are subject to the following conditions:

(i) (a) No stop order suspending the effectiveness of the Registration Statement shall have been issued, and no proceedings for that purpose shall be pending or threatened by any securities or other governmental authority (including, without limitation, the Commission), (b) no order suspending the effectiveness of the Registration Statement or the qualification or registration of the Shares under the securities or Blue Sky laws of any jurisdiction shall be in effect and no proceeding for such purpose shall be pending before, or threatened or contemplated by, any securities or other governmental authority (including, without limitation, the Commission), (c) any request for additional information on the part of the staff of any securities or other governmental authority (including, without limitation, the Commission) shall have been complied with to the satisfaction of the staff of the Commission or such authorities and (d) after the date hereof no amendment or supplement to the Registration Statement, any Issuer Free Writing Prospectus or the Final Prospectus shall have been filed unless a copy thereof was first submitted to the Underwriters and the Underwriters did not object thereto in good faith, and the

Underwriters shall have received certificates of the Company, dated the Closing Date and signed by the President and Chief Executive Officer of the Company, and the Chief Financial Officer of the Company, to the effect of clauses (a), (b) and (c).

(ii) Since the respective dates as of which information is given in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus, (a) there shall not have been a Material Adverse Change, whether or not arising from transactions in the ordinary course of business, in each case other than as set forth in or contemplated by the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus and (b) the Company shall not have sustained any material loss or interference with its business or properties from fire, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree, which is not set forth in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus, if in the reasonable judgment of the Underwriters any such development makes it impracticable or inadvisable to consummate the sale and delivery of the Shares to Investors as contemplated hereby.

(iii) Since the respective dates as of which information is given in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus, there shall have been no litigation or other proceeding instituted against the Company or any of its officers or directors in their capacities as such, before or by any federal, state or local or foreign court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, which litigation or proceeding, in the reasonable judgment of the Underwriters, would reasonably be expected to have a Material Adverse Effect.

(iv) Each of the representations and warranties of the Company contained herein shall be true and correct at the Closing Date in all respects for those representations and warranties qualified by materiality and in all material respects for those representations and warranties that are not qualified by materiality, as if made on such date, and all covenants and agreements herein contained to be performed on the part of the Company and all conditions herein contained to be fulfilled or complied with by the Company at or prior to the Closing Date shall have been duly performed, fulfilled or complied with in all material respects.

(v) The Underwriters shall have received an opinion (covering, among other things, IP matters) and 10b-5 statement, dated the Closing Date, of Quarles & Brady LLP, as counsel to the Company, substantially in the form of Exhibit B hereto.

The Underwriters shall have received an opinion, dated the Closing Date, of Stikeman Elliott LLP, as Canadian counsel to the Company, in form and substance reasonably satisfactory to the Underwriters.

(vi) The Underwriters shall have received an opinion and 10b-5 statement, dated the Closing Date, of Morrison & Foerster LLP, as counsel to the Underwriters, substantially in the form of Exhibit C hereto.

(vii) The Underwriters shall have received an opinion, dated the Closing Date, of Blakes LLP, as Canadian counsel to the Underwriters, in form and substance reasonably satisfactory to the Underwriters.

(viii) At the Closing, the Accountants shall have furnished to the Underwriters a letter, dated the date of its delivery (the "**Comfort Letter**"), addressed to the Underwriters and in form and substance reasonably satisfactory to the Underwriters containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and certain financial information contained in the Registration Statement, the Pricing Disclosure Materials and the Final Prospectus.

(ix) At the Closing, there shall be furnished to the Underwriters a certificate, dated the date of its delivery, signed by each of the Chief Executive Officer and the Chief Financial Officer of the Company, in form and substance satisfactory to the Underwriters to the effect that each signer has carefully examined the Registration Statement, the Final Prospectus and the Pricing Disclosure Materials, and that to each of such person's knowledge:

(a) (1) As of the date of such certificate, (x) the Registration Statement does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein not misleading and (y) neither the Final Prospectus nor the Pricing Disclosure Materials contains any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading and (2) no event has occurred as a result of which it is necessary to amend or supplement the Final Prospectus in order to make the statements therein not untrue or misleading in any material respect.

(b) Each of the representations and warranties of the Company contained in this Agreement were, when originally made, and are, at the time such certificate is delivered, true and correct in all respects for those representations and warranties qualified by materiality and in all material respects for those representations and warranties that are not qualified by materiality.

(c) Each of the covenants required herein to be performed by the Company on or prior to the date of such certificate has been duly, timely and fully performed and each condition herein required to be complied with by the Company on or prior to the delivery of such certificate has been duly, timely and fully complied with.

(d) No stop order suspending the effectiveness of the Registration Statement or of any part thereof has been issued and no proceedings for that purpose have been instituted or are contemplated by the Commission; the Rule 462(b) Registration Statement (if any) satisfying the requirements of Rules 462(b)(1) and (3) was timely filed pursuant to Rule 462(b), including payment of the applicable filing fee.

(e) Subsequent to the date of the most recent financial statements in the Final Prospectus, there has been no Material Adverse Change.

(x) The Company shall have furnished or caused to be furnished to the Underwriters such certificates, in addition to those specifically mentioned herein, as the Underwriters may have reasonably requested as to the accuracy and completeness on the Closing Date of any statement in the Registration Statement or the Final Prospectus, as to the accuracy on the Closing Date of the representations and warranties of the Company as to the performance by the Company of its obligations hereunder, or as to the fulfillment of the conditions concurrent and precedent to the obligations hereunder of the Underwriters.

(xi) The Underwriters shall have received the lock up letters referred to in Section 4(o) hereof substantially in the form of Exhibit A from each director, officer and stockholder of the Company named in Schedule 5 hereto.

(xii) The Shares have been approved for quotation upon notice of issuance on Nasdaq.

(xiii) The Company shall have furnished or caused to be furnished to the Underwriters on the Closing Date satisfactory evidence of the good standing of the Company and the Subsidiaries in their respective jurisdiction of organization and their good standing as foreign entities in such other jurisdictions as the Underwriters may reasonably request, in each case in writing or any standard form of telecommunication from the appropriate governmental authorities of such jurisdictions.

(xiv) FINRA shall not have raised any objection with respect to the fairness or reasonableness of the plan of distribution, or other arrangements of the transactions, contemplated hereby.

(xv) On or after the Applicable Time there shall not have occurred any of the following: (a) a suspension or material limitation in trading in securities generally on the New York Stock Exchange, Inc., NYSE MKT or Nasdaq; (b) a general moratorium on commercial banking activities declared by either Federal or New York authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States; (c) the outbreak or escalation of hostilities involving the United States or the declaration by the United States of a national emergency or war or (d) the occurrence of any other calamity or crisis or any change in financial, political or economic conditions in the United States or elsewhere, if the effect of any such event specified

in clause (c) or (d) in the judgment of the Representative makes it impracticable or inadvisable to proceed with the initial public offering or the delivery of the Shares being delivered on the Closing Date on the terms and in the manner contemplated in the Final Prospectus.

8. Indemnification.

(i) The Company shall indemnify and hold harmless each Underwriter, its directors, officers, employees and agents and each person, if any, who controls any Underwriter within the meaning of Section 15 of the Act or Section 20 of the Exchange Act (each an "**Indemnified Party**"), from and against any and all losses, claims, liabilities, expenses and damages, joint or several, (including any and all investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted (whether or not such Indemnified Party is a party thereto)), to which it, or any of them, may become subject under the Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, liabilities, expenses or damages arise out of or are based on (a) any untrue statement or alleged untrue statement made by the Company in Section 3 of this Agreement, (b) any untrue statement or alleged untrue statement of any material fact contained in (1) any Preliminary Prospectus, the Registration Statement or the Final Prospectus or any amendment or supplement thereto, (2) any Issuer Free Writing Prospectus or any amendment or supplement thereto, (3) any Permitted Issuer Information used or referred to in any "free writing prospectus" (as defined in Rule 405) by any Underwriter, (4) any Written Testing-the-Waters Communication or (5) any application or other document, or any amendment or supplement thereto, executed by the Company based upon written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Shares under the securities or Blue Sky laws thereof or filed with the Commission or any securities association or securities exchange (each, an "**Application**"), or (c) the omission or alleged omission to state in any Preliminary Prospectus, the Registration Statement, the Final Prospectus, Issuer Free Writing Prospectus, or Written Testing-the-Waters Communication, or any amendment or supplement thereto, or in any Permitted Issuer Information or any Application a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances in which they were made, not misleading; provided, however, that the Company will not be liable to the extent that such loss, claim, liability, expense or damage arises from the sale of the Shares in the public offering to any person and is based solely on an untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with written information furnished to the Company by any Indemnified Party through the Representative expressly for inclusion in the Registration Statement, any Preliminary Prospectus, the Final Prospectus, any Issuer Free Writing Prospectus, or Written Testing-the-Waters Communication, or in any amendment or supplement thereto or in any Permitted Issuer Information or any Application, it being understood and agreed that the only such information furnished by any Indemnified Party consists of the information described as such in subsection (ii) below. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(ii) Each Underwriter will severally and not jointly indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement, any Preliminary Prospectus or the Final Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus or any Written Testing-the-Waters Communication, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in the Registration Statement, any Preliminary Prospectus or the Final Prospectus, or any amendment or supplement thereto, or any Issuer Free Writing Prospectus, or any Written Testing-the-Waters Communication, in reliance upon and in conformity with written information furnished to the Company by such Underwriter through the Representative expressly for use therein; and will reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred. The Company acknowledges that, for all purposes under this Agreement, the statements set forth in the [seventh, ninth and tenth paragraphs] under the caption "Underwriting" in any Preliminary Prospectus and the Final Prospectus constitute the only information relating to the Underwriters furnished in writing to the Company by the Underwriters expressly for inclusion in the Registration Statement, any Preliminary Prospectus or the Final Prospectus.

(iii) Promptly after receipt by an indemnified party under subsection (i) or (ii) above of notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against the indemnifying party under such subsection, notify the indemnifying party in writing of the commencement thereof; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party otherwise than under such subsection. In case any such action shall be brought against any indemnified party and it shall notify the indemnifying party of the commencement thereof, the indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party shall not be liable to such indemnified party under such subsection for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation. No indemnifying party shall, without the written consent of the indemnified party, effect the settlement or compromise of, or consent to the entry of any judgment with respect to, any pending or threatened action or claim in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified party is an actual or potential party to such action or claim) unless such settlement, compromise or judgment (a) includes an unconditional release of the indemnified party from all liability arising out of such action or claim and (b) does not include a statement as to or an admission of fault, culpability or a failure to act, by or on behalf of any indemnified party.

(iv) If the indemnification provided for in this Section 8 is unavailable to or insufficient to hold harmless an indemnified party under subsection (i) or (ii) above in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriters on the other from the offering of the Shares. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (iii) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company on the one hand and the Underwriters on the other in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Underwriters on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company and bear to the Fee received by the Underwriters, as set forth in the table on the cover page of the Final Prospectus. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company on the one hand or the Underwriters on the other and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The Company and the Underwriters agree that it would not be just and equitable if contribution pursuant to this subsection (iv) were determined by pro rata allocation (even if the Underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to above in this subsection (iv). The amount paid or payable by an indemnified party as a result of the losses, claims, damages or liabilities (or actions in respect thereof) referred to above in this subsection (iv) shall be deemed to include any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this subsection (iv), no Underwriter shall be required to contribute any amount in excess of Fee applicable to the Shares. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Underwriters' obligations in this subsection (iv) to contribute are several in proportion to their respective obligations and not joint.

9. Termination.

(i) The obligations of the Underwriters under this Agreement may be terminated at any time prior to the Closing Date, by notice to the Company from the Representative, without liability on the part of the Underwriters to the Company if, prior to delivery and payment for the Shares, in the sole judgment of the

Representative: (a) there has occurred any material adverse change in the securities markets or any event, act or occurrence that has materially disrupted, or in the opinion of the Representative, will in the future materially disrupt, the securities markets or there shall be such a material adverse change in general financial, political or economic conditions or the effect of international conditions on the financial markets in the United States is such as to make it, in the judgment of the Representative, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (b) there has occurred any outbreak or material escalation of hostilities or other calamity or crisis the effect of which on the financial markets of the United States is such as to make it, in the judgment of the Representative, inadvisable or impracticable to market the Shares or enforce contracts for the sale of the Shares; (c) trading in the Shares or any securities of the Company has been suspended or materially limited by the Commission; (d) trading generally on the New York Stock Exchange, Inc., NYSE Amex or Nasdaq has been suspended or materially limited, or minimum or maximum ranges for prices for securities shall have been fixed, or maximum ranges for prices for securities have been required, by any of said exchanges or by such system or by order of the Commission, FINRA, or any other governmental or regulatory authority; (e) a banking moratorium has been declared by any state or Federal authority; or (f) in the judgment of the Representative, there has been, since the time of execution of this Agreement or since the respective dates as of which information is given in the Final Prospectus, any material adverse change in the assets, properties, condition, financial or otherwise, or in the results of operations, business affairs or business prospects of the Company and its Subsidiaries considered as a whole, whether or not arising in the ordinary course of business.

(ii) The obligations of the parties under this Agreement shall be automatically terminated in the event that notice is given to the Escrow Agent as determined prior to the close of business on the date scheduled for receipt of the Requisite Funds, that the Requisite Funds have not been deposited by the Investors into the Escrow Account by the close of business the Closing Date.

(iii) If this Agreement is terminated pursuant to this Section, such termination shall be without liability of any party to any other party except as provided in Section 6 hereof.

10. Notices. Notice given pursuant to any of the provisions of this Agreement shall be in writing and, unless otherwise specified, shall be mailed or delivered (i) if to the Company, at the office of the Company, 8201 Riverside Drive, Building 4, Suite 100, Austin, Texas 78744, Attention: John Simard, with copies to Quarles & Brady LLP, 1395 Panther Lane, Suite 300, Naples, Florida 34109, Attention: Laura M. Holm, or (ii) if to the Underwriters, at the office of W.R. Hambrecht + Co., LLC, 909 Montgomery Street, 3rd Floor, San Francisco, California 94133, Attention: John Hullar, with copies to Morrison & Foerster LLP, 250 West 55th Street, New York, NY 10019, Attention: James R. Tanenbaum. Any such notice shall be effective only upon receipt. Any notice under Section 8 may be made by facsimile or telephone, but if so made shall be subsequently confirmed in writing.

11. Survival. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company and the Underwriters set forth in this Agreement or made by or on behalf of them, respectively, pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company, any of its officers or directors, the Underwriters or any controlling person referred to in Section 8 hereof and (ii) delivery of and payment for the Shares. The respective agreements, covenants, indemnities and other statements set forth in Sections 7 and 8 hereof shall remain in full force and effect, regardless of any termination or cancellation of this Agreement.

12. Successors. This Agreement shall inure to the benefit of and shall be binding upon the Underwriters, the Company and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained, this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (i) the indemnification and contribution contained in Sections 8(i) and (iv) of this Agreement shall also be for the benefit of the directors, officers, employees and agents of the Underwriters and any person or persons who control the Underwriters within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and (ii) the indemnification and contribution contained in Sections 8(ii) and (iv) of this Agreement shall also be for the benefit of the directors of the Company, the officers of the Company who have signed the Registration Statement and any person or persons who control the Company within the meaning of Section 15 of the Act or Section 20 of the Exchange Act. No purchaser of Shares shall be deemed a successor because of such purchase.

13. Representative. The Representative will act for the several Underwriters in connection with the transactions contemplated by this Agreement, and any action under this Agreement taken by the Representative will be binding upon all the Underwriters.

14. Governing Law Provisions. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York applicable to agreements made and to be performed in such state. Any legal suit, action or proceeding arising out of or based upon this Agreement or the transactions contemplated hereby ("**Related Proceedings**") may be instituted in the New York Courts, and each party irrevocably submits to the exclusive jurisdiction (except for proceedings instituted in regard to the enforcement of a judgment of any such court (a "**Related Judgment**"), as to which such jurisdiction is non-exclusive) of such courts in any such suit, action or proceeding. Service of any process, summons, notice or document by mail to such party's address set forth above shall be effective service of process for any suit, action or other proceeding brought in any such court. The parties irrevocably and unconditionally waive any objection to the laying of venue of any suit, action or other proceeding in the New York Courts and irrevocably and unconditionally waive and agree not to plead or claim in any such court that any such suit, action or other proceeding brought in any such court has been brought in an inconvenient forum. The Company has irrevocably appointed [ ] pursuant to a Form U-2 Uniform Consent to Service of Process filed with the Secretary of State of the State of New York, as its agent to receive service of process or other legal summons for purposes of any such suit, action or proceeding that may be instituted in any state or federal court in the Borough of Manhattan in the City of New York.

With respect to any Related Proceeding, each party irrevocably waives, to the fullest extent permitted by applicable law, all immunity (whether on the basis of sovereignty or otherwise) from jurisdiction, service of process, attachment (both before and after judgment) and execution to which it might otherwise be entitled in the New York Courts, and with respect to any Related Judgment, each party waives any such immunity in the New York Courts or any other court of competent jurisdiction, and will not raise or claim or cause to be pleaded any such immunity at or in respect of any such Related Proceeding or Related Judgment, including, without limitation, any immunity pursuant to the United States Foreign Sovereign Immunities Act of 1976, as amended.

The obligations of the Company pursuant to this Agreement in respect of any sum due to any Underwriter shall, notwithstanding any judgment in a currency other than United States dollars, not be discharged until the first business day following receipt by any Underwriter of any sum adjudged to be so due in such other currency, on which such Underwriter may in accordance with normal banking procedures purchase United States dollars with such other currency. If the United States dollars so purchased are less than the sum originally due to such Underwriter in United States dollars hereunder, the Company agrees as a separate obligation and notwithstanding any such judgment, to indemnify such Underwriter against such loss. If the United States dollars so purchased are greater than the sum originally due to such Underwriter hereunder, such Underwriter agrees to pay to the Company an amount equal to the excess of the dollars so purchased over the sum originally due to such Underwriter hereunder.

All payments made by the Company under this Agreement, if any, will be made without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature (other than taxes on net income) imposed or levied by or on behalf of Canada or any political subdivision or any taxing authority thereof or therein unless the Company is or becomes required by law to withhold or deduct such taxes, duties, assessments or other governmental charges. In such event, the Company will pay such additional amounts as will result, after such withholding or deduction, in the receipt by each Underwriter and each person controlling any Underwriter, as the case may be, of the amounts that would otherwise have been receivable in respect thereof.

15. Acknowledgement. The Company acknowledges and agrees that each of the Underwriters is acting solely in the capacity of an arm's length contractual counterparty to the Company with respect to the offering of Shares contemplated hereby. Additionally, neither the Representative nor any of the other Underwriters is advising the Company or any other person as to any legal, tax, investment, accounting or regulatory matters in any jurisdiction with respect to the offering contemplated hereby or the process leading thereto (irrespective of whether

such Representative or Underwriter has advised or is advising the Company on other matters). The Company has conferred with its own advisors concerning such matters and shall be responsible for making its own independent investigation and appraisal of the transactions contemplated hereby, and the Underwriters shall have no responsibility or liability to the Company or any other person with respect thereto. The Underwriters advise that the Underwriters and their affiliates are engaged in a broad range of securities and financial services and that they or their affiliates may have business relationships or enter into contractual relationships with purchasers or potential purchasers of the Company's securities. Any review by the Underwriters of the Company, the transactions contemplated hereby or other matters relating to such transactions will be performed solely for the benefit of the Underwriters and shall not be on behalf of the Company.

16. Applicable Law. The validity and interpretations of this Agreement, and the terms and conditions set forth herein, shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to any provisions relating to conflicts of laws.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

18. Entire Agreement. This Agreement constitutes the entire understanding between the parties hereto as to the matters covered hereby and supersedes all prior understandings, written or oral, relating to such subject matter.

[SIGNATURE PAGE FOLLOWS]

If the foregoing is in accordance with your understanding, please sign and return to the Company one of the counterparts hereof, and upon the acceptance hereof by you, on behalf of each of the Underwriters, this Agreement and such acceptance hereof shall constitute a binding agreement among each of the Underwriters and the Company. It is understood that your acceptance of this Agreement on behalf of each of the Underwriters is pursuant to the authority set forth in a form of Agreement among Underwriters, but without warranty on your part as to the authority of the signers thereof.

Very truly yours,

XBIOTECH, INC.

By: _____
Name:
Title:

Accepted as of the date hereof:

W.R. HAMBRECHT + CO., LLC

By: _____
Name:
Title:

On behalf of each of the Underwriters

SCHEDULE 1

UNDERWRITERS

Name	Number of Shares
WR Hambrecht + Co., LLC	

SCHEDULE 2

ISSUER FREE WRITING PROSPECTUSES

1. None.

SCHEDULE 3

PRICING INFORMATION

SCHEDULE 4

WRITTEN TESTING-THE-WATERS COMMUNICATION

1. None.

SCHEDULE 5

LOCK-UP PARTIES

John Simard
Fabrizio Bonanni
W. Thorpe McKenzie
Daniel Vasella, M.D.
Dr. David J. Combs, Ph.D.
Norma I. Gonzalez
Queena Han, C.P.A.
Dr. Sushma Shivaswamy, Ph.D.
Dr. Michael Stecher, M.D.
Joseph Karl Gut
[Company to identify other holders]

SCHEDULE 6

SUBSIDIARIES

XBiotech USA, Inc. (Delaware)	United States
XBiotech Switzerland AG	Switzerland
XBiotech Japan K.K.	Japan
XBiotech Germany GmbH	Germany

EXHIBIT A

FORM OF LOCK-UP AGREEMENT

_____, 2015

XBiotech, Inc.
8201 E. Riverside Drive
Building 4, Suite 100
Austin, TX 78744

W.R. Hambrecht + Co., LLC
as Representative of the several
Underwriters named in Schedule 1 hereto
c/o W.R. Hambrecht + Co., LLC
909 Montgomery Street, 3rd Floor
San Francisco, California 94133

Re: XBiotech, Inc. (the "Company")—Restriction on Stock Sales

Dear Sir or Madam:

This letter is delivered to you pursuant to the Underwriting Agreement (the "Underwriting Agreement") to be entered into by the Company, as issuer, and W.R. Hambrecht + Co., LLC, the representative (the "Representative") of certain underwriters (the "Underwriters") to be named therein. Upon the terms and subject to the conditions of the Underwriting Agreement, the Underwriters intend to effect a public offering of Common Stock of the Company (the "Shares"), as described in and contemplated by the registration statement of the Company on Form S-1, File No. 333-201813 (the "Registration Statement"), as filed with the Securities and Exchange Commission on February 2, 2015 (the "Offering").

The undersigned recognizes that it is in the best financial interests of the undersigned, as an officer or director, or an owner of stock, options, warrants or other securities of the Company (the "Company Securities"), that the Company complete the proposed Offering.

The undersigned further recognizes that the Company Securities held by the undersigned are, or may be, subject to certain restrictions on transferability, including those imposed by United States federal securities laws. Notwithstanding these restrictions, the undersigned has agreed to enter into this letter agreement to further assure the Underwriters that the Company Securities of the undersigned, now held or hereafter acquired, will not enter the public market at a time that might impair the placement effort.

Therefore, as an inducement to the Underwriters to execute the Underwriting Agreement, the undersigned hereby acknowledges and agrees that the undersigned will not (i) offer, sell, contract to sell, pledge, grant any option to purchase or otherwise dispose of (collectively, a "Disposition") any Company Securities, or any securities convertible into or exercisable or exchangeable for, or any rights to purchase or otherwise acquire, any Company Securities held by the undersigned or acquired by the undersigned after the date hereof, or that may be deemed to be beneficially owned by the undersigned (collectively, the "Lock-Up Shares"), pursuant to the Rules and Regulations promulgated under the Securities Act of 1933, as amended (the "Act"), and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), for a period commencing on the date hereof and ending 180 days after the date of the Company's Prospectus first filed pursuant to Rule 424(b) under the Act, inclusive (the "Lock-Up Period"), without the prior written consent of the Representative or (ii) exercise or seek to exercise or effectuate in any manner any rights of any nature that the undersigned has or may have hereafter to require the Company to register under the Act the undersigned's sale, transfer or other disposition of any of the Lock-Up Shares or other securities of the Company held by the undersigned, or to otherwise participate as a selling security holder in any manner in any

registration effected by the Company under the Act, including under the Registration Statement, during the Lock-Up Period. The foregoing restrictions are expressly agreed to preclude the undersigned from engaging in any hedging, collar (whether or not for any consideration) or other transaction that is designed to or reasonably expected to lead to or result in a Disposition of Lock-Up Shares during the Lock-Up Period, even if such Lock-Up Shares would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include any short sale or any purchase, sale or grant of any right (including any put or call option or reversal or cancellation thereof) with respect to any Lock-Up Shares or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Lock-Up Shares.

Notwithstanding the agreement not to make any Disposition during the Lock-Up Period, you have agreed that the foregoing restrictions shall not apply to:

(1) the Shares being offered in the prospectus included in the Registration Statement;

(2) any grant or exercise by the undersigned of any option or warrant to acquire any shares of Common Stock or options to purchase shares of Common Stock, pursuant to any stock option, stock bonus or other stock plan or arrangement;

(3) any exchange of warrants to acquire preferred stock in exchange for warrants to acquire common stock made prior to the date of the Underwriting Agreement;

(4) any transfer of Lock-Up Shares to any family member of the undersigned or to any trust for the direct or indirect benefit of the undersigned or any family member;

(5) any bona fide gift;

(6) any transfer of Lock-Up Shares by will or intestate succession;

(7) any transfer of Lock-Up Shares solely to cover applicable withholding taxes due upon the vesting of stock-based awards under the Company's 2005 Incentive Stock Option Plan;

(8) any distribution or other transfer by a partnership to its partners or former partners or by a limited liability company to its members or retired members or by a corporation to its stockholders or former stockholders or to any wholly-owned subsidiary of such corporation;

(9) any transfer to the undersigned's affiliates or to any investment fund or other entity controlled or managed by the undersigned;

(10) any transfer pursuant to a qualified domestic relations order or in connection with a divorce settlement;

(12) any Company Securities acquired in open market transactions after completion of the offering contemplated by this agreement; provided that, no filing by any party under the Exchange Act or other public announcement shall be required or shall be voluntarily made in connection with such transfer;

provided that in the case of any transfer, gift or other disposition pursuant to (4), (5), (8), (9) or (10), the transferee, trust, donee or other recipient agrees to be bound in writing by the terms of this letter agreement prior to such transfer and no filing by any party (donor, donee, transferor or transferee) under the Exchange Act shall be required or shall be voluntarily made in connection with such transfer (other than required filings under Section 16(a) and Section 13(d) or 13(g) of the Exchange Act and any filings made after the expiration of the Lock-Up Period).

Furthermore, no provision in this letter shall be deemed to restrict or prohibit (1) the transfer of Lock-Up Shares upon the completion of a bona fide third-party tender offer, merger, consolidation or other similar transaction made to all holders of the Company's securities involving a change of control of the Company provided that (i) the per-share consideration for the Company Securities transferred as described above shall be greater than the public offering price per share in the Offering, (ii) all Company Securities subject to this letter agreement that are not so transferred, sold, tendered or otherwise disposed of remain subject to this letter agreement and (iii) it shall be a condition of transfer, sale, tender or other disposition that if such tender offer or other transaction is not completed, any Company Securities subject to this letter agreement shall remain subject to the restrictions herein and (2) the conversion of the outstanding preferred shares of the Company into shares of Common Stock, provided that any shares received upon such conversion shall be subject to restrictions on transfer set forth in this letter.

Notwithstanding anything herein to the contrary, nothing herein shall prevent the undersigned from establishing a 10b5-1 trading plan that complies with Rule 10b5-1 under the Exchange Act ("10b5-1 trading plan") or from amending an existing 10b5-1 trading plan so long as there are no sales of Lock-Up Shares under such plans during the Lock-Up Period; and provided that, the establishment of a 10b5-1 trading plan or the amendment of a 10b5-1 trading plan shall only be permitted if (i) the establishment or amendment of such plan is not required to be reported in any public report or filing with the Securities Exchange Commission, or otherwise and (ii) the undersigned does not otherwise voluntarily effect any public filing or report regarding the establishment or amendment of such plan.

It is understood that, this lock-up agreement shall automatically terminate, and the undersigned shall be released from its obligations hereunder, upon the earliest to occur, if any, of (i) prior to the execution of the Underwriting Agreement, the Company advises the Representative in writing that it has determined not to proceed with the Offering, (ii) the Company files an application to withdraw the registration statement related to the Offering, (iii) the Underwriting Agreement (other than the provisions thereof that survive termination) is executed but is terminated prior to payment for and delivery of the Shares, or (iv) [ ], 2015, in the event that the Underwriting Agreement has not been executed by such date.

In furtherance of the foregoing, the Company and its transfer agent and registrar are hereby authorized to decline to make any transfer of Lock-Up Shares if such transfer would constitute a violation or breach of this letter. This letter shall be binding on the undersigned and the respective successors, heirs, personal representatives and assigns of the undersigned. Capitalized terms used but not defined herein have the respective meanings assigned to such terms in the Underwriting Agreement.

Very truly yours,

_____

Name (Print):

EXHIBIT B

FORM OF OPINION AND 10B-5 OF QUARLES & BRADY LLP, COUNSEL TO THE COMPANY

[To be provided]

EXHIBIT C

FORM OF OPINION AND 10B-5 OF STIKEMAN ELLIOTT LLP, CANADIAN COUNSEL TO THE COMPANY

[To be provided]

EXHIBIT D

SCHEDULE OF MATERIAL PATENT RIGHTS

[To be provided]

Exhibit 1.2

ESCROW AGREEMENT

This Escrow Agreement ("Escrow Agreement"), dated as of March [ ], 2015, is entered into, by and among XBiotech, Inc., a Canadian corporation (the "Company"), WR Hambrecht + Co, LLC, as representative for the underwriters party to that certain Underwriting Agreement dated as of the date hereof (the "Underwriters") and American Stock Transfer & Trust Company, LLC a financial institution chartered under the laws of the State of New York (the "Escrow Agent").

WHEREAS, the Company and the Underwriters have entered into the Underwriting Agreement dated as of the date hereof, pursuant to which the Company proposes to issue and sell up to [ ] shares of common stock, no par value, of the Company (the "Shares"), to certain investors (the "Investors");

WHEREAS, the Company has filed with the Securities and Exchange Commission a registration statement on Form S-1 (Registration No. 333-201813) (which, together with all amendments or supplements thereto, is referred to herein as the "Registration Statement");

WHEREAS, the Underwriters propose to offer the Shares to the Investors on behalf of the Company and to receive subscriptions from such Investors for the total number of Shares being offered;

WHEREAS, with respect to all subscription payments received from subscribers (the "Subscription Payments"), the parties propose to establish an escrow account with the Escrow Agent at the office of its escrow administration, American Stock Transfer & Trust Company, LLC, 6201 15th Avenue, Brooklyn, New York 11219; and

WHEREAS, the parties hereto desire to establish the terms and conditions pursuant to which the escrow account will be established and maintained.

NOW THEREFORE, it is agreed as follows:

1. Appointment of Agent and Establishment of Escrow. The Company hereby appoints the Escrow Agent as escrow agent and the Escrow Agent hereby accepts such appointment, each in accordance with the terms and conditions set forth herein. The Escrow Agent hereby agrees to establish a non-interest bearing trust account pursuant to Rule 15c2-4 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (the "Escrow Account"), for the Subscription Payments received and to receive and disburse the proceeds from such Subscription Payments in accordance with the terms and conditions of this Escrow Agreement.

2. Delivery of Subscription Proceeds. The Escrow Agent is hereby empowered on behalf of the Company and the Underwriters to endorse and collect all wire funds transfers received evidencing the Subscription Payments of the subscribers, which will be made payable to "American Stock Transfer & Trust Company, as Escrow Agent for XBiotech, Inc.," delivered in payment for the Shares (the "Escrowed Property"). The Escrow Agent, upon receipt of funds from the Underwriters, on behalf of the Investors, or the Investors, shall credit such funds to the Escrow Account.

3. List of Subscribers. The Underwriters shall furnish or cause to be furnished to the Escrow Agent and the Company, at the time of each receipt of funds pursuant to Section 2 hereof, a list, substantially in the form of Exhibit A hereto, containing the name, the address, the number of Shares subscribed for, the Subscription Payment delivered to the Escrow Agent, and the social security or certified taxpayer identification number, if applicable, of each subscriber whose funds have been received (the "Subscriber List").

4. Agent to Hold and Disburse Funds. The Escrow Agent will hold in a segregated account established for the benefit of the investors and will disburse all funds received by it pursuant to the terms of this Escrow Agreement, as follows:

(a) (i) If the Escrow Agent shall receive a (i) written notice, substantially in the form of Exhibit B hereto (an "Offering Termination Notice"), from the Company and the Underwriters; or (ii) a final and non-appealable order of a court of competent jurisdiction, a copy of which is delivered to the Escrow Agent by either the Company or the Underwriters, that instructs the Escrow Agent as to the disbursement of the Escrowed Property, the Escrow Agent shall promptly after receipt of such Offering Termination Notice or court order, and in no event more than five business days thereafter pay to each subscriber listed on the Subscriber List held by the Escrow Agent pursuant to Section 3 hereof whose total subscription amount shall not have been released pursuant to paragraph (b) or (c) of this Section 4, by wire transfer of immediately available funds the amount attributable to such subscriber of the remaining Subscription Payment held by the Escrow Agent as set forth on such Subscriber List held by the Escrow Agent. The Escrow Agent shall notify the Company and the Underwriters of the distribution of such funds to the subscribers. For the avoidance of doubt, in the event the Escrow Agent does not receive funds in the amount equal to the proceeds of the sale of all of the Shares offered pursuant to the Underwriting Agreement (the "Requisite Funds") prior to the close of business on the date scheduled for receipt of the Requisite Funds, the Company and the Underwriters agree to deliver to the Offering Termination Notice to the Escrow Agent as described above, and the Escrow Agent shall make the payments to each subscriber, as described above. The funds returned to each subscriber shall be free and clear of any and all claims of the Company or any of its creditors.

(b) In the event that (i) any of the Shares have been subscribed for and the Requisite Funds shall have been received by the Escrow Agent on or before the Closing Date and (ii) no Offering Termination Notice or final and non-appealable court order as set forth in paragraph (a) above shall have been delivered to the Escrow Agent, the Company and the Underwriters, shall deliver to the Escrow Agent a joint written notice, substantially in the form of Exhibit C hereto (a "Closing Notice"), designating the date on which Shares are to be sold and delivered to the subscribers thereof as the "Closing Date," and identifying the subscribers and the number of Shares to be sold to each subscriber thereof on such Closing Date. Such Closing Notice, unless one of the parties objects, shall be delivered on the Closing Date. The Escrow Agent, after receipt of such Closing Notice shall, on such Closing Date, pay to the Company, the Underwriters and the Escrow Agent, wire transfer of immediately available funds and otherwise

in the manner and amount specified by the Company and the Underwriters in such Closing Notice, an amount equal to the aggregate of the Subscription Payments paid by the subscribers identified in such Closing Notice for the Shares to be sold on such Closing Date as set forth on the list held by the Escrow Agent pursuant to Section 3 hereof. The Escrow Agent shall pay the amounts described in this paragraph only after receipt of the Requisite Funds.

(c) If at any time and from time to time prior to the release of any subscriber's total subscription amount pursuant to paragraph (a) or (b) of this Section 4 from the Escrow Account, the Company shall deliver to the Escrow Agent a written notice, substantially in the form of Exhibit D hereto (a "Subscription Termination Notice"), to the effect that any or all of the subscriptions of such subscriber have been rejected by the Company (a "Rejected Subscription"), the Escrow Agent shall promptly after receipt of such Subscription Termination Notice pay to such subscriber by wire transfer of immediately available funds the amount of such Rejected Subscription.

5. Exculpation and Indemnification of Escrow Agent.

(a) The Escrow Agent shall have no duties or responsibilities other than those expressly set forth herein. The Escrow Agent shall have no duty to enforce any obligation of any person to make any payment or delivery, or to direct or cause any payment or delivery to be made, or to enforce any obligation of any person to perform any other act. The Escrow Agent shall be under no liability to the other parties hereto or to anyone else by reason of any failure on the part of any party hereto or any maker, guarantor, endorser or other signatory of any document or any other person to perform such person's obligations under any such document. Except for amendments to this Agreement referred to below, and except for instructions given to the Escrow Agent by the Company and the Underwriters relating to the funds received by the Escrow Agent under this Agreement, the Escrow Agent shall not be obligated to recognize any agreement between any and all of the persons referred to herein, notwithstanding that references thereto may be made herein and whether or not it has knowledge thereof.

(b) The Escrow Agent shall not be liable to the Company or to anyone else for any action taken or omitted by it, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment. The Escrow Agent may rely conclusively and shall be protected in acting upon any order, notice, demand, certificate, opinion or advice of counsel (including counsel chosen by the Escrow Agent), statement, instrument, report or other paper or document (not only as to its due execution and the validity and effectiveness of its provisions, but also as to the truth and acceptability of any information therein contained), which is believed by the Escrow Agent to be genuine and to be signed or presented by the proper person or persons. The Escrow Agent shall not be bound by any notice or demand, or any waiver, modification, termination or rescission of this Agreement or any of the terms thereof, unless evidenced by a writing delivered to the Escrow Agent signed by the proper party or parties and, if the duties or rights of the Escrow Agent are affected, unless it shall give its prior written consent thereto.

(c) The Escrow Agent shall not be responsible for the sufficiency or accuracy of the form of, or the execution, validity, value or genuineness of, any document or property received, held or delivered by it hereunder, or of any signature or endorsement thereon, or for any lack of endorsement thereon, or for any description therein; nor shall the Escrow Agent be responsible or liable to the other parties hereto or to anyone else in any respect on account of the identity, authority or rights of the persons executing or delivering or purporting to execute or deliver any document or property or this Agreement. The Escrow Agent shall have no responsibility with respect to the use or application of any funds or other property paid or delivered by the Escrow Agent pursuant to the provisions hereof. The Escrow Agent shall not be liable to the Company or to anyone else for any loss which may be incurred by reason of any investment of any monies which it holds hereunder provided the Escrow Agent has complied with the provisions of Section 4(a) hereunder.

(d) The Escrow Agent shall have the right to assume in the absence of written notice to the contrary from the proper person or persons that a fact or an event by reason of which an action would or might be taken by the Escrow Agent does not exist or has not occurred, without incurring liability to the other parties hereto or to anyone else for any action taken or omitted, or any action suffered by it to be taken or omitted, in good faith and in the exercise of its own best judgment, in reliance upon such assumption.

(e) The Escrow Agent does not have, for tax reporting purposes, any interest in the Escrowed Property received hereunder but is serving as escrow holder only. The parties hereto agree that, for tax reporting purposes, all interest or other income earned from the investment of the Escrowed Property or any portion thereof in any tax year (i) to the extent such interest or other income is distributed by the Escrow Agent to any person or entity pursuant to the terms of this Escrow Agreement during such tax year, shall be reported as allocated to such person or entity, and (ii) otherwise shall be reported as allocated to the subscribers, in proportion to their respective Subscription Payment as set forth on Exhibit A hereto.

(f) The Escrow Agent will be indemnified and held harmless by the Company from and against any and all expenses, including reasonable counsel fees and disbursements, or loss suffered by the Escrow Agent in connection with any action, suit or other proceeding involving any claim, or in connection with any claim or demand, which in any way, directly or indirectly, arises out of or relates to this Agreement, the services of the Escrow Agent hereunder, the monies or other property held by it hereunder or any income earned from investment of such monies, except for the Escrow Agent's gross negligence or misconduct. Promptly after the receipt by the Escrow Agent or notice of any demand or claim or the commencement of any action, suit or proceeding, the Escrow Agent shall, if a claim in respect thereof is to be made against the Company, notify the Company thereof in writing, but the failure by the Escrow Agent to give such notice shall not relieve the Company from any liability which the Company may have to the Escrow Agent hereunder.

(g) For the purposes hereof, the term "expense or loss" shall include all amounts paid or payable to satisfy any claim, demand or liability, or in settlement of any claim, demand, action, suit or proceeding settled with the express written consent of the Escrow Agent, and all costs and expenses, including, but not limited to, reasonable counsel fees and disbursements, paid or incurred in investigating or defending against any such claim, demand, action, suit or proceeding.

6. Termination of Agreement and Resignation of Escrow Agent.

(a) This Escrow Agreement shall terminate on the final disposition of the monies and property held in escrow hereunder, provided that the rights of the Escrow Agent and the obligations of the other parties hereto under Sections 5 and 8 shall survive the termination hereof.

(b) The Escrow Agent may resign at any time and be discharged from its duties as Escrow Agent hereunder by giving the Company and the Underwriters at least 30 days notice thereof. As soon as practicable after its resignation, the Escrow Agent shall turn over to a successor escrow agent appointed by the Company all monies and property held hereunder upon presentation of the document appointing the new escrow agent and its acceptance thereof. If no new escrow agent is so appointed within the 60-day period following such notice of resignation, the Escrow Agent may deposit the aforesaid monies and property with any court it deems appropriate.

7. Form of Payments by Escrow Agent.

(a) Any payments by the Escrow Agent to Investors or to persons other than the Company pursuant to the terms of this Agreement shall be by wire transfer of immediately available funds. The Company shall pay the Escrow Agent a $[ ] fee for each such wire transfer.

(b) All amounts referred to herein are expressed in United States Dollars and all payments by the Escrow Agent shall be made in such dollars.

8. Compensation of Escrow Agent. For services rendered, the Escrow Agent shall receive as compensation $[ ], which fee shall be paid by the Company promptly following the signing of this Agreement. The Escrow Agent shall also be entitled to retain any income earned on the funds in the escrow account as part of the Escrow Agent's compensation. The Escrow Agent shall also be entitled to reimbursement from the Company for all expenses paid or incurred by it in the administration of its duties hereunder, including, but not limited to, all counsel, advisors' and Escrow Agents' fees and disbursements and all reasonable taxes or other governmental charges. It is anticipated that such disbursement shall not exceed $[ ] barring any unforeseen circumstances.

9. Notices. All notices, requests, demands and other communications provided for herein shall be in writing, shall be delivered by hand or by first-class mail, shall be deemed given when received and shall be addressed to the parties hereto at their respective addresses listed below or to such other persons or addresses as the relevant party shall designate as to itself from time to time in writing delivered in like manner.

If to the Company, to:

XBiotech, Inc.
8201 E. Riverside Drive
Building 4, Suite 100
Austin, TX 78744
Attention: Queena Han, Vice President of Finance & Human Resources
Facsimile: (512) 386-5505

with a copy to:

Quarles & Brady LLP
1395 Panther Lane, Suite 300
Naples, Florida 34109
Attention: Laura Holm
Facsimile: (239) 434-4999

if to the Underwriters, to:

WR Hambrecht + Co
909 Montgomery Street, 3rd Floor
San Francisco, California 94133
Attention: John Hullar
Facsimile: (415) 551-8686

with a copy to:

Morrison & Foerster LLP
250 West 55th Street
New York, NY 10019
Attention: James R. Tanenbaum
Facsimile: (212) 903-3751

if to the Escrow Agent, to:

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Attention: Corporate Actions

10. Further Assurances: From time to time on and after the date hereof, the Company shall deliver or cause to be delivered to the Escrow Agent such further documents and instruments and shall do and cause to be done such further acts as the Escrow Agent shall reasonably request (it being understood that the Escrow Agent shall have no obligation to make any such request) to carry out more effectively the provisions and purposes of this Agreement, to evidence compliance herewith or to assure itself that it is protected in acting hereunder.

11. Consent to Service of Process. Each of the Company and the Underwriters hereby irrevocably consents to the jurisdiction of the courts of the State of New York and of any federal court located in such State in connection with any action, suit or other proceeding arising out of or relating to this Agreement or any action taken or omitted hereunder, and waives personal service of any summons, complaint or other process and agrees that the service thereof may be made by certified or registered mail directed to each of the Company and the Underwriters at its address for purposes of notices hereunder.

12. Miscellaneous.

(a) This Agreement shall be construed without regard to any presumption or other rule requiring construction against the party causing such instrument to be drafted. The terms "hereby," "hereof," "hereto," "hereunder" and any similar terms, as used in this Agreement, refer to the Agreement in its entirety and not only to the particular portion of this Agreement where the term is used. The word "person" shall mean any natural person, partnership, company, government and any other form of business or legal entity. All words or terms used in this Agreement, regardless of the number or gender, in which they are used, shall be deemed to include any other number and any other gender as the context may require. This Agreement shall not be admissible in evidence to construe the provisions of any prior agreement.

(b) Succession and Assignment. This Agreement and the rights and obligations hereunder of the Company may be assigned by the Company only to a successor to the Company's entire business. This Agreement and the rights and obligations hereunder of the Escrow Agent may be assigned by the Escrow Agent only to a successor to its entire business. This Agreement shall be binding upon and inure to the benefit of each party's respective successors, heirs and permitted assigns. No other person shall acquire or have any rights under or by virtue of this Agreement. This Agreement may not be changed orally or modified, amended or supplemented without an express written agreement executed by the Escrow Agent, the Company and the Underwriters. This Agreement is intended to be for the sole benefit of the parties hereto, and (subject to the provisions of this Section 11.2(b)) their respective successors, heirs and assigns, and none of the provisions of this Agreement are intended to be, nor shall they be construed to be, for the benefit of any third person.

(c) Amendments and Waivers. This Agreement may be amended only with the written consent of the Escrow Agent, the Company and the Underwriters. No waiver of any right or remedy hereunder shall be valid unless the same shall be in writing and signed by the party giving such waiver. No waiver by any party with respect to any condition, default or breach of covenant hereunder shall be deemed to extend to any prior or subsequent condition, default or breach of covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York without regard to principles of conflicts of law (other than Section 5-1401 of the New York General Obligations Law). The representations and warranties contained in this Agreement shall survive the execution and delivery hereof and any investigations made by any party. The headings in this Agreement are for purposes of reference only and shall not limit or otherwise affect any of the terms hereof.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the parties hereto have caused this Escrow Agreement to be executed as of the day and year first above written.

XBIOTECH, INC.

By: _____
Name: John Simard
Title: President and Chief Executive Officer

WR HAMBRECHT + CO, LLC

By: _____
Name:
Title:

AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC

By: _____
Name:
Title:

EXHIBIT A

Subscriber List

Investor	Tax I.D.	Shares	Subscription Payments	# of Expected Wires
[Investor Name]				
[Address]				
[Contact]				

EXHIBIT B

[Form of Offering Termination Notice]

March , 2015

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219

Attention:

Dear

Pursuant to Section 4(a) of the Escrow Agreement dated as of March [ ], 2015 (the "Escrow Agreement") by and among XBiotech, Inc. (the "Company"), WR Hambrecht + Co, LLC ("WRH") and American Stock Transfer & Trust Company, LLC, the Company and WRH hereby notify you of the termination of the offering of the Shares (as that term is defined in the Escrow Agreement) and directs you to make payments to subscribers as provided for in Section 4(a) of the Escrow Agreement.

Very truly yours,

XBiotech, Inc.

By: _____
Name: John Simard
Title: President and Chief Executive Officer

WR Hambrecht + Co, LLC

By: _____
Name:
Title:

EXHIBIT C

[Form of Closing Notice]

March , 2015

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Attention: Corporate Actions

Dear:

Pursuant to Section 4(b) of the Escrow Agreement dated as of March [ ], 2015, (the "Escrow Agreement") by and among XBiotech, Inc. (the "Company"), WR Hambrecht + Co, LLC, as representative for the underwriters party to that certain Underwriting Agreement dated as of March [ ], 2015 (the "Underwriters") and American Stock Transfer & Trust Company, LLC, the Company hereby certifies that, subject to its receipt of the Subscription Payments for the Shares (as that term is defined in the Escrow Agreement), the Company will sell and deliver Shares to the subscribers thereof at a closing to be held on [ ], 2015 (the "Closing Date"). The names of the subscribers concerned, the number of Shares subscribed for by each of such subscribers and the related subscription amounts are set forth on Schedule I annexed hereto.

We hereby request that the aggregate subscription amount be paid to the Underwriters, to the Escrow Agent and us as follows:

1. To the Company, $;
2. To the Underwriters, $; and
3. To the Escrow Agent $[ ]

These instructions may be executed in counterparts, each of which shall be deemed to be an original, but all of which together shall constitute one and the same instrument.

XBIOTECH, INC.

By: _____
Name: John Simard
Title: President and Chief Executive Officer

WR HAMBRECHT + CO, LLC

By: _____
Name:
Title:

[Signature page to Closing Notice]

SCHEDULE I TO EXHIBIT C

Name of Subscriber	Number of Shares	Subscription Payment

Telephone Number(s) for Call-Backs and
Person(s) Designated to Confirm Funds Transfer Instructions

If to the Underwriters:

Name	Telephone Number
[ ]	[ ]

If to the Company:

Name	Telephone Number
[ ]	[ ]

Telephone call-backs shall be made to the Underwriters and the Company if joint instructions are required pursuant to this Escrow Agreement.

EXHIBIT D

[Form of Subscription Termination Notice]

March , 2015

American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, New York 11219
Attention: Corporate Actions

Dear:

Pursuant to the Escrow Agreement dated as of March [ ], 2015 (the "Escrow Agreement") by and among XBiotech, Inc. (the "Company"), WR Hambrecht + Co, LLC and American Stock Transfer & Trust Company, LLC, the Company hereby notifies you that the following subscription(s) have been rejected:

Name of Subscriber	Amount of Subscribed Shares [Units] Rejected	Dollar Amount of Rejected Subscription

XBIOTECH, INC.

By: _____
Name: John Simard
Title: President and Chief Executive Officer

Exhibit 10.6

INDUSTRIAL SPACE LEASE

THIS INDUSTRIAL SPACE LEASE ("**Lease**"), made as of the 14th day of January, 2008 by and between NNN Met Center 4-9, LP, a Texas limited partnership ("**Landlord**") acting by and through Triple Net Properties Realty, Inc. ("**Agent**" for Landlord) and XBiotech USA, Inc., a Delaware corporation ("**Tenant**");

ARTICLE 1 - BASIC TERMS

1.1

A. Address of Landlord:

c/o Triple Net Properties, LLC
816 Congress, Suite 1540
Austin, TX 78701
Attn: Regional Asset Manager

With a copy to:

c/o Triple Net Properties Realty, Inc.
Tustin Centre
1551 N. Tustin Ave., Suite # 200
Santa Ana, CA 92705
Attn: Legal Notice

B. Address of Tenant:

Before Commencement Date
XBiotech Inc.
1055 W. Hastings St., Suite 300
Vancouver, British Columbia V6E 2E9
Attn: John Simard

After Commencement Date
XBiotech USA, Inc.
8201 E. Riverside, Suite 200
Austin, Texas 78744
Attn: John Simard

or such other address as may from time to time be designated by Landlord/Tenant in writing.

C. Premises: 30,000 square feet of space in the Building known as Suite 200. The Premises is shown on Exhibit "B" attached hereto. The square feet in the Premises has been calculated and is hereby stipulated for all purposes hereof to be as set forth herein, whether the same should be more or less as a result of minor variations resulting from actual construction and completion of the Premises or the Building.

D. Building: The Building in which the Premises is located, located at 8201 E. Riverside, Austin, Texas 78744, together with the land, and any parking areas, walkways, landscaped areas and other improvements appurtenant thereto.

E. Project: The Building and other buildings in the development known as Met Center, together with the land, which land is described in Exhibit "A-1" attached hereto, and any parking areas, walkways, landscaped areas and other improvements appurtenant thereto. A description of the Project is attached hereto as Exhibit "A".

F. Guarantor(s): N/A.

G. Term: The period of sixty (60) months commencing on the later to occur of (a) April 1, 2008 (the "**Target Commencement Date**") or (b) the date upon which the Initial Alterations have been substantially completed, as such date is determined pursuant to the Work Letter attached hereto as Exhibit "E" (the "**Work Letter**"), but in no event later than June 1, 2008 (the later to occur of such dates in (a) and (b) being defined as the "**Commencement Date**"). Notwithstanding the foregoing, if the Initial Alterations have not been substantially completed by June 1, 2008 due to Landlord Delays or Force Majeure Delays (as defined in the Work Letter), the Commencement Date shall be the date upon which the Initial Alterations have been substantially completed but for the Landlord Delays or Force Majeure Delays, as applicable. "**Expiration Date**" shall mean the last day of the Term unless sooner terminated or extended as set forth herein. Notwithstanding the foregoing, if the Expiration Date, as determined herein, does not occur on the last day of a calendar month, the Term and the last Lease Year thereof shall be extended by the number of days necessary to cause the Expiration Date to occur on

the last day of the last calendar month of the Term. Tenant shall pay Base Rent and Additional Rent for such additional days at the same rate payable for the portion of the last calendar month immediately preceding such extension. Upon the determination of the actual Commencement Date and the actual Expiration Date, Landlord and Tenant shall each execute and deliver a Commencement Letter in the form of Exhibit "F" attached hereto (the "**Commencement Letter**") setting forth the Commencement Date and the Expiration Date. In the event that Tenant is entitled to an "**Extension Term**" (as defined in Exhibit "D") and the Extension Option is exercised by Tenant, the Term of the Lease shall be extended as provided in Exhibit "D".

H. Rent: All sums, monies or payments required to be paid by Tenant to Landlord pursuant to this Lease.

I. Base Rent: The Base Rent for the lease Term, payable in advance, is as follows:

Lease Months	Annual Base Rent per Square Foot
1-12	$ 5.33
13-24	$ 8.00
25-36	$ 9.00
37-60	$ 10.00

Additional Rent:

The estimated initial Additional Rent (hereinafter defined) for taxes, insurance, CAM and management expenses is $3.50 per square foot of the Premises per month, payable in advance with Base Rent.

J. Security Deposit: $13,333.34

K. Tenant's Proportionate Share: During the first year of the Term of the Lease, the percentage equal to 20,000 square feet in the Premises divided by the square feet of space in the Building, and thereafter, the percentage equal to 30,000 square feet of space in the Premises divided by the square feet of space in the Building.

L. Permitted Use: Medical research and development, manufacturing, administrative and general office purposes and any other legally permitted use incidental thereto.

M. Broker(s): Stream Realty Partners – Austin, L.P. – Tenant's Exclusive Representative Live Oak-Gottesman, LLC – Landlord's Exclusive Representative

N. Exhibits:
A - Description of the Project
A-1 - Legal Description of Land
B - Depiction of the Premises
C - Parking
D - Special Provisions
E - Work Letter
F - Commencement Letter
G - Signage Criteria

1.2 Effect of Reference to Basic Terms. Each reference in this Lease to any of the Basic Terms contained in Section 1.1 shall be construed to incorporate into such reference all of the definitions set forth in Section 1.1.

ARTICLE 2 - GRANT AND TERM/CONSTRUCTION

2.1 In consideration of the rents, covenants, agreements and conditions hereinafter provided to be paid, kept, performed and observed, Landlord leases to Tenant and Tenant hereby hires from Landlord the Premises described in Section 1.1(C).

2.2 Tenant shall have and hold the Premises for and during the Lease Term described in Section 1.1(G), subject to the payment of the Rent and to the full and timely performance by Tenant of the covenants and conditions hereinafter set forth.

2.3 Landlord hereby consents to Tenant taking possession of the Premises prior to the Commencement Date for the sole purpose of performing any improvements therein or installing furniture, equipment, wiring and cabling, or other personal property of Tenant; provided, however, such possession shall be subject to all of the terms and conditions of the Lease, except that Tenant shall not be required to pay Rent with respect to the period of time prior to the Commencement Date during which Tenant performs such work.

In the event Tenant substantially completes the Initial Alterations in accordance with the Work Letter and obtains a Certificate of Occupancy from the City of Austin, Texas for use and occupancy of the Premises prior to the beginning of the Target Commencement Date, Tenant shall have the right to move in and occupy the Premises and such occupancy shall be in addition to the Term provided for herein and all the provisions of this Lease shall be in full force and effect upon Tenant's so taking possession for such occupancy, except that Tenant shall not be required to pay Rent with respect to the period of time prior to the Commencement Date during which Tenant occupies the Premises. Notwithstanding anything herein to the contrary, in such event, the Commencement Date for all purposes under this Lease shall be April 1, 2008.

Within thirty (30) days after the date the last party executes this Lease (the "**Outside Delivery Date**"), Landlord shall deliver the Premises to Tenant, including the Building's structure and the mechanical, electrical and plumbing systems serving same, in good working order and condition, free of Hazardous Substances (other than those falling within the exceptions set forth in Section 16.1A.3.) and in compliance with all applicable laws (the "**Required Condition**") but excluding any other requirements or conditions, including, without limitation, those that fall within the scope of the Initial Alterations performed by Tenant pursuant to the Work Letter. Landlord shall send a written notice to Tenant by email c/o its counsel Samantha Goodman at Samantha.Goodman@BryanCave.com stating that it has delivered the Premises, and the date of such email notice shall be deemed to be the date Landlord has delivered the Premises to Tenant in the Required Condition (the "**Actual Delivery Date**"). In the event Landlord does not deliver the Premises to Tenant in the Required Condition by the Outside Delivery Date (other than because of a Tenant caused delay or an event or circumstance under Section 15.1), Tenant shall have the right to send Landlord a notice terminating this Lease ("**Termination Notice**") within ten (10) days after the Outside Delivery Date. In the event Landlord does not deliver the Premises to Tenant in the Required Condition within thirty (30) business days after Landlord's receipt of the Termination Notice, this Lease shall terminate and neither party shall have any further rights and obligations hereunder except for those rights and obligations that expressly survive termination or expiration of this Lease. Subject to Landlord's obligation to deliver the Premises in the Required Condition, Tenant agrees to accept the Premises in its "as-is" condition and configuration, without representation or warranty by Landlord or anyone acting on Landlord's behalf.

2.4 Tenant agrees to construct the leasehold improvements in the Premises in accordance with the terms set forth in Exhibit "E" which is attached hereto and made a part hereof.

2.5 Landlord agrees that Tenant may enter the Premises prior to the Outside Delivery Date for the sole purpose of designing the plans for the Initial Alterations and installation of furniture, fixtures and equipment (the "**Early Entry**") provided that such Early Entry is conducted in a manner as to not unreasonably Interfere with any work of Landlord occurring in or around the Premises, and further provided that such Early Entry shall be subject to all of the terms and conditions contained in this Lease (other than the payment of Base Rent and Tenant's Proportionate Share of Common Area Expenses), including, without limitation, Tenant's insurance and indemnity obligations as contained in this Lease. Prior to any such Early Entry, Tenant shall provide Landlord with certificates of insurance or other evidence acceptable to Landlord evidencing Tenant's compliance with its insurance obligations. In the event that Tenant's Early Entry interferes with the work of Landlord or otherwise disrupts Landlord's operations or the operations of other tenants in the Building, Landlord may terminate Tenant's right to Early Entry.

ARTICLE 3 - RESERVATIONS BY LANDLORD

3.1 Landlord excepts and reserves the roof, exterior walls and Common Areas of the Building as described in Article 17 below, and further reserves the right to place, install, maintain, carry through, repair and replace such utility lines, pipes, wires, appliances, tunneling and the like in, over, through and upon the Premises as may be reasonably necessary or advisable for the servicing of the Premises or any other portions of the Building. In exercising such rights reserved to Landlord, Landlord shall use reasonable efforts to avoid any unreasonable interference with Tenant's operations in the Premises (but Landlord shall not be required to conduct such operations on an overtime basis), and to the extent Landlord needs to access the Premises, Landlord shall provide Tenant with reasonable prior notice of such entry.

3.2 Notwithstanding any provision in this Lease to the contrary, it is agreed that Landlord reserves the right, without invalidating this Lease or modifying any provision thereof, at any time, and from time to time, (i) to make alterations, changes and additions to the Building and/or the Project, (ii) to add additional areas to the Building and/or to exclude areas therefrom, (iii) to construct additional buildings and other improvements, and (iv) to relocate any other tenant in the Building (but not Tenant). In exercising such rights reserved to Landlord, Landlord shall use reasonable efforts to avoid any unreasonable interference with Tenant's operations in the Premises (but Landlord shall not be required to conduct such operations on an overtime basis). It is further understood that Landlord may change any appurtenant walks, roadways, parking areas, entrances, exits, and other improvements as Landlord shall deem proper, provided such changes do not unreasonably interfere with Tenant's use of the Premises. In exercising its rights hereunder, Landlord may not change the nature of the Building or modify the Premises (except as otherwise provided herein) in a way that would materially increase Tenant's obligations or decrease Tenant's rights under this Lease.

ARTICLE 4 - USE

4.1 The Premises hereby leased shall be used by Tenant only for the purposes set forth in Section 1.1(L) above and for no other purposes. Tenant shall, at Tenant's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders and requirements in effect during the Term or any part of the Term hereof regulating the use by Tenant of the Premises, including without limitation, the Declaration (as defined below). Tenant shall not use or permit

the use of the Premises in any manner that will tend to create waste or a nuisance, or will tend to unreasonably disturb other tenants in the Building, and shall keep its mechanical apparatus free of noise and vibration which may be transmitted beyond the confines of the Premises. Tenant shall store, handle, transport, remove and dispose of all medical and biomedical waste matter at or from the Premises in compliance with all applicable statutes, ordinances, rules, regulations, orders and requirements in effect during the Term or any part of the Term hereof.

4.2 Tenant covenants throughout the Lease Term, at Tenant's sole cost and expense, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards, and officers thereof, and of any applicable insurance rating agency, or any other body now or hereafter constituted exercising similar functions, foreseen or unforeseen, ordinary as well as extraordinary, and whether or not the same require structural repairs or alterations, which may be applicable to the Premises, or the use or manner of use of the Premises; provided, however, that Tenant shall not be responsible for structural repairs or alterations unless the requirement for such structural repairs and alterations is caused by Tenant's particular use or occupancy (as distinguished from the general type of use or occupancy permitted by the applicable zoning ordinance). Tenant will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the buildings and improvements on the Premises and the equipment thereof.

ARTICLE 5 - RENT

5.1 Base Rent. Tenant covenants to pay without notice, deduction, set-off or abatement (except as otherwise provided in this Lease) to Landlord the Base Rent specified in Section 1.1(I) in lawful money of the United States in advance on the first day of each month during the Lease Term. Rent for any partial month shall be prorated on a per diem basis. Rent shall be payable to Landlord at Landlord's address shown at Section 1.1(A) above or such other place as Landlord may designate from time to time in writing. One month's installment of Rent (Base Rent and Additional Rent) shall be due upon execution of this Lease by Tenant.

5.2 Real Estate Taxes. During the Term of the Lease or any extensions or holding over, Tenant shall pay to Landlord, as Additional Rent, Tenant's Proportionate Share of the Real Estate Taxes levied against the Building.

"**Real Estate Taxes**" shall mean: (a) all ad valorem real estate taxes on the Project (adjusted after protest or litigation, if any) for any part of the Term of this Lease, exclusive of penalties, (b) any taxes which shall be levied in lieu of any such ad valorem real estate taxes, (c) any special assessments for benefits on or to the Building paid in annual installments by Landlord, (d) occupational taxes or excise taxes or franchise taxes (including the Texas 'margin tax') levied on rentals derived from the operation of the Building or the privilege of leasing property, and (e) the expense of protesting, negotiating or contesting the amount or validity of any such taxes, charges or assessments, such expense to be applicable to the period of the item contested, protested or negotiation. Real Estate Taxes shall not include any net income, capital stock, succession, transfer, gift, estate or inheritance taxes.

If the Term of the Lease shall begin or end during a tax calendar year (tax calendar year shall mean each annual period for which ad valorem real estate taxes are assessed and levied) of which part only is included in the Term hereof, the amount of such Additional Rent shall be prorated on a per diem basis and with respect to the year in which the Term ends shall be paid on or before the last day of the Term. If the Term ends in any tax calendar year before the amount to be payable by Tenant has been determined under the provisions of this Section, an amount payable for the portion of the Lease Term during the tax calendar year shall be reasonably estimated by the Landlord and the estimated amount shall be promptly paid by Tenant. As soon as the amount properly payable by the Tenant for the partial period has finally been determined, the amount shall be adjusted between Landlord and Tenant.

5.3 Insurance Premiums. During the Term of this Lease or any extension or holding over thereof, Tenant shall pay to Landlord as Additional Rent Tenant's Proportionate Share of the cost of the premium and deductibles for the fire and extended coverage insurance described in Section 20.2; provided, however, that in no event shall Tenant be responsible for Tenant's Proportionate Share of any deductibles higher than $25,000.

5.4 Heating, Ventilation and Air Conditioning Maintenance. Tenant, at its own cost and expense, shall enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor reasonably approved by Landlord for the upkeep, maintenance, repair, replacement and periodic servicing all hot water, heating and air conditioning systems and equipment within the Premises. The service contract must include all services suggested by the equipment manufacturer in its operations/maintenance manual, provide for not less than four (4) inspections annually, and provide for the replacement of defective parts, and an executed copy of such contract must be provided to the Landlord prior to the date Tenant takes possession of the Premises and thereafter not less than thirty (30) days prior to expiration of the then existing contract. If such maintenance herein described is not undertaken, Landlord shall have the right, on reasonable prior notice to Tenant, to undertake and/or coordinate all repairs and maintenance and Tenant shall reimburse Landlord for all costs, including overhead, upon demand.

5.5 Common Area Expenses. During the Term of this Lease or any renewals, extensions or holding over thereof, Tenant will pay to Landlord, as Additional Rent, Tenant's Proportionate Share of the Common Area Expenses, as those expenses are defined below.

For the purpose of this Lease the "**Common Area Expenses**" means Landlord's total cost and expense incurred in owning, operating, maintaining and repairing the Common Area as defined in Section 17.1 below, as well as the

structure of the Building and the mechanical equipment and facilities appurtenant thereto, including but without limitation by enumeration, costs for all electricity, gas, water, sewer or fuel used in connection with the operation, maintenance and repair of the Common Areas; the amount paid for all labor and/or wages and other payments including costs to Landlord of worker's compensation, disability insurance and payroll taxes, for janitors, employees, contractors and subcontractors of the Landlord (not higher than Project manager) involved in the operation and maintenance of the Common Areas; managerial, administrative, and telephone expenses related to operation and maintenance of the common facilities; the total charges for management fees and charges of any independent contractors employed in the care, operation, maintenance, cleaning and landscaping; the amount paid for all supplies, tools, replacement parts of components, equipment and necessities which are occasioned by everyday wear and tear; the amount paid for premiums for all insurance required from time to time by Landlord or Landlord's mortgagees (which will include, without limitation, the premiums described in Section 5.3, but only to the extent that Tenant has not paid such premiums pursuant to Section 5.3); the pro rata costs of machinery and equipment purchased or leased by Landlord to perform its common area maintenance obligations; and any costs or expenses allocable to the Project in accordance with that certain Declaration of Covenants, Conditions and Restrictions of Met Center subdivision filed of record in Travis County, Texas, as same may be amended from time to time (the "**Declaration**"). To the extent that Landlord elects to provide services which are not separately metered or directly billed to the Tenant, such as water and wastewater, the costs of such services shall be included in Common Area Expenses. The management fee incurred by Landlord for the management of the Building and/or the Property is equal to five percent (5%) of the Base Rent, it being expressly understood and agreed that the Landlord or any partner of Landlord or any affiliate of Landlord or any partner of Landlord shall be entitled to manage the Building and/or the Property and collect a management fee therefor equal to five percent (5%) of the Base Rent. Common Area Expenses shall not, however, include interest on debt; capital retirement of debt; depreciation; costs properly chargeable to the capital account, except for capital expenditures which are reasonably anticipated to reduce other operating expenses or such capital expenditures that are required by changes in any or newly promulgated governmental laws or regulations after the Commencement Date in which case such expenditures, plus interest on the unamortized principal investment at ten percent (10%) per annum, shall be amortized over the life of the improvements, and such costs shall be directly chargeable by Landlord to Tenant in the Tenant's Proportionate Share; any ground lease rental; rentals for items which if purchased (rather than rented) would be a capital cost which is specifically excluded from Common Area Expenses as provided herein (except equipment not affixed to the Project that is used in providing janitorial or similar services or equipment rented or leased to remedy or ameliorate an emergency condition in the Project that arises out of or results from an act of God); costs incurred with respect to the installation of tenant or other occupants' improvements in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Building (excluding, however, such costs relating to any Common Areas or parking facilities); marketing costs, including without limitation, leasing commissions, attorneys' fees, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with Tenant or present or prospective tenants or other occupants of the Building (except as otherwise set forth herein); expenses in connection with utilities, services or other benefits, including, without limitation, utilities and services which are separately metered or paid for by Tenant directly, which are not offered to Tenant or for which Tenant is charged for directly but which are provided to another tenant or occupant of the Building; costs incurred by Landlord for the repair of damage to the Building to the extent that Landlord is or should be reimbursed by insurance proceeds, and costs of all capital repairs, replacements or restorations resulting from a casualty (except that deductibles paid up to 25,000.00 will be included as Common Area Expenses) including without limitation an earthquake or flood to the extent that Landlord is or should be reimbursed by insurance proceeds; overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in or to the Building to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis; costs arising from defects in the base, shell or core of the Building (other than any such defects arising out of any construction conducted by Tenant or its agents) or improvements installed by Landlord or repair thereof; costs incurred in connection with upgrading the Building to comply with life, fire and safety codes, ordinances, statutes or other laws in effect prior to the Commencement Date, including, without limitation, the Americans with Disabilities Act of 1990 (hereinafter, the "ADA"), including penalties or damages incurred due to such non-compliance; Landlord's general corporate overhead and general and administrative expenses; costs for which Landlord has been compensated by a management fee (except as otherwise set forth herein); any and all costs arising from the presence of Hazardous Substances in or about the Premises, the Building or the Project that were in existence prior to the date of this Lease and that are brought in or about the Premises, the Building or the Project after the date of this Lease (except for any and all costs arising from such Hazardous Substances brought or caused by Tenant or its employees, agents, representatives, subtenants, invitees, contractors or subcontractors); and reserves for bad debts or for future improvements, repairs, additions that are excluded from Common Area Expenses herein. Notwithstanding the foregoing, Tenant's Proportionate Share of Controllable Expenses (defined below) shall not increase by more than 5% over Tenant's Proportionate Share of Controllable Expenses in the previous calendar year, on a cumulative, compounded basis. However, any increases in Common Area Expenses not recovered by Landlord due to the foregoing limitation shall be carried forward into succeeding calendar years during the Term (subject to the foregoing limitation) until fully recouped by Landlord. The term "**Controllable Expenses**" means all Common Area Expenses excluding expenses relating to the cost of utilities, security expenses, insurance, real estate taxes and assessments, and other expenses not within Landlord's control.

5.6 Estimates of Additional Rent. In order to provide for current payments of Additional Rent, Landlord may give Tenant from time to time during the Term hereof, written notice of Landlord's estimate of Additional Rent which will be due in the calendar year for which written notice of such estimate is given and the amount of each monthly installment of Landlord's estimate of Additional Rent which shall be one-twelfth (1/12) of the Additional Rent due in any said calendar year as estimated by Landlord, Tenant shall pay to Landlord such Additional Rent as follows: (a) upon execution of this Lease, one (1) monthly installment of Landlord's estimate of Additional Rent which shall be applied to Lease Month 1;

(b) on or before the first day of Lease Month 2, one (1) monthly installment of Landlord's estimate of Additional Rent; and (c) thereafter, one (1) monthly installment of Landlord's estimate of Additional Rent on the first day of each calendar month. If at any time it appears to Landlord that the Additional Rent due Landlord for any calendar year will vary from Landlord's previous estimate thereof, Landlord may, by written notice to Tenant, revise its estimate for such year. Subsequent Additional Rent deposits by Tenant for such year shall be based on the revised estimate.

Within ninety (90) days of the end of the calendar year for which estimates of Additional Rent were made, or as soon thereafter as practicable, Landlord shall provide Tenant its statement of actual Common Area Expenses, Insurance Premiums, and Real Estate Taxes, and Tenant's Proportionate Share of actual Additional Rent due for such year shall be calculated. If Tenant's Proportionate Share of actual Additional Rent exceeds the deposits paid by Tenant based on Landlord's estimates, Landlord shall bill Tenant for the excess amount and Tenant shall pay to Landlord said amount within thirty (30) days of billing. If Tenant's Proportionate Share of actual Additional Rent is less than the deposits paid by Tenant based on Landlord's estimate thereof, Tenant shall, at the option of Landlord, be given a credit for the excess amount against the next Additional Rent deposit due for any subsequent year or receive from Landlord a refund of the excess so paid by Tenant.

If the Lease Term commences on any day other than the first day of January, or if the Lease Term ends on any day other than the last day of December, any Additional Rent due Landlord shall be pro-rated, based on a 365-day year. Upon expiration or termination of this Lease. Tenant shall pay such pro-rated amount within thirty (30) days of billing or Landlord shall refund any excess to Tenant within thirty (30) days after such determination is made. This covenant shall survive the expiration or termination of this Lease.

5.7 Service Charge. Tenant's failure to make any monetary payment required of Tenant hereunder within ten (10) days of the due date therefor shall result in the imposition of a service charge for such late payment in the amount of five percent (5%) of the amount of such late payment to compensate Landlord for the expense of handling such late payment; provided, however, that no late charge shall be imposed for the first late payment so long as Tenant pays the amount due within five (5) days after Tenant's receipt of notice from Landlord that Tenant failed to pay the amount when due. In addition, any sum not paid within thirty (30) days of the due date therefor shall bear interest at the rate of eighteen percent (18%) per annum (or such lesser percentage as may be the maximum amount permitted by law) from the date due until paid.

5.8 Right to Audit. Notwithstanding anything in the Lease to the contrary, Tenant shall have the right, after reasonable notice and at reasonable times, during the ninety (90) day period following the delivery of Landlord's statement of the actual Common Area Expenses, to audit Landlord's accounting records at Landlord's office that pertain to and contain information concerning such expenses with respect to the immediately preceding year in order to verify the amounts thereof. Tenant shall be entitled to retain an independent, certified public accountant to audit and/or review Landlord's records to determine the proper amount of Additional Rent payable by Tenant. Any parties retained by Tenant to audit and/or review Landlord's records shall not be compensated on a contingency fee basis. Tenant shall provide Landlord a copy of any audit obtained by Tenant. Tenant agrees that any Information obtained during an inspection by Tenant of Landlord's books of account and records shall be kept in confidence by Tenant and Tenant agrees to contractually require the same of any third party accountants or auditors engaged by Tenant to assist with such examination. Tenant agrees to pay the cost of such audit, provided that, if the audit reveals that Landlord's determination of the Additional Rent payable by Tenant hereunder as set forth in any statement sent to Tenant was in error in Landlord's favor by more than five percent (5%), Landlord shall pay the reasonable cost of such audit. In the event such audit shall establish that Landlord's statement of Tenant's Proportionate Share of Additional Rent due for the prior year exceeded Tenant's Proportionate Share of Additional Rent actually due and Tenant shall have theretofore paid such incorrect amount, such excess amount paid by Tenant shall be credited against the next maturing installments of Tenant's Proportionate Share of Additional Rent due from Tenant to Landlord, or, if an insufficient Term remains, such excess amount shall be refunded by Landlord to Tenant within thirty (30) days following presentation of a statement therefor. In the event such audit shall establish that Landlord's statement of Tenant's Proportionate Share of Additional Rent for the preceding twelve (12) months was understated, Tenant shall pay to Landlord such excess amount due within thirty (30) days following presentation of a statement therefor. Landlord shall be required to maintain records of Additional Rent for the entirety of the one-year period ("Review Period") following Landlord's delivery to Tenant of each statement setting forth the actual Additional Rent.

ARTICLE 6 - UTILITIES AND SERVICES

6.1 Tenant shall contract in its own name and timely pay for all charges for electricity, gas, telephone, trash hauling, janitorial service and any other services or utilities used in, servicing or assessed against the Premises, unless otherwise herein expressly provided.

ARTICLE 7 - QUIET ENJOYMENT

7.1 Landlord covenants that Tenant, on paying the Rents herein provided and keeping, performing and observing the covenants, agreements and conditions herein required of Tenant, shall peaceably and quietly hold and enjoy the Premises for the Term aforesaid, subject, however, to the terms of this Lease.

ARTICLE 8 - ASSIGNMENT AND SUBLETTING

8.1 Tenant shall not assign or hypothecate this Lease nor sublet or otherwise transfer its interest in all or any part of the Premises (collectively or individually, a "**Transfer**") without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Without limitation, it is agreed that Landlord's consent shall not be considered unreasonably withheld if; (1) the proposed transferee's financial condition is not adequate for the obligations such transferee is assuming in connection with the proposed Transfer; (2) the transferee's business or reputation is not suitable for the Building considering the business and reputation of the other tenants and the Building's prestige, or would result in a violation of another tenant's rights under its lease at the Building; (3) Tenant is in default beyond any applicable notice and cure period; (4) the transferee is an occupant of the Building; (5) any portion of the Building or the Premises would likely become subject to additional or different laws as a consequence of the proposed Transfer; or (6) Landlord or its leasing agent has received a proposal from or made a proposal to the proposed transferee to lease space in the Building within six (6) months prior to Tenant's delivery of written notice of the proposed Transfer to Landlord. Any such Transfer or attempted Transfer in violation of the provision hereof shall be void and of no effect and shall constitute a breach of this Lease.

If Tenant requests Landlord's consent to a Transfer, Tenant shall submit to Landlord (I) financial statements for the proposed transferee, (II) a copy of the proposed assignment or sublease, and (III) such other information as Landlord may reasonably request. After Landlord's receipt of the required information and documentation, Landlord shall either consent or reasonably refuse consent to the Transfer in writing. Tenant shall pay Landlord a review fee of $1,000.00 for Landlord's review of any proposed Transfer or transfer to a Permitted Transferee. In addition, Tenant shall reimburse Landlord for its actual reasonable costs and expenses (including, without limitation, reasonable attorney's fees) Incurred by Landlord in connection with Landlord's review of such proposed Transfer or transfer to a Permitted Transferee.

Notwithstanding any assignment or sublease, Tenant shall remain liable hereunder and shall not be released without the express written agreement of Landlord to such release. The consent by Landlord to any assignment or subletting shall not constitute a waiver of the necessity for such consent to any subsequent assignment or subletting. Except as provided below with respect to a Permitted Transferee, if Tenant is a corporation, limited liability company, partnership or similar entity, and the person, persons or entity which owns or controls a majority of the voting interests at the time changes for any reason (including but not limited to a merger, consolidation or reorganization), such change of ownership or control shall constitute a transfer under this Article 8. The foregoing shall not apply; (i) so long as Tenant is an entity whose outstanding stock is listed on a nationally recognized security exchange, or if at least eighty percent (80%) of its voting stock is owned by another entity, the voting stock of which is so listed, or (ii) to a merger or consolidation of Tenant's Canadian parent company XBiotech, Inc. into Tenant.

8.2 If Tenant shall assign this Lease or sublet any part of the Premises for consideration in excess of the pro-rata portion of Rent applicable to the space subject to the assignment or sublet, then Tenant shall pay to Landlord as Additional Rent 50% of any such excess (after deducting Tenant's reasonable and customary costs and expenses incurred in assigning the Lease or subleasing the space [the "**Transfer Costs**")) within fifteen (15) days following receipt of same; provided, however, that Tenant shall not be required to pay Landlord any amounts hereunder until Tenant has recouped its Transfer Costs.

8.3 Provided Tenant is not in default under this Lease, Tenant may assign this Lease or sublet all or any portion of the Premises to any person or entity which, directly or indirectly, controls Tenant or is controlled by Tenant or is under common control with Tenant (a "**Permitted Transferee**") without Landlord's consent, provided Tenant gives Landlord written notice at least thirty (30) days prior to the effective date of the proposed transfer with, in the case of an assignment, a copy of the written assignment and the assignee's agreement assuming the obligations of Tenant under this Lease prior to the effectiveness of such assignment, or in the case of a sublease, a copy of the written sublease agreement prior to the effectiveness of such sublease. Any such assignment or sublease or attempted assignment or sublease in violation of the provision hereof shall be void and of no effect and shall constitute a breach of this Lease. Notwithstanding any such assignment or sublease to a Permitted Transferee, Tenant shall remain liable hereunder and shall not be released without the express written agreement of Landlord to such release.

ARTICLE 9 - DAMAGE OR DESTRUCTION

9.1 If the Premises or the Building or any part thereof is damaged by fire or other casualty, cause or condition whatsoever as to be substantially untenantable, Landlord shall, by written notice (the "**Damage Notice**") to the Tenant given within sixty (60) days after such damage, either: (I) elect not to restore the Premises and terminate this Lease as of the date of the damage, or (ii) elect to restore the Premises in accordance with this Article 9. For purposes hereof, "substantially untenantable" shall mean that the repairs, as reasonably determined by Landlord, will take in excess of one hundred eighty (180) days to complete after the date of the commencement of the repair by Landlord. If this Lease is not terminated as above provided and if the Premises are made partially or wholly untenantable as aforesaid, Landlord, at its expense shall restore the same with reasonable promptness to the condition in which Landlord furnished the Premises to Tenant at the commencement of the Term of this Lease but only as to those items that were provided at Landlord's expense without any reimbursement by Tenant. Landlord shall be under no obligation to restore any alterations, improvements or additions to the Premises made by Tenant or paid for by Tenant, including, but not limited to, any of the initial tenant finish done or paid for by Tenant or any subsequent changes, alterations or additions made by Tenant. If Landlord does not elect to terminate this Lease as provided herein and the Premises are substantially untenantable, Tenant shall have the right to terminate this Lease by notice to Landlord given within thirty (30) days after Tenant's receipt of the Damage Notice from Landlord. If the Premises or the Building or any part thereof is damaged by fire or other casualty, cause or condition whatsoever as to be substantially untenantable during the last year of the Term, as it may be extended, either Landlord or Tenant may terminate this Lease by notice to the other given within thirty (30) days after the date of the damage or destruction.

9.2 If, as a result of fire or other casualty, cause or condition whatsoever the Premises are made partially or wholly untenantable and, if Landlord has not given the sixty (60) day notice above provided for and fails within one hundred eighty (180) days after commencement of the repairs to eliminate substantial interference with Tenant's use of the Premises or substantially to restore same, Tenant may terminate this Lease as of the end of said one hundred eighty (180) days by notice to Landlord given not later than five (5) days after expiration of said one hundred eighty (180) day period. If the Premises are rendered totally untenantable but this Lease is not terminated, all rent shall abate from the date of the fire or other relevant cause or condition until the Premises are ready for occupancy and reasonably accessible to Tenant. If a portion of the Premises is untenantable, rent shall be prorated on a per diem basis and apportioned in accordance with the portion of the Premises which is usable by the Tenant until the damaged part is ready for the Tenant's occupancy. In all cases, due allowance shall be made for reasonable delay caused by adjustment of insurance loss, strikes, labor difficulties or any cause beyond Landlord's reasonable control. For the purposes of this Lease, the Premises shall be considered tenantable so long as and to the extent that the Premises are occupied. In any event, Tenant shall be responsible for the removal, of restoration, when applicable, of all its damaged property and debris from the Premises, upon request by Landlord or reimburse Landlord for the cost of removal.

ARTICLE 10 - LANDLORD'S RIGHTS

10.1 Landlord reserves the following rights:

(a) To change the name of the Building without notice or liability to Tenant;

(b) If Tenant has vacated the Premises and not paid its Rent, to decorate, remodel, repair, alter or otherwise prepare the Premises for reoccupancy;

(c) On reasonable prior notice to Tenant, to exhibit the Premises to others and to display "For Lease" signs on the Premises during the last six months of the Term or any extension thereof;

(d) To remove abandoned or unlicensed vehicles and vehicles that are unreasonably interfering with the use of the parking lot by others and to charge the responsible tenant for the expense of removing said vehicles;

(e) On reasonable prior notice to Tenant, To take any and all measures, including making inspection, repairs, alterations, additions and improvements to the Premises or to the Building as may be necessary or desirable for the safety, protection or preservation of the Premises or the Building or Landlord's interests, or as may be necessary or desirable in the operation thereof (in exercising the rights reserved in this subsection (d), Landlord shall use reasonable efforts to avoid any unreasonable interference with Tenant's operations in the Premises (but shall not be required to conduct such operations on an overtime basis)).

Landlord may enter upon the Premises at any reasonable time on reasonable prior notice for the purpose of exercising any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of Tenant's use or possession and without being liable in any manner to Tenant.

ARTICLE 11 - HOLDING OVER

11.1 Tenant shall pay to Landlord the Base Rent and Additional Rent computed on a daily basis for each day Tenant retains possession of the Premises or any part thereof after the expiration of the Term, by lapse of time or otherwise, at 150% of the amount due during the last monthly period prior to the date of such expiration and also pay all damages, direct or indirect, sustained by Landlord by reason of such retention. Any such continued possession by Tenant shall be as a tenant at sufferance. Nothing herein shall be construed as requiring Landlord to permit Tenant to retain possession of the Premises or any part thereof after the expiration of the Term. In addition to the obligation to pay the amounts set forth above during any such holdover period, Tenant shall also be liable to Landlord for all damages, including, without limitation, any consequential damages, which Landlord may suffer by reason of any holding over by Tenant and Tenant shall also indemnify Landlord against any and all claims made by any other tenant or prospective tenant against Landlord for delay by Landlord in delivering possession of the Premises to such other tenant or prospective tenant.

ARTICLE 12 - SIGNS AND ADVERTISEMENTS

12.1 Except as provided below, Tenant shall not put upon nor permit to be put upon any part of the Premises or the Building, any signs, billboards or advertisements whatever in any location or any form without the prior written consent of Landlord.

12.2 During the initial Term and any renewal periods, but only so long as no event of default is in existence under this Lease beyond all applicable notice and cure periods, Tenant shall have the right to install and maintain, at Tenant's sole expense, exterior signage identifying Tenant's name (the "**Signage**") on the Building. The signage rights granted herein are personal to the specific party originally identified as the "Tenant" under the Lease and its Permitted Transferee and may not be transferred, shared or assigned in whole or in part to any other assignee, subtenant or other tenant in the Building.

The location, size, material, construction and design of the Signage shall be subject to (a) the prior written approval of Landlord, which shall not be unreasonably withheld, conditioned or delayed and (b) compliance with applicable laws. Specifications for construction and design of the Signage and location of the Signage on the Building are set forth in Exhibit "G" to this Lease. Tenant shall not make any subsequent alterations in or additions to the Signage without in each instance first complying with the foregoing requirements. Tenant acknowledges that Landlord has made no representation that any Signage proposed by Tenant will comply with applicable law. In no event shall Tenant use a name on the Signage that is in competition with another tenant of Landlord or its affiliates or in contravention of any prior signage rights. Landlord, upon advance written request from Tenant and in Landlord's reasonable discretion, shall provide reasonable access to Tenant for the purpose of cleaning and maintaining the Signage.

Tenant, at its expense, shall obtain all necessary governmental permits and certificates required for the installation and use of the Signage. All construction, installation, alterations and repair and maintenance work shall be performed in a good and workmanlike manner in compliance with the Building's rules and regulations and shall not interfere with, delay or otherwise impose any additional expenses upon Landlord in the maintenance and operation of the Building or upon the use and enjoyment by other tenants of their respective premises in the Building. Tenant shall maintain the Signage and keep it in good working order repair and shall timely pay or cause to be paid all costs for work done by Tenant or caused to be done by Tenant related to the Signage, in accordance with the provisions of Section 18.2 of this Lease.

Upon the Expiration Date or earlier termination of Tenant's right to possess the Premises, or if Tenant otherwise falls at any time to comply with the requirements of this Section 12.2, Tenant shall, at its sole expense, promptly remove all such Signage which shall become the property of Tenant, and repair any damage caused by the Signage or Its removal. However, if the Signage is not removed from the Property within 15 days after Landlord's notice, then the Signage shall conclusively be deemed to have been abandoned by Tenant and may be removed, appropriated, sold, stored, destroyed or otherwise disposed of by Landlord without further notice to Tenant or any other person and without obligation to account therefor. Tenant shall pay Landlord all reasonable expenses incurred in connection with any such removal, appropriation, sale, storage, destruction and disposition of the Signage and the repair of any damage caused by the Signage or its removal.

Notwithstanding anything to the contrary contained in this Section 12.2, or in any approvals or other communications, Landlord reserves the right, in its sole discretion and at its expense, to move any existing signage (except for Tenant's signage approved by Landlord unless Tenant consents to such move) or modify its signage guidelines for the Project at any time and from time to time.

ARTICLE 13 - MORTGAGE AND SUBORDINATION/ESTOPPEL CERTIFICATE

13.1 Except as provided in Section 13.3 below with respect to mortgage subordination, this Lease and all rights of Tenant hereunder are and shall be subject and subordinate to the lien of any first mortgage, deed of trust, or other Instrument in the nature thereof which may now or hereafter affect Landlord's interest in the premises and to any other Instrument encumbering the Landlord's interest in the premises and to any modifications, renewals, consolidations, extensions, or replacements thereof.

13.2 Section 13.1 above shall be self-operative, and no further Instrument of subordination shall be required by the holder of any such Instrument. In confirmation of such subordination, Tenant shall, within ten (10) days after demand, execute, acknowledge, and deliver to Landlord or the holder of any such mortgage, deed of trust, or other such instrument without expense, any and all Instruments that may be requested by such holder to evidence the subordination of this Lease and all rights hereunder to the lien of any such mortgage, deed of trust, or other instrument, and each such renewal, modification, consolidation, replacement, and extension therefor. Notwithstanding the foregoing, in consideration of and as a condition precedent to Tenant's agreement to subordinate this Lease shall be the receipt of a commercially reasonable non-disturbance agreement from Landlord and the mortgage holder, lien holder or ground lessor, as applicable.

13.3 Tenant shall, within ten (10) days after demand, execute, acknowledge, and deliver to Landlord or to the holder of any mortgage, deed of trust, or other instrument affecting or encumbering the Landlord's interest in the Premises, without expense, any and all reasonable instruments that may be necessary to make this Lease superior to the lien of any such mortgage, deed of trust or other Instrument, and each renewal, modification, consolidation, replacement, and extension thereof.

13.4 If the holder of any mortgage, deed to secure debt, deed of trust or other instrument affecting or encumbering Landlord's Interest in the Premises, shall hereafter succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease, Tenant shall attorn to and recognize such successor as Tenant's landlord under this Lease and shall promptly execute and deliver any instrument that may be necessary to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between such successor landlord and Tenant, subject to all the terms, covenants, and conditions of this Lease.

13.5 At any time and from time to time, Tenant, on or before the date specified in a request therefor made by Landlord, which date shall not be earlier than ten (10) days from the making of such request, shall execute, acknowledge, and deliver to Landlord a certificate evidencing whether or not: (i) this Lease is in full force and effect, (ii) this Lease has been amended in any way, (iii) there are any existing defaults on the part of Landlord hereunder to the knowledge of Tenant and specifying the nature of such defaults, If any, and (iv) the date to which rent, and other amounts due hereunder, If any, have been paid. Each certificate delivered pursuant to this Section may be relied on by any

prospective purchaser or transferee of Landlord's interest hereunder or of any part of Landlord's property or by any mortgagee of Landlord's interest hereunder or of any part of Landlord' property or by an assignee of any such mortgagee.

13.6 Landlord agrees that it will provide Tenant, at no cost to Tenant, with a commercially reasonable non-disturbance, subordination and attornment agreements ("**non-disturbance agreement**") from any ground lessors, mortgage holders or lien holders (each, a "**Superior Mortgagee**") then in existence within thirty (30) days after the date of full execution of this Lease. Said non-disturbance agreements shall be in recordable form and may be recorded at Tenant's election and expense. In the event Landlord falls to provide such commercially reasonable non-disturbance agreements within the time frame set forth in this Section 13.6, Tenant shall have the right, exercisable at any time thereafter, to give ten (10) business days' written notice to Landlord terminating the Lease. In the event Landlord does not provide Tenant with the applicable non-disturbance agreements within such ten (10) day period, the Lease shall terminate.

ARTICLE 14 - EMINENT DOMAIN

14.1 If the Premises or such substantial part thereof as reasonably renders the remainder unfit for the intended uses shall be taken by any competent authority under the power of eminent domain or be acquired for any public or quasi-public use or purpose, the Term of this Lease shall cease and terminate upon the date when the possession of said Premises or the part thereof so taken shall be required for such use or purpose and without apportionment of the award and Tenant shall have no claim for the value of any unexpired Term of this Lease. If any condemnation proceeding shall be instituted in which it is sought to take any part of the Building or change the grade of any street or alley adjacent to the Building and such taking or change of grade makes it necessary or desirable to remodel the Building to conform to the changed grade, Landlord shall have the right to terminate this Lease not less than ninety (90) days after having give written notice of termination to Tenant. In either of said events, rent at the then current rate shall be apportioned as of the date of the termination. No money or other consideration shall be payable by the Landlord to the Tenant for the right of termination and the Tenant shall have no right to share in the condemnation award or in any judgment for damages caused by the taking or the change of grade. Nothing in this Section shall preclude an award being made to Tenant for loss of business or depreciation to and cost of removal of equipment or fixtures.

ARTICLE 15 - INABILITY TO PERFORM

15.1 If by reason of inability to obtain and utilize labor, materials or supplies; circumstances directly or indirectly the result of a state of war or national or local emergency; any laws, rules, orders, regulations or requirements of any governmental authority now or hereafter in force; strikes or riots; accident in, damage to or the making or repairs, replacements, or improvements to the Premises or any of the equipment thereof; or by reason of any other cause beyond the reasonable control of Landlord, Landlord shall be unable to perform or shall be delayed in the performance of any covenant to supply any service, such nonperformance or delay in performance shall not render Landlord liable in any respect for damages to either person or property, constitute a total or partial eviction, constructive or otherwise, work an abatement of rent or relieve Tenant from the fulfillment of any covenant or agreement contained in this Lease.

15.2 Other than for Tenant's monetary obligations under this Lease and obligations which can be cured by the payment of money (e.g., maintaining insurance), whenever a period of time is herein prescribed for action to be taken by Tenant, Tenant shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to inability to obtain and utilize labor, materials or supplies; circumstances directly or indirectly the result of a state of war or national or local emergency; any laws, rules, orders, regulations or requirements of any governmental authority now or hereafter in force; strikes or riots; accident in, damage to or the making or repairs, replacements, or improvements to the Premises or any of the equipment thereof; or by reason of any other cause beyond the reasonable control of Tenant.

ARTICLE 16 - HAZARDOUS SUBSTANCES AND MATERIALS

16.1 A. During the Term of this Lease, Tenant shall not suffer, allow, permit or cause:

1. The Installation of any underground storage tanks for the purpose of holding petroleum products or hazardous substances either on the Premises or at any other location in the Building or the Project.

2. The accumulation of tires, spent batteries, debris or other solid wastes either on the Premises or any other part of the Building or the Project except rubbish placed in designated containers scheduled for normal, scheduled disposal in accordance with all applicable law;

3. The generation, accumulation, storage, possession, release or threat of release of "hazardous substances", "pollutants", "hazardous waste", or "toxic materials" [as those terms are used in the Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. §§9601 et seq., as amended, the Resource Conservation and Recovery Act of 1976, 42 U.S.C. 6901, et seq., as amended ("RECRA"), the Toxic Substance Control Act (or any regulations promulgated under the foregoing), the Federal Water Pollution Control Act, 33 U.S.C. 1251 et seq., or the Clean Air Act, 42 U.S.C. 7401 et seq., or any other present or future federal, state or local law, ordinance, rule or regulation], including extremely flammable substances, explosives, radioactive materials, asbestos, urea formaldehyde, PCB's, chlorofluorocarbons, freon, petroleum/petroleum products, medical and biomedical waste products (collectively, "**Hazardous Substances**"); provided, however, the foregoing

prohibition shall not be applicable to (i) Hazardous Substances which are present at the Premises prior to the date hereof, (ii) normal and reasonable amounts of cleaning and pest control supplies reasonable necessary for maintenance of the Premises so long as such materials are properly, safely, and lawfully stored and used by Tenant and the quantity of same does not equal or exceed a "reportable quantity" as defined under 40 C.F.R. 302 and 305, as amended, (iii) de minimis amounts of leaked or spilled petroleum products from the normal operation of motor vehicles or (iv) Hazardous Substances necessary for Tenant's Permitted Use so long as: (a) such materials (and all containers therefor) are used, kept, stored and disposed of in a manner that compiles with all applicable federal, state and local statutes, ordinances, rules, regulations, orders and requirements applicable to such materials; (b) Tenant obtains and maintains all governmental permits and approvals required therefor; (c) such materials are approved of in writing by Landlord in advance; and (d) title to any such Hazardous Substances will remain and be stored and disposed of solely in Tenant's name.

4. The use of the Premises for industrial or manufacturing purposes, except as may be provided for herein.

B. Tenant shall notify Landlord Immediately upon learning that any duty of Tenant described in Subsection A of this Section 16.1 has been violated, that there has been a release, discharge or disposal of any Hazardous Substances on a part of the Premises or the Building or the Project (regardless of whether or not the release is in quantities that would require under the law the reporting of such release to a governmental or regulatory agency), that radon gas or urea formaldehyde has been detected on or in the Premises, or that the Premises are subject to any third party claim or action, or threat thereof, because of any environmental condition in or originating from the Premises or arising in connection with Tenant's operations at the Premises or at the Building or the Project. Tenant shall promptly provide Landlord with copies of all correspondence to or from third parties regarding such claims or actions or regarding environmental conditions in or originating from Tenant's operations in the Premises or at the Building or the Project. Landlord retains the right to join and participate, as a party, in any legal actions affecting the Project or any portion thereof initiated in connection with Hazardous Substances laws.

C. In the event of a release, leaking, spilling or deposit (collectively "**Leak**") of any Hazardous Substances on, in or from the Premises caused by Tenant or its employees, agents, representatives, subtenants, invitees, contractors or subcontractors, Tenant shall immediately take all investigatory and/or remedial action (collectively "**Remediation**") that is necessary to cause complete Remediation of such Leak, in accordance with all applicable laws and regulations. Tenant shall restore the Premises, the Building, and the Project to the environmental condition that existed prior to commencement of this Lease or the date Tenant took possession of the Premises, whichever is earlier. Landlord shall have the right, but not the obligation, to enter the Premises and Remediate any environmental condition on the Premises to comply with all laws, regulations and ordinances during which time Tenant shall not be entitled to any abatement of rent.

D. With respect to any Remediation of the Premises, the Project or any portion thereof which is Tenant's responsibility hereunder, Tenant will provide Landlord with written notice of Tenant's Intended Remediation, including Tenant's method, time and procedure of Remediation, and Landlord will have the right to require reasonable changes in such method, time or procedure before Tenant commences any such work. Tenant will not commence any Remediation of any Leak in any way connected with the Project, or any portion thereof, without first notifying Landlord, in writing, of Tenant's intention to do so and affording Landlord ample opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interest.

E. Tenant shall indemnify and hold harmless Landlord (as well as Landlord's officers, directors, shareholder, employees, partners, servants and agents, including the property manager) [the "**Indemnified Parties**"] of and from any and all liabilities (including strict liabilities), penalties, demands, actions, costs and expenses (including without limitation legal fees), remediation and response costs, remediation plan preparation costs and any continuing monitoring or closure costs, incurred or suffered by the Indemnified Parties, or asserted by a third party against the Indemnified Parties, directly or indirectly arising due to the breach of Tenant's obligations set forth in this Article. Such indemnification shall survive expiration or earlier termination of this Lease.

F. At the expiration or sooner termination hereof, Tenant shall return the Premises to Landlord in substantially the same condition as existed on the date of commencement hereof or the date Tenant took possession of the Premises, whichever is earlier, free of any Leaked Hazardous Substances in, on or from the Premises.

16.2 Landlord represents and warrants that to the best of Landlord's knowledge, the Premises, Building and Project are free of Hazardous Substances as of the date of this Lease. Landlord shall indemnify Tenant against any loss, cost, damage, claim or expense (but excluding any consequential or special damages) arising out of or related to the presence, use, handling, discharge, release or disposal of Hazardous Substances on, in, to or from the Premises, Building or Project caused by Landlord, except to the extent that such loss, cost, damage, claim or expense arises out of the use, handling, discharge, release or disposal by Tenant or its employees, agents, representatives, tenants, subtenants, invitees, contractors or subcontractors of any Hazardous Substances introduced by any of them into the Premises.

ARTICLE 17 - COMMON AREAS

17.1 The term "**Common Areas**" means all the areas and facilities of the Project (as the same may be altered from time to time by Landlord) not Intended for renting and, Instead, designed for the common use and benefit of Landlord and all or substantially all of the tenants, their employees, agents, customers and invitees. The Common Areas include, but not by way of limitation, the roof, foundation, exterior walls (excluding glass or plate glass), gutters and downspouts, parking lots, rail spurs, truck courts, landscaped and vacant areas, driveways, walks and curbs with facilities appurtenant to each as such areas may exist from time to time. Landlord shall operate and maintain the Common Areas, the proportionate cost of which shall be reimbursed by Tenant to Landlord as provided for herein. Landlord hereby grants to Tenant the non-exclusive revocable use of the Common Areas by Tenant, Tenant's employees, agents, customers and invitees, which use shall be subject at all times to such reasonable, uniform and non-discriminatory rules and regulations (the "**Rules and Regulations**") as may from time to time be established by Landlord and the terms and conditions of the Declaration to the extent applicable to the Project and/or to Tenant.

17.2 Tenant shall not use any part of the Building exterior to the Premises for outside storage. No trash, crates, pallets or refuse shall be permitted anywhere outside the Building by Tenant except in enclosed metal containers to be located as directed by Landlord. Tenant shall not park any trucks or trailers, loaded or empty, except in front of the docks on the concrete apron provided for such purposes. Tenant shall not park or permit parking of vehicles overnight anywhere about the Building's parking areas without the prior written consent of Landlord.

17.3 Landlord shall use commercially reasonable efforts to enforce the Rules and Regulations equally with other tenants; provided, Landlord shall not have any liability to Tenant for any failure of any other tenant or tenants of the Project to comply with the Rules and Regulations. In the event of any conflict between the Rules and Regulations and the provisions of this Lease, the provisions of this Lease shall prevail.

ARTICLE 18 - ACCEPTANCE OF PREMISES, MAINTENANCE AND CARE

18.1 Completion and Acceptance. Tenant acknowledges that it will examine the Premises before taking possession hereunder. Unless Tenant furnishes Landlord with a notice in writing specifying any defect in the delivery of the Premises in the Required Condition within fifteen (15) days after the Actual Delivery Date, it shall be conclusively deemed, and Tenant hereby acknowledges, that the Premises were delivered in the Required Condition and in good working order and satisfactory condition and otherwise in an "AS-IS, WHERE IS" condition. **Tenant expressly acknowledges and agrees that Landlord has not made and is not making, and Tenant, In executing and delivering this Lease, is not relying upon, any warranties, representations, promises or statements, except to the extent that the same are expressly set forth in this Lease. Landlord and Tenant expressly agree that there are and shall be no implied warranties of merchantability, habitability, suitability, fitness for a particular purpose or of any other kind arising out of this Lease, all of which are hereby waived by Tenant, and that there are no warranties which extend beyond those expressly set forth in this Lease.**

18.2 Maintenance and Repair by Tenant. Tenant shall be responsible for all maintenance, repair and replacement to the Premises of whatsoever kind or nature that is not hereinafter set forth specifically as the obligation of Landlord. Tenant shall take good care of the Premises and fixtures, and keep them in good repair and free from filth, overloading, danger of fire or any pest or nuisance, and repair and/or replacement any damage or breakage done by Tenant or Tenant's agents, employees or invitees, including damage done to the Building by Tenant's equipment or installations, including, without limitation, the requirements with respect to the heating, ventilation and air conditioning system set forth in Section 5.4 above. Tenant shall be responsible for the repair and replacement of all glass and plate glass on the Premises. At the end of the Term of this Lease or any renewal hereof, Tenant shall quit and surrender the Premises broom clean, In as good condition as when received by Tenant, normal wear and tear and damage by casualty excepted. In the event Tenant fails to maintain the Premises as provided for herein, Landlord shall have the right, but not the obligation, on five (5) days notice to Tenant (except in the case of an emergency), to perform such maintenance, repair and replacement as is required of Tenant in which event Tenant shall promptly reimburse Landlord for its costs in providing such maintenance or repairs together with a five percent (5%) charge for Landlord's overhead.

18.3 Maintenance and Repair by Landlord. During the Term of this Lease, Landlord shall keep and maintain the Common Areas of the Project in good condition and repair. Landlord shall be under no obligation and shall not be liable for any failure to make repairs that are Landlord's responsibility herein until and unless Tenant notifies Landlord in writing of the necessity therefor, In which event Landlord shall have a reasonable time thereafter to make such repairs. Landlord reserves the right to the exclusive use of the roof, foundation and exterior walls of the Building which Landlord is so obligated to maintain and repair. If any portion of the Premises or Project which Landlord is obligated to maintain or repair is damaged by the negligence of Tenant, its agents, employees or invitees, then repairs necessitated by such damage shall be paid for by Tenant.

ARTICLE 19 - ALTERATIONS AND ADDITIONS, MECHANICS' LIENS

19.1 Alterations and Additions. Tenant shall not make any alterations, improvements, or additions to the Premises without the prior written consent and approval of plans therefor by Landlord, which approval shall not be unreasonably withheld; provided, however, that Landlord's consent shall not be required for strictly cosmetic alterations that do not affect the structure of the Building. Except as otherwise provided in the Work Letter with respect to the plans for the Initial Alterations, Landlord shall have thirty (30) days after submission of such plans by Tenant to approve or disapprove of

them in writing. The work necessary to make any alterations, improvements or additions to the Premises shall be done at Tenant's expense using contractors selected by Tenant and reasonably approved by Landlord. Tenant shall promptly pay the cost of all such work. Alterations, Improvements or additions so made by either of the parties upon the Premises, except trade fixtures, moveable furniture and equipment placed in the Premises at the expense of Tenant, shall be and become the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the termination of this Lease, without disturbance, molestation, injury or damage, unless Landlord elects, at the time Tenant requests Landlord's consent to the alteration, improvement or addition (including the Initial Alterations) to require Tenant to remove any or all such alterations, improvements or additions from the Premises, in which event Tenant, at Tenant's sole cost and expense, shall remove, not later than the termination of the Lease, all such designated alterations or improvements (including, without limitation, the removal of any wiring and/or cabling installed by, at the request of or for the benefit of Tenant in the Project) in a good, workmanlike manner, repairing and restoring the Premises to the condition existing therein prior to the construction of such alterations or improvements, free and clear of all liens and encumbrances. In the event damage to the Premises or the Building shall be caused by moving said furniture and equipment in or out of the Premises, said damage shall be promptly repaired at the cost of Tenant. Tenant shall deliver to Landlord (i) all required permits and approvals prior to the commencement of any such alterations, Improvements and/or additions; and (ii) "as-built" drawings of the Premises showing any alterations, improvements or additions to the Premises within thirty (30) days following completion of such alterations, improvements or additions to the Premises or thirty (30) days prior to the expiration of the Term of this Lease, if earlier.

19.2 Mechanic's Liens. Tenant shall not cause nor permit any mechanic's liens or other liens to be placed upon the Premises or the Building and in case of the filing of any such lien or claim therefor, Tenant shall promptly discharge same; provided, however, that Tenant shall have the right to contest the validity or amount of any such lien upon its prior posting of security with Landlord, which security, in Landlord's sole reasonable judgment, must be adequate to pay and discharge any such lien in full plus Landlord's reasonable estimate of its legal fees. Tenant agrees to pay all legal fees and other costs incurred by Landlord because of any mechanic's or other liens attributable to Tenant being placed upon the Premises or the Building.

ARTICLE 20 - INSURANCE

20.1 Tenant's Insurance: Commercial General Liability, Property Damage Insurance. Tenant covenants and agrees to maintain on the Premises at all times during the Term of this Lease, or any renewal thereof, (i) a policy or policies of commercial general liability insurance with not less than $3,000,000.00 combined single limit for both bodily injury and property damage which policy or policies shall name Landlord and its property manager as additional insureds; and (ii) a policy or policies of causes of loss – special form (formerly known 'all risk' or 'fire and extended coverage') property insurance as insurance covering any property of Tenant or any property that may be in the Premises but not owned by Landlord, or which Tenant is responsible to replace following a casualty hereunder, at its full replacement cost, which policy or policies shall name Landlord and its property manager as loss payees. In addition, Tenant shall maintain automobile liability insurance covering owned, non-owned and hired vehicles in an amount not less than a combined single limit of $1,000,000.00 per accident, and workers' compensation insurance covering Tenant's employment of workers and anyone for whom Tenant may be liable for workers' compensation claims, and employer's liability insurance in an amount not less than $1,000,000.00 each accident, $1,000,000.00 disease – each employee and policy limit, with waiver of subrogation. Tenant shall obtain for the benefit of Landlord a waiver of subrogation with respect to insurance maintained by Tenant on its property.

20.2 Landlord's Insurance: Property Insurance: Commercial General Liability. Landlord shall, throughout the Term of this Lease, or any extension thereof, maintain (i) causes of loss – special form property insurance on the property owned by Landlord located in and about the Project; and (ii) a policy or policies of commercial general liability insurance covering the Common Areas, and such other insurance as Landlord shall from time to time deem necessary or prudent. All such insurance shall be in such amounts and with such deductibles as Landlord shall reasonably determine. Landlord shall not be obligated in any way or manner to insure or otherwise be liable or responsible for any property of Tenant or any property that may be in the Premises but not owned by Landlord or for property of Tenant that Tenant is responsible to replace following a casualty hereunder. Landlord's insurance policy shall contain a waiver of subrogation with respect to claims against Tenant for losses insured and compensated under such insurance policy.

20.3 Indemnification of Landlord. Except for claims for which Landlord is compensated under the insurance described in Section 20.2 (and to the extent of such compensation) and for which a waiver of subrogation is in effect and except to the extent caused by the gross negligence or willful misconduct of Landlord or its Affiliates (as hereinafter defined), Tenant indemnifies and shall hold Landlord, and its affiliates, partners, representatives, directors, trustees, officers, employees, lenders, successors and assigns (collectively, the "**Affiliates**") and its property manager harmless from and defend Landlord and the Affiliates and its property manager against any and all claims or liabilities for any injury or death to any person or damage to any property whatsoever:

1. Either (i) occurring in, on, or about the Premises, or (ii) occurring in, on, or about any facilities including, without limitation, elevators, stairways, passageways or hallways the use of which Tenant may have in conjunction with other tenants of the Building, when such injury, death or damage shall be caused in part or in whole by the act, neglect or fault of, or omission of any duty with respect to the same by Tenant, its agents, employees, contractors, invitees, licensees, tenants, or assignees;

2. Arising from any work or thing whatsoever done by or benefiting the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises (which indemnification shall be proportionate to the benefit to Tenant with respect to matters done by other parties which benefit Tenant and other tenants of the Building);

3. Arising from any breach or default on the part of the Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to the terms of this Lease; or

4. Otherwise arising from any act or neglect of the Tenant, or any of its agents, employees, contractors, invitees, licensees, tenants or assignees; and

5. From and against all costs, expenses, counsel fees, and court costs incurred or assessed in connection with any or all of the foregoing.

Furthermore, in case any action or proceeding be brought against Landlord, and/or Landlord's property manager by reason of any claims or liability as set forth above, Tenant agrees to cause such action or proceeding to be defended at Tenant's sole expense by counsel reasonably satisfactory to Landlord. The provisions of this Lease with respect to any claims or liability occurring or caused prior to any expiration or termination of this Lease shall survive expiration or termination.

THIS INDEMNITY SHALL APPLY REGARDLESS OF WHETHER THE LOSS IN QUESTION ARISES OR IS ALLEGED TO ARISE IN PART FROM ANY NEGLIGENT ACT OR OMISSION OF LANDLORD OR LANDLORD'S AGENTS, EMPLOYEES, OFFICERS, DIRECTORS, SHAREHOLDERS, PARTNERS, MEMBERS, VENTURERS, BENEFICIARIES, MORTGAGEES, AGENTS OR REPRESENTATIVES (COLLECTIVELY, "**LANDLORD'S RELATED PARTIES**"), **FROM STRICT LIABILITY OF ANY SUCH PERSONS OR OTHERWISE, BUT IN SUCH EVENT TENANT SHALL NOT BE RESPONSIBLE FOR THAT PORTION OF ANY LOSS WHICH IS HELD TO BE CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR LANDLORD'S RELATED PARTIES.**

ARTICLE 21 - DEFAULT AND REMEDIES

21.1 In the event:

(a) Tenant shall at any time fall to pay any item of Rent when due and such failure continues for a period of ten (10) days after Tenant's receipt of notice that Tenant failed to pay the amount when due; provided, however, Landlord shall not be obligated to notify Tenant of Tenant's failure to pay any item of Rent due under this Lease more than once during any twelve (12) month period during the Term; or

(b) Tenant shall fail to keep, perform or observe any other covenant, agreement, condition or undertaking hereunder and shall fall to remedy such default within ten (10) days after written notice thereof to Tenant; or if such default is one that will take longer than ten (10) days to remedy, Tenant falls to commence curing such default within ten (10) days and/or falls diligently to pursue such cure to completion; or

(c) The Premises shall be vacated by Tenant for any period for which Tenant has not paid its Rent;

Landlord shall have the right, without further notice to or demand, to re-enter and take exclusive possession of the Premises, with or without force or legal process, and to refuse to allow Tenant to enter the same or have possession thereof; to change the locks on the doors to the Premises; take possession of any furniture or other property in or upon the Premises (Tenant hereby waiving the benefit of all exemptions by law), sell the same at public or private sale without notice and apply the proceeds thereof to the costs of sale, payment of damages and payment of the rent due under this Lease; and pursue any other remedy permitted by law all without being liable to Tenant for any damages or to any prosecution therefor. Additionally, Landlord, at Landlord's election may:

(a) act as agent of Tenant to relet the Premises for the balance of the Lease Term or for a shorter or longer term and receive the rents therefor, applying them first to the payment of damages suffered to the Premises and rents due and to become due under this Lease, Tenant remaining liable for and hereby agreeing to pay Landlord any deficiency; or

(b) cancel and terminate the remaining Term of this Lease, re-enter and take possession of the Premises free of this Lease and thereafter this Lease shall be null and void and the rents in such case shall be apportioned and paid on and up to the date of such entry. Thereafter both parties shall be released and relieved from any of any and all obligations thereafter to accrue hereunder. Tenant shall be liable for all loss and damage resulting from such breach or default; or

(c) treat such default as an anticipatory breach of this Lease and, as liquidated damages for such default, be entitled to the difference, if any, between the sum which, at the time of such termination for anticipatory breach represents the then present worth (computed at seven percent per year) of the excess aggregate rents and additional rents payable hereunder that would have accrued over the balance of the Lease Term including extensions, had such Term not been prematurely terminated, over the aggregate market rental value of the Premises over the Term (including extensions) that the Lease would have run had it not been prematurely terminated.

The foregoing provisions override and control any conflicting provisions of Section 93.002 of the Texas Property Code of 1990, as well as any successor statute.

TO THE EXTENT, AND ONLY IN THE CIRCUMSTANCES REQUIRED BY TEXAS LAW, LANDLORD SHALL USE OBJECTIVELY REASONABLE EFFORTS TO RELET THE PREMISES AFTER AN EVENT OF DEFAULT AND THE TERMINATION OF TENANT'S RIGHT TO POSSESSION OF THE PREMISES (INCLUDING, WITHOUT LIMITATION, SUCH CONCESSIONS AND FREE RENT AS LANDLORD DEEMS NECESSARY OR DESIRABLE); PROVIDED, HOWEVER, THAT TENANT EXPRESSLY AGREES THAT LANDLORD MAY OFFER ALL OR ANY PART OF THE PREMISES FOR ANY PERIOD, TO ANY TENANT AND FOR ANY USE WHICH LANDLORD MAY ELECT, AND THAT LANDLORD MAY OFFER FOR LEASE ANY VACANT SPACE IN THE BUILDING (OR IN OTHER BUILDINGS OWNED BY LANDLORD OR LANDLORD'S AFFILIATES) BEFORE OFFERING THE PREMISES FOR LEASE. TENANT FURTHER AGREES THAT IF WITHIN THIRTY (30) DAYS AFTER TERMINATION OF TENANT'S RIGHT TO POSSESSION OF THE PREMISES, LANDLORD PLACES A "FOR LEASE" SIGN AT THE PREMISES, OR LANDLORD ENTERS INTO A LISTING AGREEMENT WITH A REAL ESTATE AGENT FOR THE LEASE OF THE PREMISES, OR LANDLORD ADVERTISES THE LEASED PREMISES FOR LEASE IN THE AUSTIN-AMERICAN STATESMAN (OR OTHER NEWSPAPER WITH A GENERAL CIRCULATION IN AUSTIN, TEXAS) AT LEAST ONCE PER MONTH, AND LANDLORD SHOWS THE PREMISES TO PROSPECTIVE TENANTS WHO REQUEST TO SEE THE PREMISES, LANDLORD CONCLUSIVELY SHALL BE DEEMED TO HAVE USED OBJECTIVELY REASONABLE EFFORTS TO RELET THE PREMISES AND TO HAVE FULFILLED ANY OBLIGATION TO MITIGATE DAMAGES BY REASON OF TENANT'S DEFAULT. TENANT ACKNOWLEDGES AND AGREES THAT LANDLORD SHALL NOT BE REQUIRED TO ACCEPT ANY TENANT WHICH TENANT MAY SUGGEST TO LANDLORD, AND THAT LANDLORD MAY UTILIZE IN RELETTING THE PREMISES THE SAME UNDERWRITING STANDARDS, AND STANDARDS OF REPUTATION IN THE COMMUNITY, WHICH LANDLORD APPLIES GENERALLY IN LEASING SPACE WITHIN THE BUILDING. TENANT FURTHER EXPRESSLY ACKNOWLEDGES AND UNDERSTANDS THAT LANDLORD CONSIDERS MANY FACTORS IN THE SELECTION OF TENANTS, INCLUDING WITHOUT LIMITATION, EXCLUSIVITY PROVISIONS IN EXISTING LEASES AND RESTRICTIVE COVENANTS, THE BALANCE OF USES WITHIN THE BUILDING, THE TENANT MIX WITHIN THE BUILDING, AND THE REPUTATION AND LOCAL, REGIONAL, OR NATIONAL NAME RECOGNITION AND CREDIT STANDING OF PROSPECTIVE TENANTS.

21.2 Landlord's Right to Cure. Landlord may, but shall not be obligated to, cure any default by Tenant (specifically including, but not by way of limitation, Tenant's failure to obtain Insurance, make repairs, or satisfy lien claims); and whenever Landlord so elects, all costs and expenses paid by Landlord in curing such default, including without limitation reasonable attorneys' fees, shall be so much Additional Rent due on the next rent date after such payment, together with interest (except in the case of said attorneys' fees) at the highest legal rate then payable by Tenant in the state in which the Leased Premises are located or in the absence of such a maximum rate at the rate of eighteen percent (18%) per annum, from the date of the advance to the date of repayment by Tenant to Landlord.

21.3 Remedies Cumulative. All rights and remedies provided in this Lease for Landlord's protection shall be cumulative and in addition to any other rights and remedies provided by law. Landlord shall be entitled to recover from Tenant its reasonable attorneys' fees incurred in enforcing its rights hereunder.

21.4 No Waiver. A waiver by Landlord of a breach or default by Tenant under the terms and conditions of this Lease shall not be construed to be a waiver of any subsequent breach or default nor of any other term or condition of this Lease, and the failure of Landlord to assert any breach or to declare a default by Tenant shall not be construed to constitute a waiver thereof so long as such breach or default continues unremedied.

21.5 No Reinstatement. No receipt of money by Landlord from Tenant after the expiration or termination of this lease or after the commencement of any suit, or after final judgment for possession of the Premises shall reinstate, continue or extend the Term of this Lease or affect any such notice, demand or suit.

21.6 Default Under Other Leases. A default under this Lease by Tenant shall be deemed a default under any other leases between Landlord and Tenant for space in the Building. Likewise, a default by Tenant under any other such lease between Landlord and Tenant shall, at Landlord's option, be deemed a default under this Lease.

ARTICLE 22 - DEFINITION OF LANDLORD/SALE/LANDLORD'S ASSIGNMENT OF LEASE

22.1 The words "Landlord" and "Tenant" as used herein shall include the respective contracting party, whether singular or plural, and whether an individual, masculine or feminine, or a partnership, joint venture, business trust, or corporation. The provisions of this Lease shall inure to the benefit of and be binding upon Landlord and Tenant, and their respective successors, heirs, legal representatives, and assigns, subject, however, in the case of Tenant to the provisions of Section 8.1 hereof. It is understood and agreed that the term "Landlord," as used in this Lease means only the owner(s), or the lessee(s), from time to time of the Building and/or the land underlying the Building so that in the event of any sale or sales of the Building and/or the land underlying the Building, or of any lease thereof, the Landlord named herein shall be and hereby Is entirely freed and relieved of all covenants and obligations of Landlord hereunder accruing thereafter to the extent of such sale or lease, and it shall be deemed without further agreement that the purchaser, or the lessee, as the case may be, has assumed and agreed, to the same extent, to carry out any and all covenants and obligations of Landlord hereunder during the period such party has possession of all or such portion of the Building and/or the land underlying the Building which it has purchased or leased. Should all of the land underlying the Building and the entire Building be severed as to ownership by sale and/or lease, then, unless Tenant is otherwise notified to the contrary in writing, either the owner of the entire Building or the lessee of the entire Building, as the case

may be, that has the right to lease space in the Building to tenants shall be deemed the "Landlord." Tenant shall be bound to any succeeding landlord for all the terms, covenants, and conditions hereof and shall execute any attornment agreement not in conflict herewith at the request of any succeeding landlord.

ARTICLE 23 - NOTICES

23.1 Except as otherwise herein provided, whenever by the terms of this Lease notice shall or may be given either to Landlord or to Tenant, such notice shall be in writing and shall be deemed to have been properly served if hand-delivered, sent by nationally recognized overnight courier service, or sent by certified mail, return receipt requested, postage prepaid, at the address set forth at Sections 1.1(A) and (B) above. If hand-delivered, the date of such hand-delivery shall be deemed the date of service. If sent by nationally recognized overnight courier service, one (1) business day after deposit with such nationally recognized overnight courier service shall be deemed the date of service. If mailed by certified mail, the date of delivery indicated on the Return Receipt shall be deemed the date of service.

ARTICLE 24 - SECURITY DEPOSIT

24.1 Tenant herewith deposits with Landlord the sum set forth in Section 1.1(J) as security for the performance by Tenant of every covenant and condition of this Lease. Said deposit may be commingled with other funds of Landlord. If Tenant shall default with respect to any covenant or condition of this Lease, Landlord may apply the whole or any part of such security deposit to the payment of any sum in default or any sum which Landlord may be required to spend by reason of Tenant's default. This includes, but is not limited to, applying the security deposit first to any restoration and/or cleanup costs necessary over and above normal wear and tear of the vacated space. It is understood that the security deposit is not to be considered as the last month's rent under the Lease. Should Tenant comply with all of the covenants and conditions of this Lease, the security deposit or any balance thereof shall be returned to Tenant, without interest, at the expiration of the Term hereof.

ARTICLE 25 - LANDLORD'S LIEN

25.1 Landlord's Lien. Tenant hereby grants to Landlord a security interest to secure the payment of all rent or other sums of money coming due hereunder from Tenant, and to secure payment of any damages or loss which Landlord may suffer by reason of the breach by Tenant of any covenant, agreement or condition contained herein, upon all equipment, fixtures, furniture, improvements, inventory, consumer goods, goods and any and all personal property of Tenant presently or which may hereafter be situated in, on or upon the Premises, and all proceeds therefrom including, but not limited to, all proceeds of any insurance which may accrue to Tenant by reason of damage to or destruction of any such property; provided, however, that Tenant does not grant Landlord a security interest in any proprietary property of Tenant including such property contained in its computers, medical research data, patents or drug molecules (the "**Excluded Items**"). During any period that Tenant is in default under this Lease beyond all applicable notice and cure periods, such property shall not be removed from the Premises at any time without the consent of Landlord until all arrearages of rent, as well as any other sums of money then due to Landlord hereunder, shall first have been paid and discharged, and all the covenants, agreements and conditions hereof have been fulfilled and performed by Tenant. In addition to any other remedies provided herein, upon Tenant's default under this Lease beyond all applicable notice and cure periods, Landlord may enter the Premises and take possession of any and all equipment, fixtures, furniture, improvements and other personal property of Tenant situated in, on or upon the Premises (other than the Excluded Items) without liability for trespass or conversion. Landlord may sell the same at a public or private sale, after giving Tenant at least (10) ten days written notice sent to the Tenant's last known address as to the time and place of the sale. At such sale, Landlord or Landlord's assigns may purchase the property unless such purchase is otherwise prohibited by law. Unless otherwise provided by law, the requirement of reasonable notice shall be met if such notice is given to the Tenant at the address herein prescribed at least five (5) days prior to the time of the sale. Proceeds of any such disposition, less all expenses including reasonable attorney's fees, shall be applied as a credit against the indebtedness secured by the security interest granted in this Section. Any surplus shall be paid to Tenant and Tenant shall pay any deficiency upon demand. Tenant consents to the filing by Landlord of financing statements in a form acceptable to Landlord sufficient to protect the security interest of Landlord In the aforementioned property and the proceeds thereof under the applicable provisions of the Uniform Commercial Code. The statutory lien is not waived and the security interest herein granted is in addition and supplementary thereto.

ARTICLE 26 - MISCELLANEOUS

26.1 Persons Bound. The agreements, covenants and conditions of this Lease shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and assigns of each of the parties hereto, except that no assignment, encumbrance or subletting by Tenant, unless permitted by the provisions of this Lease, shall vest any right in the assignee, encumbrancee or sublessee of Tenant. If there be more than one Tenant herein named, the provisions of the Lease shall be applicable to and binding upon such Tenant jointly and severally, as well as their heirs, legal representatives, successors and assigns.

26.2 Partial Invalidity. If any term, covenant, condition or provision of this Lease or the application thereof to any person or circumstance shall, to any extent be invalid, unenforceable or violate a party's legal rights, then such term, covenant, condition or provision shall be deemed to be null and void and unenforceable, however, all other provisions of this Lease, or the application of such term or provision to persons or circumstances other than those to which are held invalid, unenforceable or violative of legal rights, shall not be affected thereby, and each and every other term, condition, covenant and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

26.3 Captions. The headings and captions used throughout this Lease are for convenience and reference only and shall in no way be held to explain, modify, amplify, or aid in the interpretation, construction or meaning of any provisions in this Lease. The words "Landlord" and "Tenant" wherever used in this Lease shall be construed to mean plural where necessary, and the necessary grammatical changes required to make the provisions hereof apply either to corporation, partnerships, or individuals, men or women, shall in all cases be assumed as though in each case fully expressed.

26.4 No Option. Submission of this instrument for examination does not constitute a reservation of nor option for the Premises. The instrument does not become effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

26.5 Brokers. Tenant and Landlord represent that they have dealt directly with and only with the broker or brokers set forth at Section 1.1(M) above, and that Tenant and Landlord know of no other broker who negotiated this Lease or is entitled to any commission in connection herewith. Tenant and Landlord agree to indemnify, defend and hold harmless the other from and against any commissions or claims by any other broker or brokers pertaining to Tenant and Landlord having entered into this Lease.

26.6 Applicable Law. This Lease, its interpretation and enforcement shall be governed by the laws of the state in which the Premises are located.

26.7 Tenant's Compliance with Laws and Ordinances. Tenant covenants throughout the Lease Term, at Tenant's sole cost and expense, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards, and officers thereof, and of any applicable insurance rating agency, or any other body now or hereafter constituted exercising similar functions, foreseen or unforeseen, ordinary as well as extraordinary, and whether or not the same require structural repairs or alterations, which may be applicable to the Premises, or the use or manner of use of the Premises; provided, however, that Tenant shall not be responsible for structural repairs or alterations unless the requirement for such structural repairs and alterations is caused by Tenant's particular use or occupancy (as distinguished from the general type of use or occupancy permitted by the applicable zoning ordinance). Tenant will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the buildings and improvements on the Premises and the equipment thereof.

26.8 Intentionally Omitted.

26.9 Financial Information. If Landlord shall request financial information from Tenant in connection with a proposed sale or financing of the Building, for the purpose of satisfying the due diligence investigation requirements of a proposed purchaser or lender, Tenant will provide such information as will allow Landlord to satisfy the reasonable requirements of such proposed purchaser or lender so long as Landlord and the proposed purchaser or lender agree to keep such information confidential.

26.10 Attorneys Fees. In the event Landlord or Tenant bring suit against the other to enforce any rights under this Lease, the prevailing party shall recover from the other, in addition to any other award, an amount equal to reasonable attorneys' fees to be fixed by the court.

26.11 Anti-Terrorism Statute Compliance. Tenant hereby represents and warrants to Landlord that Tenant is not: (1) in violation of any Anti-Terrorism Law; (2) conducting any business or engaging in any transaction or dealing with any Prohibited Person, including the making or receiving or any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (3) dealing in, or otherwise engaging in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13221; (4) engaging in or conspiring to engage in any transaction that evades or avoids, or had the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in any Anti-Terrorism Law; or (5) a Prohibited Person, nor are any of its partners, members, managers, officers or directors a Prohibited Person. As used herein, "**Antiterrorism Law**" is defined as any law relating to terrorism, anti-terrorism, money laundering or anti-money laundering activities, including Executive Order No. 13224 and Title 3 of the USA Patriot Act. As used herein "**Executive Order No. 13224**" is defined as Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, and relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, or Support Terrorism" "**Prohibited Person**" is defined as (1) a person or entity that is listed in the Annex to Executive Order 13224; (ii) a person or entity with whom Tenant or Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti Terrorism Law, or (iii) a person or entity that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office Of Foreign Assets Control as its official website, http://www.treas.gov/ofac/t11sdn.pdf_ or at any replacement website or other official publication of such list. "**USA Patriot Act**" is defined as the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56).

ARTICLE 27 - ENTIRE AGREEMENT

27.1 This Lease contains the entire agreement between the parties and no modification of this Lease shall be binding upon the parties unless evidenced by an agreement in writing signed by the Landlord and the Tenant after the date hereof. If there be more than one Tenant named herein, the provisions of this Lease shall be applicable to and binding upon such tenants jointly and severally.

ARTICLE 28 - EXHIBITS

28.1 Reference is made to the Exhibits listed at Section 1.1(N) above, which exhibits are attached hereto and incorporated herein by reference.

[SIGNATURE PAGE(S) FOLLOW]

[Signature Page for Industrial Space Lease]

IN WITNESS WHEREOF, the parties have signed quintuplicate counterparts hereof as of the date and year hereinabove set forth.

TENANT:

XBiotech USA, Inc., a Delaware corporation

By: /s/ John Simard

Its: President & CEO

Date: Dec 20, 2007

LANDLORD:

Triple Net Properties Realty, Inc., Agent for Landlord

By: /s/ KENT PETERS

Its: EXECUTIVE VICE PRESIDENT

Date: January 14, 2008

EXHIBIT “A”

DESCRIPTION OF THE PROJECT

This Exhibit A is attached to and made part of that certain Lease Agreement by and between Triple Net Properties Realty, Inc., Agent for Landlord and XBiotech USA, Inc., a Delaware corporation as Tenant.

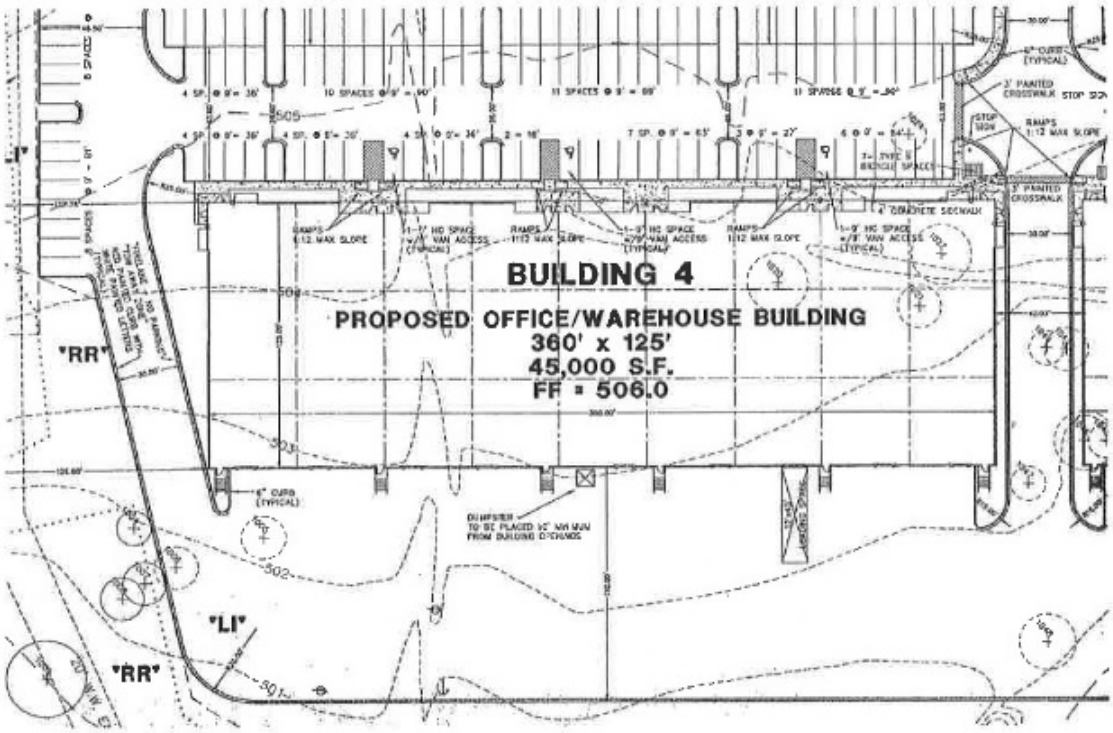


Exhibit “A”

EXHIBIT “A-1”

LEGAL DESCRIPTION OF LAND

Lot 1, Block D, Metro Center Section 2, a subdivision in Travis County, Texas, according to the map or plat thereof recorded in Volume 100, Pages 87-88 of the Plat Records of Travis County, Texas

Exhibit “A-1”

EXHIBIT “B”

DEPICTION OF THE PREMISES

Met Center Building 4
Premises: Approximately 30,000 SF

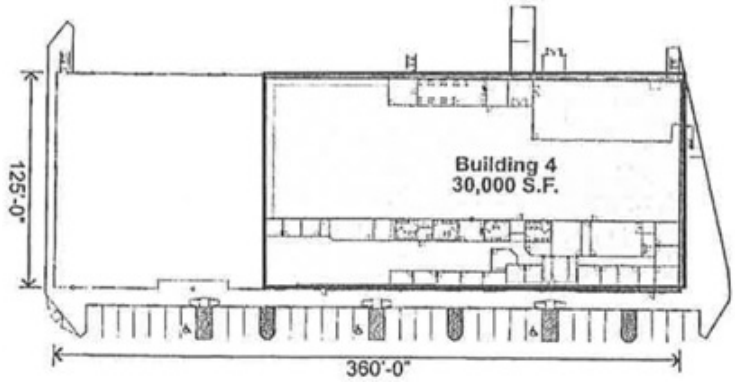


EXHIBIT “C”

PARKING

During the Term and provided Tenant is not in default hereunder beyond any applicable cure period, Tenant, at no additional cost to Tenant, shall be permitted to use non-reserved parking spaces in the area used for parking for the Building at the ratio of 3.5 spaces per 1,000 square feet of space in the Premises. All parking by Tenant shall be subject to such reasonable, non-discriminatory terms, conditions and regulations as are from time to time applicable to tenants of the Building.

EXHIBIT "D"

SPECIAL PROVISIONS

I. Extension Option

A. Extension Option. Provided that: no default or event of default is in existence under this Lease beyond all applicable notice and cure periods, Tenant and its Permitted Transferee (but not any other assignee or sublessee) shall have the right and option (the "**Extension Option**") to renew and extend this Lease, by written notice delivered to Landlord no later than six (6) months and no more than nine (9) months prior to the expiration of the initial Lease Term, or subsequent Extension Term, for up to two (2) additional Terms (each, an "**Extension Term**") of sixty (60) months each, under the same terms, conditions and covenants contained in this Lease, except that (a) no abatements or other concessions, if any, applicable to the initial Lease Term shall apply to the Extension Term; (b) the Base Rent shall be equal to the then current market rate for comparable warehouse leases in the area of the Building as reasonably determined by Landlord, taking into account concessions, allowances and other inducements common in the market at that time for comparable tenants entering into new leases for new (i.e., not renewal) space in comparable buildings, (c) Tenant shall have no option to renew this Lease beyond the expiration of the last Extension Term; and (d) all leasehold Improvements within the Premises shall be provided in their then existing condition (on an "As Is" basis) at the time the Extension Term commences.

B. Exercise. Failure by Tenant to notify Landlord in writing of Tenant's election to exercise the Extension Option herein granted within the time limits set forth for such exercise shall constitute a waiver of such Extension Option. In the event Tenant elects to exercise the Extension Option as set forth above, Landlord shall, within thirty (30) days thereafter, notify Tenant in writing of the proposed rental for the Extension Term (the "**Proposed Extension Rental**"). Tenant shall within thirty (30) days following delivery of the Proposed Extension Rental by Landlord notify Landlord in writing of the acceptance or rejection of the Proposed Extension Rental. If Tenant accepts Landlord's proposal, then the Proposed Extension Rental shall be the rental rate in effect during the applicable Extension Term.

C. Response to Proposed Extension Rental. Failure of Tenant to respond in writing during the aforementioned thirty (30) day period shall be deemed an acceptance by Tenant of the Proposed Extension Rental. Should Tenant reject Landlord's Proposed Extension Rental during such thirty (30) day period, then Landlord and Tenant shall negotiate during the thirty (30) day period commencing upon Tenant's rejection of Landlord's Proposed Extension Rental to determine the rental for the Extension Term. In the event Landlord and Tenant are unable to agree to a rental for the Extension Term during said thirty (30) day period ("**Outside Agreement Date**"), then each party shall select an Independent qualified broker and inform the other as to its selection within five (5) business days after the expiration of such 30-day period (the "**Designation Date**"). Those two brokers shall select an Independent third qualified broker within ten (10) business days after the Designation Date. In order to be "qualified," each of said brokers shall have at least 5 years of experience in the leasing of comparable commercial properties in the vicinity of the Building. Landlord and Tenant shall each bear the cost of its broker and one-half (1/2) of the cost of the third broker. Such 3 brokers shall determine the rental for the Extension Term (the "**Extension Rental**") in accordance with the parameters set forth above in Section I.A. within thirty (30) days after the Designation Date. If all of such brokers fall to agree on the Extension Rental within thirty days after the Designation Date, but two of the brokers can so agree, then the Extension Rental as determined by such two brokers shall be controlling. If none of the brokers can agree of the Extension Rental within such time period, then an average shall be taken of the two closest determinations thereof and such average shall be controlling (except that if the median of the three rates provided by the brokers is also the average of the three, it shall be controlling).

D. Extension. Upon exercise of the Extension Option by Tenant and subject to the conditions set forth hereinabove, this Lease shall be extended for the period of such Extension Term without the necessity of the execution of any further instrument or document, although if requested by either party, Landlord and Tenant shall enter into a written agreement modifying and supplementing this Lease in accordance with the provisions hereof. Any termination of this Lease during the initial Lease Term shall terminate all renewal rights hereunder. The renewal rights of Tenant hereunder shall not be severable from this Lease, nor may such rights be assigned or otherwise conveyed in connection with any permitted assignment of this Lease other than to a Permitted Transferee. Landlord's consent to any assignment of this Lease shall not be construed as allowing an assignment of such rights to any assignee.

II. Right of First Refusal

A. Right of First Refusal. Subject to the pre-existing rights of existing tenants in the Building and provided that no default or event of default is in existence under this Lease beyond all applicable notice and cure periods, Tenant and its Permitted Transferee (but not any assignee or subtenant) shall have an ongoing right, subject to the terms and conditions set forth below, to lease any unleased space in the Building (the "**Right of First Refusal Space**") before it is leased to any third party during the initial Lease Term.

B. Third Party Interest. Subject to the terms above, in the event any third party expresses interest in leasing all or any portion of the Right of First Refusal Space during the Lease Term ("**Third Party Interest**"), Landlord shall offer the entire Right of First Refusal Space to Tenant upon the same terms, covenants and conditions as provided in this Lease for the original Premises, except that the base rent, the length of lease term, and the tenant Improvement allowance (if any) shall be the same as the terms included in a written indication of third party interest in the Right of First Refusal Space that are acceptable to Landlord.

C. Acceptance. If Tenant notifies Landlord in writing of the acceptance of such offer within seven (7) business days after Landlord has delivered such offer to Tenant, Landlord and Tenant shall enter into a written agreement modifying and supplementing the Lease and specifying that such Right of First Refusal Space accepted by Tenant is a part of the Premises demised pursuant to the Lease for the remainder of the Lease Term and any renewal thereof, if applicable, and containing other appropriate terms and conditions relating to the addition of the Right of First Refusal Space to this Lease (including specifically any increase or adjustment of the rent as a result of such addition). Tenant shall accept the space "As-is," and Tenant shall have no further rights with respect to the accepted Right of First Refusal Space.

D. Rejection. In the event that Tenant does not notify Landlord in writing of its acceptance of such offer in such seven (7) business day period, then Landlord shall thereafter be able to lease the Right of First Refusal Space or any portion thereof to any third party upon the terms included in the third party offer initially presented to Tenant. If Landlord modifies any of the monetary terms such that they are more favorable to the third party by 10% or more than those presented to Tenant in the third party offer or should the third party lease for plus or minus 10% of the Right of First Refusal Space not be consummated, Landlord shall reoffer such space to Tenant. If Landlord falls to lease the Right of First Refusal Space or if such space becomes available again during the Initial Lease Term, Tenant's rights hereunder shall be reinstated.

E. Any termination of the Lease shall terminate all rights of Tenant with respect to the Right of First Refusal Space. The rights of Tenant with respect to the Right of First Refusal Space shall not be severable from the Lease, nor may such rights be assigned or otherwise conveyed in connection with any permitted assignment of the Lease other than to a Permitted Transferee. Landlord's consent to any assignment of the Lease shall not be construed as allowing an assignment or a conveyance of such rights to any assignee. Nothing herein contained should be construed so as to limit or abridge Landlord's ability to deal with the Right of First Refusal Space or to lease the Right of First Refusal Space to other tenants on the terms set forth herein, Landlord's sole obligation being to offer, and if such offer is accepted, to deliver the Right of First Refusal Space to Tenant in accordance with this provision.

F. Notwithstanding the foregoing obligation of Landlord to offer the Right of First Refusal Space based on the terms included in a written indication of third party interest in the Right of First Refusal Space that are acceptable to Landlord, if during the first six (6) months of the Term of the Lease, Tenant timely elects to lease the applicable Right of First Refusal Space and timely delivers the notice of acceptance required under Section II.C. above, the terms and conditions for lease of the applicable Right of First Refusal Space shall be the same as those for the Premises except that the expiration date for the term of the applicable Right of First Refusal Space shall be coterminous with the Term of the Lease. In such event, Landlord and Tenant shall execute an amendment to this Lease, effective as of the date the applicable Right of First Refusal Space is to be included in the Premises, on the same terms as this Lease except that (a) the area of the Premises shall be increased by the area in the applicable Right of First Refusal Space (and Tenant's Proportionate Share shall be adjusted accordingly), (b) the Base Rent shall be increased by the amount specified for such Right of First Refusal Space, and (c) Landlord shall not provide to Tenant any allowances (e.g., moving allowance, tenant improvement allowance, construction allowance, and the like) or other tenant inducements.

Exhibit "D"

EXHIBIT "E"

WORK LETTER

1. Following the delivery of possession of the Premises to Tenant and Tenant's payment of all Rent, if any, and security deposits required to be paid upon the execution of the Lease, Tenant shall have the right to perform certain alterations and improvements in the Premises (the "**Initial Alterations**"). Notwithstanding the foregoing, Tenant and its contractors shall not have the right to perform Initial Alterations in the Premises unless and until Tenant has complied with all of the terms and conditions of Section 19.1 of the Lease, including, without limitation, approval by Landlord (which approval shall not be unreasonably withheld provided that the plans for the Initial Alterations comply with all applicable governmental laws, codes, rules, and regulations and are sufficiently detailed to allow construction of the improvements in a good and workmanlike manner) of (a) the final plans for the Initial Alterations, (b) the contractors to be retained by Tenant to perform such Initial Alterations, and (c) the insurance coverage obtained by Tenant and its contractors in connection with the Initial Alterations. Tenant shall be responsible for all elements of the plans for the Initial Alterations (including, without limitation, compliance with law, functionality of design, the structural integrity of the design, the configuration of the premises and the placement of Tenant's furniture, appliances and equipment), and Landlord's approval of such plans shall in no event relieve Tenant of the responsibility therefor. Landlord's approval of the contractors to perform the Initial Alterations shall not be unreasonably withheld. Landlord's approval of the general contractor to perform the Initial Alterations shall not be considered to be unreasonably withheld if any such general contractor (i) does not have trade references reasonably acceptable to Landlord, (ii) does not maintain insurance as required by Landlord, (iii) does not have the ability to be bonded for the work in an amount satisfactory to Landlord, (iv) does not provide current financial statements reasonably acceptable to Landlord, or (v) is not licensed as a contractor in the state and municipality in which the Premises is located. Tenant acknowledges the foregoing is not intended to be an exclusive list of the reasons why Landlord may reasonably withhold its consent to a general contractor. Landlord shall approve or disapprove of Tenant's plans and revisions for the Initial Alterations within ten (10) days after its receipt of a request by Tenant. After final approval of such plans and revisions, if Tenant proposes changes to the final plans for the Initial Alterations, Landlord shall approve or reasonably disapprove of same within five (5) business days after its receipt of a change request by Tenant, Failure of Landlord to respond during the aforementioned ten-day and five-day periods shall be deemed an approval by Landlord of the plans, revisions or change request as the case may be. Neither the approval by Landlord of the Initial Alterations or any other plans, drawings, specifications or other items associated with the Initial Alterations nor Landlord's performance, supervision or monitoring of the construction of the Initial Alterations shall constitute any warranty by Landlord to Tenant of the adequacy of the design for Tenant's intended use of the Premises or of compliance with any applicable law or code.

2. Tenant shall pay the cost of the Initial Alterations and any other alterations made by Tenant pursuant to the Lease. In no event shall Landlord be obligated to contribute, in the form of a tenant improvement allowance or otherwise, toward the cost of performing the Initial Alterations or any other alterations made by Tenant pursuant to the Lease. In addition, Tenant shall pay to Landlord, within ten (10) days after Landlord's written demand, a construction fee equal to Landlord's actual, out of pocket costs for reviewing the plans for the Initial Alterations.

3. Tenant shall be responsible for all applicable state sales or use taxes, if any, payable in connection with the Initial Alterations.

4. Subject to Landlord's obligation to deliver the Premises in the Required Condition, Tenant agrees to accept the Premises in its "as-is" condition and configuration, without representation or warranty by Landlord or anyone acting on Landlord's behalf, it being agreed that Landlord shall not be required to perform any work or incur any costs in connection with the construction or demolition of any improvements in the Premises. Unless Tenant furnishes Landlord with the notice specified in Section 18.1 of the Lease, by taking possession of the Premises, Tenant: (i) acknowledges that it has had full opportunity to examine the Premises and is fully informed, independently of Landlord or any of its representatives, as to the character, construction and structure of the Premises, (ii) acknowledges that neither Landlord nor any of its representatives, has made any representations, warranties or promises with respect to the Premises, including without limitation any representation or warranty as to the fitness thereof for any purpose, and (iii) accepts the Premises in an "AS-IS, WHERE-IS" condition and with all faults and subject to all laws, ordinances, governmental regulations and orders, and all matters affecting title to the Project, including without limitation, the Declaration.

5. This Work Letter shall not be deemed applicable to any additional space added to the original Premises at any time or from time to time, whether by any options under the Lease or otherwise, or to any portion of the original Premises or any additions to the Premises in the event of a renewal or extension of the original Lease Term, whether by any options under the Lease or otherwise, unless expressly so provided in the Lease or any amendment or supplement to the Lease. All capitalized terms used in this Work Letter but not defined herein shall have the same meanings ascribed to such terms in the Lease.

6. The Initial Alterations shall be deemed to be substantially completed on the date that the Initial Alterations have been performed, other than any details of construction, mechanical adjustment or any other matter, the noncompletion of which does not materially interfere with Tenant's use of the Premises and a certificate of occupancy (or its equivalent) has been issued for the Premises.

7. If Tenant cannot obtain or is delayed in obtaining any permit required for construction of the Initial Alterations or occupancy of the Premises because the Building and/or the Premises are not in compliance with any applicable City of

Austin, Texas laws, codes or regulations ("Code Violation"), Tenant shall so notify Landlord in writing and Landlord shall promptly thereafter at its expense take such measures as are reasonably required to correct the Code Violation; provided, however, that for purposes of this Section 8 a Code Violation shall not be deemed to include any violation attributable to (i) any repairs or alterations to the Building and/or Premises by Tenant, or (ii) any alteration, damage, or casualty to the Building and/or Premises resulting from the wrongful misconduct or negligence of Tenant.

8. "Force Majeure Delay" shall mean any delay of the Commencement Date beyond June 1, 2008 attributable to any: (i) actual delay or failure to perform attributable to any strike, lockout or other labor or industrial disturbance (whether or not on the part of the employee of either party hereto), civil disturbance, further order claiming jurisdiction, act of public enemy, war, riot, sabotage, blockade, embargo; (ii) delay due to changes in any applicable laws (including, without limitation, the ADA) after the date the last party executes this Lease; or (iii) delay attributable to lightning, earthquake, fire, storm, hurricane, tornado, flood, washout, explosion, or any other similar Industry-wide or Building-wide cause beyond the reasonable control of the party from whom performance is required, or any of its contractors or other representatives.

9. "Landlord Delay" shall mean any delay of the Commencement Date beyond June 1, 2008 caused by (i) delay in the giving of authorizations or approvals by Landlord within the time periods required for such authorizations or approvals under this Work Letter; (ii) delay attributable to the acts or failures to act under this Work Letter, whether willful, negligent or otherwise, of Landlord, its agents or contractors within the time periods required under this Work Letter; (iii) delay attributable to the unreasonable interference of Landlord, its agents or contractors with the construction of the Initial Alterations in accordance with the Lease or the unreasonable failure or refusal of any such party to permit Tenant, its agents or contractors, access to and use of the Building or any Building facilities or services reasonably required for the orderly and continuous performance of the Initial Alterations; (iv) delay attributable to Landlord's failure to allow Tenant sufficient access to the Building and/or the Premises to move into the Premises over one (1) weekend; (v) delay caused by the failure of the Premises and Building to comply with the ADA in effect as of the date the last party executes this Lease; and (vii) failure of Landlord to deliver the Premises to Tenant in the Required Condition within forty-five (45) days after the date the last party executes this Lease.

10. Neither Tenant nor its contractor shall be charged for, and Landlord shall provide (subject to: (i) reasonable, non-discriminatory terms, conditions and regulations as are from time to time applicable to tenants of the Building, and (ii) the parking rights of other tenants at the Project), parking for Tenant's architects, designers, contractors and subcontractors (including those people working on the Initial Alterations), electricity, water, toilet facilities, HVAC during the construction of the Initial Alterations. All such equipment, areas, and utilities shall be made reasonably available to the contractor and the subcontractors during the construction of the Initial Alterations so long as the Tenant and its contractors and subcontractors do not interfere with the rights of other persons to use such equipment, areas and utilities.

Exhibit "E"

EXHIBIT "F"

COMMENCEMENT LETTER

Re: Industrial Space Lease dated , 2007 (the "**Lease**"), between **NNN MET CENTER 4-9, LP** ("**Landlord**") acting by and through Triple Net Properties Realty, Inc. ("**Agent**" for Landlord) and **XBIOTECH USA, INC.** ("**Tenant**") for Premises, the square footage of which is 30,000, located in the Building. Unless otherwise specified, all capitalized terms used herein shall have the same meanings as in the Lease.

Landlord and Tenant agree that:

1. Tenant has accepted possession of the Premises. The Premises are usable by Tenant as intended; and Tenant acknowledges that both the Building and the Premises are satisfactory in all respects.
2. The Commencement Date of the Lease is .
3. The Expiration Date of the Lease is the last day of .
4. All other terms and conditions of the Lease are ratified and acknowledged to be unchanged.

Additionally, Tenant further confirms and ratifies that, as of the date hereof, the Lease is and remains in good standing and in full force and effect, and Tenant has no claims, counterclaims, set-offs or defenses against Landlord arising out of the Lease or in any way relating thereto or arising out of any other transaction between Landlord and Tenant.

EXECUTED as of , 2008.

LANDLORD:

Triple Net Properties Realty, Inc., Agent for Landlord

By: _____

Its: _____

TENANT:

XBiotech USA, Inc., a Delaware corporation

By: _____

Its: _____

EXHIBIT “G”

SIGNAGE CRITERIA

Exhibit “G”

FIRST AMENDMENT TO INDUSTRIAL SPACE LEASE

THIS First Amendment to Industrial Space Lease (this "**Amendment**") is entered into as of January 14, 2008, between NNN Met Center 4-9, LP, a Texas limited partnership ("**Landlord**") acting by and through Triple Net Properties Realty, Inc. ("**Agent**" for Landlord) and XBiotech USA, Inc., a Delaware corporation ("**Tenant**").

RECITALS:

A. Landlord and Tenant entered into a certain Industrial Space Lease dated January 14, 2008 (the "**Lease**"); and

B. Landlord and Tenant now desire to amend the Lease subject to the terms and conditions of this Amendment.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and provided that there is no uncured event of default under the Lease, the parties hereto agree, and the Lease is amended as follows:

AGREEMENTS:

1. **Definitions**. All terms not otherwise defined herein shall have the meanings given them in the Lease.

2. **Pre-Payment of Base Rent and Additional Rent**. On or before 5:00pm CST on January 17, 2008, Tenant shall pay without notice, deduction, set-off or abatement to Landlord the sum of $177,925.00 in lawful money of the United States as a pre-payment of Base Rent and Additional Rent under the Lease (together with the one month's installment of Base Rent and Additional Rent in the amount of $22,075.00 already paid by Tenant to Landlord pursuant to Section 5.1 of the Lease, the "**Rent Pre-Payment**"). On the first day of each month during the Lease Term when an installment of Base Rent and Additional Rent are due, Landlord shall credit the necessary portion of the Rent Pre-Payment on a dollar-for-dollar basis against such monthly installment of Base Rent and Additional Rent until the Rent Pre-Payment amount has been reduced to zero, after which Tenant shall pay Base Rent and Additional Rent in accordance with the terms of the Lease. If the amount of the last credit applied under this Section 2 is insufficient to pay in full the Base Rent and Additional Rent due for the applicable month, Landlord shall notify Tenant in writing at least five (5) business days prior to the first day of such month of the balance of such Base Rent and Additional Rent owed for such month, and Tenant shall pay that amount to Landlord in lawful money of the United States in advance on the first day of such month and otherwise in accordance with the terms of the Lease.

3. **Full Force and Effect**. Except as amended by this Amendment, all terms and conditions of the Lease shall remain in full force and effect and Landlord and Tenant shall be bound thereby. Tenant hereby represents, warrants and agrees that: (a) there exists no breach, default or event of default by Landlord under the Lease, or any event or condition which, with notice or passage of time or both, would constitute a breach, default or event of default by Landlord under the Lease, (b) the Lease continues to be a legal, valid and binding agreement and obligation of Tenant, and (c) Tenant has no offset or defense to its performance or obligations under the Lease. Tenant hereby waives and releases all demands, charges, claims, accounts or causes of action of any nature against Landlord or Landlord's employees or agents (including Agent), including without limitation, both known and unknown demands, charges, claims, accounts, and causes of action that have arisen out of or in connection with the Lease.

4. **Broker**. Tenant and Landlord represent that they have dealt directly with and only with the broker or brokers set forth at Section 1.1(M) of the Lease in connection with the negotiation or execution of this Amendment, and that Tenant and Landlord know of no other broker who negotiated this Amendment or is entitled to any commission in connection herewith. Tenant and Landlord agree to indemnify, defend and hold harmless the other from and against any commissions or claims by any other broker or brokers pertaining to Tenant and Landlord having entered into this Amendment.

5. **Authority**. Each party represents and warrants that it has due power and lawful authority to execute and deliver this Amendment and to perform its obligations under the Lease; and the Lease and this Amendment are the valid, binding and enforceable obligations of such party.

EXECUTED as of the date first written above.

TENANT:

XBiotech USA, Inc., a Delaware corporation

By: /s/ John Ferguson

Its: John Ferguson

Date: January 17, 2008

LANDLORD:

Triple Net Properties Realty, Inc., Agent for Landlord

By: /s/ Ross Cresup

Its: Residential Account Manager

Date: January 17, 2008

SECOND AMENDMENT TO INDUSTRIAL SPACE LEASE

THIS Second Amendment to Industrial Space Lease (this "**Amendment**") is entered into on August , 2010 to be effective as of January 14, 2008, between NNN Met Center 4-9, LP, a Texas limited partnership ("**Landlord**") and XBiotech USA, Inc., a Delaware corporation ("**Tenant**").

RECITALS:

A. Landlord and Tenant entered into that certain Industrial Space Lease (the "**Original Lease**") dated January 14, 2008, as amended by First Amendment to Industrial Space Lease also dated January 14, 2008 (the "**First Amendment**") (the Original Lease, the First Amendment and this Amendment are hereinafter collectively referred to as the "**Lease**") for 30,000 square feet of rentable area known as Suite 200 (the "**Original Premises**"), in the building known as Building 4 at the Met Center development, located at 8201 E. Riverside, Austin, Travis County, Texas, as further described in the Lease; and

B. Landlord and Tenant now desire to make certain corrections and additions to the Lease, as set forth below, which Landlord and Tenant agree and acknowledge conform the Lease to the conduct of and course of dealing between the parties with respect to Tenant's Proportionate Share and the application thereof (and related defined terms and exhibits) under the terms of the Original Lease.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree, and the Lease is amended as follows:

AGREEMENTS:

1. **Definitions**. All capitalized terms not otherwise defined herein shall have the meanings given them in the Original Lease and the Recitals set forth above are incorporated herein and made a part of this Amendment.

2. **Definition of Protect**. Section 1.1E of the Lease is revised to read as follows: "Building 4, Building 5 and Building 6 in the development known as Met Center, together with the land upon which such buildings are located, which land is described in Exhibit 'A-1' attached hereto, and any parking areas, walkways, landscaped areas and other improvements appurtenant thereto. A description of the Project is attached hereto as Exhibit 'A'."

3. **Tenant's Proportionate Share**.

A. Section 1.1K of the Lease is deleted in its entirety and replaced with the following:

"Tenant's Proportionate Share: With respect to the Project, Tenant's Proportionate Share shall be a fraction, the numerator of which is the gross square feet in the Premises, and the denominator of which is the total number of gross square feet within Buildings Four, Five and Six located on the Project, which Proportionate Share is stipulated to be 22.4786% based on an aggregate square footage for such buildings of 133,460 square feet.

B. Section 5.2 of the Lease (Real Estate Taxes) is modified to replace all references within such section to "Building" with the term "Project".

C. Section 5.5 of the Lease (Common Area Expenses) is modified to replace all references within such section to "Property" with the term "Project".

4. **Signage**. Section 12.2 of the Lease is modified to replace all references within such section to "Property" with the term "Project".

5. **Default Under Other Leases**. Section 21.6 of the Lease is modified to replace all references within such section to "Building" with the term "Project".

6. **Description of the Project**. Exhibit "A" to the Lease is deleted and replaced with the Exhibit A attached hereto.

7. **Full Force and Effect**. Except as modified by this Amendment, all terms and conditions of the Lease shall remain in full force and effect and Landlord and Tenant shall be bound thereby. Tenant hereby represents, warrants and agrees that: (a) there exists no breach, default or event of default by Landlord under the Lease, or any event or condition which, with notice or passage of time or both, would constitute a breach, default or event of default by Landlord under the Lease, (b) the Lease continues to be a legal, valid and binding agreement and obligation of Tenant, and (c) Tenant has no offset or defense to its performance or obligations under the Lease. Tenant hereby waives and releases all demands, charges, claims, accounts or causes of action of any nature against Landlord or Landlord's employees or agents, including without limitation, both known and unknown demands, charges, claims, accounts, and causes of action that have arisen out of or in connection with the Lease or Tenant's occupancy of the Premises under the Lease.

8. **Broker**. Tenant represents and warrants that it has not dealt with any broker other than Live Oak Gottesman, LLC ("**Landlord's Broker**") in connection with the negotiation or execution of this Amendment, and Tenant agrees to indemnify and hold Landlord harmless from all liability arising from any claim by any broker claiming under Tenant including, without limitation, the cost of reasonable counsel fees in connection therewith.

9. **Authority**. Each party represents and warrants that it has due power and lawful authority to execute and deliver this Amendment and to perform its obligations under the Lease; and the Lease and this Amendment are the valid, binding and enforceable obligations of such party.

[*Remainder of page intentionally left blank; signature page follows.*]

EXECUTED to be effective as of January 14, 2008.

LANDLORD:

NNN MET CENTER 4-9, LP
a Texas limited partnership

By: NNN VF MET CENTER 4-9 GP, LLC
a Delaware limited liability company
its General Partner

By: PPCP/NNN LAVACA/MET HOLDINGS, LLC
a Delaware limited liability company
its managing member

By: PCCP CS LAVACA/MET HOLDINGS, LLC
a Delaware limited liability company
its managing member

By: /s/ Brian Heafey
Name: Brian Heafey
Title: Authorized Signatory
Date:

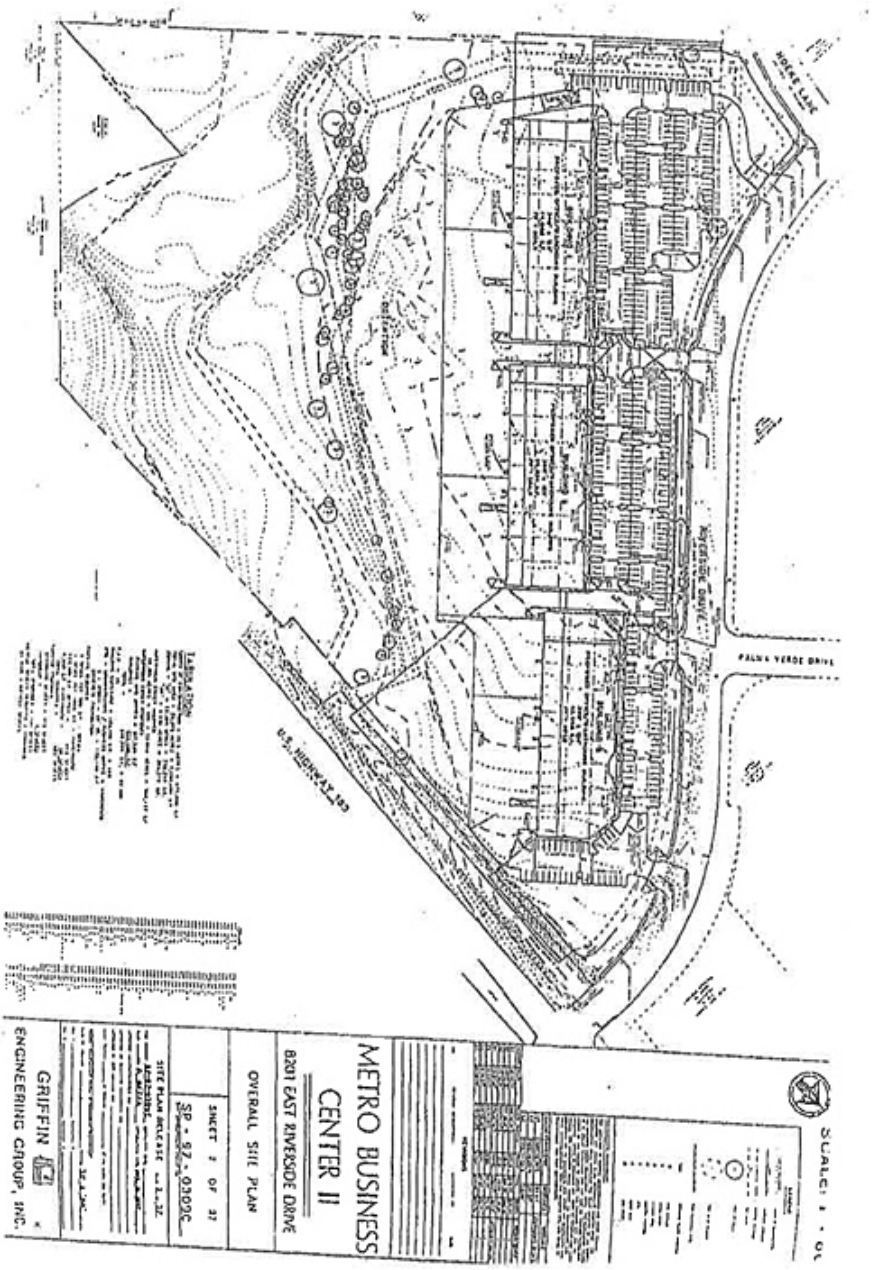
TENANT:

XBIOTECH USA, INC.
a Delaware corporation

By: /s/ John Simard
Name: John Simard
Title: President
Date: August 17, 2010

EXHIBIT A

Description of Project



THIRD AMENDMENT TO INDUSTRIAL SPACE LEASE
(Suite 200)

THIS Third Amendment to Industrial Space Lease (this "**Amendment**") is entered into as of March , 2013 (the "**Effective Date**"), between NNN Met Center 4-9, LP, a Texas limited partnership ("**Landlord**"), and XBiotech USA, Inc., a Delaware corporation ("**Tenant**").

RECITALS:

A. Landlord and Tenant entered into that certain Industrial Space Lease dated January 14, 2008 (the "**Original Lease**") as amended by First Amendment to Industrial Space Lease dated January 17, 2008 to be effective January 14, 2008 (the "**First Amendment**") and Second Amendment to Industrial Space Lease entered into in August 2010 to be effective as of January 14, 2008 (the "**Second Amendment**") (the Original Lease, as modified by the First Amendment and Second Amendment, is hereinafter referred to as the "**Existing Lease**") for 30,000 square feet of space known as Suite 200 (the "**Premises**"), in the building known as Building 4 of the Met Center Development, 8201 E. Riverside Drive, Austin, Travis County, Texas (the "**Building**");

B. The Term of the Existing Lease is scheduled to expire on May 31, 2013; and

C. Landlord and Tenant now desire to extend the Term of the Existing Lease, and otherwise modify the Existing Lease, subject to the terms and conditions of this Amendment. The Existing Lease, as modified by this Amendment, is referred to herein as the "**Lease**".

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and provided that there is no uncured event of default under the Existing Lease, the parties agree, and the Existing Lease is modified as follows:

AGREEMENTS:

1. Definitions. All capitalized terms not otherwise defined herein have the meanings given them in the Existing Lease.

2. Extension. The Term is extended for a period of twenty-one (21) months, commencing June 1, 2013 (the "**Renewal Effective Date**") and expiring February 28, 2015 (the "**Renewal Term**"), upon the same terms and conditions as provided in the Existing Lease as modified hereby.

3. Base Rent. Commencing on the Renewal Effective Date, Tenant shall pay Base Rent as follows:

Months	Monthly Base Rent Per Square Foot	Monthly Installments of Base Rent
6/1/13 – 2/28/15	$ 0.76	$ 22,800.00

4. Premises. Tenant accepts the Premises in "AS IS", "WITH ALL FAULTS" condition as of the Effective Date of this Amendment. Landlord has no responsibility to make any alterations or improvements to the Premises. **TENANT SPECIFICALLY ACKNOWLEDGES THAT LANDLORD HAS MADE NO REPRESENTATIONS OR WARRANTIES WHATSOEVER CONCERNING THE CONDITION OF ANY ASPECT OF THE PREMISES OR THE BUILDING, OR THE PRESENT OR FUTURE SUITABILITY OF THE PREMISES OR BUILDING FOR TENANT'S USE, AND TENANT WAIVES ALL IMPLIED WARRANTIES.**

5. Notice. Landlord's address for purposes of notice is as follows:

NNN Met Center 4-9, LP
c/o Pacific Coast Capital Partners
222 N. Sepulveda Blvd
Suite 2222
El Segundo, CA 90245
Attn: Legal Notice Dept.

With a copy to:

Pacific Coast Capital Partners
222 N. Sepulveda Blvd
Suite 2222
El Segundo, CA 90245
Attn: Asset Manager for NNN Met Center 4-9, LP

and a copy to:

Transwestern
7600 Chevy Chase
Building 2, Suite 101
Austin, Texas 78752
Attn: Property Manager for NNN Met Center 4-9, LP

6. Full Force and Effect. Except as modified by this Amendment, all terms and conditions of the Existing Lease shall remain in full force and effect and Landlord and Tenant shall be bound thereby. Tenant hereby represents, warrants and agrees that as of the Effective Date: (a) there exists no breach, default or event of default by Landlord under the Lease, or any event or condition which, with notice or passage of time or both, would constitute a breach, default or event of default by Landlord under the Lease, (b) the Lease continues to be a legal, valid and binding agreement and obligation of Tenant, (c) Tenant has no offset or defense to its performance or obligations under the Lease, and (d) the amount of the Security Deposit held by Landlord is $13,333.34. **TENANT HEREBY WAIVES AND RELEASES ALL DEMANDS, CHARGES, CLAIMS, ACCOUNTS OR CAUSES OF ACTION OF ANY NATURE AGAINST LANDLORD OR LANDLORD'S EMPLOYEES OR AGENTS, INCLUDING WITHOUT LIMITATION, BOTH KNOWN AND UNKNOWN DEMANDS, CHARGES, CLAIMS, ACCOUNTS, AND CAUSES OF ACTION THAT HAVE ARISEN OUT OF OR IN CONNECTION WITH THE LEASE OR TENANT'S OCCUPANCY OF THE PREMISES UNDER THE LEASE.**

7. Broker. Tenant represents and warrants that it has not dealt with any broker, other than CBRE, Inc. (representing Tenant), in connection with the negotiation or execution of this Amendment, and Tenant agrees to indemnify and hold Landlord harmless from all liability arising from any claim by any broker, other than CBRE, Inc., claiming under Tenant including, without limitation, the cost of reasonable counsel fees in connection therewith.

8. Authority. Each party represents and warrants that it has due power and lawful authority to execute and deliver this Amendment and to perform its obligations under the Lease; and the Lease and this Amendment are the valid, binding and enforceable obligations of such party.

9. Anti-Terrorism Statute Compliance. Tenant hereby represents and warrants to Landlord that Tenant is not: (a) in violation of any Anti-Terrorism Law; (b) conducting any business or engaging in any transaction or dealing with any Prohibited Person, including the making or receiving or any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (c) dealing in, or otherwise engaging in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13224; (d) engaging in or conspiring to engage in any transaction that evades or avoids, or had the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in any Anti-Terrorism Law; or (e) a Prohibited Person, nor are any of its partners, members, managers, officers or directors a Prohibited Person. As used herein, "**Antiterrorism Law**" is defined as any law relating to

terrorism, anti-terrorism, money laundering or anti-money laundering activities, including Executive Order No. 13224 and Title 3 of the USA Patriot Act. As used herein "**Executive Order No. 13224**" is defined as Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, and relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, or Support Terrorism" "**Prohibited Person**" is defined as (i) a person or entity that is listed in the Annex to Executive Order 13224; (ii) a person or entity with whom Tenant or Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti Terrorism Law, or (iii) a person or entity that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office Of Foreign Assets Control as its official website, http://www.treas.gov/ofac/t11sdn.pdf_ or at any replacement website or other official publication of such list. "**USA Patriot Act**" is defined as the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56).

10. Deletion. Section I (Extension Option) and Section II (Right of First Refusal) of Exhibit D to the Original Lease each expire by their terms upon the expiration of the initial Term of the Existing Lease. Accordingly, effective as of the Renewal Effective Date, Section I (Extension Option) and Section II (Right of First Refusal) of Exhibit D to the Original Lease are each hereby deleted in their entirety from the Lease, and such Section I and such Section II shall be of no further force or effect.

[*Remainder of page intentionally left blank; signature page follows.*]

EXECUTED to be effective as of the Effective Date.

TENANT:

XBiotech USA, Inc.,
a Delaware corporation

By: /s/ John Simard
Name: John Simard
Its: CEO & President.

Date: March 20th, 2013.

LANDLORD:

NNN MET CENTER 4-9, LP, a Texas limited partnership

By: NNN VF MET CENTER 4-9 GP, LLC, a Delaware limited liability company, its General Partner

By: PPCP/NNN LAVACA/MET HOLDINGS, LLC, a Delaware limited liability company, its managing member

By: PCCP CS LAVACA/MET HOLDINGS, LLC, a Delaware limited liability company, its managing member

By: _____
Name: _____
Title: _____

Date: _____

FOURTH AMENDMENT
TO
INDUSTRIAL SPACE LEASE
(Suite 200)

THIS FOURTH AMENDMENT TO INDUSTRIAL SPACE LEASE (this "**Amendment**") is made and entered into as of (but not necessarily on) the latest date of execution as set forth on the signature page hereof (the "**4A Effective Date**"), by and between **DIGITAL METCENTER 4-6, LLC**, a Delaware limited liability company ("**Landlord**"), *successor-in-interest* to NNN Met Center 4-9, LP ("**Original Landlord**"), and **XBIOTECH USA, INC.,** a Delaware corporation ("**Tenant**").

W I T N E S S E T H:

WHEREAS, Original Landlord and Tenant entered into that certain Industrial Space Lease dated January 14, 2008 (the "**Original Lease**"), as amended by that certain First Amendment to Industrial Space Lease dated January 17, 2008 ("**1A**"), and that certain Second Amendment to Industrial Space Lease dated August , 2010 ("**2A**"), and that certain Third Amendment to Industrial Space Lease dated March , 2013 ("**3A**"; the Original Lease, as amended, the "**Lease**"), covering approximately 30,000 square feet of area known as Suite 200 in that certain building commonly known as Building 4 located at 8201 E. Riverside Drive, Austin, Texas (the "**Building**");

WHEREAS, any capitalized term or phrase used in this Amendment shall have the same meaning as the meaning ascribed to such term or phrase in the Lease unless expressly otherwise defined in this Amendment; and

WHEREAS, Landlord has succeeded to all of Original Landlord's interest under the Lease;

WHEREAS, Landlord and Tenant desire to further modify the terms of the Lease in accordance with the terms and conditions herein provided.

NOW, THEREFORE, for and in consideration of the sum of Ten and No/100 Dollars ($10.00) and other good and valuable consideration paid by each party hereto to the other, the receipt and sufficiency of which are hereby mutually acknowledged, Landlord and Tenant hereby agree as follows:

1. **Term**. Currently, the Term is scheduled to expire on February 28, 2015 (the "**Original Expiration Date**"). Effective as of the 4A Effective Date, the Term is hereby extended for a period of ***forty-eight (48) months*** (the "**4A Extension Term**"), to expire on February 28, 2019.

2. **Base Rent**. During the 4A Extension Term, Tenant shall pay Base Rent for the Premises as follows:

Months	Monthly Base Rent Per Square Foot	Monthly Installments of Base Rent
3/1/15 – 2/29/16	$ 0.82 NNN	$24,600.00 NNN
3/1/16 – 2/28/17	$ 0.85 NNN	$25,500.00 NNN
3/1/17 – 2/28/18	$ 0.87 NNN	$26,100.00 NNN
3/1/18 – 2/28/19	$ 0.89 NNN	$26,700.00 NNN

3. **Tenant's Early Termination Right**. Notwithstanding anything to the contrary contained in this Amendment (but subject to the terms of this Section 3), Tenant shall have a one-time right to terminate this Lease ("**Tenant's Early Termination Right**"), for any reason or no reason, effective as of the last day of the twenty-fourth (24th) full calendar month of the 4A Extension Term ("**TETR Termination Date**"). Landlord and Tenant agree that Tenant's Early Termination Right is subject to (and limited by) the following terms and conditions:

(b) Tenant must provide Landlord no less than six (6) full calendar months' written notice (the "**TETR Notice**") of Tenant's exercise of Tenant's Early Termination Right.

(c) Tenant must contemporaneously and irrevocably exercise its early termination right with respect to that certain 14,230 square feet of area known as Suite 650 in that certain building commonly known as Building 6 located at 8201 E. Riverside Drive, Austin, Texas.

(d) Contemporaneously with Tenant providing Landlord the TETR Notice, Tenant must pay Landlord the TETR Fee, defined below, as Additional Rent. In order to be effective, the TETR Notice must be accompanied by the TETR Fee. The "**TETR Fee**" shall mean and refer to an amount equal to (a) all unamortized broker commissions (amortized on a straight line basis over the full 4A Extension Term using an interest rate of 10%), plus (b) Base Rent that would otherwise be due for the calendar month immediately following the TETR Termination Date multiplied by three (3), plus (c) the monthly installment of estimated Additional Rent that would otherwise be due for the calendar month immediately following the TETR Termination Date multiplied by three (3).

(e) Notwithstanding the foregoing, (x) Tenant shall have no right to exercise Tenant's Early Termination Right, or deliver a TETR Notice, and the TETR Termination Date may not occur, at any time in which an event exists, which, with notice or lapse of time or both, would constitute an event of default under the Lease, and any delivery of a TETR Notice during such period of time shall automatically be null and void and of no effect, (y) if an event of default occurs under the Lease at any time prior to the TETR Termination Date, Tenant's Early Termination Right shall automatically, upon such occurrence, become null and void (regardless of whether a TETR Notice has theretofore been timely provided), and (z) if, in fact, an event of default occurs under the Lease after Tenant's exercise of Tenant's Early Termination Right, then such exercise shall, upon such occurrence, be deemed automatically to be null, void, withdrawn and of no force or effect, and the Lease, as amended hereby, shall continue in full force and effect, unaffected by Tenant having provided the TETR Notice. In such event, Landlord shall, at its option, either (i) retain the TETR Fee as a security deposit under the Lease, or (ii) apply the TETR Fee to existing or future Rent obligations under the Lease, and/or (iii) refund the TETR Fee to Tenant.

(f) If Tenant exercises Tenant's Early Termination Right, Tenant shall surrender full and complete possession of the entire Tenant Space to Landlord on or before the TETR Termination Date vacant, broom-clean, devoid of any of Tenant's personal property, and in good order and condition, in accordance with the provisions of the Lease, and free and clear of all leases, tenancies, and rights of occupancy of any entity claiming by or through Tenant. If Tenant shall fail to strictly comply with the terms of this paragraph (e), Tenant shall be deemed to be in holdover pursuant to section 11.1 of the Lease from and after the TETR Termination Date, until Tenant's obligations under this paragraph (e) are satisfied.

(g) If Tenant properly and timely exercises Tenant's Early Termination Right and the effectiveness thereof has not been otherwise negated as set forth in this Section 3, the Lease shall cease and expire on the TETR Termination Date with the same force and effect as if the TETR Termination Date were the date originally provided in the Lease as the expiration date of the Term hereof.

(h) Tenant's Early Termination Right is personal to the undersigned (named) Tenant. If a Transfer occurs (other than to a Permitted Transferee), Tenant's Early Termination Right shall thereupon be deemed null and void.

(i) Notwithstanding anything in this Section 3 to the contrary, if the Term of this Lease is extended, Tenant's Early Termination Right shall automatically, thereupon, become null and void.

(j) Notwithstanding anything in this Section 3 to the contrary, Tenant's Early Termination Right applies only to the original Premises described in the Lease and not to any additional premises in the Building. In that regard, if Tenant leases any such additional premises, the Lease with respect to such additional premises would remain in full force and effect following the TETR Termination Date.

(k) No exercise of Tenant's Early Termination Right will obviate Tenant's obligation to satisfy all terms, covenants, conditions, obligations, requirements and liabilities (including all payments of Rent) that are, or become, due from Tenant prior to the TETR Termination Date. Such obligations shall survive the termination of this Lease.

(l) The terms of this Section 3 shall survive the expiration or termination of the Lease.

4. **Estoppel**. Tenant hereby (a) confirms and ratifies the Lease, as amended hereby, (b) acknowledges that, to the best of Tenant's actual knowledge, Landlord is not in default under the Lease as of the date this Amendment is executed by Tenant, and (c) confirms that, to the best of Tenant's actual knowledge, as of the date this Amendment is executed by Tenant, Landlord has no outstanding obligations with respect to the Premises and/or under the Lease that would, with the passage of time, the giving of notice, or both, result in Landlord being in default under the Lease.

5. **Commissions**. Tenant represents that it has dealt with no broker, agent or other person in connection with this Amendment other than CBRE ("**Tenant Broker**"), and that no broker, agent or other person brought about this Amendment. Tenant shall indemnify and hold Landlord harmless from and against any and all claims, losses, costs or expenses (including attorneys' fees and expenses) by any broker, agent or other person (excluding Tenant Broker) claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to the transaction contemplated by this Amendment. The provisions of this paragraph shall survive the expiration of the Term of the Lease or any renewal or extension thereof.

6. **Confidentiality**. Each party agrees that (i) the terms and provisions of the Lease and this Amendment are confidential and constitute proprietary information of the parties and (ii) it shall not disclose, and it shall cause its partners, officers, directors, shareholders, employees, brokers, auditors and attorneys to not disclose any term or provision of this Lease to any other person without first obtaining the prior written consent of the other party. Notwithstanding the foregoing sentence, each party shall have the right to disclose such information to the extent required, but only to the extent required (i) for valid business and accounting purposes ("**Business Disclosures**"), and/or (ii) if advisable under any applicable securities or other laws regarding public disclosure of business information and/or as required by law or any court ruling ("**Legal Disclosures**", and together with the Business Disclosures, the "**Permitted Disclosures**"). For the avoidance of doubt, with respect to a Permitted Disclosure by Landlord or Tenant, such Permitted Disclosures shall (i) be limited to the information required to be disclosed, and all other terms and provisions of the Lease and this Amendment shall be excluded from the disclosure or appropriately redacted, (ii) in the case of Business Disclosures, the disclosing party shall make such Business Disclosure subject to a confidentiality agreement or other undertaking from the receiving party to keep such information confidential, and (iii) in the case of Legal Disclosures the disclosing party shall, prior to making such disclosures (a) notify the other party in writing, and (b) if timely requested by the other party, use all reasonable efforts and cooperate with the other party to obtain confidential treatment of such applicable Legal Disclosure. The foregoing notwithstanding, Landlord reserves the right to post a press release or press releases, that discloses the fact that Landlord and Tenant have entered into a lease; provided that same does not disclose the location, economics or square footage related hereto. Any references in such press release or press releases, in excess of the fact that Landlord and Tenant have entered into a lease, require approval by Tenant, which Tenant may withhold in its sole and absolute discretion.

7. **Miscellaneous**.

A. In the event that the terms of the Lease conflict or are inconsistent with those of this Amendment, the terms of this Amendment shall govern.

B. The Lease is hereby amended as and where necessary, even though not specifically referred to herein, in order to give effect to the terms of this Amendment. Except as amended by this Amendment, the terms of the Lease remain in full force and effect.

C. This Amendment shall become effective only upon execution and delivery by both Landlord and Tenant.

D. This Amendment may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which shall constitute one and the same Amendment. Landlord and Tenant agree that the delivery of an executed copy of this Amendment by facsimile or e-mail shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Amendment had been delivered.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Amendment to be executed on the respective dates set forth below, to be effective as of the 4A Effective Date.

LANDLORD:

DIGITAL METCENTER 4-6, LLC,
a Delaware limited liability company

By: Digital Realty Trust, L.P.,
its member

By: Digital Realty Trust, Inc.,
its General Partner

By: /s/ Bryan Marsh
Name: Bryan Marsh
Title: Vice President

Date: March 5, 2015

TENANT:

XBIOTECH USA, INC.,
a Delaware corporation

By: /s/ John Simard
Name: John Simard
Title: CEO & President

Date: Feb 28, 2015

Exhibit 10.7

INDUSTRIAL SPACE LEASE

THIS INDUSTRIAL SPACE LEASE ("**Lease**"), made as of the 16th day of August, 2010 by and between NNN Met Center 4-9, LP, a Texas limited partnership ("Landlord"), and XBiotech USA, Inc., a Delaware corporation ("Tenant");

ARTICLE 1 - BASIC TERMS

1.1

A. Address of Landlord:

NNN Met Center 4-9, LP
c/o Pacific Coast Capital Partners, LLC
555 California Street, Suite 3450
San Francisco, CA 94104
Attn: Larry Dumas

With a copy to:

NNN Met Center 4-9, LP
c/o Transwestern
901 S. MoPac, Building 4 – Suite 250
Austin, TX 78746
Attn: Kathryn Scarborough Swift

B. Address of Tenant: XBiotech USA, Inc.
8201 E. Riverside, Suite 650
Austin, Texas 78744
Attn: John Simard

or such other address as may from time to time be designated by Landlord/Tenant in writing.

C. Premises: 14,230 square feet of space in the Building, such space being known as Suite 650. The Premises is shown on Exhibit "B" attached hereto. The square feet in the Premises has been calculated and is hereby stipulated for all purposes hereof to be as set forth herein, whether the same should be more or less as a result of minor variations resulting from actual construction and completion of the Premises or the Building.

D. Building: Building 6 in the Met Center development, located at 8201 E. Riverside, Austin, Texas 78744, together with the land, and any parking areas, walkways, landscaped areas and other improvements appurtenant thereto.

E. Project: Building 4, Building 5, and Building 6 in the development known as Met Center, together with the land upon which such buildings are located, which land is described in Exhibit "A-1" attached hereto, and any parking areas, walkways, landscaped areas and other improvements appurtenant thereto. A description of the Project is attached hereto as Exhibit "A".

F. Guarantor(s): N/A.

G. Term: The period of thirty and half (30.5) months commencing on November 16, 2010 (the "**Commencement Date**"). "**Expiration Date**" shall mean the last day of the Term unless sooner terminated or extended as set forth herein. Notwithstanding the foregoing, if the Expiration Date, as determined herein, does not occur on the last day of a calendar month, the Term and the last Lease Year thereof shall be extended by the number of days necessary to cause the Expiration Date to occur on the last day of the last calendar month of the Term. Tenant shall pay Base Rent and Additional Rent for such additional days at the same rate payable for the portion of the last calendar month immediately preceding such extension. Upon or immediately following the Commencement Date, Landlord and Tenant shall each execute and deliver a Commencement Letter in the form of Exhibit "F" attached hereto (the "**Commencement Letter**") setting forth the Commencement Date and the Expiration Date. In the event that Tenant is entitled to an "**Extension Term**" (as defined in Exhibit "D") and the Extension Option is exercised by Tenant, the Term of the Lease shall be extended as provided in Exhibit "D".

H. Rent: All sums, monies or payments required to be paid by Tenant to Landlord pursuant to this Lease.

I. Base Rent: The Base Rent for the lease Term, payable in advance, is as follows:

Period	Monthly Base Rent per Square Foot
11/16/2010 – 5/31/2011	$ 0.53
6/1/2011 – 5/31/2012	$ 0.56
6/1/2012 – 5/31/2013	$ 0 59

Additional Rent:

The estimated Initial Additional Rent (hereinafter defined) for taxes, insurance, CAM and management expenses is $0.28 per square foot of the Premises per month, payable in advance with Base Rent.

J. Security Deposit: $7,541.90

K. Tenant's Proportionate Share: With respect to the Project, Tenant's Proportionate Share shall be a fraction, the numerator of which is the gross square feet in the Premises, and the denominator of which is the total number of gross square feet within Buildings Four, Five and Six located on the Project, which Proportionate Share is stipulated to be 10.6624% based on an aggregate square footage for such buildings of 133,460 square feet.

L. Permitted Use: Medical research and development, manufacturing, administrative and general office purposes and any other legally permitted use incidental thereto.

M. Broker(s): Live Oak-Gottesman, LLC – Landlord's Exclusive Representative

N. Exhibits:
A - Description of the Project
A-1 - Legal Description of Land
B - Depiction of the Premises
C - Parking
D - Special Provisions
E - Work Letter
F - Commencement Letter
G - Signage Criteria

1.2 Effect of Reference to Basic Terms. Each reference in this Lease to any of the Basic Terms contained in Section 1.1 shall be construed to incorporate into such reference all of the definitions set forth in Section 1.1.

ARTICLE 2 - GRANT AND TERM

2.1 In consideration of the rents, covenants, agreements and conditions hereinafter provided to be paid, kept, performed and observed, Landlord leases to Tenant and Tenant hereby hires from Landlord the Premises described in Section 1.1(C).

2.2 Tenant shall have and hold the Premises for and during the Lease Term described in Section 1.1(G), subject to the payment of the Rent and to the full and timely performance by Tenant of the covenants and conditions hereinafter set forth.

2.3 Landlord agrees that Tenant may enter the Premises prior to the Commencement Date for the sole purpose of performing any improvements therein or installing furniture, equipment, wiring and cabling, or other personal property of Tenant (the "**Early Entry**") provided that such Early Entry shall be subject to all of the terms and conditions contained in this Lease (other than the payment of Base Rent and Tenant's Proportionate Share of Common Area Expenses), including, without limitation, Tenant's insurance and indemnity obligations as contained in this Lease and Section 6.1. Prior to any such Early Entry, Tenant shall provide Landlord with certificates of insurance or other evidence acceptable to Landlord evidencing Tenant's compliance with its insurance obligations. In the event that Tenant's Early Entry interferes with or otherwise disrupts Landlord's operations or the operations of other tenants in the Building, Landlord may terminate Tenant's right to Early Entry.

In the event Tenant substantially completes the Initial Alterations in accordance with the Work Letter and obtains a Certificate of Occupancy from the City of Austin, Texas for use and occupancy of the Premises prior to the beginning of the Commencement Date, Tenant shall have the right to move in and occupy the Premises and such occupancy shall be in addition to the Term provided for herein and all the provisions of this Lease shall be in full force and effect upon Tenant's so taking possession for such occupancy, except that Tenant shall not be required to pay Rent with respect to the period of time prior to the Commencement Date during which Tenant occupies the Premises. Notwithstanding anything herein to the contrary, in such event, the Commencement Date for all purposes under this Lease shall be November 16, 2010.

ARTICLE 3 - RESERVATIONS BY LANDLORD

3.1 Landlord excepts and reserves the roof, exterior walls and Common Areas of the Building as described in Article 17 below, and further reserves the right to place, install, maintain, carry through, repair and replace such utility lines, pipes, wires, appliances, tunneling and the like in, over, through and upon the Premises as may be reasonably necessary or advisable for the servicing of the Premises or any other portions of the Building. In exercising such rights reserved to Landlord, Landlord shall use reasonable efforts to avoid any unreasonable interference with Tenant's operations in the Premises (but Landlord shall not be required to conduct such operations on an overtime basis), and to the extent Landlord needs to access the Premises, Landlord shall provide Tenant with reasonable prior notice of such entry.

3.2 Notwithstanding any provision in this Lease to the contrary, it is agreed that Landlord reserves the right, without invalidating this Lease or modifying any provision thereof, at any time, and from time to time, (i) to make alterations, changes and additions to the Building and/or the Project, (ii) to add additional areas to the Building and/or to exclude areas therefrom, (iii) to construct additional buildings and other improvements, and (iv) to relocate any other tenant in the Building (but not Tenant). In exercising such rights reserved to Landlord. Landlord shall use reasonable efforts to avoid any unreasonable interference with Tenant's operations in the Premises (but Landlord shall not be required to conduct such operations on an overtime basis). It is further understood that Landlord may change any appurtenant walks, roadways, parking areas, entrances, exits, and other improvements as Landlord shall deem proper, provided such changes do not unreasonably interfere with Tenant's use of the Premises. In exercising its rights hereunder, Landlord may not change the nature of the Building of modify the Premises (except as otherwise provided herein) in a way that would materially increase Tenant's obligations or decrease Tenant's rights under this Lease.

ARTICLE 4 - USE

4.1 The Premises hereby leased shall be used by Tenant only for the purposes set forth in Section 1.1(L) above and for no other purposes. Tenant shall, at Tenant's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders and requirements in effect during the Term or any part of the Term hereof regulating the use by Tenant of the Premises, including without limitation, the Declaration (as defined below). Tenant shall not use or permit the use of the Premises in any manner that will tend to create waste or a nuisance, or will tend to unreasonably disturb other tenants in the Building, and shall keep its mechanical apparatus free of noise and vibration which may be transmitted beyond the confines of the Premises. Tenant shall store, handle, transport, remove and dispose of all medical and biomedical waste matter at or from the Premises in compliance with all applicable statutes, ordinances, rules, regulations, orders and requirements in effect during the Term or any part of the Term hereof.

4.2 Tenant covenants throughout the Lease Term, at Tenant's sole cost and expense, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards, and officers thereof, and of any applicable insurance rating agency, or any other body now or hereafter constituted exercising similar functions, foreseen or unforeseen, ordinary as well as extraordinary, and whether or not the same require structural repairs or alterations, which may be applicable to the Premises, or the use or manner of use of the Premises; provided, however, that Tenant shall not be responsible for structural repairs or alterations unless the requirement for such structural repairs and alterations is caused by Tenant's particular use or occupancy (as distinguished from the general type of use or occupancy permitted by the applicable zoning ordinance). Tenant will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the buildings and improvements on the Premises and the equipment thereof.

ARTICLE 5 - RENT

5.1 Base Rent. Tenant covenants to pay without notice, deduction, set-off or abatement (except as otherwise provided in this Lease) to Landlord the Base Rent specified in Section 1.1(I) in lawful money of the United States in advance on the first day of each month during the Lease Term. Rent for any partial month shall be prorated on a per diem basis. Rent shall be payable to Landlord at Landlord's address shown at Section 1.1(A) above or such other place as Landlord may designate from time to time in writing. One month's installment of Rent (Base Rent and Additional Rent) shall be due upon execution of this Lease by Tenant.

5.2 Real Estate Taxes. During the Term of the Lease or any extensions or holding over, Tenant shall pay to Landlord, as Additional Rent, Tenant's Proportionate Share of the Real Estate Taxes levied against the Project.

"**Real Estate Taxes**" shall mean: (a) all ad valorem real estate taxes on the Project (adjusted after protest or litigation, if any) for any part of the Term of this Lease, exclusive of penalties, (b) any taxes which shall be levied in lieu of any such ad valorem real estate taxes, (c) any special assessments for benefits on or to the Project paid in annual installments by Landlord, (d) occupational taxes or excise taxes or franchise taxes (including the Texas 'margin tax') levied on rentals derived from the operation of the Project or the privilege of leasing property, and (e) the expense of protesting, negotiating or contesting the amount or validity of any such taxes, charges or assessments, such expense to be applicable to the period of the item contested, protested or negotiation. Real Estate Taxes shall not include any net income, capital stock, succession, transfer, gift, estate or inheritance taxes.

If the Term of the Lease shall begin or end during a tax calendar year (tax calendar year shall mean each annual period for which ad valorem real estate taxes are assessed and levied) of which part only is included in the Term hereof, the amount of such Additional Rent shall be prorated or a per diem basis and with respect to the year in which the Term ends shall be paid on or before the last day of the Term. If the Term ends in any tax calendar year before the amount to be payable by Tenant has been determined under the provisions of this Section, an amount payable for the portion of the Lease Term during the

tax calendar year shall be reasonably estimated by the Landlord and the estimated amount shall be promptly paid by Tenant. As soon as the amount properly payable by the Tenant for the partial period has finally been determined, the amount shall be adjusted between Landlord and Tenant.

5.3 Insurance Premiums. During the Term of this Lease or any extension or holding over thereof, Tenant shall pay to Landlord as Additional Rent Tenant's Proportionate Share of the cost of the premium and deductibles for the fire and extended coverage insurance described in Section 20.2; provided, however, that in no event shall Tenant be responsible for Tenant's Proportionate Share of any deductibles higher than $25,000.

5.4 Equipment Maintenance. Notwithstanding Exhibit "D" Special Provision I, Tenant, at its own cost and expense, shall enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor reasonably approved by Landlord for the upkeep, maintenance, repair, replacement and periodic servicing of all hot water systems and any other equipment within the Premises. The service contract must include all services suggested by the equipment manufacturer in its operations/maintenance manual, provide for not less than four (4) inspections annually, and provide for the replacement of defective parts, and an executed copy of such contract must be provided to the Landlord prior to the date Tenant takes possession of the Premises and thereafter not less than thirty (30) days prior to expiration of the then existing contract. If such maintenance herein described is not undertaken, Landlord shall have the right, on reasonable prior notice to Tenant, to undertake and/or coordinate all repairs and maintenance and Tenant shall reimburse Landlord for all costs, including overhead, upon demand.

5.5 Common Area Expenses. During the Term of this Lease or any renewals, extensions or holding over thereof, Tenant will pay to Landlord, as Additional Rent, Tenant's Proportionate Share of the Common Area Expenses, as those expenses are defined below.

For the purpose of this Lease the "**Common Area Expenses**" means Landlord's total cost and expense incurred in owning, operating, maintaining and repairing the Common Area as defined in Section 17.1 below, as well as the structure of the Building and the mechanical equipment and facilities appurtenant thereto, including but without limitation by enumeration, costs for all electricity, gas, water, sewer or fuel used in connection with the operation, maintenance and repair of the Common Areas; the amount paid for all labor and/or wages and other payments including costs to Landlord of worker's compensation, disability insurance and payroll taxes, for janitors, employees, contractors and subcontractors of the Landlord (not higher than Project manager) involved in the operation and maintenance of the Common Areas; managerial, administrative, and telephone expenses related to operation and maintenance of the common facilities; the total charges for management fees and charges of any independent contractors employed in the care, operation, maintenance, cleaning and landscaping; the amount paid for all supplies, tools, replacement parts of components, equipment and necessities which are occasioned by everyday wear and tear; the amount paid for premiums for all insurance required from time to time by Landlord or Landlord's mortgagees (which will include, without limitation, the premiums described in Section 5.3, but only to the extent that Tenant has not paid such premiums pursuant to Section 5.3); the pro rata costs of machinery and equipment purchased or leased by Landlord to perform its common area maintenance obligations; and any costs or expenses allocable to the Project in accordance with that certain Declaration of Covenants, Conditions and Restrictions of Met Center subdivision filed of record in Travis County, Texas, as same may be amended from time to time (the "**Declaration**"). To the extent that Landlord elects to provide services which are not separately metered or directly billed to the Tenant, such as water and wastewater, the costs of such services shall be included in Common Area Expenses. The management fee incurred by Landlord for the management of the Building and/or the Project is equal to five percent (5%) of the Base Rent, it being expressly understood and agreed that the Landlord of any partner of Landlord or any affiliate of Landlord or any partner of Landlord shall be entitled to manage the Building and/or the Project and collect a management fee therefor equal to five percent (5%) of the Base Rent. Common Area Expenses shall not, however, include interest on debt, capital retirement of debt; depreciation; costs properly chargeable to the capital account, except for capital expenditures which are reasonably anticipated to reduce other operating expenses or such capital expenditures that are required by changes in any or newly promulgated governmental laws or regulations after the Commencement Date in which case such expenditures, plus interest on the unamortized principal investment at ten percent (10%) per annum, shall be amortized over the life of the improvements, and such costs shall be directly chargeable by Landlord to Tenant in the Tenant's Proportionate Share; any ground lease rental; rentals for items which if purchased (rather than rented) would be a capital cost which is specifically excluded from Common Area Expenses as provided herein (except equipment not affixed to the Project that is used in providing janitorial or similar services or equipment rented or leased to remedy or ameliorate an emergency condition in the Project that arises out of or results from an act of God); costs incurred with respect to the installation of tenant or other occupants' improvements in the Building or incurred in renovating or otherwise improving, decorating, painting or redecorating vacant space for tenants or other occupants of the Building (excluding, however, such costs relating to any Common Areas or parking facilities); marketing costs, including without limitation, leasing commissions, attorneys' fees, space planning costs, and other costs and expenses incurred in connection with lease, sublease and/or assignment negotiations and transactions with Tenant or present or prospective tenants or other occupants of the Building (except as otherwise set forth herein); expenses in connection with utilities, services or other benefits, including, without limitation, utilities and services which are separately metered or paid for by Tenant directly, which are not offered to Tenant or for which Tenant is charged for directly but which are provided to another tenant or occupant of the Building; costs incurred by Landlord for the repair of damage to the Building to the extent that Landlord is or should be reimbursed by insurance proceeds, and costs of all capital repairs, replacements or restorations resulting from a casualty (except that deductibles paid up to 25,000.00 will be included as Common Area Expenses) including without limitation an earthquake or flood to the extent that Landlord is or should be reimbursed by insurance proceeds; overhead and profit increment paid to Landlord or to subsidiaries or affiliates of Landlord for goods and/or services in or to the Building to the extent the same exceeds the costs of such goods and/or services rendered by unaffiliated third parties on a competitive basis; costs arising from defects in the

base, shell or core of the Building (other than any such defects arising out of any construction conducted by Tenant or its agents) or improvements installed by Landlord or repair thereof; costs incurred in connection with upgrading the Building to comply with life, fire and safety codes, ordinances, statutes or other laws in effect prior to the Commencement Dale, including, without limitation, the Americans with Disabilities Act of 1990 (hereinafter, the "ADA"), including penalties or damages incurred due to such non-compliance; Landlord's general corporate overhead and general and administrative expenses; costs for which Landlord has been compensated by a management fee (except as otherwise set forth herein); any and all costs arising from the presence of Hazardous Substances in or about the Premises, the Building or the Project that were in existence prior to the date of this Lease and that are brought in or about the Premises, the Building or the Project after the date of this Lease (except for any and all costs arising from such Hazardous Substances brought or caused by Tenant or its employees, agents, representatives, subtenants, invitees, contractors or subcontractors); and reserves for bad debts or for future improvements, repairs, additions that are excluded from Common Area Expenses herein. Notwithstanding the foregoing, Tenant's Proportionate Share of Controllable Expenses (defined below) shall not increase by more than 5% over Tenant's Proportionate Share of Controllable Expenses in the previous calendar year, on a cumulative, compounded basis. However, any increases in Common Area Expenses not recovered by Landlord due to the foregoing limitation shall be carried forward into succeeding calendar years during the Term (subject to the foregoing limitation) until fully recouped by Landlord. The term "**Controllable Expenses**" means all Common Area Expenses excluding expenses relating to the cost of utilities, security expenses, insurance, real estate taxes and assessments, and other expenses not within Landlord's control.

5.6 Estimates of Additional Rent. In order to provide for current payments of Additional Rent, Landlord may give Tenant from time to time during the Term hereof, written notice of Landlord's estimate of Additional Rent which will be due in the calendar year for which written notice of such estimate is given and the amount of each monthly installment of Landlord's estimate of Additional Rent which shall be one-twelfth (1/12) of the Additional Rent due in any said calendar year as estimated by Landlord. Tenant shall pay to Landlord such Additional Rent as follows: (a) upon execution of this Lease, one (1) monthly installment of Landlord's estimate of Additional Rent which shall be applied to the first month of the Term; and (b) thereafter, one (1) monthly installment of Landlord's estimate of Additional Rent on the first day of each calendar month. If at any time it appears to Landlord that the Additional Rent due Landlord for any calendar year will vary from Landlord's previous estimate thereof, Landlord may, by written notice to Tenant, revise its estimate for such year. Subsequent Additional Rent deposits by Tenant for such year shall be based on the revised estimate.

Within ninety (90) days of the end of the calendar year for which estimates of Additional Rent were made, or as soon thereafter as practicable, Landlord shall provide Tenant its statement of actual Common Area Expenses, Insurance Premiums, and Real Estate Taxes, and Tenant's Proportionate Share of actual Additional Rent due for such year shall be calculated. If Tenant's Proportionate Share of actual Additional Rent exceeds the deposits paid by Tenant based on Landlord's estimates, Landlord shall bill Tenant for the excess amount and Tenant shall pay to Landlord said amount within thirty (30) days of billing. If Tenant's Proportionate Share of actual Additional Rent is less than the deposits paid by Tenant based on Landlord's estimate thereof, Tenant shall, at the option of Landlord, be given a credit for the excess amount against the next Additional Rent deposit due for any subsequent year or receive from Landlord a refund of the excess so paid by Tenant.

If the Lease Term commences on any day other than the first day of January, or if the Lease Term ends on any day other than the last day of December, any Additional Rent due Landlord shall be pro-rated, based on a 365-day year. Upon expiration or termination of this Lease, Tenant shall pay such pro-rated amount within thirty (30) days of billing or Landlord shall refund any excess to Tenant within thirty (30) days after such determination is made. This covenant shall survive the expiration or termination of this Lease.

5.7 Service Charge. Tenant's failure to make any monetary payment required of Tenant hereunder within ten (10) days of the due date therefor shall result in the imposition of a service charge for such late payment in the amount of five percent (5%) of the amount of such late payment to compensate Landlord for the expense of handling such late payment; provided, however, that no late charge shall be imposed for the first late payment so long as Tenant pays the amount due within five (5) days after Tenant's receipt of notice from Landlord that Tenant failed to pay the amount when due. In addition, any sum not paid within thirty (30) days of the due date therefor shall bear interest at the rate of eighteen percent (18%) per annum (or such lesser percentage as may be the maximum amount permitted by law) from the date due until paid.

5.8 Right to Audit. Notwithstanding anything in the Lease to the contrary, Tenant shall have the right, after reasonable notice and at reasonable times, during the ninety (90) day period following the delivery of Landlord's statement of the actual Common Area Expenses, to audit Landlord's accounting records at Landlord's office that pertain to and contain information concerning such expenses with respect to the immediately preceding year in order to verify the amounts thereof. Tenant shall be entitled to retain an independent, certified public accountant to audit and/or review Landlord's records to determine the proper amount of Additional Rent payable by Tenant. Any parties retained by Tenant to audit and/or review Landlord's records shall not be compensated on a contingency fee basis. Tenant shall provide Landlord a copy of any audit obtained by Tenant. Tenant agrees that any information obtained during an inspection by Tenant of Landlord's books of account and records shall be kept in confidence by Tenant and Tenant agrees to contractually require the same of any third party accountants or auditors engaged by Tenant to assist with such examination. Tenant agrees to pay the cost of such audit, provided that, if the audit reveals that Landlord's determination of the Additional Rent payable by Tenant hereunder as set forth in any statement sent to Tenant was in error in Landlord's favor by more than five percent (5%), Landlord shall pay the reasonable cost of such audit. In the event such audit shall establish that Landlord's statement of Tenant's Proportionate Share of Additional Rent due for the prior year exceeded Tenant's Proportionate Share of Additional Rent actually due and Tenant shall have theretofore paid such incorrect amount, such excess amount paid by Tenant shall be credited against the

next maturing installments of Tenant's Proportionate Share of Additional Rent due from Tenant to Landlord, or, if an insufficient Term remains, such excess amount shall be refunded by Landlord to Tenant within thirty (30) days following presentation of a statement therefor. In the event such audit shall establish that Landlord's statement of Tenant's Proportionate Share of Additional Rent for the preceding twelve (12) months was understated, Tenant shall pay to Landlord such excess amount due within thirty (30) days following presentation of a statement therefor. Landlord shall be required to maintain records of Additional Rent for the entirety of the one-year period ("Review Period") following Landlord's delivery to Tenant of each statement setting forth the actual Additional Rent.

ARTICLE 6 - UTILITIES AND SERVICES

6.1 From and after the earlier of the Early Entry or the Commencement Date, Tenant shall contract in its own name and timely pay for all charges for electricity, gas, telephone, trash hauling, janitorial service and any other services or utilities used in, servicing or assessed against the Premises, unless otherwise herein expressly provided.

ARTICLE 7 - QUIET ENJOYMENT

7.1 Landlord covenants that Tenant, on paying the Rents herein provided and keeping, performing and observing the covenants, agreements and conditions herein required of Tenant, shall peaceably and quietly hold and enjoy the Premises for the Term aforesaid, subject, however, to the terms of this Lease.

ARTICLE 8 - ASSIGNMENT AND SUBLETTING

8.1 Tenant shall not assign or hypothecate this Lease nor sublet or otherwise transfer its interest in all or any part of the Premises (collectively or individually, a "**Transfer**") without the prior written consent of Landlord, which consent shall not be unreasonably withheld. Without limitation, it is agreed that Landlord's consent shall not be considered unreasonably withheld if: (1) the proposed transferee's financial condition is not adequate for the obligations such transferee is assuming in connection with the proposed Transfer; (2) the transferee's business or reputation is not suitable for the Building considering the business and reputation of the other tenants and the Building's prestige, or would result in a violation of another tenant's rights under its lease at the Building; (3) Tenant is in default beyond any applicable notice and cure period; (4) the transferee is an occupant of the Building; (5) any portion of the Building or the Premises would likely become subject to additional or different laws as a consequence of the proposed Transfer; or (6) Landlord or its leasing agent has received a proposal from or made a proposal to the proposed transferee to lease space in the Building within six (6) months prior to Tenant's delivery of written notice of the proposed Transfer to Landlord. Any such Transfer or attempted Transfer in violation of the provision hereof shall be void and of no effect and shall constitute a breach of this Lease.

If Tenant requests Landlord's consent to a Transfer, Tenant shall submit to Landlord (i) financial statements for the proposed transferee, (ii) a copy of the proposed assignment or sublease, and (iii) such other information as Landlord may reasonably request. After Landlord's receipt of the required information and documentation, Landlord shall either consent or reasonably refuse consent to the Transfer in writing. Tenant shall pay Landlord a review fee of $1,000.00 for Landlord's review of any proposed Transfer or transfer to a Permitted Transferee. In addition, Tenant shall reimburse Landlord for its actual reasonable costs and expenses (including, without limitation, reasonable attorney's fees) incurred by Landlord in connection with Landlord's review of such proposed Transfer or transfer to a Permitted Transferee.

Notwithstanding any assignment or sublease, Tenant shall remain liable hereunder and shall not be released without the express written agreement of Landlord to such release. The consent by Landlord to any assignment or subletting shall not constitute a waiver of the necessity for such consent to any subsequent assignment or subletting. Except as provided below with respect to a Permitted Transferee, if Tenant is a corporation, limited liability company, partnership or similar entity, and the person, persons or entity which owns or controls a majority of the voting interests at the time changes for any reason (including but not limited to a merger, consolidation or reorganization), such change of ownership or control shall constitute a transfer under this Article 8. The foregoing shall not apply: (i) so long as Tenant is an entity whose outstanding stock is listed on a nationally recognized security exchange, or if at least eighty percent (80%) of its voting stock is owned by another entity, the voting stock of which is so listed, or (ii) to a merger or consolidation of Tenant's Canadian parent company XBiotech, Inc. into Tenant.

8.2 If Tenant shall assign this Lease or sublet any part of the Premises for consideration in excess of the pro-rata portion of Rent applicable to the space subject to the assignment or sublet, then Tenant shall pay to Landlord as Additional Rent 50% of any such excess (after deducting Tenant's reasonable and customary costs and expenses incurred in assigning the Lease or subleasing the space [the "**Transfer Costs**")) within fifteen (15) days following receipt of same; provided, however, that Tenant shall not be required to pay Landlord any amounts hereunder until Tenant has recouped its Transfer Costs.

8.3 Provided Tenant is not in default under this Lease, Tenant may assign this Lease or sublet all or any portion of the Premises to any person or entity which, directly or indirectly, controls Tenant or is controlled by Tenant or is under common control with Tenant (a "**Permitted Transferee**") without Landlord's consent, provided Tenant gives Landlord written notice at least thirty (30) days prior to the effective date of the proposed transfer with, in the case of an assignment, a copy of the written assignment and the assignee's agreement assuming the obligations of Tenant under this Lease prior to the effectiveness of such assignment, or in the case of a sublease, a copy of the written sublease agreement prior to the effectiveness of such sublease. Any such assignment or sublease or attempted assignment or sublease in violation of the provision hereof shall be void and of no effect and shall constitute a breach of this Lease. Notwithstanding any such assignment or sublease to a Permitted Transferee, Tenant shall remain liable hereunder and shall not be released without the express written agreement of Landlord to such release.

ARTICLE 9 - DAMAGE OR DESTRUCTION

9.1 If the Premises or the Building or any part thereof is damaged by fire or other casualty, cause or condition whatsoever as to be substantially untenantable, Landlord shall, by written notice (the "**Damage Notice**") to the Tenant given within sixty (60) days after such damage, either: (i) elect not to restore the Premises and terminate this Lease as of the date of the damage, or (ii) elect to restore the Premises in accordance with this Article 9. For purposes hereof, "substantially untenantable" shall mean that the repairs, as reasonably determined by Landlord, will take in excess of one hundred eighty (180) days to complete after the date of the commencement of the repair by Landlord. If this Lease is not terminated as above provided and if the Premises are made partially or wholly untenantable as aforesaid, Landlord, at its expense shall restore the same with reasonable promptness to the condition in which Landlord furnished the Premises to Tenant at the commencement of the Term of this Lease but only as to those items that were provided at Landlord's expanse without any reimbursement by Tenant. Landlord shall be under no obligation to restore any alterations, improvements or additions to the Premises made by Tenant or paid for by Tenant, including, but not limited to, any of the initial tenant finish done or paid for by Tenant or any subsequent changes, alterations or additions made by Tenant. If Landlord does not elect to terminate this Lease as provided herein and the Premises are substantially untenantable, Tenant shall have the right to terminate this Lease by notice to Landlord given within thirty (30) days after Tenant's receipt of the Damage Notice from Landlord. If the Premises or the Building or any part thereof is damaged by fire or other casualty, cause or condition whatsoever as to be substantially untenantable during the last year of the Term, as it may be extended, either Landlord or Tenant may terminate this Lease by notice to the other given within thirty (30) days after the date of the damage or destruction.

9.2 If, as a result of fire or other casualty, cause or condition whatsoever the Premises are made partially or wholly untenantable and, if Landlord has not given the sixty (60) day notice above provided for and fails within one hundred eighty (180) days after commencement of the repairs to eliminate substantial interference with Tenant's use of the Premises or substantially to restore same, Tenant may terminate this Lease as of the end of said one hundred eighty (180) days by notice to Landlord given not later than five (5) days after expiration of said one hundred eighty (180) day period. If the Premises are rendered totally untenantable but this Lease is not terminated, all rent shall abate from the date of the fire or other relevant cause or condition until the Premises are ready for occupancy and reasonably accessible to Tenant. If a portion of the Premises is untenantable, rent shall be prorated on a per diem basis and apportioned in accordance with the portion of the Premises which is usable by the Tenant until the damaged part is ready for the Tenant's occupancy. In all cases, due allowance shall be made for reasonable delay caused by adjustment of insurance loss, strikes, labor difficulties or any cause beyond Landlord's reasonable control. For the purposes of this Lease, the Premises shall be considered tenantable so long as and to the extent that the Premises are occupied. In any event, Tenant shall be responsible for the removal, of restoration, when applicable, of all its damaged property and debris from the Premises, upon request by Landlord or reimburse Landlord for the cost of removal.

ARTICLE 10 - LANDLORD'S RIGHTS

10.1 Landlord reserves the following rights:

(a) To change the name of the Building without notice or liability to Tenant;

(b) If Tenant has vacated the Premises and not paid its Rent, to decorate, remodel, repair, alter or otherwise prepare the Premises for reoccupancy;

(c) On reasonable prior notice to Tenant, to exhibit the Promises to others and to display "For Lease" signs on the Premises during the last six months of the Term or any extension thereof;

(d) To remove abandoned or unlicensed vehicles and vehicles that are unreasonably interfering with the use of the parking lot by others and to charge the responsible tenant for the expense of removing said vehicles;

(e) On reasonable prior notice to Tenant, To take any and all measures, including making inspection, repairs, alterations, additions and improvements to the Premises or to the Building as may be necessary or desirable for the safety, protection or preservation of the Premises or the Building or Landlord's interests, or as may be necessary or desirable in the operation thereof (in exercising the rights reserved in this subsection (d), Landlord shall use reasonable efforts to avoid any unreasonable interference with Tenant's operations in the Premises (but shall not be required to conduct such operations on an overtime basis)).

Landlord may enter upon the Premises at any reasonable time on reasonable prior notice for the purpose of exercising any or all of the foregoing rights hereby reserved without being deemed guilty of an eviction or disturbance of Tenant's use or possession and without being liable in any manner to Tenant.

ARTICLE 11 - HOLDING OVER

11.1 Tenant shall pay to Landlord the Base Rent and Additional Rent computed on a daily basis for each day Tenant retains possession of the Premises or any part thereof after the expiration of the Term, by lapse of time or otherwise, at 150% of the amount due during the last monthly period prior to the date of such expiration and also pay all damages, direct or indirect, sustained by Landlord by reason of such retention. Any such continued possession by Tenant shall be as a tenant at sufferance. Nothing herein shall be construed as requiring Landlord to permit Tenant to retain possession of the Premises or any part thereof after the expiration of the Term. In addition to the obligation to pay the amounts set forth above during any such holdover period, Tenant shall also be liable to Landlord for all damages, including, without limitation, any consequential damages, which Landlord may suffer by reason of any holding over by Tenant and Tenant shall also indemnify Landlord against any and all claims made by any other tenant or prospective tenant against Landlord for delay by Landlord in delivering possession of the Premises to such other tenant or prospective tenant.

ARTICLE 12 - SIGNS AND ADVERTISEMENTS

12.1 Except as provided below, Tenant shall not put upon nor permit to be put upon any part of the Premises or the Building, any signs, billboards or advertisements whatever in any location or any form without the prior written consent of Landlord.

12.2 During the initial Term and any renewal periods, but only so long as no event of default is in existence under this Lease beyond all applicable notice and cure periods, Tenant shall have the right to install and maintain, at Tenant's sole expense, exterior signage identifying Tenant's name (the "**Signage**") on the Building. The signage rights granted herein are personal to the specific party originally identified as the "Tenant" under the Lease and its Permitted Transferee and may not be transferred, shared or assigned in whole or in part to any other assignee, subtenant or other tenant in the Building.

The location, size, material, construction and design of the Signage shall be subject to (a) the prior written approval of Landlord, which shall not be unreasonably withheld, conditioned or delayed and (b) compliance with applicable laws. Specifications for construction and design of the Signage and location of the Signage on the Building are set forth in Exhibit "G" to this Lease. Tenant shall not make any subsequent alterations in or additions to the Signage without in each instance first complying with the foregoing requirements. Tenant acknowledges that Landlord has made no representation that any Signage proposed by Tenant will comply with applicable law. In no event shall Tenant use a name on the Signage that is in competition with another tenant of Landlord or its affiliates or in contravention of any prior signage rights. Landlord, upon advance written request from Tenant and in Landlord's reasonable discretion, shall provide reasonable access to Tenant for the purpose of cleaning and maintaining the Signage.

Tenant, at its expense, shall obtain all necessary governmental permits and certificates required for the installation and use of the Signage. All construction, installation, alterations and repair and maintenance work shall be performed in a good and workmanlike manner in compliance with the Building's rules and regulations and shall not interfere with, delay or otherwise impose any additional expenses upon Landlord in the maintenance and operation of the Building or upon the use and enjoyment by other tenants of their respective premises in the Building. Tenant shall maintain the Signage and keep it in good working order repair and shall timely pay or cause to be paid all costs for work done by Tenant or caused to be done by Tenant related to the Signage, in accordance with the provisions of Section 18.2 of this Lease.

Upon the Expiration Date or earlier termination of Tenant's right to possess the Premises, or if Tenant otherwise falls at any time to comply with the requirements of this Section 12.2, Tenant shall, at its sole expense, promptly remove all such Signage which shall become the property of Tenant, and repair any damage caused by the Signage or its removal. However, if the Signage is not removed from the Building within 15 days after Landlord's notice, then the Signage shall conclusively be deemed to have been abandoned by Tenant and may be removed, appropriated, sold, stored, destroyed or otherwise disposed of by Landlord without further notice to Tenant or any other person and without obligation to account therefor, Tenant shall pay Landlord all reasonable expenses incurred in connection with any such removal, appropriation, sale, storage, destruction and disposition of the Signage and the repair of any damage caused by the Signage or its removal.

Notwithstanding anything to the contrary contained in this Section 12.2, or in any approvals or other communications, Landlord reserves the right, in its sole discretion and at its expense, to move any existing signage (except for Tenant's signage approved by Landlord unless Tenant consents to such move) or modify its signage guidelines for the Project at any time and from time to time.

ARTICLE 13 - MORTGAGE AND SUBORDINATION/ESTOPPEL CERTIFICATE

13.1 Except as provided in Section 13.3 below with respect to mortgage subordination, this Lease and all rights of Tenant hereunder are and shall be subject and subordinate to the lien of any first mortgage, deed of trust, or other instrument in the nature thereof which may now or hereafter affect Landlord's interest in the premises and to any other instrument encumbering the Landlord's interest in the premises and to any modifications, renewals, consolidations, extensions, or replacements thereof.

13.2 Section 13.1 above shall be self-operative, and no further instrument of subordination shall be required by the holder of any such instrument. In confirmation of such subordination, Tenant shall, within ten (10) days after demand, execute, acknowledge, and deliver to Landlord or the holder of any such mortgage, deed of trust, or other such instrument without expense, any and all instruments that may be requested by such holder to evidence the subordination of this Lease and all rights hereunder to the lien of any such mortgage, deed of trust, or other instrument, and each such renewal, modification, consolidation, replacement, and extension therefor.

13.3 Tenant shall, within ten (10) days after demand, execute, acknowledge, and deliver to Landlord or to the holder of any mortgage, deed of trust, or other instrument affecting or encumbering the Landlord's interest in the Premises, without expense, any and all reasonable instruments that may be necessary to make this Lease superior to the lien of any such mortgage, deed of trust or other instrument, and each renewal, modification, consolidation, replacement, and extension thereof.

13.4 If the holder of any mortgage, deed to secure debt, deed of trust or other instrument affecting or encumbering Landlord's interest in the Premises, shall hereafter succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease, Tenant shall attorn to and recognize such successor as Tenant's landlord under this Lease and shall promptly execute and deliver any instrument that may be necessary to evidence such attornment. Upon such attornment, this Lease shall continue in full force and effect as a direct lease between such successor landlord and Tenant, subject to all the terms, covenants, and conditions of this Lease.

13.5 At any time and from time to time, Tenant, on or before the date specified in a request therefor made by Landlord, which date shall not be earlier than ten (10) days from the making of such request, shall execute, acknowledge, and deliver to Landlord a certificate evidencing whether or not: (i) this Lease is in full force and effect, (ii) this Lease has been amended in any way, (iii) there are any existing defaults on the part of Landlord hereunder to the knowledge of Tenant and specifying the nature of such defaults, if any, and (iv) the date to which rent, and other amounts due hereunder, if any, have been paid. Each certificate delivered pursuant to this Section may be relied on by any prospective purchaser or transferee of Landlord's interest hereunder or of any part of Landlord's property or by any mortgagee of Landlord's interest hereunder or of any part of Landlord' property or by an assignee of any such mortgagee.

13.6 Upon written request from Tenant delivered on or before the Commencement Date and at Tenant's sole cost and expense (including any such costs and expenses assessed by the holder of any mortgage, deed to secure debt, deed of trust or other instrument affecting or encumbering Landlord's interest in the Premises), Landlord shall use commercially reasonable efforts to provide within sixty (60) days after the Commencement Date a subordination, non-disturbance and attornment agreement on the standard form of the holder of any mortgage, deed to secure debt, deed of trust or other instrument affecting or encumbering Landlord's interest in the Premises, provided that any failure by Landlord to obtain such subordination agreement shall not result in any liability on the part of Landlord hereunder.

ARTICLE 14 - EMINENT DOMAIN

14.1 If the Premises or such substantial part thereof as reasonably renders the remainder unfit for the intended uses shall be taken by any competent authority under the power of eminent domain or be acquired for any public or quasi-public use or purpose, the Term of this Lease shall cease and terminate upon the date when the possession of said Premises or the part thereof so taken shall be required for such use or purpose and without apportionment of the award and Tenant shall have no claim for the value of any unexpired Term of this Lease. If any condemnation proceeding shall be instituted in which it is sought to take any part of the Building or change the grade of any street or alley adjacent to the Building and such taking or change of grade makes it necessary or desirable to remodel the Building to conform to the changed grade, Landlord shall have the right to terminate this Lease not less than ninety (90) days after having give written notice of termination to Tenant. In either of said events, rent at the then current rate shall be apportioned as of the date of the termination. No money or other consideration shall be payable by the Landlord to the Tenant for the right of termination and the Tenant shall have no right to share in the condemnation award or in any judgment for damages caused by the taking or the change of grade. Nothing in this Section shall preclude an award being made to Tenant for loss of business or depreciation to and cost of removal of equipment or fixtures.

ARTICLE 15 – INABILITY TO PERFORM

15.1 If by reason of inability to obtain and utilize labor, materials or supplies; circumstances directly or indirectly the result of a state of war or national or local emergency; any laws, rules, orders, regulations or requirements of any governmental authority now or hereafter in force; strikes or riots; accident in, damage to or the making or repairs, replacements, or improvements to the Premises or any of the equipment thereof; or by reason of any other cause beyond the reasonable control of Landlord, Landlord shall be unable to perform or shall be delayed in the performance of any covenant to supply any service, such nonperformance or delay in performance shall not render Landlord liable in any respect for damages to either person or property, constitute a total or partial eviction, constructive or otherwise, work an abatement of rent or relieve Tenant from the fulfillment of any covenant or agreement contained in this Lease.

15.2 Other than for Tenant's monetary obligations under this Lease and obligations which can be cured by the payment of money (e.g., maintaining insurance), whenever a period of time is herein prescribed for action to be taken by Tenant, Tenant shall not be liable or responsible for, and there shall be excluded from the computation for any such period of time, any delays due to inability to obtain and utilize labor, materials or supplies; circumstances directly or indirectly the result of a state of war or national or local emergency; any laws, rules, orders, regulations or requirements of any governmental authority now or hereafter in force; strikes or riots; accident in, damage to or the making or repairs, replacements, or improvements to the Premises or any of the equipment thereof; or by reason of any other cause beyond the reasonable control of Tenant.

ARTICLE 16 - HAZARDOUS SUBSTANCES AND MATERIALS

16.1 A. During the Term of this Lease, Tenant shall not suffer, allow, permit or cause:

1. The installation of any underground storage tanks for the purpose of holding petroleum products or hazardous substances either on the Premises or at any other location in the Building or the Project.

2. The accumulation of tires, spent batteries, debris or other solid wastes either on the Premises or any other part of the Building or the Project except rubbish placed in designated containers scheduled for normal, scheduled disposal in accordance with all applicable law;

3. The generation, accumulation, storage, possession, release or threat of release of "hazardous substances", "pollutants", "hazardous waste", or "toxic materials" [as those terms are used in the Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA"), 42 U.S.C. §§9601 et seq., as amended, the Resource Conservation and Recovery Act of 1976, 42 U.S.C. 6901, et seq., as amended ("RECRA"), the Toxic Substance Control Act (or any regulations promulgated under the foregoing), the Federal Water Pollution Control Act, 33 U.S.C. 1251 et seq., or the Clean Air Act, 42 U.S.C. 7401 et seq., or any other present or future federal, state or local law, ordinance, rule or regulation], including extremely flammable substances, explosives, radioactive materials, asbestos, urea formaldehyde, PCB's, chlorofluorocarbons, freon, petroleum/petroleum products, medical and biomedical waste products (collectively, "**Hazardous Substances**"); provided, however, the foregoing prohibition shall not be applicable to (i) Hazardous Substances which are present at the Premises prior to the date hereof, (ii) normal and reasonable amounts of cleaning and pest control supplies reasonable necessary for maintenance of the Premises so long as such materials are properly, safely, and lawfully stored and used by Tenant and the quantity of same does not equal or exceed a "reportable quantity" as defined under 40 C.F.R. 302 and 305, as amended, (iii) de minimis amounts of leaked or spilled petroleum products from the normal operation of motor vehicles or (iv) Hazardous Substances necessary for Tenant's Permitted Use so long as: (a) such materials (and all containers therefor) are used, kept, stored and disposed of in a manner that complies with all applicable federal, state and local statutes, ordinances, rules, regulations, orders and requirements applicable to such materials; (b) Tenant obtains and maintains all governmental permits and approvals required therefor; (c) such materials are approved of in writing by Landlord in advance; and (d) title to any such Hazardous Substances will remain and be stored and disposed of solely in Tenant's name.

4. The use of the Premises for industrial or manufacturing purposes, except as may be provided for herein.

B. Tenant shall notify Landlord immediately upon learning that any duty of Tenant described in Subsection A of this Section 16.1 has been violated, that there has been a release, discharge or disposal of any Hazardous Substances on a part of the Premises or the Building or the Project (regardless of whether or not the release is in quantities that would require under the law the reporting of such release to a governmental or regulatory agency), that radon gas or urea formaldehyde has been detected on or in the Premises, or that the Premises are subject to any third party claim or action, or threat thereof, because of any environmental condition in or originating from the Premises or arising in connection with Tenant's operations al the Premises or at the Building or the Project. Tenant shall promptly provide Landlord with copies of all correspondence to or from third parties regarding such claims or actions or regarding environmental conditions in or originating from Tenant's operations in the Premises or at the Building or the Project. Landlord retains the right to join and participate, as a party, in any legal actions affecting the Project or any portion thereof initiated in connection with Hazardous Substances laws.

C. In the event of a release, leaking, spilling or deposit (collectively "**Leak**") of any Hazardous Substances on, in or from the Premises caused by Tenant or its employees, agents, representatives, subtenants, invitees, contractors or subcontractors, Tenant small immediately take all investigatory and/or remedial action (collectively "**Remediation**") that is necessary to cause complete Remediation of such Leak, in accordance with all applicable laws and regulations. Tenant shall restore the Premises, the Building, and the Project to the environmental condition that existed prior to commencement of this Lease or the date Tenant took possession of the Premises, whichever is earlier. Landlord shall have the right, but not the obligation, to enter the Premises and Remediate any environmental condition on the Premises to comply with all laws, regulations and ordinances during which time Tenant shall not be entitled to any abatement of rent.

D. With respect to any Remediation of the Premises, the Project or any portion thereof which is Tenant's responsibility hereunder, Tenant will provide Landlord with written notice of Tenant's intended Remediation, including Tenant's method, time and procedure of Remediation, and Landlord will have the right to require reasonable changes in such method, time or procedure before Tenant commences any such work. Tenant will not commence any Remediation of any Leak in any way connected with the Project, or any portion thereof, without first notifying Landlord, in writing, of Tenant's intention to do so and affording Landlord ample opportunity to appear, intervene or otherwise appropriately assert and protect Landlord's interest.

E. Tenant shall indemnify and hold harmless Landlord (as well as Landlord's officers, directors, shareholder, employees, partners, servants and agents, including the property manager) [the "**Indemnified Parties**"] of and from any and all liabilities (including strict liabilities), penalties, demands, actions, costs and expenses (including without limitation legal fees), remediation and response costs, remediation plan preparation costs and any continuing monitoring or closure costs, incurred or suffered by the Indemnified Parties, or asserted by a third party against the Indemnified Parties, directly or indirectly arising due to the breach of Tenant's obligations set forth in this Article. Such indemnification shall survive expiration or earlier termination of this Lease.

F. At the expiration or sooner termination hereof, Tenant shall return the Premises to Landlord in substantially the same condition as existed on the date of commencement hereof or the date Tenant took possession of the Premises, whichever is earlier, free of any Leaked Hazardous Substances in, on or from the Premises.

16.2 Landlord represents and warrants that to the best of Landlord's knowledge, the Premises, Building and Project are free of Hazardous Substances as of the date of this Lease. Landlord shall indemnify Tenant against any loss, cost, damage, claim or expense (but excluding any consequential or special damages) arising out of or related to the presence, use, handling, discharge, release or disposal of Hazardous Substances on, in, to or from the Premises, Building or Project caused by Landlord, except to the extent that such loss, cost, damage, claim or expense arises out of the use, handling, discharge, release or disposal by Tenant or its employees, agents, representatives, tenants, subtenants, invitees, contractors or subcontractors of any Hazardous Substances introduced by any of them into the Premises.

ARTICLE 17 - COMMON AREAS

17.1 The term "**Common Areas**" means all the areas and facilities of the Project (as the same may be altered from time to time by Landlord) not intended for renting and, instead, designed for the common use and benefit of Landlord and all or substantially all of the tenants, their employees, agents, customers and invitees. The Common Areas include, but not by way of limitation, the roof, foundation, exterior walls (excluding glass or plate glass), gutters and downspouts, parking lots, rail spurs, truck courts, landscaped and vacant areas, driveways, walks and curbs with facilities appurtenant to each as such areas may exist from time to time. Landlord shall operate and maintain the Common Areas, the proportionate cost of which shall be reimbursed by Tenant to Landlord as provided for herein. Landlord hereby grants to Tenant the non-exclusive revocable use of the Common Areas by Tenant, Tenant's employees, agents, customers and invitees, which use shall be subject at all times to such reasonable, uniform and non-discriminatory rules and regulations (the "**Rules and Regulations**") as may from time to time be established by Landlord and the terms and conditions of the Declaration to the extent applicable to the Project and/or to Tenant.

17.2 Tenant shall not use any part of the Building exterior to the Premises for outside storage, No trash, crates, pallets or refuse shall be permitted anywhere outside the Building by Tenant except in enclosed metal containers to be located as directed by Landlord. Tenant shall not park any trucks or trailers, loaded or empty, except in front of the docks on the concrete apron provided for such purposes. Tenant shall not park or permit parking of vehicles overnight anywhere about the Building's parking areas without the prior written consent of Landlord.

17.3 Landlord shall use commercially reasonable efforts to enforce the Rules and Regulations equally with other tenants; provided, Landlord shall not have any liability to Tenant for any failure of any other tenant or tenants of the Project to comply with the Rules and Regulations. In the event of any conflict between the Rules and Regulations and the provisions of this Lease, the provisions of this Lease shall prevail.

ARTICLE 18 - ACCEPTANCE OF PREMISES, MAINTENANCE AND CARE

18.1 Completion and Acceptance. Tenant acknowledges that it will examine the Premises before taking possession hereunder and Tenant is taking the Premises in "AS-IS, WHERE IS" condition. **Tenant expressly acknowledges and agrees that Landlord has not made and is not making, and Tenant, in executing and delivering this Lease, is not relying upon, any warranties, representations, promises or statements, except to the extent that the same are expressly set forth in this Lease. Landlord and Tenant expressly agree that there are and shall be no implied warranties of merchantability, habitability, suitability, fitness for a particular purpose or of any other kind arising out of this Lease, all of which are hereby waived by Tenant, and that there are no warranties which extend beyond those expressly set forth in this Lease**.

18.2 Maintenance and Repair by Tenant. Tenant shall be responsible for all maintenance, repair and replacement to the Premises of whatsoever kind or nature that is not hereinafter set forth specifically as the obligation of Landlord. Tenant shall take good care of the Premises and fixtures, and keep them in good repair and free from filth, overloading, danger of fire or any pest or nuisance, and repair and/or replacement any damage or breakage done by Tenant or Tenant's agents, employees or invitees, including damage done to the Building by Tenant's equipment or installations, including, without limitation, the requirements with respect to the heating, ventilation and air conditioning system set forth in Section 5.4 above. Tenant shall be responsible for the repair and replacement of all glass and plate glass on the Premises. At the end of the Term of this Lease or any renewal hereof, Tenant shall quit and surrender the Premises broom clean, in as good condition as when received by Tenant, normal wear and tear and damage by casualty excepted, in the event Tenant fails to maintain the Premises as provided for herein, Landlord shall have the right, but not the obligation, on five (5) days notice to Tenant (except in the case of an emergency), to perform such maintenance, repair and replacement as is required of Tenant in which event Tenant shall promptly reimburse Landlord for its costs in providing such maintenance or repairs together with a five percent (5%) charge for Landlord's overhead.

18.3 Maintenance and Repair by Landlord. During the Term of this Lease, Landlord shall keep and maintain the Common Areas of the Project in good condition and repair, Landlord shall be under no obligation and shall not be liable for any failure to make repairs that are Landlord's responsibility herein until and unless Tenant notifies Landlord in writing of the necessity therefor, in which event Landlord shall have a reasonable time thereafter to make such repairs. Landlord reserves the right

to the exclusive use of the roof, foundation and exterior walls of the Building which Landlord is so obligated to maintain and repair. If any portion of the Premises or Project which Landlord is obligated to maintain or repair is damaged by the negligence of Tenant, its agents, employees or invitees, then repairs necessitated by such damage shall be paid for by Tenant.

ARTICLE 19 - ALTERATIONS AND ADDITIONS, MECHANICS' LIENS

19.1 Alterations and Additions. Tenant shall not make any alterations, improvements, or additions to the Premises without the prior written consent and approval of plans therefor by Landlord, which approval shall not be unreasonably withheld; provided, however, that Landlord's consent shall not be required for strictly cosmetic alterations that do not affect the structure of the Building. Except as otherwise provided in the Work Letter with respect to the plans for the Initial Alterations, Landlord shall have thirty (30) days after submission of such plans by Tenant to approve or disapprove of them in writing. The work necessary to make any alterations, improvements or additions to the Premises shall be done at Tenant's expense using contractors selected by Tenant and reasonably approved by Landlord, Tenant shall promptly pay the cost of all such work. Alterations, improvements or additions so made by either of the parties upon the Premises, except trade fixtures, the HVAC System (the removal of which shall be governed by Exhibit "D" Special Provision I), moveable furniture and equipment placed in the Premises at the expense of Tenant, shall be and become the property of Landlord and shall remain upon and be surrendered with the Premises as a part thereof at the termination of this Lease, without disturbance, molestation, injury or damage, unless Landlord elects, at the time Tenant requests Landlord's consent to the alteration, improvement or addition to require Tenant to remove any or all such alterations, improvements or additions from the Premises, in which event Tenant, at Tenant's sole cost and expense, shall remove, not later than the termination of the Lease, all such designated alterations or improvements (including, without limitation, the removal of any wiring and/or cabling installed by, at the request of or for the benefit of Tenant in the Project) in a good, workmanlike manner, repairing and restoring the Premises to the condition existing therein prior to the construction of such alterations or improvements, free and clear of all liens and encumbrances. In the event damage to the Premises or the Building shall be caused by moving said furniture and equipment in or out of the Premises, said damage shall be promptly repaired at the cost of Tenant. Tenant shall deliver to Landlord (i) all required permits and approvals prior to the commencement of any such alterations, improvements and/or additions; and (ii) "as-built" drawings of the Premises showing any alterations, improvements or additions to the Premises within thirty (30) days following completion of such alterations, improvements or additions to the Premises or thirty (30) days prior to the expiration of the Term of this Lease, if earlier.

19.2 Mechanic's Liens. Tenant shall not cause nor permit any mechanic's liens or other liens to be placed upon the Premises or the Building and in case of the filing of any such lien or claim therefor, Tenant shall promptly discharge same; provided, however, that Tenant shall have the right to contest the validity or amount of any such lien upon its prior posting of security with Landlord, which security, in Landlord's sole reasonable judgment, must be adequate to pay and discharge any such lien in full plus Landlord's reasonable estimate of its legal fees. Tenant agrees to pay all legal fees and other costs incurred by Landlord because of any mechanic's or other liens attributable to Tenant being placed upon the Premises or the Building.

ARTICLE 20 - INSURANCE

20.1 Tenant's Insurance; Commercial General Liability, Property Damage Insurance. Tenant covenants and agrees to maintain on the Premises at all times during the Term of this Lease, or any renewal thereof, (i) a policy or policies of commercial general liability insurance with not less than $3,000,000.00 combined single limit for both bodily injury and property damage which policy or policies shall name Landlord and its property manager as additional insureds; and (ii) a policy or policies of causes of loss – special form (formerly known 'all risk' or 'fire and extended coverage') property insurance as insurance covering any property of Tenant or any property that may be in the Premises but not owned by Landlord, or which Tenant is responsible to replace following a casualty hereunder, at its full replacement cost, which policy or policies shall name Landlord and its property manager as loss payees. In addition, Tenant shall maintain automobile liability insurance covering owned, non-owned and hired vehicles in an amount not less than a combined single limit of $1,000,000.00 per accident, and workers' compensation insurance covering Tenant's employment of workers and anyone for whom Tenant may be liable for workers' compensation claims, and employer's liability insurance in an amount not less than $1,000,000.00 each accident, $1,000,000.00 disease – each employee and policy limit, with waiver of subrogation. Tenant shall obtain for the benefit of Landlord a waiver of subrogation with respect to insurance maintained by Tenant on its property.

20.2 Landlord's Insurance; Property Insurance; Commercial General Liability. Landlord shall, throughout the Term of this Lease, or any extension thereof, maintain (i) causes of loss – special form property insurance on the property owned by Landlord located in and about the Project; and (ii) a policy or policies of commercial general liability insurance covering the Common Areas, and such other insurance as Landlord shall from time to time deem necessary or prudent. All such insurance shall be in such amounts and with such deductibles as Landlord shall reasonably determine. Landlord shall not be obligated in any way or manner to insure or otherwise be liable or responsible for any property of Tenant or any property that may be in the Premises but not owned by Landlord or for property of Tenant that Tenant is responsible to replace following a casualty hereunder. Landlord's insurance policy shall contain a waiver of subrogation with respect to claims against Tenant for losses insured and compensated under such insurance policy.

20.3 Indemnification of Landlord. Except for claims for which Landlord is compensated under the insurance described in Section 20.2 (and to the extent of such compensation) and for which a waiver of subrogation is in effect and except to the extent caused by the gross negligence or willful misconduct of Landlord or its Affiliates (as hereinafter defined), Tenant indemnifies and shall hold Landlord, and its affiliates, partners, representatives, directors, trustees, officers, employees, lenders, successors and assigns (collectively, the "**Affiliates**") and its property manager harmless from and defend Landlord and the Affiliates and its property manager against any and all claims or liabilities for any injury or death to any person or damage to any property whatsoever:

1. Either (i) occurring in, on, or about the Premises, or (ii) occurring in, on, or about any facilities including, without limitation, elevators, stairways, passageways or hallways the use of which Tenant may have in conjunction with other tenants of the Building, when such injury, death or damage shall be caused in part or in whole by the act, neglect or fault of, or omission of any duty with respect to the same by Tenant, its agents, employees, contractors, invitees, licensees, tenants, or assignees;

2. Arising from any work or thing whatsoever done by or benefiting the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises (which indemnification shall be proportionate to the benefit to Tenant with respect to matters done by other parties which benefit Tenant and other tenants of the Building);

3. Arising from any breach or default on the part of the Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to the terms of this Lease; or

4. Otherwise arising from any act or neglect of the Tenant, or any of its agents, employees, contractors, invitees, licensees, tenants or assignees; and

5. From and against all costs, expenses, counsel fees, and court costs incurred or assessed in connection with any or all of the foregoing.

Furthermore, in case any action or proceeding be brought against Landlord, and/or Landlord's property manager by reason of any claims or liability as set forth above, Tenant agrees to cause such action or proceeding to be defended at Tenant's sole expense by counsel reasonably satisfactory to Landlord. The provisions of this Lease with respect to any claims or liability occurring or caused prior to any expiration or termination of this Lease shall survive expiration or termination.

THIS INDEMNITY SHALL APPLY REGARDLESS OF WHETHER THE LOSS IN QUESTION ARISES OR IS ALLEGED TO ARISE IN PART FROM ANY NEGLIGENT ACT OR OMISSION OF LANDLORD OR LANDLORD'S AGENTS, EMPLOYEES, OFFICERS, DIRECTORS, SHAREHOLDERS, PARTNERS, MEMBERS, VENTURERS, BENEFICIARIES, MORTGAGEES, AGENTS OR REPRESENTATIVES (COLLECTIVELY, **"LANDLORD'S RELATED PARTIES"), FROM STRICT LIABILITY OF ANY SUCH PERSONS OR OTHERWISE, BUT IN SUCH EVENT TENANT SHALL NOT BE RESPONSIBLE FOR THAT PORTION OF ANY LOSS WHICH IS HELD TO BE CAUSED BY THE GROSS NEGLIGENCE OR WILLFUL MISCONDUCT OF LANDLORD OR LANDLORD'S RELATED PARTIES.**

ARTICLE 21 - DEFAULT AND REMEDIES

21.1 In the event:

(a) Tenant shall at any time fail to pay any item of Rent when due and such failure continues for a period of ten (10) days after Tenant's receipt of notice that Tenant failed to pay the amount when due; provided, however, Landlord shall not be obligated to notify Tenant of Tenant's failure to pay any item of Rent due under this Lease more than once during any twelve (12) month period during the Term; or

(b) Tenant shall fall to keep, perform or observe any other covenant, agreement, condition or undertaking hereunder and shall fail to remedy such default within ten (10) days after written notice thereof to Tenant; or if such default is one that will take longer than ten (10) days to remedy. Tenant fails to commence curing such default within ten (10) days and/or fails diligently to pursue such cure to completion; or

(c) The Premises shall be vacated by Tenant for any period for which Tenant has not paid its Rent;

Landlord shall have the right, without further notice to or demand, to re-enter and take exclusive possession of the Premises, with or without force or legal process, and to refuse to allow Tenant to enter the same or have possession thereof; to change the locks on the doors to the Premises, take possession of any furniture or other property in or upon the Premises (Tenant hereby waiving the benefit of all exemptions by law), sell the same at public or private sale without notice and apply the proceeds thereof to the costs of sale, payment of damages and payment of the rent due under this Lease; and pursue any other remedy permitted by law all without being liable to Tenant for any damages or to any prosecution therefor. Additionally, Landlord, at Landlord's election may:

(a) act as agent of Tenant to relet the Premises for the balance of the Lease Term or for a shorter or longer term and receive the rents therefor, applying them first to the payment of damages suffered to the Premises and rents due and to become due under this Lease, Tenant remaining liable for and hereby agreeing to pay Landlord any deficiency; or

(b) cancel and terminate the remaining Term of this Lease, re-enter and take possession of the Premises free of this Lease and thereafter this Lease shall be null and void and the rents in such case shall be apportioned and paid on and up to the date of such entry. Thereafter both parties shall be released and relieved from any of any and all obligations thereafter to accrue hereunder. Tenant shall be liable for all loss and damage resulting from such breach or default; or

(c) treat such default as an anticipatory breach of this Lease and, as liquidated damages for such default, be entitled to the difference, if any, between the sum which, at the time of such termination for anticipatory breach represents the then present worth (computed at seven percent per year) of the excess aggregate rents and additional rents payable hereunder that would have accrued over the balance of the Lease Term including extensions, had such Term not been prematurely terminated, over the aggregate market rental value of the Premises over the Term (including extensions) that the Lease would have run had it not been prematurely terminated.

The foregoing provisions override and control any conflicting provisions of Section 93.002 of the Texas Property Code of 1990, as well as any successor statute.

TO THE EXTENT, AND ONLY IN THE CIRCUMSTANCES REQUIRED BY TEXAS LAW, LANDLORD SHALL USE OBJECTIVELY REASONABLE EFFORTS TO RELET THE PREMISES AFTER AN EVENT OF DEFAULT AND THE TERMINATION OF TENANT'S RIGHT TO POSSESSION OF THE PREMISES (INCLUDING, WITHOUT LIMITATION, SUCH CONCESSIONS AND FREE RENT AS LANDLORD DEEMS NECESSARY OR DESIRABLE); PROVIDED, HOWEVER, THAT TENANT EXPRESSLY AGREES THAT LANDLORD MAY OFFER ALL OR ANY PART OF THE PREMISES FOR ANY PERIOD, TO ANY TENANT AND FOR ANY USE WHICH LANDLORD MAY ELECT, AND THAT LANDLORD MAY OFFER FOR LEASE ANY VACANT SPACE IN THE BUILDING (OR IN OTHER BUILDINGS OWNED BY LANDLORD OR LANDLORD'S AFFILIATES) BEFORE OFFERING THE PREMISES FOR LEASE. TENANT FURTHER AGREES THAT IF WITHIN THIRTY (30) DAYS AFTER TERMINATION OF TENANT'S RIGHT TO POSSESSION OF THE PREMISES, LANDLORD PLACES A "FOR LEASE' SIGN AT THE PREMISES, OR LANDLORD ENTERS INTO A LISTING AGREEMENT WITH A REAL ESTATE AGENT FOR THE LEASE OF THE PREMISES, OR LANDLORD ADVERTISES THE LEASED PREMISES FOR LEASE IN THE AUSTIN-AMERICAN STATESMAN (OR OTHER NEWSPAPER WITH A GENERAL CIRCULATION IN AUSTIN, TEXAS) AT LEAST ONCE PER MONTH, AND LANDLORD SHOWS THE PREMISES TO PROSPECTIVE TENANTS WHO REQUEST TO SEE THE PREMISES, LANDLORD CONCLUSIVELY SHALL BE DEEMED TO HAVE USED OBJECTIVELY REASONABLE EFFORTS TO RELET THE PREMISES AND TO HAVE FULFILLED ANY OBLIGATION TO MITIGATE DAMAGES BY REASON OF TENANT'S DEFAULT, TENANT ACKNOWLEDGES AND AGREES THAT LANDLORD SHALL NOT BE REQUIRED TO ACCEPT ANY TENANT WHICH TENANT MAY SUGGEST TO LANDLORD, AND THAT LANDLORD MAY UTILIZE IN RELETTING THE PREMISES THE SAME UNDERWRITING STANDARDS, AND STANDARDS OF REPUTATION IN THE COMMUNITY, WHICH LANDLORD APPLIES GENERALLY IN LEASING SPACE WITHIN THE BUILDING. TENANT FURTHER EXPRESSLY ACKNOWLEDGES AND UNDERSTANDS THAT LANDLORD CONSIDERS MANY FACTORS IN THE SELECTION OF TENANTS, INCLUDING WITHOUT LIMITATION, EXCLUSIVITY PROVISIONS IN EXISTING LEASES AND RESTRICTIVE COVENANTS, THE BALANCE OF USES WITHIN THE BUILDING, THE TENANT MIX WITHIN THE BUILDING, AND THE REPUTATION AND LOCAL, REGIONAL, OR NATIONAL NAME RECOGNITION AND CREDIT STANDING OF PROSPECTIVE TENANTS.

21.2 Landlord's Right to Cure. Landlord may, but shall not be obligated to, cure any default by Tenant (specifically including, but not by way of limitation, Tenant's failure to obtain insurance, make repairs, or satisfy lien claims); and whenever Landlord so elects, all costs and expenses paid by Landlord in curing such default, including without limitation reasonable attorneys' fees, shall be so much Additional Rent due on the next rent date after such payment, together with interest (except in the case of said attorneys' fees) at the highest legal rate then payable by Tenant in the state in which the Leased Premises are located or in the absence of such a maximum rate at the rate of eighteen percent (18%) per annum, from the date of the advance to the date of repayment by Tenant to Landlord.

21.3 Remedies Cumulative. All rights and remedies provided in this Lease for Landlord's protection shall be cumulative and in addition to any other rights and remedies provided by law. Landlord shall be entitled to recover from Tenant its reasonable attorneys' fees incurred in enforcing its rights hereunder.

21.4 No Waiver. A waiver by Landlord of a breach or default by Tenant under the terms and conditions of this Lease shall not be construed to be a waiver of any subsequent breach or default nor of any other term or condition of this Lease, and the failure of Landlord to assert any breach or to declare a default by Tenant shall not be construed to constitute a waiver thereof so long as such breach or default continues unremedied.

21.5 No Reinstatement. No receipt of money by Landlord from Tenant after the expiration or termination of this lease or after the commencement of any suit, or after final judgment for possession of the Premises shall reinstate, continue or extend the Term of this Lease or affect any such notice, demand or suit.

21.6 Default Under Other Leases. A default under this Lease by Tenant shall be deemed a default under any other leases between Landlord and Tenant for space in the Project. Likewise, a default by Tenant under any other such lease between Landlord and Tenant shall, at Landlord's option, be deemed a default under this Lease.

ARTICLE 22 - DEFINITION OF LANDLORD/SALE/LANDLORD'S ASSIGNMENT OF LEASE

22.1 The words "Landlord" and "Tenant" as used herein shall include the respective contracting party, whether singular or plural, and whether an individual, masculine or feminine, or a partnership, joint venture, business trust, or corporation. The provisions of this Lease shall inure to the benefit of and be binding upon Landlord and Tenant, and their respective successors, heirs, legal representatives, and assigns, subject, however, in the case of Tenant to the provisions of Section 8.1 hereof. It is understood and agreed that the term "Landlord," as used in this Lease means only the owner(s), or the

lessee(s), from time to time of the Building and/or the land underlying the Building so that in the event of any sale or sales of the Building and/or the land underlying the Building, or of any lease thereof, the Landlord named herein shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder accruing thereafter to the extent of such sale or lease, and it shall be deemed without further agreement that the purchaser, or the lessee, as the case may be, has assumed and agreed, to the same extent, to carry out any and all covenants and obligations of Landlord hereunder during the period such party has possession of all or such portion of the Building and/or the land underlying the Building which it has purchased or leased. Should all of the land underlying the Building and the entire Building be severed as to ownership by sale and/or lease, then, unless Tenant is otherwise notified to the contrary in writing, either the owner of the entire Building or the lessee of the entire Building, as the case may be, that has the right to lease space in the Building to tenants shall be deemed the "Landlord." Tenant shall be bound to any succeeding landlord for all the terms, covenants, and conditions hereof and shall execute any attornment agreement not in conflict herewith at the request of any succeeding landlord.

ARTICLE 23 - NOTICES

23.1 Except as otherwise herein provided, whenever by the terms of this Lease notice shall or may be given either to Landlord or to Tenant, such notice shall be in writing and shall be deemed to have been properly served if hand-delivered, sent by nationally recognized overnight courier service, or sent by certified mail, return receipt requested, postage prepaid, at the address set forth at Sections 1.1(A) and (B) above. If hand-delivered, the date of such hand-delivery shall be deemed the date of service. If sent by nationally recognized overnight courier service, one (1) business day after deposit with such nationally recognized overnight courier service shall be deemed the date of service. If mailed by certified mail, the date of delivery indicated on the Return Receipt shall be deemed the date of service.

ARTICLE 24 - SECURITY DEPOSIT

24.1 Tenant herewith deposits with Landlord the sum set forth in Section 1.1(J) as security for the performance by Tenant of every covenant and condition of this Lease. Said deposit may be commingled with other funds of Landlord. If Tenant shall default with respect to any covenant or condition of this Lease, Landlord may apply the whole or any part of such security deposit to the payment of any sum in default or any sum which Landlord may be required to spend by reason of Tenant's default. This includes, but is not limited to, applying the security deposit first to any restoration and/or cleanup costs necessary over and above normal wear and tear of the vacated space. It is understood that the security deposit is not to be considered as the last month's rent under the Lease. Should Tenant comply with all of the covenants and conditions of this Lease, the security deposit or any balance thereof shall be returned to Tenant, without interest, at the expiration of the Term hereof.

ARTICLE 25 – LANDLORD'S LIEN

25.1 Landlord's Lien. Tenant hereby grants to Landlord a security interest to secure the payment of all rent or other sums of money coming due hereunder from Tenant, and to secure payment of any damages or loss which Landlord may suffer by reason of the breach by Tenant of any covenant, agreement or condition contained herein, upon all equipment, fixtures, furniture, improvements, inventory, consumer goods, goods and any and all personal property of Tenant presently or which may hereafter be situated in, on or upon the Premises, and all proceeds therefrom including, but not limited to, all proceeds of any insurance which may accrue to Tenant by reason of damage to or destruction of any such property; provided, however, that Tenant does not grant Landlord a security interest in any proprietary property of Tenant including such property contained in its computers, medical research data, patents or drug molecules (the "**Excluded items**"). During any period that Tenant is in default under this Lease beyond all applicable notice and cure periods, such property shall not be removed from the Premises at any time without the consent of Landlord until all arrearages of rent, as well as any other sums of money then due to Landlord hereunder, shall first have been paid and discharged, and all the covenants, agreements and conditions hereof have been fulfilled and performed by Tenant. In addition to any other remedies provided herein, upon Tenant's default under this Lease beyond all applicable notice and cure periods, Landlord may enter the Premises and take possession of any and all equipment, fixtures, furniture, improvements and other personal property of Tenant situated in, on or upon the Premises (other than the Excluded items) without liability for trespass or conversion. Landlord may sell the same at a public or private sale, after giving Tenant at least (10) ten days written notice sent to the Tenant's last known address as to the time and place of the sale. At such sale, Landlord or Landlord's assigns may purchase the property unless such purchase is otherwise prohibited by law. Unless otherwise provided by law, the requirement of reasonable notice shall be met if such notice is given to the Tenant at the address herein prescribed at least five (5) days prior to the time of the sale. Proceeds of any such disposition, less all expenses including reasonable attorney's fees, shall be applied as a credit against the indebtedness secured by the security interest granted in this Section. Any surplus shall be paid to Tenant and Tenant shall pay any deficiency upon demand. Tenant consents to the filing by Landlord of financing statements in a form acceptable to Landlord sufficient to protect the security interest of Landlord in the aforementioned property and the proceeds thereof under the applicable provisions of the Uniform Commercial Code. The statutory lien is not waived and the security interest herein granted is in addition and supplementary thereto.

ARTICLE 26 - MISCELLANEOUS

26.1 Persons Bound. The agreements, covenants and conditions of this Lease shall be binding upon and inure to the benefit of the heirs, legal representatives, successors and assigns of each of the parties hereto, except that no assignment, encumbrance or subletting by Tenant, unless permitted by the provisions of this Lease, shall vest any right in the assignee, encumbrancee or sublessee of Tenant. If there be more than one Tenant herein named, the provisions of the Lease shall be applicable to and binding upon such Tenant jointly and severally, as well as their heirs, legal representatives, successors and assigns.

26.2 Partial Invalidity. If any term, covenant, condition or provision of this Lease or the application thereof to any person or circumstance shall, to any extent be invalid, unenforceable or violate a party's legal rights, then such term, covenant, condition or provision shall be deemed to be null and void and unenforceable, however, all other provisions of this Lease, or the application of such term or provision to persons or circumstances other than those to which are held invalid, unenforceable or violative of legal rights, shall not be affected thereby, and each and every other term, condition, covenant and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

26.3 Captions. The headings and captions used throughout this Lease are for convenience and reference only and shall in no way be held to explain, modify, amplify, or aid in the interpretation, construction or meaning of any provisions in this Lease. The words "Landlord" and "Tenant" wherever used in this Lease shall be construed to mean plural where necessary, and the necessary grammatical changes required to make the provisions hereof apply either to corporation, partnerships, or individuals, men or women, shall in all cases be assumed as though in each case fully expressed.

26.4 No Option. Submission of this instrument for examination does not constitute a reservation of nor option for the Premises. The instrument does not become effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

26.5 Brokers. Tenant and Landlord represent that they have dealt directly with and only with the broker or brokers set forth at Section 1.1(M) above, and that Tenant and Landlord know of no other broker who negotiated this Lease or is entitled to any commission in connection herewith. Tenant and Landlord agree to indemnify, defend and hold harmless the other from and against any commissions or claims by any other broker or brokers pertaining to Tenant and Landlord having entered into this Lease.

26.6 Applicable Law. This Lease, its interpretation and enforcement shall be governed by the laws of the state in which the Premises are located.

26.7 Tenant's Compliance with Laws and Ordinances. Tenant covenants throughout the Lease Term, at Tenant's sole cost and expense, promptly to comply with all laws and ordinances and the orders, rules and regulations and requirements of all federal, state and municipal governments and appropriate departments, commissions, boards, and officers thereof, and of any applicable insurance rating agency, or any other body now or hereafter constituted exercising similar functions, foreseen or unforeseen, ordinary as well as extraordinary, and whether or not the same require structural repairs or alterations, which may be applicable to the Premises, or the use or manner of use of the Premises; provided, however, that Tenant shall not be responsible for structural repairs or alterations unless the requirement for such structural repairs and alterations is caused by Tenant's particular use or occupancy (as distinguished from the general type of use or occupancy permitted by the applicable zoning ordinance). Tenant will likewise observe and comply with the requirements of all policies of public liability, fire and all other policies of insurance at any time in force with respect to the buildings and improvements on the Premises and the equipment thereof.

26.8 Intentionally Omitted.

26.9 Financial Information. If Landlord shall request financial information from Tenant in connection with a proposed sale or financing of the Building, for the purpose of satisfying the due diligence investigation requirements of a proposed purchaser or lender, Tenant will provide such information as will allow Landlord to satisfy the reasonable requirements of such proposed purchaser or lender so long as Landlord and the proposed purchaser or lender agree to keep such information confidential.

26.10 Attorneys Fees. In the event Landlord or Tenant bring suit against the other to enforce any rights under this Lease, the prevailing party shall recover from the other, in addition to any other award, an amount equal to reasonable attorneys' fees to be fixed by the court.

26.11 Anti-Terrorism Statute Compliance. Tenant hereby represents and warrants to Landlord that Tenant is not: (1) in violation of any Anti-Terrorism Law; (2) conducting any business or engaging in any transaction or dealing with any Prohibited Person, including the making or receiving or any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (3) dealing in, or otherwise engaging in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13221; (4) engaging in or conspiring to engage in any transaction that evades or avoids, or had the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in any Anti-Terrorism Law; or (5) a Prohibited Person, nor are any of its partners, members, managers, officers or directors a Prohibited Person. As used herein, "**Antiterrorism Law**" is defined as any law relating to terrorism, anti-terrorism, money laundering or anti-money laundering activities, including Executive Order No. 13224 and Title 3 of the USA Patriot Act. As used herein "**Executive Order No. 13224**" is defined as Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, and relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, or Support Terrorism" "**Prohibited Person**" is defined as (1) a person or entity that is listed in the Annex to Executive Order 13224; (ii) a person of entity with whom Tenant or Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti Terrorism Law, or (iii) a person or entity that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office Of Foreign Assets Control as its official website, http:/www.treas.gov/ofac/t11sdn.pdf_ or at any replacement website or other official publication of such list. "**USA Patriot Act**" is defined as the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56).

ARTICLE 27 - ENTIRE AGREEMENT

27.1 This Lease contains the entire agreement between the parties and no modification of this Lease shall be binding upon the parties unless evidenced by an agreement in writing signed by the Landlord and the Tenant after the date hereof. If there be more than one Tenant named herein, the provisions of this Lease shall be applicable to and binding upon such tenants jointly and severally.

ARTICLE 28 - EXHIBITS

28.1 Reference is made to the Exhibits listed at Section 1.1(N) above, which exhibits are attached hereto and incorporated herein by reference.

[SIGNATURE PAGE(S) FOLLOW]

IN WITNESS WHEREOF, the parties have signed quintuplicate counterparts hereof as of the date and year hereinabove set forth.

LANDLORD:

NNN MET CENTER 4-9, LP,
a Texas limited partnership

By: NNN VF MET CENTER 4-9 GP, LLC,
a Delaware limited liability company
its General Partner

By: PPCP/NNN LAVACA/MET HOLDINGS, LLC,
a Delaware limited liability company,
its managing member

By: PCCP CS LAVACA/MET HOLDINGS,
LLC, a Delaware limited liability company,
its managing member

By: /s/ Brian Heafey
Name: Brian Heafey
Title: Authorized Signatory
Date:

TENANT:

XBIOTECH USA, INC.,
a Delaware corporation

By: /s/ John Simard
Name: John Simard
Title: President
Date: August 17, 2010

EXHIBIT "A"
DESCRIPTION OF THE PROJECT

This Exhibit A is attached to and made part of that certain Lease Agreement by and between NNN Met Center 4-9, LP, as Landlord and XBiotech USA, Inc., a Delaware corporation as Tenant.

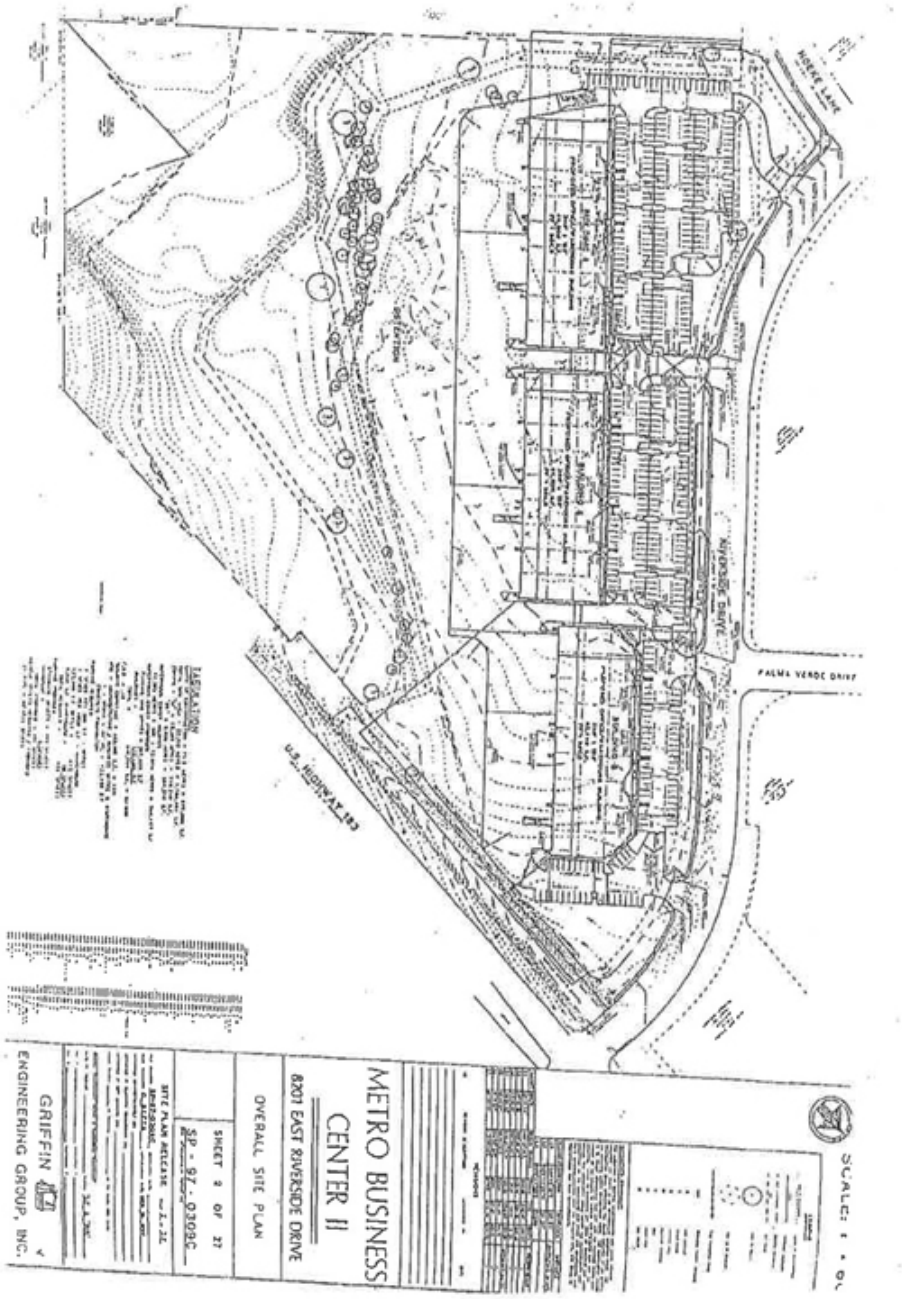


Exhibit "A-1"

EXHIBIT “A-1”

LEGAL DESCRIPTION OF LAND

Lot 1, Block D, Metro Center Section 2, a subdivision in Travis County, Texas, according to the map or plat thereof recorded in Volume 100, Pages 87-88 of the Plat Records of Travis County, Texas.

Exhibit “A-1”

EXHIBIT “B”

DEPICTION OF THE PREMISES

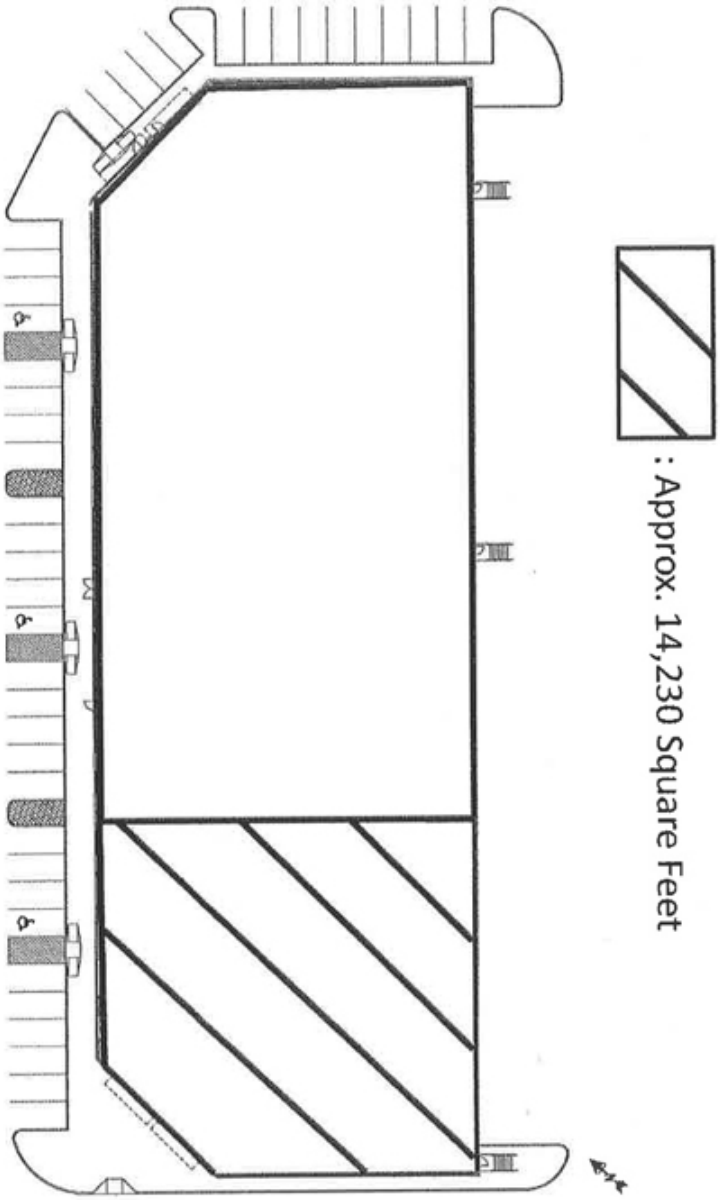


Exhibit “B”

EXHIBIT “C”

PARKING

During the Term and provided Tenant is not in default hereunder beyond any applicable cure period, Tenant, at no additional cost to Tenant, shall be permitted to use non-reserved parking spaces in the area used for parking for the Building at the ratio of 3.5 spaces per 1,000 square feet of space in the Premises. All parking by Tenant shall be subject to such reasonable, non-discriminatory terms, conditions and regulations as are from time to time applicable to tenants of the Building.

EXHIBIT "D"

SPECIAL PROVISIONS

I. HVAC SYSTEM

A. HVAC System. Subject to (i) Landlord's prior written approval, (ii) Tenant's compliance with the Declaration and all applicable laws, codes and ordinances, and (iii) the terms and conditions of this Special Provision I, Tenant shall have the right to install, maintain, operate and remove up to five HVAC rooftop units and associated ductwork and electrical connections necessary for providing heating, ventilation and air conditioning service to the Premises (the "**HVAC System**"). All costs and expenses relating to the HVAC System shall be borne entirely by Tenant.

B. Installation. Prior to commencing installation of the HVAC System, Tenant shall provide to Landlord plans and specifications for the HVAC System, and the name of the contractor selected by Tenant to install the HVAC System, as well as any other information reasonably requested by Landlord in connection with the HVAC System and the installation thereof. Landlord shall review the information so provided by Tenant, and either approve or disapprove the installation of the HVAC System within a reasonable period of time. Notwithstanding anything herein to the contrary. Tenant shall have no right to install the HVAC System without Landlord's prior written approval. Landlord's approval of the HVAC System shall not be unreasonably withheld, conditioned or delayed, provided that Landlord reserves the right to condition its approval upon Tenant providing additional information satisfactory to Landlord and evidence that all required permits and approvals (including any approval required under the Declaration) have been obtained. Landlord's approval of the HVAC System, if at all, shall not be deemed a representation or warranty by Landlord that the HVAC System complies with any applicable laws, codes and ordinances (including the Declaration). Tenant shall be solely responsible for identifying and complying with such matters. At the time of installation, Tenant shall appropriately screen the HVAC equipment as reasonably required by Landlord or the governing authority under the Declaration.

C. Maintenance and Operation. Tenant, at its own cost and expense, shall operate the HVAC System in compliance with all applicable laws, codes and ordinances, and shall enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor reasonably approved by Landlord for the upkeep, maintenance, repair, replacement and periodic servicing of the HVAC System. The service contract must include all services suggested by the equipment manufacturer in its operations/maintenance manual, provide for not less than four (4) inspections annually, and provide for the replacement of defective parts, and an executed copy of such contract must be provided to the Landlord prior to the installation of the HVAC System and thereafter not less than thirty (30) days prior to expiration of the then existing contract. If such maintenance herein described is not undertaken, Landlord shall have the right, on reasonable prior notice to Tenant, to undertake and/or coordinate all repairs and maintenance and Tenant shall reimburse Landlord for all costs, including overhead, upon demand.

D. Removal of HVAC System. Tenant shall remove the HVAC System at Tenant's sole cost and expense upon the expiration or earlier termination of the Lease, and repair any damage to the Premises or Building caused by such removal (including without limitation repairing any building penetrations). If the Tenant fails to take the required action, Landlord may elect to remove the HVAC System itself and repair any damage, and Tenant shall reimburse Landlord for all costs incurred by Landlord in performing such removal and repair work. In addition, if the HVAC System is left at the Premises for more than ten (10) days after the termination or expiration of the Lease, Tenant shall conclusively be deemed to have abandoned the HVAC System, so that in no event shall Landlord have any duty to preserve or restore the HVAC System on Tenant's behalf. The provisions of this paragraph shall survive the expiration or earlier termination of the Lease.

II. Extension Option

A. Extension Option. Provided that: no default or event of default is in existence under this Lease beyond all applicable notice and cure periods, Tenant and its Permitted Transferee (but not any other assignee or sublessee) shall have the right and option (the "**Extension Option**") to renew and extend this Lease, by written notice delivered to Landlord no later than six (6) months and no more than nine (9) months prior to the expiration of the Initial Lease Term, or subsequent Extension Term, for up to two (2) additional Terms (each, an "**Extension Term**") of sixty (60) months each, under the same terms, conditions and covenants contained in this Lease, except that (a) no abatements or other concessions. If any, applicable to the Initial Lease Term shall apply to the Extension Term; (b) the Base Rent shall be equal to the then current market rate for comparable leases in the area of the Building as reasonably determined by Landlord, taking into account concessions, allowances and other inducements common in the market at that time for comparable tenants entering into new leases for new (i.e., not renewal) space in comparable buildings, (c) Tenant shall have no option to renew this Lease beyond the expiration of the last Extension Term; and (d) all leasehold improvements within the Premises shall be provided in their then existing condition (on an "As Is" basis) at the time the Extension Term commences.

B. Exercise. Failure by Tenant to notify Landlord in writing of Tenant's election to exercise the Extension Option herein granted within the time limits set forth for such exercise shall constitute a waiver of such Extension Option. In the

event Tenant elects to exercise the Extension Option as set forth above, Landlord shall, within thirty (30) days thereafter, notify Tenant in writing of the proposed rental for the Extension Term (the "**Proposed Extension Rental**"). Tenant shall within thirty (30) days following delivery of the Proposed Extension Rental by Landlord notify Landlord in writing of the acceptance or rejection of the Proposed Extension Rental. If Tenant accepts Landlord's proposal, then the Proposed Extension Rental shall be the rental rate in effect during the applicable Extension Term.

C. Response to Proposed Extension Rental. Failure of Tenant to respond in writing during the aforementioned thirty (30) day period shall be deemed an acceptance by Tenant of the Proposed Extension Rental. Should Tenant reject Landlord's Proposed Extension Rental during such thirty (30) day period, then Landlord and Tenant shall negotiate during the thirty (30) day period commencing upon Tenant's rejection of Landlord's Proposed Extension Rental to determine the rental for the Extension Term. In the event Landlord and Tenant are unable to agree to a rental for the Extension Term during said thirty (30) day period ("**Outside Agreement Date**"), then each party shall select an independent qualified broker and inform the other as to its selection within five (5) business days after the expiration of such 30-day period (the "**Designation Date**"). Those two brokers shall select an independent third qualified broker within ten (10) business days after the Designation Date, in order to be "qualified," each of said brokers shall have at least 5 years of experience in the leasing of comparable commercial properties in the vicinity of the Building. Landlord and Tenant shall each bear the cost of its broker and one-half (1/2) of the cost of the third broker. Such 3 brokers shall determine the rental for the Extension Term (the "**Extension Rental**") in accordance with the parameters set forth above in Section I.A. within thirty (30) days after the Designation Date. If all of such brokers fail to agree on the Extension Rental within thirty days after the Designation Date, but two of the brokers can so agree, then the Extension Rental as determined by such two brokers shall be controlling. If none of the brokers can agree of the Extension Rental within such time period, then an average shall be taken of the two closest determinations thereof and such average shall be controlling (except that if the median of the three rates provided by the brokers is also the average of the three, it shall be controlling).

D. Extension. Upon exercise of the Extension Option by Tenant and subject to the conditions set forth hereinabove, this Lease shall be extended for the period of such Extension Term without the necessity of the execution of any further instrument or document, although if requested by either party, Landlord and Tenant shall enter into a written agreement modifying and supplementing this Lease in accordance with the provisions hereof. Any termination of this Lease during the initial Lease Term shall terminate all renewal rights hereunder. The renewal rights of Tenant hereunder shall not be severable from this Lease, nor may such rights be assigned or otherwise conveyed in connection with any permitted assignment of this Lease other than to a Permitted Transferee. Landlord's consent to any assignment of this Lease shall not be construed as allowing an assignment of such rights to any assignee.

Exhibit "D"

EXHIBIT "E"

WORK LETTER

1. Following the delivery of possession of the Premises to Tenant and Tenant's payment of all Rent, if any, and security deposits required to be paid upon the execution of the Lease, Tenant shall have the right to perform certain alterations and Improvements in the Premises (the "**Initial Alterations**"). Notwithstanding the foregoing, Tenant and its contractors shall not have the right to perform Initial Alterations in the Premises unless and until Tenant has complied with all of the terms and conditions of Section 19.1 of the Lease, including, without limitation, approval by Landlord (which approval shall not be unreasonably withheld provided that the plans for the Initial Alterations comply with all applicable governmental laws, codes, rules, and regulations and are sufficiently detailed to allow construction of the Improvements in a good and workmanlike manner) of (a) the final plans for the Initial Alterations, (b) the contractors to be retained by Tenant to perform such Initial Alterations, and (c) the insurance coverage obtained by Tenant and its contractors in connection with the Initial Alterations. Tenant shall be responsible for all elements of the plans for the Initial Alterations (including, without limitation, compliance with law, functionality of design, the structural integrity of the design, the configuration of the premises and the placement of Tenant's furniture, appliances and equipment), and Landlord's approval of such plans shall in no event relieve Tenant of the responsibility therefor. Landlord's approval of the contractors to perform the Initial Alterations shall not be unreasonably withheld. Landlord's approval of the general contractor to perform the Initial Alterations shall not be considered to be unreasonably withheld if any such general contractor (i) does not have trade references reasonably acceptable to Landlord, (ii) does not maintain insurance as required by Landlord, (iii) does not have the ability to be bonded for the work in an amount satisfactory to Landlord, (iv) does not provide current financial statements reasonably acceptable to Landlord, or (v) is not licensed as a contractor in the state and municipality in which the Premises is located. Tenant acknowledges the foregoing is not intended to be an exclusive list of the reasons why Landlord may reasonably withhold its consent to a general contractor. Landlord shall approve or disapprove of Tenant's plans and revisions for the Initial Alterations within ten (10) days after its receipt of a request by Tenant. After final approval of such plans and revisions, if Tenant proposes changes to the final plans for the Initial Alterations, Landlord shall approve or reasonably disapprove of same within five (5) business days after its receipt of a change request by Tenant. Failure of Landlord to respond during the aforementioned ten-day and five-day periods shall be deemed an approval by Landlord of the plans, revisions or change request as the case may be. Neither the approval by Landlord of the Initial Alterations or any other plans, drawings, specifications or other items associated with the Initial Alterations nor Landlord's performance, supervision or monitoring of the construction of the Initial Alterations shall constitute any warranty by Landlord to Tenant of the adequacy of the design for Tenant's intended use of the Premises or of compliance with any applicable law or code.

2. Tenant shall pay the cost of the Initial Alterations and any other alterations made by Tenant pursuant to the Lease. In no event shall Landlord be obligated to contribute, in the form of a tenant improvement allowance or otherwise, toward the cost of performing the Initial Alterations or any other alterations made by Tenant pursuant to the Lease. In addition, Tenant shall pay to Landlord, within ten (10) days after Landlord's written demand, a construction fee equal to Landlord's actual, out of pocket costs for reviewing the plans for the Initial Alterations.

3. Tenant shall be responsible for all applicable state sales or use taxes, if any, payable in connection with the Initial Alterations.

4 Tenant agrees to accept the Premises in its "as-is" condition and configuration, without representation or warranty by Landlord or anyone acting on Landlord's behalf, it being agreed that Landlord shall not be required to perform any work or incur any costs in connection with the construction or demolition of any improvements in the Premises. By taking possession of the Premises, Tenant; (i) acknowledges that it has had full opportunity to examine the Premises and is fully informed, independently of Landlord or any of its representatives, as to the character, construction and structure of the Premises, (ii) acknowledges that neither Landlord nor any of its representatives, has made any representations, warranties or promises with respect to the Premises, including without limitation any representation or warranty as to the fitness thereof for any purpose, and (iii) accepts the Premises in an "AS-IS, WHERE-IS" condition and with all faults and subject to all laws, ordinances, governmental regulations and orders, and all matters affecting title to the Project, including without limitation, the Declaration.

5. This Work Letter shall not be deemed applicable to any additional space added to the original Premises at any time or from time to time, whether by any options under the Lease or otherwise, or to any portion of the original Premises or any additions to the Premises in the event of a renewal or extension of the original Lease Term, whether by any options under the Lease or otherwise, unless expressly so provided in the Lease or any amendment or supplement to the Lease. All capitalized terms used in this Work Letter but not defined herein shall have the same meanings ascribed to such terms in the Lease.

6. Neither Tenant nor its contractor shall be charged for, and Landlord shall provide (subject to: (i) reasonable, non-discriminatory terms, conditions and regulations as are from time to time applicable to tenants of the Building, and (ii) the parking rights of other tenants at the Project), parking for Tenant's architects, designers, contractors and subcontractors (including those people working on the Initial Alterations), electricity, water, toilet facilities, HVAC during the construction of the Initial Alterations. All such equipment, areas, and utilities shall be made reasonably available to the contractor and the subcontractors during the construction of the Initial Alterations so long as the Tenant and its contractors and subcontractors do not interfere with the rights of other persons to use such equipment, areas and utilities.

EXHIBIT "F"

COMMENCEMENT LETTER

Re: Industrial Space Lease dated , 2010 (the "**Lease**"), between **NNN MET CENTER 4-9, LP** ("**Landlord**") and **XBIOTECH USA, INC.** ("**Tenant**") for Premises, the square footage of which is , located in Building 6. Unless otherwise specified, all capitalized terms used herein shall have the same meanings as in the Lease.

Landlord and Tenant agree that:

1. Tenant has accepted possession of the Premises. The Premises are usable by Tenant as intended; and Tenant acknowledges that both the Building and the Premises are satisfactory in all respects.

2. The Commencement Date of the Lease is .

3. The Expiration Date of the Lease is the last day of .

4. All other terms and conditions of the Lease are ratified and acknowledged to be unchanged.

Additionally, Tenant further confirms and ratifies that, as of the date hereof, the Lease is and remains in good standing and in full force and effect, and Tenant has no claims, counterclaims, set-offs or defenses against Landlord arising out of the Lease or in any way relating thereto or arising out of any other transaction between Landlord and Tenant.

EXECUTED as of , 2010.

LANDLORD:

NNN MET CENTER 4-9, LP,
a Texas limited partnership

By: NNN VF MET CENTER 4-9 GP, LLC,
a Delaware limited liability company
its General Partner

By: PPCP/NNN LAVACA/MET HOLDINGS, LLC,
a Delaware limited liability company,
its managing member

By: PCCP CS LAVACA/MET HOLDINGS, LLC, a Delaware limited liability company, its managing member

By: /s/ Brian Heafey
Name: Brian Heafey
Title: Authorized Signatory
Date:

TENANT:

XBiotech USA, Inc., a Delaware corporation

By: /s/ John Simard

Its: John Simard
President
Aug. 17, 2010

EXHIBIT “G”

SIGNAGE CRITERIA

[*To be inserted*]

FIRST AMENDMENT TO INDUSTRIAL SPACE LEASE
(Suite 650)

THIS First Amendment to Industrial Space Lease (this "**Amendment**") is entered into as of March , 2013 (the "**Effective Date**"), between NNN Met Center 4-9, LP, a Texas limited partnership ("**Landlord**"), and XBiotech USA, Inc., a Delaware corporation ("**Tenant**").

RECITALS:

A. Landlord and Tenant entered into that certain Industrial Space Lease dated August 16, 2010 (the "**Original Lease**") for 14,230 square feet of space known as Suite 650 (the "**Premises**"), in the building known as Building 6 of the Met Center Development, 8201 E. Riverside Drive, Austin, Travis County, Texas (the "**Building**");

B. The Term of the Original Lease is scheduled to expire on May 31, 2013; and

C. Landlord and Tenant now desire to extend the Term of the Original Lease, and otherwise modify the Original Lease, subject to the terms and conditions of this Amendment. The Original Lease, as modified by this Amendment, is referred to herein as the "**Lease**".

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and provided that there is no uncured event of default under the Original Lease, the parties agree, and the Original Lease is modified as follows:

AGREEMENTS:

1. Definitions. All capitalized terms not otherwise defined herein have the meanings given them in the Original Lease.

2. Extension. The Term is extended for a period of twenty-one (21) months, commencing June 1, 2013 (the "**Renewal Effective Date**") and expiring February 28, 2015 (the "**Renewal Term**"), upon the same terms and conditions as provided in the Original Lease as modified hereby.

3. Base Rent. Commencing on the Renewal Effective Date, Tenant shall pay Base Rent as follows:

Months	Monthly Base Rent Per Square Foot	Monthly Installments of Base Rent
6/1/13 – 2/28/15	$ 0.76	$ 10,814.80

4. Premises. Tenant accepts the Premises in "AS IS", "WITH ALL FAULTS" condition as of the Effective Date of this Amendment. Landlord has no responsibility to make any alterations or improvements to the Premises. **TENANT SPECIFICALLY ACKNOWLEDGES THAT LANDLORD HAS MADE NO REPRESENTATIONS OR WARRANTIES WHATSOEVER CONCERNING THE CONDITION OF ANY ASPECT OF THE PREMISES OR THE BUILDING, OR THE PRESENT OR FUTURE SUITABILITY OF THE PREMISES OR BUILDING FOR TENANT'S USE, AND TENANT WAIVES ALL IMPLIED WARRANTIES.**

5. Notice. Landlord's address for purposes of notice is as follows:

NNN Met Center 4-9, LP
c/o Pacific Coast Capital Partners
222 N. Sepulveda Blvd
Suite 2222
El Segundo, CA 90245
Attn: Legal Notice Dept.

With a copy to:

Pacific Coast Capital Partners
222 N. Sepulveda Blvd
Suite 2222
El Segundo, CA 90245
Attn: Asset Manager for NNN Met Center 4-9, LP

and a copy to:

Transwestern
7600 Chevy Chase
Building 2, Suite 101
Austin, Texas 78752
Attn: Property Manager for NNN Met Center 4-9, LP

6. Full Force and Effect. Except as modified by this Amendment, all terms and conditions of the Original Lease shall remain in full force and effect and Landlord and Tenant shall be bound thereby. Tenant hereby represents, warrants and agrees that as of the Effective Date: (a) there exists no breach, default or event of default by Landlord under the Lease, or any event or condition which, with notice or passage of time or both, would constitute a breach, default or event of default by Landlord under the Lease, (b) the Lease continues to be a legal, valid and binding agreement and obligation of Tenant, (c) Tenant has no offset or defense to its performance or obligations under the Lease, and (d) the amount of the Security Deposit held by Landlord is $7,541.90. **TENANT HEREBY WAIVES AND RELEASES ALL DEMANDS, CHARGES, CLAIMS, ACCOUNTS OR CAUSES OF ACTION OF ANY NATURE AGAINST LANDLORD OR LANDLORD'S EMPLOYEES OR AGENTS, INCLUDING WITHOUT LIMITATION, BOTH KNOWN AND UNKNOWN DEMANDS, CHARGES, CLAIMS, ACCOUNTS, AND CAUSES OF ACTION THAT HAVE ARISEN OUT OF OR IN CONNECTION WITH THE LEASE OR TENANT'S OCCUPANCY OF THE PREMISES UNDER THE LEASE.**

7. Broker. Tenant represents and warrants that it has not dealt with any broker, other than CBRE, Inc. (representing Tenant), in connection with the negotiation or execution of this Amendment, and Tenant agrees to indemnify and hold Landlord harmless from all liability arising from any claim by any broker, other than CBRE, Inc., claiming under Tenant including, without limitation, the cost of reasonable counsel fees in connection therewith.

8. Authority. Each party represents and warrants that it has due power and lawful authority to execute and deliver this Amendment and to perform its obligations under the Lease; and the Lease and this Amendment are the valid, binding and enforceable obligations of such party.

9. Anti-Terrorism Statute Compliance. Tenant hereby represents and warrants to Landlord that Tenant is not: (a) in violation of any Anti-Terrorism Law; (b) conducting any business or engaging in any transaction or dealing with any Prohibited Person, including the making or receiving or any contribution of funds, goods or services to or for the benefit of any Prohibited Person; (c) dealing in, or otherwise engaging in any transaction relating to, any property or interest in property blocked pursuant to Executive Order No. 13224; (d) engaging in or conspiring to engage in any transaction that evades or avoids, or had the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in any Anti-Terrorism Law; or (e) a Prohibited Person, nor are any of its partners, members, managers, officers or directors a Prohibited Person. As used herein, "**Antiterrorism Law**" is defined as any law relating to terrorism, anti-terrorism, money laundering or anti-money laundering activities, including Executive Order No. 13224 and Title 3 of the USA Patriot Act. As used herein "**Executive Order No. 13224**" is defined as Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, and relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, or Support Terrorism" "**Prohibited Person**" is defined as (i) a person or entity that is listed in the Annex to Executive Order 13224; (ii) a person or entity with whom Tenant or Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti Terrorism Law, or (iii) a person or entity that is named as a "specially designated national and blocked person" on the most current list published by the

U.S. Treasury Department Office Of Foreign Assets Control as its official website, http://www.treas.gov/ofac/t11sdn.pdf_ or at any replacement website or other official publication of such list. "**USA Patriot Act**" is defined as the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56).

10. Deletion. Section II (Extension Option) of Exhibit D to the Original Lease expires by its terms upon the expiration of the initial Term of the Original Lease. Accordingly, effective as of the Renewal Effective Date, Section II (Extension Option) of Exhibit D to the Original Lease is hereby deleted in its entirety from the Lease, and such Section II shall be of no further force or effect.

[*Remainder of page intentionally left blank; signature page follows.*]

EXECUTED to be effective as of the Effective Date.

TENANT:

XBiotech USA, Inc.,
a Delaware corporation

By: /s/ John Simard
Name: John Simard
Its: CEO & President.

Date: March 20th, 2013.

LANDLORD:

NNN MET CENTER 4-9, LP, a Texas limited partnership

By: NNN VF MET CENTER 4-9 GP, LLC, a Delaware limited liability company, its General Partner

By: PPCP/NNN LAVACA/MET HOLDINGS, LLC, a Delaware limited liability company, its managing member

By: PCCP CS LAVACA/MET HOLDINGS, LLC, a Delaware limited liability company, its managing member

By: _____
Name: _____
Title: _____

Date: _____

SECOND AMENDMENT
TO
INDUSTRIAL SPACE LEASE
(Suite 650)

THIS SECOND AMENDMENT TO INDUSTRIAL SPACE LEASE (this "**Amendment**") is made and entered into as of (but not necessarily on) the latest date of execution as set forth on the signature page hereof (the "**2A Effective Date**"), by and between **DIGITAL METCENTER 4-6, LLC**, a Delaware limited liability company ("**Landlord**"), *successor-in-interest* to NNN Met Center 4-9, LP ("**Original Landlord**"), and **XBIOTECH USA, INC.,** a Delaware corporation ("**Tenant**").

W I T N E S S E T H:

WHEREAS, Original Landlord and Tenant entered into that certain Industrial Space Lease dated August 16, 2010 (the "**Original Lease**"), as amended by that certain First Amendment to Industrial Space Lease dated March , 2013 ("**1A**"; the Original Lease, as amended, the "**Lease**"), covering approximately 14,230 square feet of area known as Suite 650 in that certain building commonly known as Building 6 located at 8201 E. Riverside Drive, Austin, Texas (the "**Building**");

WHEREAS, any capitalized term or phrase used in this Amendment shall have the same meaning as the meaning ascribed to such term or phrase in the Lease unless expressly otherwise defined in this Amendment; and

WHEREAS, Landlord has succeeded to all of Original Landlord's interest under the Lease;

WHEREAS, Landlord and Tenant desire to further modify the terms of the Lease in accordance with the terms and conditions herein provided.

NOW, THEREFORE, for and in consideration of the sum of Ten and No/100 Dollars ($10.00) and other good and valuable consideration paid by each party hereto to the other, the receipt and sufficiency of which are hereby mutually acknowledged, Landlord and Tenant hereby agree as follows:

1. **Term**. Currently, the Term is scheduled to expire on February 28, 2015 (the "**Original Expiration Date**"). Effective as of the 2A Effective Date, the Term is hereby extended for a period of ***forty-eight (48) months*** (the "**2A Extension Term**"), to expire on February 28, 2019.

2. **Base Rent**. During the 2A Extension Term, Tenant shall pay Base Rent for the Premises as follows:

Months	Monthly Base Rent Per Square Foot	Monthly Installments of Base Rent
3/1/15 – 2/29/16	$ 0.82 NNN	$ 11,668.60 NNN
3/1/16 – 2/28/17	$ 0.85 NNN	$ 12,095.50 NNN
3/1/17 – 2/28/18	$ 0.87 NNN	$ 12,380.10 NNN
3/1/18 – 2/28/19	$ 0.89 NNN	$ 12,664.70 NNN

3. **Tenant's Early Termination Right**. Notwithstanding anything to the contrary contained in this Amendment (but subject to the terms of this Section 3), Tenant shall have a one-time right to terminate this Lease ("**Tenant's Early Termination Right**"), for any reason or no reason, effective as of the last day of the twenty-fourth (24th) full calendar month of the 2A Extension Term ("**TETR Termination Date**"). Landlord and Tenant agree that Tenant's Early Termination Right is subject to (and limited by) the following terms and conditions:

(b) Tenant must provide Landlord no less than six (6) full calendar months' written notice (the "**TETR Notice**") of Tenant's exercise of Tenant's Early Termination Right.

(c) Tenant must contemporaneously and irrevocably exercise its early termination right with respect to that certain 30,000 rentable square feet of area known as Suite 200 in that certain building commonly known as Building 4 located at 8201 E. Riverside Drive, Austin, Texas.

(d) Contemporaneously with Tenant providing Landlord the TETR Notice, Tenant must pay Landlord the TETR Fee, defined below, as Additional Rent. In order to be effective, the TETR Notice must be accompanied by the TETR Fee. The "**TETR Fee**" shall mean and refer to an amount equal to (a) all unamortized broker commissions (amortized on a straight line basis over the full 2A Extension Term using an interest rate of 10%), plus (b) Base Rent that would otherwise be due for the calendar month immediately following the TETR Termination Date multiplied by three (3), plus (c) the monthly installment of estimated Additional Rent that would otherwise be due for the calendar month immediately following the TETR Termination Date multiplied by three (3).

(e) Notwithstanding the foregoing, (x) Tenant shall have no right to exercise Tenant's Early Termination Right, or deliver a TETR Notice, and the TETR Termination Date may not occur, at any time in which an event exists, which, with notice or lapse of time or both, would constitute an event of default under the Lease, and any delivery of a TETR Notice during such period of time shall automatically be null and void and of no effect, (y) if an event of default occurs under the Lease at any time prior to the TETR Termination Date, Tenant's Early Termination Right shall automatically, upon such occurrence, become null and void (regardless of whether a TETR Notice has theretofore been timely provided), and (z) if, in fact, an event of default occurs under the Lease after Tenant's exercise of Tenant's Early Termination Right, then such exercise shall, upon such occurrence, be deemed automatically to be null, void, withdrawn and of no force or effect, and the Lease, as amended hereby, shall continue in full force and effect, unaffected by Tenant having provided the TETR Notice. In such event, Landlord shall, at its option, either (i) retain the TETR Fee as a security deposit under the Lease, or (ii) apply the TETR Fee to existing or future Rent obligations under the Lease, and/or (iii) refund the TETR Fee to Tenant.

(f) If Tenant exercises Tenant's Early Termination Right, Tenant shall surrender full and complete possession of the entire Tenant Space to Landlord on or before the TETR Termination Date vacant, broom-clean, devoid of any of Tenant's personal property, and in good order and condition, in accordance with the provisions of the Lease, and free and clear of all leases, tenancies, and rights of occupancy of any entity claiming by or through Tenant. If Tenant shall fail to strictly comply with the terms of this paragraph (e), Tenant shall be deemed to be in holdover pursuant to section 11.1 of the Lease from and after the TETR Termination Date, until Tenant's obligations under this paragraph (e) are satisfied.

(g) If Tenant properly and timely exercises Tenant's Early Termination Right and the effectiveness thereof has not been otherwise negated as set forth in this Section 3, the Lease shall cease and expire on the TETR Termination Date with the same force and effect as if the TETR Termination Date were the date originally provided in the Lease as the expiration date of the Term hereof.

(h) Tenant's Early Termination Right is personal to the undersigned (named) Tenant. If a Transfer occurs (other than to a Permitted Transferee), Tenant's Early Termination Right shall thereupon be deemed null and void.

(i) Notwithstanding anything in this Section 3 to the contrary, if the Term of this Lease is extended, Tenant's Early Termination Right shall automatically, thereupon, become null and void.

(j) Notwithstanding anything in this Section 3 to the contrary, Tenant's Early Termination Right applies only to the original Premises described in the Lease and not to any additional premises in the Building. In that regard, if Tenant leases any such additional premises, the Lease with respect to such additional premises would remain in full force and effect following the TETR Termination Date.

(k) No exercise of Tenant's Early Termination Right will obviate Tenant's obligation to satisfy all terms, covenants, conditions, obligations, requirements and liabilities (including all payments of Rent) that are, or become, due from Tenant prior to the TETR Termination Date. Such obligations shall survive the termination of this Lease.

(l) The terms of this Section 3 shall survive the expiration or termination of the Lease.

4. **Estoppel**. Tenant hereby (a) confirms and ratifies the Lease, as amended hereby, (b) acknowledges that, to the best of Tenant's actual knowledge, Landlord is not in default under the Lease as of the date this Amendment is executed by Tenant, and (c) confirms that, to the best of Tenant's actual knowledge, as of the date this Amendment is executed by Tenant, Landlord has no outstanding obligations with respect to the Premises and/or under the Lease that would, with the passage of time, the giving of notice, or both, result in Landlord being in default under the Lease.

5. **Commissions**. Tenant represents that it has dealt with no broker, agent or other person in connection with this Amendment other than CBRE ("**Tenant Broker**"), and that no broker, agent or other person brought about this Amendment. Tenant shall indemnify and hold Landlord harmless from and against any and all claims, losses, costs or expenses (including attorneys' fees and expenses) by any broker, agent or other person (excluding Tenant Broker) claiming a commission or other form of compensation by virtue of having dealt with Tenant with regard to the transaction contemplated by this Amendment. The provisions of this paragraph shall survive the expiration of the Term of the Lease or any renewal or extension thereof.

6. **Confidentiality**. Each party agrees that (i) the terms and provisions of the Lease and this Amendment are confidential and constitute proprietary information of the parties and (ii) it shall not disclose, and it shall cause its partners, officers, directors, shareholders, employees, brokers, auditors and attorneys to not disclose any term or provision of this Lease to any other person without first obtaining the prior written consent of the other party. Notwithstanding the foregoing sentence, each party shall have the right to disclose such information to the extent required, but only to the extent required (i) for valid business and accounting purposes ("**Business Disclosures**"), and/or (ii) if advisable under any applicable securities or other laws regarding public disclosure of business information and/or as required by law or any court ruling ("**Legal Disclosures**", and together with the Business Disclosures, the "**Permitted Disclosures**"). For the avoidance of doubt, with respect to a Permitted Disclosure by Landlord or Tenant, such Permitted Disclosures shall (i) be limited to the information required to be disclosed, and all other terms and provisions of the Lease and this Amendment shall be excluded from the disclosure or appropriately redacted, (ii) in the case of Business Disclosures, the disclosing party shall make such Business Disclosure subject to a confidentiality agreement or other undertaking from the receiving party to keep such information confidential, and (iii) in the case of Legal Disclosures the disclosing party shall, prior to making such disclosures (a) notify the other party in writing, and (b) if timely requested by the other party, use all reasonable efforts and cooperate with the other party to obtain confidential treatment of such applicable Legal Disclosure. The foregoing notwithstanding, Landlord reserves the right to post a press release or press releases, that discloses the fact that Landlord and Tenant have entered into a lease; provided that same does not disclose the location, economics or square footage related hereto. Any references in such press release or press releases, in excess of the fact that Landlord and Tenant have entered into a lease, require approval by Tenant, which Tenant may withhold in its sole and absolute discretion.

7. **Miscellaneous**.

A. In the event that the terms of the Lease conflict or are inconsistent with those of this Amendment, the terms of this Amendment shall govern.

B. The Lease is hereby amended as and where necessary, even though not specifically referred to herein, in order to give effect to the terms of this Amendment. Except as amended by this Amendment, the terms of the Lease remain in full force and effect.

C. This Amendment shall become effective only upon execution and delivery by both Landlord and Tenant.

D. This Amendment may be executed simultaneously in two or more counterparts each of which shall be deemed an original, but all of which shall constitute one and the same Amendment. Landlord and Tenant agree that the delivery of an executed copy of this Amendment by facsimile or e-mail shall be legal and binding and shall have the same full force and effect as if an original executed copy of this Amendment had been delivered.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Amendment to be executed on the respective dates set forth below, to be effective as of the 2A Effective Date.

LANDLORD:

DIGITAL METCENTER 4-6, LLC,
a Delaware limited liability company

By: Digital Realty Trust, L.P.,
its member

By: Digital Realty Trust, Inc.,
its General Partner

By: /s/ Bryan Marsh
Name: Bryan Marsh
Title: Vice President

Date: March 5, 2015

TENANT:

XBIOTECH USA, INC.,
a Delaware corporation

By: /s/ John Simard
Name: John Simard
Title: CEO & President

Date: Feb 28, 2015

CONFIDENTIAL
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Lonza

Confidential portions of this document have been omitted and have been filed separately with the Securities and Exchange Commission pursuant to an application for confidential treatment requested under Rule 406 of the Securities Act of 1933, as amended. [**] indicates omitted material that is the subject of the confidential treatment request filed separately with the Commission.

LICENCE AGREEMENT

between LONZA

SALES AG and

XBIOTECH USA INC

INDEX

ARTICLE

APPENDIX

THIS AGREEMENT is made on the 16th day of January 16, 2015

BETWEEN

LONZA SALES AG incorporated and registered in Switzerland whose registered office is at Muenchensteinerstrasse 38, CH-4002, Basel, Switzerland (hereinafter referred to as **"Lonza"**),

and

XBIOTECH USA INC., of 8201 E. Riverside Drive, Bldg 4 Ste 100, Austin, Texas 78744, USA (hereinafter referred to as **"Licensee"**)

The Licensee and Lonza shall hereinafter jointly be referred to as the "Parties" and individualiy as the "Party".

WHEREAS

A Lonza is the proprietor of the System and the CDACF Version 8 System and has the right to grant certain Intellectual Property Rights in relation thereto (all as hereinafter defined), and

B. The Licensee wishes to take a licence under Intellectual Property Rights of which Lonza is the proprietor to commercially exploit the Product (as hereinafter defined) in the form hereunder.

NOW THEREFORE the Parties hereby agree as follows:

1. Definitions and Interpretation

1.1 In this Agreement the following words and phrases shall have the following meanings:

1.1.1 **"Affiliate"** means any company, corporation, limited liability company, partnership or other entity which directly or indirectly controls, is controlled by or is under common control, directly or indirectly, with the relevant Party to this Agreement. "Control" means the ownership of more than fifty percent (50%) of the issued share capital of the party in question or the legal power to direct or cause the direction of the general management and policies of the party in question. Such entity shall be deemed an Affiliate only so long as it satisfies the foregoing definition.

1.1.2 **"CDACF Version 8 Base Powders"** means the powders set out in Appendix 2.

1.1.3 **"CDACF Version 8 Feeds"** means the concentrated nutrient solutions used in order to maintain the growth and productivity of mammalian cells, as more fully set out in Schedule 3.

1.1.4 **"CDACF Version 8 Media"** means the solutions of nutrients used in mammalian cell culture, as more fully set out in Appendix 3.

1.1.5 **"CDACF Version 8 Know-How"** means any Know-How specifically relating to the CDACF Version 8 Base Powders, CDACF Version 8 Feeds, CDACF Version 8 Media or the CDACF Version 8 Supplements used either in combination or individually, as set out in Appendix 4.

1.1.6 **"CDACF Version 8 System"** means the CDACF Version 8 Base Powders, CDACF Version 8 Feeds, CDACF Version 8 Media, CDACF Version 8 Know-How and the CDACF Version 8 Supplements used either in combination or individually.

1.1.7 **"CDACF Version 8 Supplements"** means the supplement solutions, as more fully set out in Appendix 3.

1.1.8 **"Cell Lines"** means those cell lines referred to in Clause 2.1.2.

1.1.9 **"Competing Contract Manufacturer"** shall mean any Third Party who, together with its affiliates, undertakes or performs more than fifty percent (50%) of their business as a third party manufacturer of monoclonal antibodies and/or therapeutic proteins or any product of a similar nature to which this Agreement relates.

1.1.10 **"Confidential Information"** means any Know-How and confidential information disclosed by one Party to the other in connection with this Agreement including for the avoidance of doubt the terms of this Agreement itself. In the case of Lonza, Confidential Information shall mean all information relating to the System and/or CDACF Version 8 System and any other materials, specifications or information which is provided and/or disclosed by Lonza, its Affiliates and their respective officers, employees, agents and advisors to the Licensee and its officers, employees, agents and advisors, whether directly or indirectly, including, without limitation, all agreements, research databases, trade secrets, Intellectual Property Rights, business and/ or commercial and/or financial data (including data pertaining to Lonza's suppliers, agents, distributors and customers), specifications, technical designs, documents and drawings which are related to the System, the CDACF Version 8 System and/or Lonza's business.

1.1.11 **"Effective Date"** means the date first above written.

1.1.12 **"First Commercial Sale"** means the date of the first sale or other disposal of Product for consideration by the Licensee or its Sublicensee.

1.1.13 **"Initiation"** means, with respect to any clinical trial, the first date that a human subject is dosed in such clinical trial.

1.1.14 **"Intellectual Property Rights"** means all rights, title and interests, vested and/or arising out of any industrial or intellectual property, whether protected at common law or under statute, which includes (without limitation) any rights and interests in copyrights, designs, trademarks, servicemarks, trade-names, technology, business names, logos, commercial symbols, processes, developments, licenses, trade secrets, goodwill, drawings, computer software, formulae, technical information, research data, procedures, designs, Confidential Information and any other knowledge of any nature whatsoever throughout the world whether in existence today or which will come into

existence in the future, and including all applications for patents, copyrights, trademarks, trade names, rights to apply and any amendments/modifications or renewals thereto; and all other intellectual property rights.

1.1.15 **"Know-How"** means any technical and other information, whether patented or unpatented, including, but without prejudice to the generality of the foregoing, ideas, concepts, trade secrets, know-how, inventions, discoveries, data, formulae, specifications, processes, procedures for experiments and tests and other protocols, results of experimentation and testing, fermentation and purification techniques and assay protocols.

1.1.16 **"Net Sale"** means all revenues recorded by or on behalf of Licensee or its Sublicensees for Product sold in the Territory. The permitted deductions booked on an accrual basis by Licensee and its Sublicensees under their respective accounting standards to calculate the recorded net sales from gross sales are as follows:

(a) normal discounts actually granted, including without limitation, quantity, trade, cash and other discounts, rebates and charge-backs;

(b) amounts refunded or credits allowed for Product or other goods returned or not accepted by customers;

(c) packaging, transportation and prepaid insurance charges on shipments or deliveries to customers;

(d) taxes, tariffs, customs duties, surcharges and other governmental charges actually incurred and paid by Licensee or its Sublicensee hereunder in connection with the sale, exportation, importation or delivery of Product or other goods to customers.

Subject to the qualification stated below, upon any sale or other disposal of Product by or on behalf of Licensee or its Sublicensee hereunder other than a bona fide arm's length transaction exclusively for money at market value or upon any use of the Product for purposes which do not result in a disposal of such Product in consideration of sales revenue customary in the country of use, such sale, other disposal or use shall be deemed to constitute a sale at the then current maximum selling price in the country in which such sale, other disposal or use occurs.

Notwithstanding anything contained in this Agreement to the contrary, the supply of Product free of charge as commercial samples, or for use in preclinical studies, clinical trials or similar or related research studies, shall not be included in this provision.

If the Product is sold as a combined product that consists of Product together with another therapeutically active ingredient or product for the same indication (a **"Combination"**), the Net Sales will be calculated by multiplying the Net Sales of the Combination (as defined using the Net Sales definition above) by the fraction, AI(A+B) where A is the weighted {by sales volume) average sale price of the Product in the relevant country, and 8 is the weighted average sale price (by sales volume) in that country of the product(s) containing the other component(s) in finished form. Regarding

prices comprised in the weighted average price when sold separately referred to above, if these are available for different dosages from the dosages of Product and other components that are included in the Combination, then the Parties shall mutually agree on the appropriate proportional adjustment to such prices in calculating the royalty-bearing Net Sales of the Combination. If the weighted average sale price cannot be determined for the Product or other component(s), the calculation of Net Sales for a Combination will be mutually agreed upon by the Parties based on the relative value contributed by each component, such agreement to be negotiated in good faith without unreasonable delay.

1.1.17 **"Patent Rights"** means the patents and applications, short particulars of which are set out in Appendix 1 hereto, and all patents and applications thereof of any kind throughout the world whether national or regional including but without prejudice to the generality of the foregoing, author certificates, inventor certificates, improvement patents, utility certificates and models and certificates of addition, and including any divisions, renewals, continuations, continuations in part, reissues, patent disclosures, improvements and extensions of reissue thereof.

1.1.18 **"Product"** means MAB-P1 of which Licensee is the proprietor and which is obtained by the expression of any one gene or of any combination of genes by use of the System, or any formulation containing the same.

1.1.19 **"Strategic Partner"** means a party with whom Licensee has entered into a contractual relationship, to identify a therapeutic target, collaborate in the performance of research and development and/or commercialization of a Product or a product of which the Strategic Partner is the Proprietor. In no event may any entity that is primarily a Competing Contract Manufacturer be deemed a Strategic Partner for the purposes of this Agreement.

1.1.20 **"Sublicensee"** means any Third Party to which Licensee grants a sublicence of the rights granted to Licensee pursuant to this Agreement.

1.1.21 **"System"** means Lonza's glutamine synthetase gene expression system known as the GS System™ consisting of the Cell Lines and the Vectors, and the System Know-How, whether used individually or in combination with each other. For the avoidance of doubt, any gene proprietary to Licensee inserted into the System for the purposes of producing Product does not form part of the System.

1.1.22 **"System Know-How"** means Know-How relating directly or indirectly to the System known to Lonza from time to time, of which Lonza is the proprietor.

1.1.23 **"Territory"** means world-wide.

1.1.24 "Valid Claim" means a claim within the Patent Rights (including any re-issued and unexpired patents) which, but for the licence and other rights granted pursuant to Clauses 4.1 and 4.3 hereof, would be infringed by the manufacture, use, sale, offer for sale, exportation or importation of Product by Licensee or its Sublicensees and which also (a) has not been cancelled, withdrawn, abandoned or rejected by any administrative agency or other body of competent jurisdiction, and (b) has not been revoked, held invalid or

declared unpatentable or unenforceable in a decision of a court or other body of competent jurisdiction that is unappealable or unappealed within the time allowed for appeal, and (c) has not been rendered unenforceable through disclaimer or otherwise, and (d) has not been disclaimed or otherwise dedicated to the public by Lonza, and (e) is not lost through an interference proceeding and any appeals therefrom.

1.1.25 **"Vectors"** means those vectors referred to in Clause 2.1.1.

1.2 The headings of this Agreement are inserted only for convenience and shall not affect the construction hereof.

1.3 Where appropriate words denoting a singular number only shall include the plural and vice versa.

1.4 References to the recitals, clauses and appendix shall be deemed to be a reference to the recitals, clauses and appendix to this Agreement and shall form an integral part of this Agreement.

1.5 References to any statute or statutory provision include a reference to the statute or statutory provision as from time to time amended, extended or re-enacted.

1.6 Reference in this Agreement to Lonza shall, unless repugnant to the subject or context thereof, include its Affiliates, successors and assigns.

2. Supply of the System, CDACF Version 8 System and System Know-How

2.1 Unless previously supplied by Lonza under a separate agreement, Lonza shall, if requested by Licensee in writing, arrange for the supply ex-works Lonza's premises, Slough, Berkshire (lncoterms 2010) to Licensee of the following:

2.1.1 Vectors
Approximately 20ug of vector pEE12.4.
Approximately 20ug of vector pEE6.4.

2.1.2 Cell Lines
Two 1.5 ml vials of myeloma cell line NSO.
Two 1.5 ml vials of the Chinese Hamster Ovary cell line CHO-K1SV.

2.1.3 System Know-How
System Know-How contained as at the date hereinabove in (a) manuals of operating procedures for the System, (b) regulatory information in pdf format, and (c) Vector nucleotide sequences.

2.2 In the event that Licensee requires any additional quantities of the materials referred to in Clauses 2.1.1 and 2.1.2, and if Lonza at its sole discretion is willing to supply such additional materials, such supply shall be subject to the payment of an additional fee by Licensee to Lonza in accordance with Lonza's prices at the time.

2.3 In relation to the CDACF Version 8 System, Lonza shall following signature of this Agreement (a) provide Licensee with details of how to purchase the CDACF Version

8 Base Powders and CDACF Version 8 Supplements to enable Licensee (and only Licensee) to make CDACF Version 8 Feeds and CDACF Version 8 Media and (b) supply Licensee with the CDACF Version 8 Know-How.

2.4 Licensee shall use the System only in the expression of Product by insertion of gene(s) coding for Product(s) into the System, and shall not use, cause the use of or permit to be used the System for any purpose not directly authorised by this Agreement.

2.5 The CDACF Version 8 System may only be used in conjunction with the System and may not be used in conjunction with any other gene expression system or for any other purpose whatsoever.

2.6 Any transportation of the System and/or CDACF Version 8 System by Lonza on behalf of Licensee shall be made at sole risk of the Licensee who shall be deemed to have full knowledge of the carrier's terms and conditions of carriage (**"Carriage Terms"**). The Licensee shall, as appropriate, observe, perform, and be subject to the Carriage Terms in relation to the transportation of the System and shall indemnify Lonza against all losses, expenses, demands, claims, actions, judgements, assessments, damages, liabilities, fines, penalties, costs and fees incurred by Lonza by reason of Licensee's failure to observe and perform the Carriage Terms.

3. Ownership of Property and Intellectual Property

3.1 It is hereby acknowledged and agreed that as between the Parties any and all property and Intellectual Property Rights in the System and System Know-How is vested in Lonza. Similarly it is hereby acknowledged as between the Parties any and all Intellectual Property Rights in the Product and any gene proprietary to Licensee, or any of its licensors or sublicensees, inserted into the System for the purpose of producing Product, is vested in Licensee, or its applicable licensors and sublicensees.

3.2 The provisions of this Clause 3 shall survive termination of this Agreement.

4. Licences

4.1 Lonza hereby grants to Licensee on the Effective Date a world-wide non-exclusive licence under the System Know-How, CDACF Version 8 Know-How, and the Patent Rights (with the right to sublicence, subject to Clause 4.3 below to use, develop, manufacture, market, sell, offer for sale, distribute, import and export Product in the Territory ("Commercial Activities").

4.2 Save as expressly provided by Clause 2.4 above, the Licensee hereby undertakes not to make any modifications or adaptations to the System and the CDACF Version 8 System during the subsistence of this Agreement. For the avoidance of doubt, Licensee is not prevented from adding any materials to the System.

4.3 Subject to the provisions of this Clause 4.3, Licensee shall be entitled to grant a sublicence to the rights granted by Clause 4.1 to any one or more Third Parties for the purposes of any such Third Party producing Product for Licensee provided always:

4.3.1 Licensee shall ensure such Sublicensee's use of the System the CDACF Version 8 System, Lonza's Intellectual Property Rights and the Product is undertaken solely for undertaking Commercial Activities, for or on behalf of Licensee; and

4.3.2 The Sublicensee shall not, by virtue of this Agreement, be granted any right or licence, either express or implied, under any patent or proprietary right vested in Lonza or otherwise, to use the System, the CDACF Version 8 System, Lonza's Intellectual Property Rights or the Product other than for undertaking Commercial Activities for or on behalf of Licensee and Licensee agrees to ensure that such Sublicensee shall not assign, transfer, further sublicense or otherwise make over the benefit or the burden of the rights granted to it pursuant to this Agreement; and

4.3.3 Any sublicence granted shall be granted expressly subject to the terms of this Agreement, and it shall be Licensee's responsibility to ensure the strict adherence by Sublicensee hereunder to the terms and conditions of this Agreement; and

4.3.4 Prior to the grant of any sublicence pursuant to this Clause 4 Licensee shall obtain the written consent of Lonza (such consent not to be unreasonably withheld, conditioned or delayed), to the grant of such sublicence. It is agreed between the Parties that Lonza shall be considered to be reasonably withholding its consent if it holds commercial concerns as to protection of its Intellectual Property Rights and confidentiality should Lonza's Intellectual Property Rights be licensed to the proposed Sublicensee; and

4.4 If, on a country-by-country basis, any granted patents that form part of the Patent Rights (including any re-issued patents and unexpired patents), subsequently expire or no longer contain a Valid Claim such Patent Rights shall automatically fall outside the scope of this Agreement and the provisions of Clauses 4.1 to 4.3 shall only apply, with respect to granted patents, to those granted patents which contain a Valid Claim and form part of the Patents Rights for as long as those granted patents remain in force.

4.5 Notwithstanding clause 4.4, on a country-by-country basis, where no Valid Claim remains in force, the provisions of Clauses 4.1 to 4.3 shall only apply for as long as the System Know-How and CDACF Version 8 Know-How (as appropriate) remain secret and substantial.

4.6 No licence is granted save as expressly provided herein and no licence in addition thereto shall be deemed to have arisen or be implied by way of estoppel or otherwise.

5. Payments

5.1 In consideration of the licence granted to Licensee pursuant to Clause 4.1 above, and in consideration for the right to sublicense the rights granted by Clause 4.1 pursuant to Clause 4.3, Licensee shall pay Lonza as follows, subject to the adjustment as set forth in Clause [5.2]:

5.1.1 in respect of Product manufactured by Lonza, a royalty of [**] percent ([**]%) of Net Sales;

5.1.2 where Licensee or Licensee's Strategic Partner manufactures Product:

5.1.2.1 a payment of pounds sterling [**] due annually during the course of this Agreement, and being first payable upon Initiation of phase II clinical trials for Product and thereafter on each anniversary of such date; and

5.1.2.2 a royalty of [**] per cent ([**]%) of Net Sales of Product.

5.1.3 where any party other than [**], [**] or [**] Product:

5.1.3.1 a payment of pounds sterling [**] per [**] due annually during the course of such [**] (irrespective as to the years of [**]), and being first payable on the commencement date of the relevant **[**]**; and

5.1.3.2 a royalty of [**] percent ([**]%) of Net Sales of Product.

5.2 NOTE: THIS IS ONLY TO BE USED WHERE THE PRODUCT IS NSO DERIVED (see product definition) In consideration of the right to use the NSO Cell Line in conjunction with the System, Licensee shall pay Lonza the sum of pounds sterling [**] payable within thirty (30) days of the date of this Agreement.

5.3 If, [**] then in respect of sales in such countries:

(a) the royalties referred to in 5.1.1, 5.1.2.2 and 5.1.3.2 shall be due only in respect of the [**];

(b) the royalties referred to in 5.1.1 and 5.1.2.2 shall be at the rate of [**] percent ([**]%) of the Net Sales;

(c) the royalties referred to in 5.1.3.2 shall be at the rate of [**] per cent ([**]%) of the Net Sales.

5.4 For the avoidance of doubt the licence to use the CDACF Version 8 System is given in consideration of the obligations incumbent upon the Licensee under the terms of this Agreement but is otherwise royalty-free.

[**] Confidential treatment requested. Omitted portions have been filed separately with the Securities and Exchange Commission.

6. Royalty Procedures

6.1 Licensee shall, and shall ensure that its Sublicensees shall, keep true and accurate records and books of account containing all data necessary for the calculation of royalties payable to Lonza. Such records and books of account shall, upon reasonable notice having been given by Lonza (which in no event shall be less than thirty (30) days prior notice), be open at all reasonable times during regular business hours for inspection by independent auditors selected by Lonza and reasonably acceptable to Licensee. Such independent auditors shall agree to maintain the confidentiality of the information and materials disclosed during the audit. Any such audit shall be conducted in a manner that does not interfere unreasonably with the operations of Licensee's business. Lonza may perform an audit once each calendar year. Each audit shall begin upon the date specified by Lonza and shall be completed as soon as reasonably practicable. Lonza shall pay the costs of the independent auditors conducting such audit, unless the results of the audit reveal an underpayment of 5% or more by Licensee, in which case, Licensee shall pay the reasonable costs of the independent auditors. If an audit concludes that an overpayment or underpayment has occurred during the audited period, such payment shall be remitted by the Party responsible for such payment to the other Party within thirty (30) days after the date such auditor's written report identifying the overpayment or underpayment is delivered to the Party responsible for such payment.

6.2 Licensee shall prepare a statement in respect of each calendar quarter which shall show for the immediately preceding quarter details of the sales of Product on a country by country basis and the royalty due and payable to Lonza thereon.

Such statement shall be submitted to Lonza within thirty (30) days after the end of the calendar quarter to which it relates, together with a remittance for the royalties due to Lonza to which Lonza shall issue a receipted invoice in return.

6.3 All sums due under this Agreement:

6.3.1 shall be paid in pounds sterling to Lonza.

6.3.2 are exclusive of any Value Added Tax or of any other applicable taxes, levies, imposts, duties and fees of whatever nature imposed by or under the authority of any government or public authority, and shall be paid by Licensee (other than taxes on Lonza's income). The parties agree to co-operate in all respects reasonably necessary to take advantage of such double taxation treaties as may be available.

6.4 To the extent that Licensee reports Net Sales otherwise than in pounds sterling then royalty payments due to Lonza shall be first calculated in the local currency in which Net Sales are reported and then shall be converted to a pounds sterling value at the rate of exchange equivalent to the pound spot rate in London first published in the Financial Times on the first business day after the relevant quarterly reporting period.

6.5 Where Lonza does not receive payment of any sum by the due date, interest shall accrue thereafter on the sum due and owing to Lonza at the rate of four percent (4%) per annum over the base rate from time to time of National Westminster Bank pic, interest to accrue on a day-to-day basis without prejudice to Lonza's right to receive payment on the due date.

7. Liability and Warranties

7.1 Subject to Clause 7.2, Lonza gives no representation or warranty that the Patent Rights which are patent applications will be granted or if granted will be valid nor that the exercise of the rights granted to Licensee hereunder will not infringe other patent rights or intellectual property rights vested in Lonza or any Third Party.

7.2 Lonza warrants that the patents included in the Patent Rights are the only patents that must be licensed from Lonza and/or its Affiliates in order to operate the System.

7.3 The Licensee hereby acknowledges that in order to exploit the rights granted herein the Licensee may require licences under Lonza patent rights (other than those herein licensed) or under Third Party patent rights (including those vested in Affiliates of Lonza) that may be infringed by the use by the Licensee of the rights licensed herein and it is hereby agreed that it shall be the Licensee's responsibility to satisfy itself as to the need for such licences and if necessary to obtain such licences; provided that any such patent rights vested in Lonza or its Affiliates which are necessary for Licensee and its Sublicensees to operate the System as permitted by the terms of this Agreement shall be automatically included within the Intellectual Property Rights licensed to Licensee hereunder.

7.4 Each Party ("Indemnifying Party") shall indemnify and hold harmless the other Party and its Affiliates, and their respective officers, employees and agents (each an "Indemnified Party") at all times in respect of any and all losses, damages, costs and expenses (collectively "Losses") suffered or incurred as a result of any contractual, tortious or other claims or proceedings by Third Parties (collectively "Third Party Claims") against Indemnified Party arising out of the Indemnifying Party's breach of this Agreement, including breach of representations and warranties, violation of applicable law, negligence or wilful misconduct; provided that with respect to any Third Party Claim for which each Party is entitled hereunder to seek indemnification from the other Party, each Party as the Indemnifying Party shall indemnify the other Party for its Losses only to the extent of the Indemnifying Party's relative responsibility for the facts underlying the Third Party Claim .

7.5 With respect to product liability claims or proceedings, the following shall apply: (a) except to the extent provided in (b) below, Licensee shall indemnify and hold harmless Lonza, its Affiliates and their respective officers, employees and agents at all times in respect of any and all losses, damages, costs and expenses suffered or incurred as a result of any tortious claims or proceedings of death or bodily injury relating to the Product, and (b) Lonza shall indemnify and hold harmless Licensee, and its Affiliates and their respective officers, employees and agents at all times in respect of any and all losses, damages, costs and expenses suffered or incurred as a result of any tortious claims or proceedings of death or bodily injury relating to the Product to the extent such claims or proceedings result from defects in the Cell Lines and Vectors, or from Lonza's breach of this Agreement.

7.6 Any condition or warranty other than those relating to title which might otherwise be implied or incorporated within this Agreement by reason of statute or common law or otherwise is hereby expressly excluded.

7.7 EXCEPT FOR EITHER PARTY'S BREACH OF CLAUSE 8 HEREOF IN NO EVENT SHALL EITHER PARTY OR THEIR RESPECTIVE AFFILIATES BE LIABLE TO THE OTHER PARTY, THEIR AFFILIATES AND THEIR RESPECTIVE OFFICER'S, EMPLOYEES AND AGENTS WITH RESPECT TO ANY SUBJECT MATTER OF THIS AGREEMENT WHETHER IN CONTRACT IN TORT IN NEGLIGENCE OR FOR BREACH OF STATUTORY DUTY OR OTHERWISE FOR LOSS OF PROFITS, SPECIAL, INDIRECT, INCIDENTAL, PUNITIVE, EXEMPLARY OR

CONSEQUENTIAL DAMAGES. Nothing in this Agreement shall exclude or limit the liability of either Party for fraud or for death or personal injury caused by its negligence or for any other liability that may not be limited or excluded as a matter of law.

7.8 The terms of this Clause 7 shall survive expiration or termination of this Agreement for whatever reason.

8. Confidentiality

8.1 Licensee expressly acknowledges that Confidential Information disclosed by Lonza pursuant to this Agreement is supplied in circumstances imparting an obligation of confidence and Licensee shall keep such Confidential Information secure, secret and confidential and undertakes to respect Lonza's proprietary rights therein and to use the same for the sole purpose of this Agreement and not during the period of this Agreement or at any time for any reason whatsoever to disclose, cause or permit to be disclosed such Confidential Information to any Third Party other than its Sublicensee hereunder for use in accordance with the terms of this Agreement. Licensee shall procure that only its employees and employees of its Sublicensee hereunder shall have access to Confidential Information and then only on a need to know basis and that all such employees shall be informed of their secret and confidential nature and shall be subject to the same obligations as Licensee and its Sublicensee hereunder pursuant to this Clause 8.1.

8.2 Lonza expressly acknowledges and undertakes that any Confidential Information disclosed by the Licensee to Lonza pursuant to this Agreement is disclosed in circumstances imparting an obligation of confidence and Lonza shall keep such Licensee's Confidential Information secure, secret and confidential and undertakes to respect Licensee's proprietary rights therein and to use the same for the sole purpose of this Agreement and not during the period of this Agreement or at any time for any reason whatsoever disclose and/or cause and/or permit to be disclosed such Licensee's Confidential Information to any Third Party.

8.3 Each Party will restrict the disclosure of Confidential Information to such officers, employees, professional advisers, finance-providers, and consultants of itself and its Affiliates (**"Representatives"**) who have been informed of the confidential nature of the Confidential Information and who have a need to know such Confidential Information for the purpose of this Agreement. Prior to disclosure to such persons, the Party in receipt of the Confidential Information shall bind its and its Affiliates' Representatives to confidentiality and non-use obligations no less stringent than those set forth herein. The receiving Party shall notify the disclosing Party as promptly as practicable of any unauthorized use or disclosure of the Confidential Information.

8.4 The obligations of confidence referred to in this Clause 8 shall not extend to any information which the receiving Party demonstrates:

8.4.1 is or shall become generally available to the public otherwise than by reason of a breach by the recipient Party of such information of the provisions of this Clause 8;

8.4.2 is known to the recipient Party of such information and is at its free disposal prior to its receipt from the other;

8.4.3 is subsequently disclosed to the recipient Party without obligations of confidence by a Third Party owing no such obligation of confidentiality to the disclosing Party; or

8.4.4 can be demonstrated by competent written evidence as having been independently developed by the recipient of the information in question without access to or use or knowledge of the information of the disclosing Party.

8.5 Notwithstanding the foregoing it is acknowledged between the Parties that Lonza or Licensee may be required to disclose Confidential Information to a government agency for the purpose of any statutory, regulatory or similar legislative requirement applicable to the production of Product, or to a court of law or to meet the requirements of any Stock Exchange to which the Parties may be subject. In such circumstances the disclosing Party will inform the other Party prior to disclosure being made as to the nature of the required disclosure, shall only make the disclosure to the extent legally required and shall seek to impose obligations of secrecy wherever possible.

8.6 Each Party hereto expressly agrees that any breach or threatened breach of the undertakings of confidentiality provided hereunder by a Party may cause irreparable harm to the other Party **("Non-Breaching Party")** and that money damages may not provide a sufficient remedy to the Non-Breaching Party for any breach or threatened breach. In the event of any breach and/or threatened breach, then in addition to all other remedies available at law or in equity, the Non-Breaching Party shall be entitled to seek injunctive relief and any other relief deemed appropriate by the Non-Breaching Party.

8.7 The obligations of both Parties under this Clause 8 shall survive the expiration or termination of this Agreement for whatever reason.

9. Intellectual Property Enforcement

9.1 Lonza hereby undertakes and agrees that at its own cost and expense it will:

9.1.1 prosecute or procure prosecution of such of the Patent Rights which are patent applications diligently so as to secure the best commercial advantage obtainable, as determined by Lonza in its commercially reasonable discretion, and will pursue, as determined by Lonza in its commercially reasonable discretion, all necessary actions against any Third Party that Loza reasonably believes is infringing, misappropriating or violating any Lonza Intellectual Property Rights; and

9.1.2 pay or procure payment of all renewal fees in respect of the Patent Rights to ensure they are valid and subsisting for the full term thereof and in particular will procure such renewal of the registrations thereof as may be necessary from time to time so far as it is reasonable to do so with particular reference to commercial considerations.

9.2 Licensee shall promptly notify Lonza in writing of any infringement or improper or unlawful use of or of any challenge to the validity of the Patent Rights and/or Know-How. Lonza undertakes and agrees to take all such steps and proceedings and to do all other acts and things as may in Lonza's sole discretion be necessary to restrain any such infringement or improper or unlawful use or to defend such challenge to

validity and Licensee shall permit Lonza to have the sole conduct of any such steps and proceedings including the right to settle them whether or not Licensee is a party to them. Licensee shall have the right at its own cost and for its own benefit to initiate, prosecute and control the enforcement of the Patent Rights against infringement by a Third Party in the Territory if all of the following conditions are fulfilled (a) the product manufactured through the infringing activity is a competing product to the Product, (b) Lonza has not granted rights to Third Parties which prevent Lonza from granting such a right to enforce to Licensee, and (c) Lonza does not initiate proceedings within sixty (60) days of being requested to do so by Licensee.

10. Term and Termination

10.1 Unless terminated earlier in accordance with the provisions of this Clause 10 or Clause 14, this Agreement shall continue in force in each country of the world, until expiry of the last Valid Claim, or for so long as the System Know-How and/or CDACF Version 8 Know-How is identified and remains secret and substantial, whichever is later.

10.2 Licensee may terminate this Agreement by giving sixty (60) days' notice in writing to Lonza.

10.3 Either Lonza or Licensee may terminate this Agreement forthwith by notice in writing to the other upon the occurrence of any of the following events:

10.3.1 if the other commits a breach of this Agreement which in the case of a breach capable of remedy shall not have been remedied within thirty (30) days of the receipt by the other of a notice identifying the breach and requiring its remedy

10.3.2 if the other is unable to pay its debts or enters into compulsory or voluntary liquidation (other than for the purpose of effecting a reconstruction or amalgamation in such manner that the company resulting from such reconstruction or amalgamation if a different legal entity shall agree to be bound by and assume the obligations of the relevant Party under this Agreement) or compounds with or convenes a meeting of its creditors or has a receiver or administrator appointed over all or any part of its assets or takes or suffers any similar action in consequence of a debt, or ceases for any reason to carry on business.

10.4 If at any time during this Agreement Licensee knowingly, directly or indirectly, opposes or assists any Third Party to oppose the grant of letters patent or any patent application within any of the Patent Rights or disputes or knowingly, directly or indirectly, assists any Third Party to dispute the validity of any patent within any of the Patent Rights or any of the claims thereof Lonza shall be entitled at any time thereafter to terminate all or any of the licences granted hereunder forthwith by notice to Licensee.

10.5 If this Agreement expires or is terminated for any reason any and all licences granted hereunder shall terminate with effect from the date of termination and Licensee shall destroy all Vectors, Cell Lines and Product forthwith and shall certify such destruction immediately thereafter in writing to Lonza provided however that the Licensee and Sublicensees shall have the right to sell or otherwise dispose of all Product then on hand, subject to the payment of royalties and the other terms of this Agreement.

10.6 Termination for whatever reason or expiration of this Agreement shall not affect the accrued rights of the Parties arising in any way out of this Agreement as at the date of termination. The right to recover damages against the other and all provisions which are expressed to survive this Agreement shall remain in full force and effect.

11. Assignment

11.1 Save as expressly provided by Clause 4, neither Party shall be entitled to assign, transfer, charge or in any way make over the benefit and/or the burden of this Agreement without the prior written consent of the other which consent shall not be unreasonably withheld or delayed, save that Lonza shall be entitled without the prior written consent of the Licensee to assign, transfer, charge, sub-contract, deal with or in any other manner make over the benefit and/or burden of this Agreement (i) to an Affiliate or (ii) to any joint venture company of which Lonza is the beneficial owner of at least fifty percent (50%) of the issued share capital thereof or (iii) to any company with which Lonza may merge or (iv) to any company to which Lonza may transfer its assets and undertaking.

11.2 This Agreement shall be binding upon the successors and assigns of the parties and the name of a Party appearing herein shall be deemed to include the names of its successors and assigns provided always that nothing herein shall permit any assignment by either Party except as expressly provided herein.

12. Governing Law and Dispute Resolution

12.1 The validity, construction and performance of this Agreement shall be governed by English law to which the Parties submit.

12.2 Subject to Clause 12.3, the Courts of England and Wales shall have exclusive jurisdiction in relation to this Agreement provided that the Parties shall have the right to proceed to a suitable jurisdiction for the purpose of enforcing a judgment, award, or order (including without limitation seeking specific performance) and injunctive reliefs.

12.3 Any dispute arising between the Parties under this Agreement may upon the mutual agreement of the Parties be referred to and finally settled by arbitration under the Rules of Arbitration of the International Chamber of Commerce by a single arbitrator knowledgeable in biopharmaceutical research and development related matters and familiar with the biopharmaceutical industry, appointed in accordance with the said Rules. The place of arbitration shall be London, England and the arbitration shall be conducted in the English language. The arbitrator’s award shall be final and binding. The Parties covenant and agree that they will participate in the arbitration in good faith and that they will share equally the costs of the arbitration, except as otherwise provided herein. Any Party refusing to comply with an order of the arbitrator will be liable for costs and expenses, including attorney’s fees, incurred by the other Party in enforcing an award.

13. Force Majeure

Neither Party shall be in breach of this Agreement if there is any total or partial failure of performance by it of its duties and obligations under this Agreement occasioned by any act of God (including without limitation, fire), act of government or state, war, civil commotion, insurrection, embargo, epidemic, terrorism or earthquake, prevention

from or hindrance in obtaining any raw materials, energy or other supplies, labour disputes of whatever nature and any other reason beyond the control of either Party. If either Party is unable to perform its duties and obligations under this Agreement as a direct result of the effect of one of the reasons set out in this Clause 13 such Party shall give written notice to the other of such inability stating the reason in question. The operation of this Agreement shall be suspended during the period (and only during the period} in which the reason continues. Forthwith upon the reason ceasing to exist the Party relying upon it shall give written notice to the other of this fact. If the reason continues for a period of more than ninety (90) days and substantially affects the commercial basis of this Agreement the Party not claiming under this Clause 13 shall have the right to terminate this Agreement by giving written notice of such termination to the other Party.

14. Illegality

14.1 If any provision or term of this Agreement or any part thereof shall become or be declared illegal, invalid or unenforceable for any reason whatsoever including but without limitation by reason of the provisions of any legislation or other provisions having the force of law or by reason of any decision of any Court or other body or authority having jurisdiction over the parties hereto or this Agreement including the EC Commission or the European Court of Justice:

(i) such provision shall, so far as it is illegal, invalid or unenforceable, be given no effect by the Parties and shall be deemed not to be included in this Agreement;

(ii) the other provisions of this Agreement shall be binding on the Parties as if such provision was not included therein; and

(iii) the Parties agree to negotiate in good faith to amend such provision to the extent possible for incorporation herein in such reasonable manner as most closely achieves the intention of the Parties without rendering such provision invalid or unenforceable.

15. Miscellaneous

15.1 This Agreement embodies and sets forth the entire agreement and understanding of the parties and supersedes all prior oral and written agreements, representations, misrepresentations (where innocently or negligently made), understandings or arrangements relating to the subject matter of this Agreement (**"Understandings"**).

Neither Party shall be entitled to rely on any Understandings which are not expressly set forth in this Agreement.

15.2 This Agreement shall not be amended, modified, varied or supplemented except in writing signed by duly authorised representatives of the Parties.

15.3 No failure or delay on the part of either Party hereto to exercise any right or remedy under this Agreement shall be construed or operated as a waiver thereof nor shall any single or partial exercise of any right or remedy under this Agreement preclude the exercise of any other right or remedy or preclude the further exercise of such right

or remedy as the case may be. The rights and remedies provided in this Agreement are cumulative and are not exclusive of any rights or remedies provided by law.

15.4 Except as required by law, the text of any press release or other communication to be published by or in the media whether of a scientific nature or otherwise and concerning this Agreement shall require the prior written approval of Lonza and Licensee.

15.5 Each of the Parties shall be responsible for its respective legal and other costs incurred in relation to the preparation of this Agreement.

15.6 The Parties do not intend that any term hereof should be enforceable by virtue of the Contracts (Rights of Third Parties) Act 1999, or by any other statute or common-law principle, by any person who is not a party to this Agreement.

16. Notice

16.1 Any notice or other document to be given under this Agreement shall be in writing and shall be deemed to have been duly given if left at or sent by registered post or by a reputable overnight courier to a Party or delivered in person to a Party at the address set out below for such Party or such other address as the Party may from time to time designate by written notice to the other(s):

Address of Lonza
Lonza Sales AG, Muenchensteinerstrasse 38 CH-4402, Basel, Switzerland

With a copy to: Lonza Biologics Pic
228 Bath Road, Slough, Berkshire SL1 4DX
Facsimile: 01753 777001
For the attention of the Head of Legal Services

Address of Licensee
XBIOTECH USA INC., of 8201 E. Riverside Drive, Bldg 4 ste 100,
Austin, Texas 78744, USA
Facsimile: 512-386-5505
For the attention of: Ashley Otero

16.2 All such notices and documents shall be in the English language. Any such notice or other document shall be deemed to have been received by the addressee seven (7) working days following the date of dispatch of the notice or other document by post or, where the notice or other document is sent by hand, at the time of such delivery.

To prove the giving of a notice or other document it shall be sufficient to show that it was dispatched.

AS WITNESS the hands of the duly authorised representatives of the parties hereto

Signed for and on behalf of
LONZA SALES AG

Marie Leblanc
A 1a irector
gY -- ITLE

Signed for and on behalf of
LONZA SALES AG

/s/ Nadia Zieger
Senior Legal CounaeJ TITLE

Signed for and on behalf of
XBIOTECH USA INC.

President & CEO TITLE

APPENDIX 1

PATENT RIGHTS

Lonza Ref. No.	L.B.P.07 (PA 98)
Subject Matter:	Expression of polypeptides, such as antibodies, in myeloma cell lines
Title:	Transformed Myeloma Cell-Line and a Process for the Expression of a Gene Coding for a Eukaryotic Polypeptide Employing Same
Origin:	Celltech invention
Registered Owner:	Lonza Group AG
Priority Application Dates:	1 April 1985 (GB 8508442); 3 September 1985 (GB 8521815)
Earliest Publication Date/No:	9 October 1986 (W086/05807)

Territory	Appl. Date	Patent No.	Expiry Date
USA (cont.lll)	07.06.95	5981216	09.11.16

CONFIDENTIAL

Lonza

Lonza Ref. No.	L.B.P. 10 (PA 177)
Subject Matter:	Operation of glutamine synthetase expression systems in lymphoid cells
Title:	Recombinant DNA Methods, Vectors and Host Cells
Origin:	Celltech invention
Registered Owner:	Lonza Group AG
Priority Application Date:	18 April 1988 (GB 8809129)
Earliest Publication Date/No:	25 October 1989 (EP 0338841) 02 November 1989 (W089/10404)

Territory	Appl. Date	Patent No.	Expiry Date
USA (cont I)	12.06.92	5879936	09.03.16
USA (cant II)	23.01.95	5891693	06.04.16

Confidential portions of this document have been omitted and have been filed separately with the Securities and Exchange Commission pursuant to an application for confidential treatment requested under Rule 406 of the Securities Act of 1933, as amended. [**] indicates omitted material that is the subject of the confidential treatment request filed separately with the Commission.

RESEARCH COLLABORATION AGREEMENT

This Research Collaboration Agreement ("Agreement") is made effective this 15th day of December, 2014 ("Effective Date"), by and between XBiotech USA, Inc. ("XBiotech"), a Delaware corporation whose principal place of business is located at 8201 East Riverside Drive, Building 4, Suite 100, Austin, TX 78744, and South Texas Blood & Tissue Center**,** a Texas 501(c)(3) non-profit corporation ("STBTC"), whose principal place of business is located at 6211 IH 10 West, San Antonio, Texas 78201. Individually each may also be referred to herein as a "Party" and collectively referred to as the "Parties".

RECITALS

WHEREAS, XBiotech has developed certain proprietary technology and know-how for blood sample screening, identification of naturally occurring antibodies in human blood, B-cell and RNA isolation, mammalian cell transfection and overall development of True Human™ therapeutic monoclonal antibodies, (collectively, the "XBiotech Technology").

WHEREAS, STBTC is engaged in collecting human blood from adult donors, processing and separation of collected blood into components, and providing human blood, plasma, platelets and other blood components to hospitals and medical facilities.

WHEREAS, XBiotech must have access to both standard blood donor samples (for screening) and fresh, live cells from select donors for isolation of genetic information to produce therapeutic antibodies.

WHEREAS, STBTC has determined providing such access to XBiotech is consistent with the mission of STBTC.

WHEREAS, the parties acknowledge the Mutual Non-Disclosure Agreement executed by and between the Parties dated effective October 30, 2014.

WHEREAS, XBiotech and STBTC would like to collaborate on the terms and conditions set forth herein in the research project described more fully in **Exhibit A** to identify and develop therapeutic monoclonal antibodies (the "Project").

WHEREAS, all entities controlled by or under common control with a Party shall be defined as that Party's "Affiliates".

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the Parties agree as follows:

I. **Research Project Description.** The Parties will cooperate in accordance with the terms and conditions of this Agreement to achieve the goals of the Project.

II. **Obligations To Be Undertaken by the Parties.**

A. STBTC will use commercially reasonable best efforts to perform the following activities:

1. Review the protocols proposed by XBiotech for purposes of completing the Project and recommend modifications as appropriate.

2. Provide XBiotech blood samples from at least one recent survivor of an Ebola infection with high likelihood of having high levels of active anti-ebolavirus antibodies and B-Cells with RNA coding for same.

3. Obtain appropriate and sufficient patient informed consent from blood donors who donate blood for the Project.

4. Provide to XBiotech patient blood samples for XBiotech testing, B-Cell and RNA isolation per protocol.

5. Provide assay services per Institutional Review Board-approved protocol for the Project that are within the scope of STBTC's current in-house testing capabilities. If additional assay or other sample testing services are requested by XBiotech, STBTC will facilitate identification of third-party or affiliate capabilities and transfer of sample(s) to the appropriate service provider for testing at XBiotech's cost, with prior written approval by XBiotech.

6. Report the results of all such tests solely to XBiotech and provide such written documentation of the results as shall be reasonably requested.

7. Maintain all records required for business and regulatory purposes, e.g., design control files, and provide XBiotech with reasonable access to such files for compliance with law.

B. XBiotech will use commercially reasonable best efforts to perform the following activities:

1. Provide financial compensation to STBTC for plasma samples ($10 per sample) and units of whole blood ($375 per unit) collected at STBTC facilities or with use of STBTC equipment. XBiotech will also reimburse reasonable costs for a donor's time and travel if applicable.

2. Provide STBTC scientific protocols for conducting STBTC's blood collection and analysis efforts in the Project.

3. Participate in the review and discussion of the results and findings of STBTC's testing.

4. Prepare the combination informed consent document and written authorization to comply with applicable law to authorize obtaining, sharing and using information from study participants, and submit the same to an a suitable Institutional Review Board after receiving and addressing any questions or comments from STBTC.

5. Prepare and finalize the blood collection protocols and submit to a suitable Institutional Review Board after receiving and addressing any questions or comments from STBTC.

6. Be solely responsible for any product, plasma, blood or cell sample provided by STBTC to XBiotech, including responsibility for the shipping, storage, distribution and use of any product, plasma, blood or cell sample.

III. **Intellectual Property.**

A. "Intellectual Property" means inventions, discoveries, tangible rights in biological materials, patents and patent applications, trade secrets, copyrights, trademarks, and proprietary know-how.

B. "Existing Technology" means all inventions, know-how, technologies, and techniques, including any Intellectual Property therein, owned or controlled by XBiotech or STBTC respectively, prior to the Effective Date. Existing Technology of a Party shall be and remain the sole property of such Party. Subject to the termination provisions of Section VIII, STBTC shall have the right to use XBiotech's Existing Technology solely for accomplishing its

obligations in the Project, and XBiotech hereby grants to STBTC a limited, revocable, non-transferable, non-exclusive, non-sublicenseable, royalty-free license under XBiotech's Existing Technology, to perform its obligations under this Agreement in the United States, solely for the Term hereof. Notwithstanding anything herein to the contrary, XBiotech shall have the right to use any of STBTC's rights in tangible biological materials for the purpose of commercially developing any Jointly Developed Technology in accordance with Section III.D of this Agreement.

C. "Jointly Developed Technology" means antibodies and antibody-encoding nucleic acids derived from blood or cell samples isolated from one or more blood samples which STBTC makes available to XBiotech under this Agreement, and after the Effective Date. XBiotech hereby is, and shall be, vested with the sole right and authority to register, file and prosecute patent applications (including the right to withdraw, limit or abandon any claim at any time) and/or take any other steps necessary to protect any Jointly Developed Technology as XBiotech shall see fit in its sole discretion and at its sole expense.

D. All Jointly Developed Technology shall:

1. be owned solely by XBiotech, and STBTC assigns to XBiotech all title and interest in any and all Jointly Developed Technology including any intellectual property rights therein. In consideration of this assignment, XBiotech shall to pay STBTC a royalty of:

- [**]% on the Global Net Sales of an Ebola Virus Therapeutic Antibody if such antibody was derived from blood or cell samples provided by STBTC;
- [**]% on the Global Net Sales for each therapeutic antibody product other than an Ebola Virus Therapeutic if such antibody was derived from blood or cell samples provided by STBTC after the Effective Date of this Agreement;

"Global Net Sales" for purposes hereof shall mean the total amount received by XBiotech from the sale of antibody products based on Jointly

[**] Confidential Treatment requested. Omitted portions have been filed separately with the Securities and Exchange Commission.

Developed Technology for any consideration, less allowances; trade, quantity or cash discounts; credits or allowances for returns or rejections; duties, tariffs, excise taxes or other charges levied by any governmental agency; and/or any legal charge that effectively reduces the per-unit sales price. For clarity, royalties payable to STBTC on Global Net Sales shall be payable to STBTC whether said sales are made by XBiotech or another third party.

E. The Parties agree to keep and maintain adequate, current, accurate, and authentic written records of all Jointly Developed Technology during the Term of this agreement and for a period of three (3) years thereafter, unless a longer period is required by federal law applicable to XBiotech, and to deliver such records upon written request to the other Party.

IV. **Representations and Warranties**.

A. STBTC represents and warrants:

1. All action on the part of STBTC necessary for the authorization, execution and delivery of this Agreement has been completed.

2. The execution and delivery of this Agreement and STBTC's performance of its obligations hereunder does not conflict with any other agreement to which STBTC is a party.

3. STBTC is participating in the Project strictly for research purposes and will not use XBiotech Technology or STBTC biomaterials with XBiotech Technology in or for any human patient while performing the Project.

4. STBTC has, or will prior to the commencement of work on the Project, require its principal investigator(s), each individual employee assigned by STBTC to perform under this Agreement, and any and all independent contractors engaged to work on the Project (a) to fulfill the responsibilities encompassed within this Agreement and (b) to enter into a written agreement assigning all of their rights to Jointly Developed Technology and any intellectual property therein to XBiotech in a manner consistent with STBTC's agreement to assign STBTC's rights to XBiotech as set forth above.

B. XBiotech represents and warrants:

1. All action on the part of XBiotech, its directors, and officers necessary for the authorization, execution and delivery of this Agreement has been completed.

2. The execution and delivery of this Agreement and XBiotech's performance of its obligations hereunder does not conflict with any other agreement to which XBiotech is a party.

3. XBiotech will comply with all applicable human research subject protections required by applicable law and regulations in performance of this Agreement and the commercial development of all Jointly Developed Technology.

C. XBIOTECH EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, RELATIVE TO ANY XBIOTECH TECHNOLOGY OR ANY OTHER PRODUCT OR TECHNOLOGY UNDER THIS AGREEMENT, INCLUDING BY WAY OF EXAMPLE AND NOT BY LIMITATION, ANY WARRANTY OF NON-INFRINGEMENT, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMANCE TO SPECIFICATION, OR COMPLIANCE WITH ANY RULE OR REGULATION OF ANY AUTHORITY. NOTWITHSTANDING THE FOREGOING, XBIOTECH HAS SOLE RESPONSIBILITY FOR ANY PRODUCT, PLASMA, BLOOD OR CELL SAMPLE PROVIDED BY STBTC, INCLUDING WITHOUT LIMITATION RESPONSIBILITY FOR THE SHIPPING, STORAGE, DISTRIBUTION AND USE OF ANY PRODUCT, PLASMA, BLOOD OR CELL SAMPLE.

D. STBTC EXPRESSLY DISCLAIMS ANY AND ALL WARRANTIES, EXPRESS OR IMPLIED, RELATIVE TO ANY STBTC TECHNOLOGY OR ANY OTHER PRODUCT OR TECHNOLOGY UNDER THIS AGREEMENT, INCLUDING BY WAY OF EXAMPLE AND NOT BY LIMITATION, ANY WARRANTY OF NON-INFRINGEMENT, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, CONFORMANCE TO SPECIFICATION, OR COMPLIANCE WITH ANY RULE OR REGULATION OF ANY

AUTHORITY. STBTC EXPRESSLY DOES NOT WARRANT ANY PRODUCT, PLASMA, BLOOD OR CELL SAMPLE PROVIDED TO XBIOTECH UNDER THIS AGREEMENT NOR DOES STBTC ASSURE, REPRESENT OR WARRANT TO XBIOTECH THAT ANY SUCH PRODUCT, PLASMA, BLOOD OR CELL SAMPLE WILL YIELD ANY ANTIBODIES FOR XBIOTECH'S PURPOSES.

V. **Compensation and Expense Reimbursement**

A. In consideration of the services provided to XBiotech by STBTC hereunder, XBiotech shall pay STBTC ten dollars ($10) per plasma sample and three hundred seventy five dollars ($375) for each single unit of whole blood delivered to XBiotech. Courier fees shall be included in the foregoing amount. XBiotech shall pay STBTC for such costs within thirty (30) days of receipt of an invoice for same. Furthermore, XBiotech agrees to pay interest on past due amounts at 18 percent per annum from the date the invoice becomes past due, until payment has been made. XBiotech shall not be responsible for any additional payment to STBTC including for reimbursement of any costs arising out of inspections or audits by officials of competent authorities. Notwithstanding such consideration as partial reimbursement for STBTC's services, the Parties agree said consideration does not imply a work for hire relationship.

VI. Reports.

A. The Parties agree to keep and maintain adequate, current, accurate, and authentic written records of the results of their respective contribution in fulfillment of the Project, as described in Exhibit A, in sufficient detail and in accordance with good scientific research practices. Each Party agrees to promptly provide to the other Party written reports of the Project and the results obtained, in a timely manner.

VII. **Term, Termination and Survival.**

A. The term of this Agreement will begin on the Effective Date and will continue until the earlier of (i) final completion of the Project to be confirmed by written notice from the Party certifying that Party's completion of the Project to the other Party, subject to the Party receiving the notice verifying to its reasonable satisfaction that Project deliverables have been received, or (ii) termination as provided in VIII.B ("Term").

B. Either Party may terminate this agreement prior to the completion of the Project, by giving at least thirty (30) days prior written notice to the other Party.

C. Upon any termination, all rights and duties of the Parties toward each other will cease except that Section III (Intellectual Property), Section VII (Reports), Section VIII (Term, Termination, and Survival), Section IX (Confidential Information), Section X (Indemnification and Insurance) and Section XI (Miscellaneous) will survive termination.

D. In the event that either Party commits a material breach or default of any of the terms or conditions of this Agreement, and the breaching Party fails to remedy that default or breach within thirty (30) days after receipt of written notice of such breach from the non-breaching Party, the Party giving notice may, at its option and in addition to any other remedies it may have in law or in equity, terminate this Agreement by sending written notice of termination to stop any work in progress as soon as it is practicable to do so.

VIII. **Confidential Information.**

A. “Confidential Information” means any non-public information of the disclosing Party that relates to the actual or anticipated business and/or products, research or development of such Party, its Affiliates or subsidiaries, or to that Party’s Affiliates’ or subsidiaries’ Intellectual Property, technical data, trade secrets, or know-how, including, but not limited to, research, product plans, or other information regarding such Party, its Affiliates’ or subsidiaries’ products or services and markets, customer lists and customers, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances, and other business information, information relating to the employees, clients, suppliers and vendors of the Party or its Affiliates, any analysis, compilations, notes, data studies or other documents prepared by a Party or any of its Representatives containing any such furnished information or based, in whole or in part, upon any such furnished information, whether or not disclosed in writing or orally. Confidential Information need not be labeled or stamped as confidential. For purposes of this Agreement, (a) an “Affiliate” of a party shall include any entity that is controlled by, under common control of, or controls such party, and (b) “Representatives” means the attorneys, accountants, financial advisors, consultants and such Party’s directors, officers and employees of the Party or the Party’s Affiliates.

Notwithstanding the foregoing, Confidential Information shall not include any such information which the receiving Party can establish (i) was publicly known or made generally available prior to the time of disclosure to the receiving Party; (ii) becomes publicly known or made generally available after disclosure to such Party through no wrongful action or inaction of the receiving Party or wrongful action or breach of confidentiality covenant of another person; or (iii) is in the rightful possession of the receiving Party, without confidentiality obligations, at the time of disclosure as shown by the receiving Party's then-contemporaneous written records.

B. **Non-use and Nondisclosure**. Except with the prior written consent of the disclosing Party, during and after the Term of this Agreement, the receiving Party will hold in the strictest confidence, and take all reasonable precautions to prevent any unauthorized use or disclosure of the Confidential Information, and neither Party will (i) use Confidential Information for any purpose whatsoever other than as necessary for the performance of the Project, nor (ii) disclose Confidential Information to any third party without the prior written consent of an authorized representative of the disclosing Party, except that the receiving Party may disclose Confidential Information to its Representatives on a need-to-know basis for the purposes of assisting a party to perform the Project. The receiving Party may also disclose Confidential Information to the extent compelled by applicable law, or required to comply with a governmental regulation, or requested by a governmental authority or an accrediting organization or association; provided however, prior to such disclosure, such Party shall provide prior written notice to the disclosing Party and the Parties shall cooperate to decide on the process, terms and conditions to disclose Confidential Information responsive to the request by a governmental authority or accrediting organization. If a Party receives a subpoena, or other order seeking disclosure of Confidential Information, the Parties shall cooperate to decide on the process, terms and conditions to disclose Confidential Information responsive to the subpoena or order, which may include seeking a protective order or such similar confidential protection as may be available under applicable law. The Parties agree that no ownership of Confidential Information is conveyed by the disclosing Party to the receiving Party. Each Party agrees that the Parties obligations under this subsection shall continue after the termination of this Agreement. In the

event of a conflict between this Section IX and a nondisclosure agreement signed by the Parties, this Section IX shall control. Notwithstanding anything herein or in the Mutual Non-Disclosure Agreement executed by and between the Parties dated effective October 30, 2014, XBiotech shall be free to use and disclose any of STBTC's confidential information developed in the Project as required to commercially develop any Jointly Developed Technology in accordance with Section III.D of this Agreement.

IX. **Indemnification and Insurance.**

A. Subject to the limitations of Section C of this Article X, each Party shall defend, indemnify and hold harmless the other Party and its respective parent and subsidiary entities, Affiliates, directors, officers, members, employees and agents from and against any and all losses, claims, damages, demands, suits, liabilities, and expenses, including reasonable attorneys' fees and costs incurred in connection therewith, arising as a result of (a) the indemnifying Party's material breach of the representations or warranties set forth in this Agreement, (b) the negligence, gross negligence or willful misconduct of the indemnifying Party in performing its duties through employees, agents or contractors under this Agreement, or (c) any governmental investigation or proceeding initiated as a result of the indemnifying Party's breach, misconduct or performance under this Agreement.

B. Each Party shall maintain in force at its sole cost and expense, with reputable insurance companies, insurance of types and amounts reasonably sufficient to protect against liability hereunder including product liability, professional liability and commercial general liability of at least $1 million per occurrence and $5 million in the aggregate; and at least statutory limits for workers compensation insurance (or program of self-insurance if permitted by applicable state law). Each Party shall provide the other party with a certificate(s) of insurance upon written request from the other Party

C. UNDER NO CIRCUMSTANCES WILL EITHER PARTY BE LIABLE TO THE OTHER FOR INDIRECT, SPECIAL, INCIDENTAL, PUNITIVE, OR CONSEQUENTIAL DAMAGES, INCLUDING, WITHOUT LIMITATION, LOST PROFITS UNDER ANY CIRCUMSTANCE, INCLUDING BREACH OR FAILURE TO PERFORM A PARTY'S DUTY UNDER THIS AGREEMENT OR LOSS OF DATA.

X. **Miscellaneous.**

A. **Governing Law**. The construction, interpretation, and performance of the obligations of this Agreement will be governed by the laws of the State of Texas without regard to conflict of law provisions. Any disputes under this Agreement shall be subject to the exclusive jurisdiction and venue of Texas state courts and the Federal courts located in Bexar County Texas, and the Parties hereby irrevocably consent to the personal jurisdiction and venue of these courts.

B. **Notices**. All notices required or permitted under this Agreement shall be delivered in person, by confirmed facsimile, by confirmed email or by certified mail, return receipt requested, postage prepaid, to the Party receiving notice in care of the Party's authorized representative identified as the signatory to this Agreement at the Party's address stated in this Agreement, or to such other address as the Party to receive notice may specify to the other Party by written notice pursuant to this paragraph. Notices shall be effective on personal delivery, confirmed receipt of the email or facsimile, or on the third business day following the date of mailing.

C. **Assignment and Relationship of the Parties**. Neither this Agreement, nor the rights or obligations of any Party hereto, may be assigned without the prior written consent of the other Party. Notwithstanding the foregoing, STBTC may assign this Agreement without XBiotech's consent to an Affiliate of STBTC. This Agreement will inure to the benefit of, and be binding upon each of the heirs and permitted assigns and successors of the Parties. Each Party will perform under this Agreement solely as an independent contractor. Under no circumstances will any of a Party's personnel be considered employees or agents of the other Party. Nothing in this Agreement grants either Party the right or authority to make commitments of any kind for the other, implied or otherwise, without the other Party's prior written approval. This Agreement does not constitute or create, in any manner, a joint venture, partnership, or formal business organization of any kind.

D. **Entire Agreement**. This Agreement, including its Exhibits, constitutes the entire agreement between the Parties and supersedes all prior agreements and representations between the Parties hereto unless expressly stated otherwise in this Agreement. This Agreement may be

amended or modified only in writing and duly signed by the Parties. If any provision of this Agreement shall be found by a court to be void, invalid or unenforceable, the same shall be reformed to comply with applicable law or stricken if not so conformable, so as not to affect the validity or enforceability of the remainder of this Agreement.

E. **Equitable Relief**. The Parties acknowledge that their remedies at law for any breach or threatened breach of this Agreement may be inadequate. Therefore, a Party shall be entitled to seek injunctive and other equitable relief restraining a Party from violating this Agreement, in addition to any other remedies that may be available to it under the law.

[*signature page follows*]

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the Effective Date.

XBiotech

By: /s/ John Simard

Name: John Simard

Title: CEO

Date: January 9, 2015

STBTC

By: /s/ Linda Myers

Linda Myers, CEO

Date: January 9, 2015

Exhibit A

I. Protocol: Analysis of Whole Blood from Healthy Individuals to Discover Various Antibodies per Protocol 2010-PT016; VER: 1.8 of October 04, 2011 or as reasonably amended with mutual prior written agreement by the Parties.

II. Protocol: 2014-PT028 Analysis of Whole Blood to Discover Antibodies to Ebola Virus From Individuals That Have Recovered From Infection (WIRB® Protocol #20142316)

Research Collaboration Agreement XBiotech USA / South Texas Blood & Tissue Center

STUDY TITLE:	**Analysis of Whole Blood to Discover Antibodies to Ebola Virus (EBOV) From Individuals That Have Recovered From Infection**
PROTOCOL NUMBER:	2014-PT028
PROTOCOL VERSION / DATE:	VER 1.0/ 11 November 2014
SPONSOR/INVESTIGATOR:	XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin**,** Texas 78744 U.S.A. Phone: 512-386-2900 Michael Stecher, M.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-2998
STUDY SITE:	XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin**,** Texas 78744 U.S.A. Phone: 512-386-2900

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PROTOCOL SYNOPSIS

Study Title	**Analysis of Whole Blood to Discover Antibodies to Ebola Virus From Individuals That Have Recovered From Infection**
Sponsor	XBiotech USA, Inc.
Investigator/Study Center:	Michael Stecher, M.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-2998
Objectives	Primary Outcome Measures: • To identify antibodies against Ebola virus surface proteins. Secondary Objectives: • To make B-cell cDNA libraries in order to isolate antibody sequences.
Study Rationale	Individuals that have been infected with Ebola virus and have successfully recovered may have antibodies against the virus. These antibodies could be used to develop an antiviral monoclonal antibody to treat infected individuals.

Trial Design	This is a single center study. The study will be conducted at XBiotech USA, using samples provided by volunteers who have recovered from Ebola virus infection, and are currently non-contagious. Study participants must be willing to voluntarily consent to having their blood drawn for research purposes. Prior to donation, volunteers will be required to sign an IRB-approved consent, and will be asked to complete an additional health questionnaire provided by XBiotech. If the participant meets inclusion and exclusion criteria, one unit (approximately 450 ml) of whole blood will be collected at South Texas Blood and Tissue Center (STBTC).
Selection Criteria for screening	Inclusion Criteria: 1. Male or female age > 18 years 2. Recovered from infection with Ebola virus and meeting the following criteria per WHO guidelines[1]: a. 28 days after their date of discharge b. Clinically asymptomatic c. Twice tested negative for EBOV RNA by PCR (tests should be separated by at least 48 hours) 3. Signed and dated institutional review board (IRB)- approved informed consent before any study specific procedures are performed Exclusion Criteria: 1. History of bleeding disorders 2. Immunocompromised donors, including participants known to be infected with immunodeficiency virus (HIV) or acquired immune deficiency syndrome (AIDS) 3. Hematocrit <38% or platelet count <140 k/ul
Approximate Number of Participants	Up to 20
Analysis Methods	B-cells will be sorted and mRNA isolated from them will be used to prepare cDNA libraries.

[1] World Health Organization. “Use of Convalescent Whole Blood or Plasma Collected from Patients Recovered from Ebola Virus Disease for Transfusion, as an Empirical Treatment during Outbreaks”. Version 1.0, September 2014. http://www.who.int/csr/resources/publications/ebola/convalescent-treatment/en/

1 Background

Individuals that have been infected with Ebola virus and have successfully recovered may have antibodies against the virus. These antibodies could be used to develop an antiviral monoclonal antibody to treat infected individuals.

2 Eligibility Criteria

Inclusion Criteria:

1. Male or female age > 18 years
2. Recovered from infection with Ebola virus and meeting the following criteria per WHO guidelines:
    a. 28 days after their date of discharge
    b. Clinically asymptomatic
    c. Twice tested negative for EBOV RNA by PCR (tests should be separated by at least 48 hours)
3. Signed and dated institutional review board (IRB)- approved informed consent before any study specific procedures are performed

Exclusion Criteria:

1. History of bleeding disorders
2. Immunocompromised donors, including participants known to be infected with immunodeficiency virus (HIV) or acquired immune deficiency syndrome (AIDS)
3. Hematocrit <38% or platelet count <140 k/ul

3 Informed Consent

A signed and dated IRB approved informed consent form will be obtained from each participant in accordance with HHS regulations noted in 45 CFR 46.116 prior to drawing the blood. Verbal explanation of the research study including study specific procedures and potential risks will be described in detail by the Investigator or designee. Study participants will have every opportunity to ask questions regarding his or her participation in the research study as detailed in the informed consent form. All questions and/or concerns will be addressed by the Investigator, or designee, to the satisfaction of the study participant. The original signed consent form will be maintained by the Sub-Investigator in a secure file at STBTC. A copy of the original signed consent form will be given to the study participant.

The Investigator/Sponsor will ensure that each study participant’s anonymity will be maintained in accordance with applicable laws. On study specific source documents submitted to the Investigator/Sponsor by STBTC, study participants will be identified by the Study Unit Identifier (STU) provided by South Texas Blood and Tissue Center.

4 Donor Screening

Potential donors will be contacted by their treating physician. Travel to STBTC will be arranged by XBiotech. Potential donors will undergo a basic history and examination. EBOV infection and convalescence will be confirmed both through patient history, and review of hospital discharge laboratory results.

Data Collection:

Date of Collection		STU
Age		Gender
Date of Hospital Discharge		Weight
Temperature		Pulse
Blood Pressure		Hemoglobin and Platelet Count
EBOV RNA Result #1		Date
EBOV RNA Result #2		Date
Volume Collected		Type of anticoagulant
Start time		Stop time
Donor Reaction	Yes/No	Type of Reaction
Discharge Time		Discharge Pulse and Blood Pressure

This data collection form will be maintained in a secure file at STBTC along with de-identified copies of lab reports and/or hospital records. External reports will be re-labeled with the participants Study Unit Identifier (STU).

5 Sample Collection

Blood samples will be collected from study participants via venipuncture at South Texas Blood and Tissue Center in San Antonio, Texas.

6 Sample Processing and Storage

XBiotech personnel will receive the unit of whole blood for processing. B-cells will be isolated and sorted, and mRNA isolated from them will be used to prepare cDNA libraries.

6.1 Duration of Sample Storage

Blood samples retained at XBiotech may be stored indefinitely.

6.2 Vial Labeling

Each sample will be labeled with a unique identifier, the “Study Unit Identifier” (STU). Scientists at XBiotech will only have access to the STU, and not to any other donor identifiers, in order to ensure a higher level of participant confidentiality. STBTC phlebotomists will label each sample according to their standard operating procedures. Any samples that have been separated into new containers or vials by scientists at XBiotech for storage or testing will also be labeled using the STU.

6.3 Sample Preparation

In order to determine if a patient is eligible to donate a unit of blood, 4 vials of blood will be drawn according to STBTC SOPs. Blood counts and infectious disease screening tests will be performed on these samples. If eligible, approximately 450 milliliters of blood will be collected from study participants in a CP2D (Citrate Phosphate Double Dextrose) bag at STBTC according to their SOPs. Peripheral blood mononuclear cells (PBMCs) from this sample will be isolated by XBiotech scientists, and RNA will be extracted. At this point, the sample can be flash frozen and stored at -80° Celsius for future testing. The plasma will be stored at -80°C freezer for further testing as well.

If necessary to isolate additional PBMCs, donors may be asked to donate a second unit of whole blood. If a second blood draw is requested, this should be scheduled at least 56 days after the initial unit of blood is drawn.

7 Donor Privacy and Confidentiality

The Investigator/Sponsor will ensure that each study participant’s anonymity will be maintained in accordance with applicable laws. On study specific source documents submitted to the Investigator/Sponsor by STBTC, study participants should not be identified by their full name rather by the specific unique identification number used by South Texas Blood and Tissue Center. Only XBiotech personnel authorized by the Principal Investigator will have direct access to the blood storage facilities and samples.

7.1 Record and Sample Handling

Blood samples arriving at XBiotech will be received and processed only by XBiotech personnel designated by the Principal Investigator. Samples received, stored, and tested by XBiotech employees will only be labeled with a Study Unit Identifier (STU). This number will be generated according to STBTC’s standard operating procedures. XBiotech will maintain a log of receipt and storage of samples, as well as a log of any testing and results. Study participants will be identified in these logs by their STU. The scientists at XBiotech will retain no other donor identifiers. All personal identifying information and demographics linked to a participant’s STU will be maintained and secured by STBTC according to their standard operating procedures. The subject’s original informed consent will be maintained in a secure file at STBTC. This document will only be available to the Principal Investigator, the Clinical Research Manager and any Clinical Research Associates designated to monitor the trial.

All records pertaining to the identity of participants in this research study will be maintained as private and confidential. Personal identifying information will only be released with the express written permission of the blood donor or by IRB approval.

Blood samples and all records associated with blood samples will be labeled only with a numeric code (STU) that contains no donor personal identifiers. A link does exist between the participant's name and the numeric code. This link is not available to staff managing samples at XBiotech.

7.2 Access to Samples and Donor Information

Only XBiotech personnel authorized by the Principal Investigator will have direct access to study participant's samples and STU identification number. Other identifying information, such as the informed consent, will only be available to the Principal Investigator, Clinical Research Manager and any Clinical Research Associates designated to monitor the trial at STBTC. All other study participant identifiers will be retained by STBTC.

8 Use of Blood Samples

Blood samples received by XBiotech will only be used by researchers at XBiotech in IRB approved clinical trials or for R&D purposes.

8.1 Restrictions on Sample Usage at the Investigative Site

The Investigator/Sponsor, XBiotech, acknowledges that the conditions for use of this research material are governed by WIRB in accordance with Department of Health and Human Services regulations noted in 45 CFR 46. The Investigator/Sponsor agrees to comply fully with all such conditions and to report promptly to WIRB any proposed changes in the research project and any unanticipated problems involving risks to subjects or others. The Investigator/Sponsor remains subject to applicable State or local laws or regulations and institutional policies that provide additional protections for human subjects. This research material may only be used in accordance with the conditions stipulated by WIRB. Any additional use of this material requires prior review and approval by WIRB.

STUDY TITLE:	**Analysis of Whole Blood from Healthy Individuals to Discover Various Antibodies**
PROTOCOL NUMBER:	2010-PT016
PROTOCOL VERSION / DATE:	VER 1.9/ 21 February 2012
SPONSOR/INVESTIGATOR:	XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin**,** Texas 78744 U.S.A. Phone: 512-386-5107 Michael Stecher, M.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-5107 Sushma Shivaswamy Ph.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-5107 Seema C Kumar, Ph.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-2926
STUDY SITE:	XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin**,** Texas 78744 U.S.A. Phone: 512-386-5107

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PROTOCOL SYNOPSIS

Study Title	**Analysis of Whole Blood from Healthy Individuals to Discover Various Antibodies**
Sponsor	XBiotech USA, Inc.
Investigator/Study Center:	Michael Stecher, M.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-5107 Sushma Shivaswamy Ph.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-5107 Seema C Kumar, Ph.D. XBiotech USA, Inc. 8201 E Riverside Drive Building 4, Suite 100 Austin, Texas 78744 U.S.A. Phone: 512-386-2926
Objectives	Primary Outcome Measures: • To determine the frequency of antibodies to cytokines, or other antigens that may have a role in disease pathogenesis, in healthy individuals. Secondary Objectives: • To make B-cell cDNA libraries in order to isolate antibody sequences.
Study Rationale	A better understanding of the role of peripheral blood leukocytes (PBL) in healthy individuals may provide an opportunity to develop new therapies for inflammatory disease. Anti-inflammatory treatments each target the inflammatory process, but they lack specificity and are associated with a number of undesirable side effects. New biological drugs have emerged that have a greater degree of specificity, but the mechanism for action and long-term benefits remain unclear.

Trial Design	This is a single center study. The study will be conducted at XBiotech USA, using samples provided by South Texas Blood and Tissue Center (STBTC). The population will consist of up to 1200 healthy participants, accrued at approximately 100-150 per week. Study participants must be willing to voluntarily consent to having their blood drawn for research purposes. Each study participant in Phase II will complete a medical history questionnaire and sign an IRB approved informed consent form prior to his or her participation in the study. The study will consist of two phases; a phase I screening phase and a phase II follow up phase. During phase I, study participants (i.e., Blood donors) will be consented with South Texas Blood and Tissue Center's standard informed consent and presented an additional reading material describing the trial and the two phases. Donors will be asked to read the study materials and will have a chance to ask questions regarding the study during their private time with a trained historian. Verbal informed consent to allow for additional screening of their residual blood samples will be obtained at this time. Donors who opt out will not have their samples screened. Screening samples will be drawn according to STBTC standard operating procedures and AABB (formerly American Association of Blood Banks) best practices. The residual volume, 2-3 ml of Na-EDTA Plasma will be stored at -65° Celsius pending the screening tests for infectious disease. Only samples negative for routine blood center blood-borne pathogen testing will be shipped to XBiotech. These samples will be shipped on dry ice via courier to XBiotech in weekly batches. Blood samples will be identified with a unique identification number to protect the identity of each study participant. Scientists at XBiotech will use these samples to test for the presence of various antibody patterns of interest. Based on the results from the initial screening blood collection, an additional study visit may be requested by the Sponsor. If an additional visit is requested, phase II will be initiated. Study participants in phase II will be contacted by phone and screened for eligibility by an NIH certified technician for eligibility in phase II. If they are found to be eligible, they will be asked to schedule a time to come in to STBTC to participate in phase II. At this point, they will be required to sign an IRB-approved consent, and (Phase II-a,) will be asked to complete an additional health questionnaire provided by XBiotech. If the participant meets inclusion and exclusion criteria, one unit of whole blood will be collected in a sodium citrate bag at STBTC according to STBTC's standard operating procedures and will be stored and transported at 4° Celsius (Phase II-b). The sample should be collected early enough in the morning so that it can be shipped, and will arrive via courier at XBiotech within 4 hours of

	being collected. Study participants should also be scheduled such that no more than one participant per any given day will be donating a unit of blood for testing. Phase I Inclusion Criteria: 1. Healthy male and female individuals between the ages of 18-70 2. Able to read and verbally agree to screening protocol Phase II-a (Selection Criteria for Unit Blood Draw) Inclusion Criteria: 3. Signed and dated institutional review board (IRB)- approved informed consent before any study specific procedures are performed 4. Positive screen for antibody patterns of interest by fluorescent activated cell sorting (FACS) followed by ELISA Exclusion Criteria: 1. History of bleeding disorders 2. Immunocompromised donors, including participants known to be infected with immunodeficiency virus (HIV) or acquired immune deficiency syndrome (AIDS) 3. History of viral diseases including hepatitis 4. Diagnosis of anemia 5. Use of Anticoagulants such as coumadin, heparin, plavix, or aspirin greater than 81 mg daily 6. Women who are pregnant or breastfeeding
Approximate Number of Participants	Up to 1200
Analysis Methods	Phase I -Plasma will be screened for the presence of various antibody patterns of interest. Analysis will involve the use of fluorescent activated cell sorting (FACS) and Enzyme-linked immunoadsorbant assays (ELISA), similar to technology used by blood centers today for testing blood components. Phase II - B-cells will be sorted and mRNA isolated from them will be used to prepare cDNA libraries.

1 Background

A better understanding of the role of peripheral blood leukocytes (PBL) in healthy individuals may provide an opportunity to develop new therapies for inflammatory disease. Anti-inflammatory treatments each target the inflammatory process, but they lack specificity and are associated with a number of undesirable side effects. New biological drugs have emerged that have a greater degree of specificity, but the mechanism for action and long-term benefits remain unclear.

2 Eligibility Criteria

Phase I
Inclusion Criteria

1. Healthy male and female individuals between the ages of 18-70
2. Able to read and verbally agree to screening protocol

Phase II (Selection Criteria for Unit Blood Draw)
Inclusion Criteria

3. Signed and dated institutional review board (IRB)- approved informed consent (Phase II) before any study specific procedures are performed
4. Positive screen for antibody patterns of interest by fluorescent activated cells sorting (FACS) followed by ELISA

Phase II
Exclusion Criteria

1. History of bleeding disorders
2. Immunocompromised donors, including participants known to be infected with immunodeficiency virus (HIV) or acquired immune deficiency syndrome (AIDS)
3. History of viral disease including hepatitis
4. Diagnosis of anemia
5. Use of Anticoagulants such as coumadin, heparin, plavix, or aspirin greater than 81 mg daily
6. Women who are pregnant or breastfeeding

3 Informed Consent

In Phase I of the study, verbal informed consent will be obtained prior to screening the donor’s blood for antibody patterns of interest. In Phase II of the study, a signed and dated IRB approved informed consent form will be obtained from each participant in accordance with HHS regulations noted in 45 CFR 46.116 prior to drawing the unit of whole blood. Verbal explanation of the research study including study specific procedures and potential risks will be described in detail by the Investigator or designee. Study participants will have every opportunity to ask questions regarding his or her participation in the research study as detailed in the informed consent form. All questions and/or concerns will be addressed by the Investigator, or designee, to the satisfaction of

the study participant. The original signed consent form along with study specific source documents will be maintained by the Sub-Investigator in a secure file at STBTC. A copy of the original signed consent form will be given to the study participant.

The Investigator/Sponsor will ensure that each study participant's anonymity will be maintained in accordance with applicable laws. On study specific source documents submitted to the Investigator/Sponsor by STBTC, study participants will be identified by the Study Unit Identifier (STU) provided by South Texas Blood and Tissue Center.

4 Sample Collection

Blood samples will be collected from study participants via venipuncture at South Texas Blood and Tissue Center in San Antonio, Texas.

5 Sample Processing and Storage

Screening samples will be processed and stored at STBTC according to their standard operating procedures. The residual plasma will be screened for the presence or absence of anti-cytokine antibodies at XBiotech. Analysis will involve the use of fluorescent activated cell sorting (FACS) and Enzyme-linked immunoadsorbant assays (ELISA). B-cells from the additional unit of whole blood will be sorted, and mRNA isolated from them will be used to prepare cDNA libraries.

5.1 Duration of Sample Storage

Blood samples retained at XBiotech may be stored indefinitely.

5.2 Vial Labeling

Phase I:

Each sample will be labeled with a study specific unique identification number. The number that will be used is a "Study Unit Identifier" (STU). Scientists at XBiotech will only have access to the STU, and not to any other donor identifiers, in order to ensure a higher level of participant confidentiality. STBTC phlebotomists will label each sample according to their standard operating procedures. Any samples that have been separated into new containers or vials by scientists at XBiotech for storage or testing will also be labeled using the STU.

5.3 Sample Preparation

Phase I:

Samples for initial screening will be drawn according to STBTC standard operating procedures. The residual volume, 2-3 ml of Na-EDTA Plasma will be stored at -65° Celsius pending the screening tests for infections disease. Only those samples that are negative for blood-borne pathogens will be shipped to XBiotech. These samples will be shipped on dry ice via courier to XBiotech in weekly batches. Scientists at XBiotech will use these samples to test for the presence of various antibody patterns of interest using a FACS followed by a proprietary ELISA.

Phase II:

For study participants in Phase I who screen positive for antibody patterns of interest, one unit of whole blood will be collected in a sodium citrate bag at STBTC and will be stored and transported at 4° Celsius. The sample should be collected early enough in the morning so that it can be shipped, and will arrive via courier at XBiotech within four hours of being collected. Study participants should also be scheduled such that no more than one participant per any given day will be donating a unit of blood for testing. Once received, peripheral blood mononuclear cells (PBMCs) from this sample will be isolated, and RNA will be extracted. At this point, the sample can be flash frozen and stored at -80° Celsius for future testing. The plasma will be stored at -80°C freezer for further testing as well.

6 Donor Privacy and Confidentiality

The Investigator/Sponsor will ensure that each study participant's anonymity will be maintained in accordance with applicable laws. On study specific source documents submitted to the Investigator/Sponsor by STBTC, study participants should not be identified by their full name rather by the specific unique identification number used by South Texas Blood and Tissue Center. Only XBiotech personnel authorized by the Principal Investigator will have direct access to the blood storage facilities and samples.

6.1 Record and Sample Handling

Blood samples arriving at XBiotech, both screening (Phase I) and units of whole blood (Phase II), will be received and processed only by XBiotech personnel designated by the Principal Investigator. Samples received, stored, and tested by XBiotech employees will only be labeled with a Study Unit Identifier (STU). This number will be generated according to STBTC's standard operating procedures. XBiotech will maintain a log of receipt and storage of samples, as well as a log of any testing and results. Study participants will be identified in these logs by their STU. The scientists at XBiotech will retain no other donor identifiers. For study participants identified from screening as candidates for donation of a unit of whole blood, XBiotech will request this donation from STBTC using the STU. These participants will be contacted by STBTC. All personal identifying information and demographics linked to a participant's STU will be maintained and secured by STBTC according to their standard operating procedures. The subject's original informed consent will be maintained in a secure file at STBTC. This document will only be available to the Principal Investigator, the Clinical Research Manager and any Clinical Research Associates designated to monitor the trial.

All records pertaining to the identity of participants in this research study will be maintained as private and confidential. Personal identifying information will only be released with the express written permission of the blood donor or by IRB approval.

Blood samples and all records associated with blood samples will be labeled only with a numeric code (STU) that contains no donor personal identifiers. A link does exist between the participant's name and the numeric code. This link is not available to staff managing samples at XBiotech.

6.2 Access to Samples and Donor Information

Only XBiotech personnel authorized by the Principal Investigator will have direct access to study participant's samples and STU identification number. Other identifying information, such as the informed consent, will only be available to the Principal Investigator, Clinical Research Manager and any Clinical Research Associates designated to monitor the trial at STBTC. All other study participant identifiers will be retained by STBTC.

7 Use of Blood Samples

Blood samples received by XBiotech will only be used by researchers at XBiotech in IRB approved clinical trials or for R&D purposes.

7.1 Data Available With Samples

Samples provided by STBTC, in addition to a unique identifier (STU), will be accompanied by a report detailing the presence or absence of blood-borne pathogens.

7.2 Restrictions on Sample Usage at the Investigative Site

The Investigator/Sponsor, XBiotech, acknowledges that the conditions for use of this research material are governed by WIRB in accordance with Department of Health and Human Services regulations noted in 45 CFR 46. The Investigator/Sponsor agrees to comply fully with all such conditions and to report promptly to WIRB any proposed changes in the research project and any unanticipated problems involving risks to subjects or others. The Investigator/Sponsor remains subject to applicable State or local laws or regulations and institutional policies that provide additional protections for human subjects. This research material may only be used in accordance with the conditions stipulated by WIRB. Any additional use of this material requires prior review and approval by WIRB.

2015 EQUITY INCENTIVE PLAN
XBIOTECH INC.

ARTICLE 1
PURPOSE

1.1 The purpose of this Plan is to promote the interests of XBiotech Inc. (the "Company") by:

(a) furnishing certain directors, officers, employees of the Company and its subsidiaries or other persons as the Board of Directors may approve with greater incentive to further develop and promote the business and financial success of the Company;

(b) furthering the identity of interests of persons to whom options or share awards may be granted with those of the shareholders of the Company generally through share ownership in the Company; and

(c) assisting the Company in attracting, retaining and motivating its directors, officers and employees.

The Company believes that these purposes may best be effected by granting Options or Share Awards to acquire Common Shares without par value in the capital of the Company.

ARTICLE 2
INTERPRETATION

2.1 In this Plan, unless there is something in the subject matter or context inconsistent therewith:

(a) **"Affiliate"** means any corporation, partnership, joint venture, or other entity during any period in which the Company owns, directly or indirectly, at least twenty percent (20%) of the equity, voting or profits interest, and any other business venture that the Committee designates in which the Company has a significant interest, as the Committee determines in its discretion;

(b) **"Award"** means, individually or collectively, an award of Options, an award of Share Appreciation Rights, Restricted Share Award, Restricted Share Unit Award, or any Performance Share Award granted under the Plan;

(c) **"Award Agreement"** means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan;

(d) **"Blackout Period"** means any period during which a Participant is prevented from trading the Common Shares pursuant to a policy of the Company, including but not limited to the Company's insider trading policy, as amended and in force

from time to time, any lockup or similar agreement described in the First Registration Statement, and any lockup or similar agreement between the Company and a third party restricting the trading of Common Shares;

(e) **"Board of Directors"** means the board of directors of the Company;

(f) **"Business Day"** means a day, other than Saturday, Sunday and any other day which is a statutory holiday in the Province of British Columbia, Canada or the State of New York, U.S.A.;

(g) **"Cause"** with respect to any Participant, shall mean (i) a Participant's willful misconduct, (ii) a willful failure of a Participant to perform his or her duties, (iii) a Participant's insubordination, theft, dishonesty, or any other willful conduct that is detrimental to the Company or its subsidiaries, (iv) cause for termination of employment or other service contract at common law, or (v) such other cause as the Board of Directors in good faith reasonably determines provides cause for the discharge of the Participant or termination of the Participant's relationship with the Company;

(h) **"Change of Control"** means:

(i) the acquisition by any person or persons acting jointly or in concert (as determined by the Securities Act) ("Person"), whether directly or indirectly, of voting securities of the Company that, together with all other voting securities of the Company held by such Person, constitute in the aggregate more than 50% of all outstanding voting securities of the Company; provided, however, that for purposes of this subparagraph, the acquisition of additional securities by any one Person, who is considered to own more than 50% of all outstanding voting securities of the Company will not be considered a Change of Control;

(ii) an amalgamation, arrangement or other form of business combination of the Company with another corporation that results in the holders of voting securities of that other corporation holding, in the aggregate, more than 50% of all outstanding voting securities of the corporation resulting from the business combination; provided, however, that for purposes of this subparagraph, the acquisition of additional securities by any one Person, who is considered to own more than 50% of all outstanding voting securities of the Company will not be considered a Change of Control;

(iii) a change in the ownership of a substantial portion of the Company's assets which occurs on the date that any Person acquires (or has acquired during the twelve (12) month period ending on the date of the most recent acquisition by such person or

persons) assets from the Company that have a total gross fair market value equal to or more than fifty percent (50%) of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions; provided, however, that for purposes of this subparagraph (iii), the following will not constitute a change in the ownership of a substantial portion of the Company's assets: (A) a transfer to a Related Entity, or (B) a transfer of assets by the Company to: (1) a stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to the Company's stock, (2) an entity of which the Company has Control, (3) a Person, that owns, directly or indirectly, fifty percent (50%) or more of the total value or voting power of all the outstanding stock of the Company, or (4) an entity of which a Person described in subparagraph (iii)(B)(3) has Control. For purposes of this subparagraph (iii), gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets; or

(iv) any other transaction that is deemed to be a "Change of Control" for the purposes of this Plan by the Board of Directors, in its sole discretion;

Notwithstanding the foregoing, a transaction will not be deemed a Change of Control for Awards granted to Participants who are subject to U.S. taxation unless the transaction qualifies as a Change of Control event within the meaning of Code Section 409A, as it has been and may be amended from time to time, and any proposed or final Treasury Regulations and U.S. Internal Revenue Service guidance that has been promulgated or may be promulgated thereunder from time to time. Further and for the avoidance of doubt, a transaction will not constitute a Change of Control if: (x) its sole purpose is to change the state or jurisdiction of the Company's incorporation, or (y) its sole purpose is to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(i) **"CEO"** means the Chief Executive Officer of the Company;

(j) **"Code"** means the U.S. Internal Revenue Code of 1986, as amended. Reference to a specific section of the Code or regulation thereunder shall include such section or regulation, any valid regulation promulgated under such section, and any comparable provision of any future legislation or regulation amending, supplementing or superseding such section or regulation;

(k) **"Committee"** means a committee of directors or of other individuals satisfying applicable laws appointed by the Board of Directors, or a duly authorized committee of the Board of Directors, in accordance with Article 3 hereof;

(l) **"Common Share"** means a common share without par value in the capital of the Company;

(m) **"Consultant"** means a person other than an employee, officer or director of the Company or of any of its subsidiaries that is engaged to provide ongoing valuable services to the Company or an Affiliate;

(n) **"Control"** by a person over a second person means the power to direct, directly or indirectly, the management and policies of the second person by virtue of: (i) ownership of or direction over voting securities in the second person; (ii) a written agreement or indenture; (iii) being or Controlling the general partner or manager of the second person; or (iv) being a trustee of the second person;

(o) **"Effective Date"** has the meaning under paragraph 11.1 of the Plan.

(p) **"Eligible Persons"** means directors, officers, employees or Consultants of the Company or of any of its subsidiaries, and an "Eligible Person" shall have a corresponding meaning;

(q) **"Exchange Act"** means the U.S. Securities Exchange Act of 1934, as amended;

(r) **"Exchange Program"** means a program under which (i) outstanding Awards are surrendered or cancelled in exchange for awards of the same type (which may have higher or lower exercise prices and different terms), awards of a different type, and/or cash, (ii) Participants would have the opportunity to transfer any outstanding Awards to a financial institution or other person or entity selected by the Board of Directors, and/or (iii) the exercise price of an outstanding Award is increased or reduced. The Board of Directors will determine the terms and conditions of any Exchange Program, in its sole discretion;

(s) **"Exercise Price"** means the price per share at which Common Shares may be subscribed for by a Participant pursuant to a particular Share Option Agreement, as further described under paragraph 7.1(c) of the Plan;

(t) **"Fair Market Value Price"** means, as applied to a specific date, the price of a Common Share that is based on the opening, closing, actual, high, low or average selling prices of a Common Share reported on any established stock exchange or national market system including without limitation the New York Stock Exchange and the National Market System of the National Association of Securities Dealers, Inc. Automated Quotation System on the applicable date, the preceding trading day, the next succeeding trading day, or an average of trading days, as determined by the Board in its discretion. Unless otherwise specified in an Award Agreement, Fair Market Value shall be deemed to be equal to the closing price of a Common Share on the relevant date, or if no sales of Common Shares shall have occurred on the applicable date the closing price of the Common Shares on the next preceding date on which there were such sales. Notwithstanding the foregoing, if Common Shares are not traded on any established stock exchange or national market system, the Fair Market Value

means the price of a Common Share as established by the Board acting in good faith based on a reasonable valuation method that is consistent with the requirements of Section 409A of the Code and the regulations thereunder. Notwithstanding the foregoing, for purposes of any Awards granted on the Registration Date, the Fair Market Value Price will be the initial price to the public as set forth in the final prospectus included within the registration statement on Form S-1 filed with the U.S. Securities and Exchange Commission for the initial public offering of the Company's Common Shares;

(u) **"First Registration Statement"** means the first registration statement that is filed by the Company and declared effective pursuant to Section 12(g) of the Exchange Act, with respect to any class of the Company's securities;

(v) **"Fiscal Year"** means the fiscal year of the Company;

(w) **"Incentive Share Option"** means an Option to purchase Common Shares with the intention that it qualify as an "incentive stock option" within the meaning of Section 422 of the Code and the regulations and guidance promulgated thereunder, such intention being evidenced by the resolutions of the directors at the time of grant;

(x) **"Optioned Shares"** means the Common Shares that may be subscribed for by a Participant pursuant to a Share Option Agreement;

(y) **"Options"** means share options granted hereunder to purchase Common Shares from treasury;

(z) **"Outside Director"** means a director who is not an employee (including officer) of the Company or an Affiliate;

(aa) **"Nonqualified Share Option"** means an Option to purchase Common Shares other than an Incentive Share Option;

(bb) **"Participant"** means an Eligible Person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Award;

(cc) **"Performance Criteria"** means the one or more criteria that the Board of Directors shall select for purposes of establishing the performance goals for a Performance Period;

(dd) **"Performance Period"** means one or more periods of time, which may be of varying and overlapping duration, as the Board of Directors may select, over which the attainment of one or more performance goals will be measured for the purpose of determining a Participant's right to, and the payment of, a Performance Share Award.

(ee) **"Performance Share Award"** means an award of Common Shares which is granted pursuant to the terms and conditions of Article 9;

(ff) **"Plan"** means this 2015 Equity Incentive Plan, as the same may from time to time be supplemented, amended and/or restated and in effect;

(gg) **"Registration Date"** means the effective date of the First Registration Statement;

(hh) **"Related Entity"** means, for a company or corporation, a Person that Controls or is Controlled by the Company or that is Controlled by the same Person that controls that company or corporation;

(ii) **"Restricted Share Award"** means an award of Common Shares which is granted pursuant to the terms and conditions of Article 9;

(jj) **"Restricted Share Unit Award"** means a bookkeeping entry representing an amount equal to the Fair Market Value of one Common Share, granted pursuant to the terms and conditions of Article 9;

(kk) **"Retirement"** means retirement as an employee and/or officer of the Company, and if there is any question on whether a cessation of employment is by way of a retirement or not, the determination by the CEO (or in the CEO's absence or in the case of a situation involving the cessation of employment of an executive officer of the Company, the Compensation Committee of the Board of Directors or the independent members of the Board of Directors) shall be conclusive and binding on the Participant;

(ll) **"Rule 16b-3"** means Rule 16b-3 of the Exchange Act or any successor to Rule 16b-3, as in effect when discretion is being exercised with respect to the Plan;

(mm) **"Section 16(b)"** means Section 16(b) of the Exchange Act;

(nn) **"Securities Act"** means the Securities Act (British Columbia);

(oo) **"Share Appreciation Right"** means a right to receive the appreciation on Common Shares that is granted pursuant to the terms and conditions of Article 9;

(pp) **"Share Award"** means any Restricted Share Award, Restricted Share Unit Award, Share Appreciation Right, Performance Share Award, or any Other Share Award granted under the Plan;

(qq) **"Stock Exchanges"** means such stock exchanges or other organized market on which the Common Shares are listed or posted for trading, including the NASDAQ Stock Market LLC; and

(rr) **"Subsidiary"** has the meaning assigned thereto under the Securities Act (British Columbia) as the same may from time to time be amended or re-enacted.

2.2 Any question arising as to the interpretation of this Plan will be determined by the Board of Directors and, absent manifest error, such determination will be conclusive and binding on the Company and all Participants.

2.3 In this Plan, words importing the singular number only include the plural and vice versa, words importing any gender include all genders and words importing persons include individuals, corporations, limited and unlimited liability companies, general and unlimited partnerships, associations, trusts, incorporated organizations, joint ventures and governmental authorities.

ARTICLE 3
ADMINISTRATION OF PLAN

3.1 This Plan will be administered by the Board of Directors. The Board of Directors may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board of Directors that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board of Directors will thereafter be to the Committee or subcommittee, as applicable). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board of Directors or the Committee (as applicable). The Board of Directors may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest to the Board of Directors some or all of the powers previously delegated. For the purpose of delegation of administration of the Plan, one or more of the CEO and/or officers of the Company, if designated by the Board of Directors, will be deemed a Committee.

3.2 To the extent that the Board of Directors determines it to be desirable to qualify Awards granted hereunder as “performance-based compensation” within the meaning of Section 162(m) of the Code, the Plan will be administered by a Committee of two (2) or more “outside directors” within the meaning of Section 162(m) of the Code. To the extent desirable to qualify transactions hereunder as exempt under Rule 16b-3, the transactions contemplated hereunder will be structured to satisfy the requirements for exemption under Rule 16b-3.

3.3 The Board of Directors will take such steps which in its opinion are required to ensure that the Committee to which it has delegated the power to ensure that it has the necessary authority to fulfill its functions under this Plan.

3.4 Subject to the provisions of the Plan, the Board of Directors, and in the case of a Committee, subject to the specific duties delegated by the Board of Directors to such Committee, will have the authority, in its discretion:

(a) to determine the Fair Market Value Price;

(b) to select the Eligible Persons to whom Awards may be granted hereunder;

(c) to determine the number of Common Shares to be covered by each Award granted hereunder;

(d) to approve forms of Award Agreements for use under the Plan;

(e) to determine the terms and conditions, not inconsistent with the terms of the Plan, of any Award granted hereunder. Such terms and conditions include, but are not limited to, the exercise price, the time or times when Awards may be exercised (which may be based on performance criteria), any vesting acceleration or waiver of forfeiture restrictions, and any restriction or limitation regarding any Award or the Shares relating thereto, based in each case on such factors as the Board of Directors (or Committee appointed by the Board of Directors) will determine;

(f) to institute and determine the terms and conditions of an Exchange Program;

(g) to construe and interpret the terms of the Plan and Awards granted pursuant to the Plan;

(h) to prescribe, amend and rescind rules and regulations relating to the Plan, including rules and regulations relating to sub-plans established for the purpose of satisfying applicable foreign laws or for qualifying for favorable tax treatment under applicable foreign laws;

(i) to modify or amend each Award (subject to Article 11 of the Plan), including but not limited to the discretionary authority to extend the post-termination exercisability period of Awards and to extend the maximum term of an Option (subject to paragraph 8.1(d) of the Plan regarding Incentive Share Options);

(j) to allow to satisfy withholding tax obligations in such manner as prescribed in paragraph 10.6 of the Plan;

(k) to authorize any person to execute on behalf of the Company any instrument required to effect the grant of an Award previously granted by the Board of Directors;

(l) to allow a Participant to defer the receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant, as applicable, under an Award; and

(m) to make all other determinations deemed necessary or advisable for administering the Plan.

3.5 The Board of Directors has the authority to determine all questions arising out of the Plan and any Award granted pursuant to the Plan, which interpretations and determinations will be conclusive and binding on the Company and all other affected persons.

ARTICLE 4
REGULATIONS

4.1 The Board of Directors may from time to time establish such regulations, make such determinations and interpretations and take such steps in connection with this Plan which, in its opinion, are necessary or desirable for the administration of this Plan.

ARTICLE 5
COMPLIANCE WITH LAWS

5.1 The Plan, the grant, exercise, vesting, and/or settlement of Awards under the Plan and the Company's obligation to issue Common Shares on exercise, vesting, or settlement of Awards will be subject to all applicable federal, provincial and foreign laws, rules and regulations and the rules of any regulatory authority or Stock Exchange on which the securities of the Company are listed. The Company shall not be required, or in any way obliged, to grant Awards or issue Common Shares if such grant or issuance would require registration of the Plan or of any Awards or Common Shares under the securities laws of any jurisdiction other than Canada or the United States. Common Shares issued to a Participant pursuant to the exercise, vesting, or settlement of an Award may be subject to limitations on sale or resale under applicable securities laws.

5.2 The Board of Directors may from time to time take such steps and require such documentation from Eligible Persons or Participants which in its opinion are necessary or desirable to ensure compliance with all applicable laws, the bylaws, rules and regulations of any Stock Exchanges.

5.3 The Board of Directors may also from time to time take such steps which in its opinion are necessary or desirable to restrict the transferability of any Common Shares acquired on the exercise, vesting, or settlement of any Award in order to ensure such compliance, including, where applicable, the endorsement of a legend on any certificate representing Common Shares acquired on the exercise, vesting, or settlement of any Award to the effect that such Common Shares may not be offered, sold or delivered except in compliance with the applicable securities laws and regulations of Canada or the United States.

ARTICLE 6
COMMON SHARES SUBJECT TO PLAN

6.1 Subject to adjustment provided for herein, the number of Common Shares that may be issued pursuant to the Plan for the period from the Effective Date will be one million (1,000,000) Common Shares, all of which may be issued pursuant to the exercise of Incentive Stock Options (the "Share Reserve").

6.2 The Board of Directors will reserve for allotment from time to time out of the authorized but unissued Common Shares sufficient Common Shares to provide for issuance of all Common Shares which are issuable under all outstanding Options or Share Awards.

6.3 Upon the expiry or termination of an Award which has not been exercised in full, is surrendered pursuant to an Exchange Program, or, with respect to a Restricted Share Award, Restricted Share Unit Award, or Performance Share Award is forfeited to or repurchased by the Company due to failure to vest, the number of unpurchased Common Shares reserved for issuance under that Award (or for Awards other than Options or Share Appreciation Rights the forfeited or repurchased Common Shares) shall become available for issue for the purpose of additional Awards which may be granted under this Plan (unless the Plan has terminated). With respect to Share Appreciation Rights, only Common Shares actually issued (i.e., the net Common Shares issued) pursuant to a Share Appreciation Right will cease to be available under the Plan; all remaining Common Shares under Share Appreciation Rights will remain available for future grant or sale under the Plan (unless the Plan has terminated). Common Shares that have actually been issued under the Plan under any Award will not be returned to the Plan and will not become available for future distribution under the Plan; provided, however, that if Shares issued pursuant to Restricted Share Awards, Restricted Share Unit Awards, or Performance Share Awards are repurchased by the Company or are forfeited to the Company, such Common Shares will become available for future grant under the Plan. Common Shares used to pay the exercise price of an Award or to satisfy the tax withholding obligations related to an Award will become available for future grant or sale under the Plan. To the extent an Award under the Plan is paid out in cash rather than Common Shares, such cash payment will not result in reducing the number of Common Shares available for issuance under the Plan. Notwithstanding the foregoing and, subject to adjustment as provided in paragraph 10.3, the maximum number of Common Shares that may be issued upon the exercise of Incentive Share Options will equal the aggregate Common Share number stated in the first sentence of paragraph 6.1, plus, to the extent allowable under Section 422 of the Code and the Treasury Regulations promulgated thereunder, any Common Shares that become available for issuance under the Plan pursuant to the first sentence of paragraph 6.1 and this paragraph 6.3.

6.4 Participation in this Plan will be entirely voluntary and any decision not to participate will not affect an Eligible Person’s employment or other service relationship with the Company or any Related Entity.

6.5 Nothing in this Plan or in any Award Agreement will confer on any Participant any right to remain as an employee, officer, director or Consultant of the Company or any Related Entity.

6.6 Nothing herein or otherwise shall be construed so as to confer on any Participant any rights as a shareholder of the Company with respect to any Common Shares reserved for the purpose of any Award.

6.7 A Participant will only have rights as a shareholder of the Company with respect to Shares that the Participant acquires through the exercise of an Option in accordance with its terms.

6.8 A holder of a Share Award will only have rights as a shareholder of the Company with respect to the Common Shares subject to the Share Award as specified and subject to restrictions as set out in the relevant agreement evidencing such Share Award.

ARTICLE 7
GRANT OF OPTIONS

7.1 Subject to the rules set out below, the Board of Directors may from time to time grant to any Eligible Person one or more Options as the Board of Directors deems appropriate:

(a) **Date Option Granted.** The date on which an Option will be deemed to have been granted under this Plan will be the date on which the Board of Directors authorizes the grant of such Option or such other date as may be specified by the Board of Directors at the time of such authorization.

(b) **Number of Common Shares.** The number of Common Shares that may be purchased under any Option by a Participant will be determined by the Board of Directors provided that such number may not be greater than the maximum number permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchanges. A Participant, at the time of granting an Option, may hold more than one Option.

(c) **Exercise Price.** The exercise price (the "Exercise Price") per Common Share under each Option will be determined by the Board of Directors by reference to the fair market price(s) of the Common Shares on the primary Stock Exchange for which most trading of the Common Shares occurs, generally by reference to the closing market price of the Common Shares, provided that such price may not be less than the lowest price permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including those of the Stock Exchanges. Notwithstanding the foregoing, in the case of a Nonqualified Share Option or Incentive Share Option, the Exercise Price will be no less than one hundred percent (100%) of the Fair Market Value Price per Common Share on the date of grant, subject to the limitations applicable to Incentive Share Options set forth in paragraph 8.1(b) of the Plan. Notwithstanding the foregoing, Options may be granted with a per Share exercise price of less than one hundred percent (100%) of the Fair Market Value Price per Common Share on the date of grant pursuant to a transaction described in, and in a manner consistent with, Section 424(a) of the Code.

(d) **Award Agreement.** Each Option will be evidenced by an Award Agreement, which incorporates such terms and conditions as the Board of Directors, in its discretion, deems appropriate and consistent with the provisions of this Plan. Each Award Agreement will be executed by the Eligible Person to whom the Option is granted and on behalf of the Company by any member of the Board of Directors, the CEO or the Corporate Secretary of the Company or such other person as the Board of Directors may designate for such purpose.

(e) **Expiry of Options.** Each Option will expire on the earlier of:

(i) the date determined by the Board of Directors and specified in the Award Agreement pursuant to which such Option is granted, provided that such date may not be later than the earlier of (A) the date which is the tenth anniversary of the date on which such Option is granted (except (1) in the circumstances where the tenth anniversary falls within, or within five Business Days after, the end of a Blackout Period, then instead of the tenth anniversary, the relevant date shall be the fifth Business Day after the end of such Blackout Period; provided, however, that the extension in this subparagraph (e)(i)(A)(1) shall be applied to any Option held by a Participant who is a U.S. taxpayer only to the extent that it would not violate Code Section 409A and (2) in the circumstances described in paragraph 8.1(b) of the Plan) and (B) the latest date permitted under the applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchanges;

(ii) in the event the Participant ceases to be an Eligible Person for any reason, other than death of the Participant, such period of time after the date on which the Participant ceases to be an Eligible Person as may be specified by the Board of Directors, which period may be specified in the specific Award Agreement with respect to such Option (but in no event granted beyond the original expiry date of the Option as provided for in subparagraph (i) above). In the absence of a specified time in the Award Agreement, the Option will remain exercisable for 90 days following the date the Participant ceases to be an Eligible Person due to termination without Cause or resignation (or 180 days following the date Participant ceases to be an Eligible Person due to such Participant's Retirement, 365 days following the date Participant ceases to be an Eligible Person due to such Participant's disability, and immediately upon Participant ceasing to be an Eligible Person due to the termination of such Participant as an Eligible Person for Cause). Unless otherwise provided by the Board of Directors, if on the date the Participant ceases to be an Eligible Person, the Participant is not vested as to his or her entire Option, the Common Shares covered by the unvested portion of the Option will revert to the Plan. If after the date the Participant ceases to be an Eligible Person, the Participant does not exercise his or her Option within the time specified by the Board of Directors, the Option will terminate, and the Common Shares covered by such Option will revert to the Plan;

(iii) in the case of the death of a Participant prior to: (A) the Participant ceasing to be an Eligible Person; or (B) the date which is the

number of days determined under subparagraph (ii) above, from the date on which the Participant ceased to be an Eligible Person; the date which is the 365th day after the date of death of such Participant or such other date as may be specified by the Board of Directors and which period will be specified in the Award Agreement with respect to such Option (but in no event beyond the original expiry date of the Option as provided for in subparagraph (i) above). Unless otherwise provided by the Board of Directors, if at the time of death Participant is not vested as to his or her entire Option, the Common Shares covered by the unvested portion of the Option will immediately revert to the Plan. If the Option is not so exercised within the time specified herein, the Option will terminate, and the Common Shares covered by such Option will revert to the Plan;

(iv) notwithstanding the foregoing provisions of subparagraphs (ii) and (iii) of this paragraph 7.1(e), the Board of Directors may, subject to regulatory approval, at any time prior to expiry of an Option extend the period of time within which an Option held by a deceased Participant may be exercised or within which an Option may be exercised by an Participant who has ceased to be an Eligible Person, but such an extension shall not be granted beyond the original expiry date of the Option as provided for in subparagraph (i) above; and

(v) notwithstanding the foregoing provisions, if the expiry of an Option pursuant to subparagraphs (ii) and (iii) of this paragraph 7.1(e) occurs during the Blackout Period applicable to the Participant or within five Business Days after the last day of a Blackout Period applicable to the Participant, the expiry date for the Option will be the last day of such five Business Day period, except in the event of expiry of Options following termination of a Participant's employment or services (for a director) or contract as a Consultant for Cause.

(f) **Exercise of Options.**

(i) The Board of Directors may impose such limitations or conditions on the exercise or vesting of any Option as the Board of Directors, in its discretion, deems appropriate. Each Award Agreement will provide that the Option granted thereunder may be exercised by notice signed by the Participant and accompanied by full payment for the Common Shares being purchased or by other means, including without limitation electronic means via on-line arrangements, as the Board of Directors may from time to time approve and allow.

(ii) The Board of Directors will determine the acceptable form of consideration for exercising an Option, including the method of payment. In the case of an Incentive Stock Option, the Board of Directors will determine the acceptable form of consideration at the time of grant. Such consideration may consist entirely of: (A) cash; (B) cheque; (C) other Common Shares, provided that such Common Shares have a Fair Market Value Price on the date of surrender equal to the aggregate exercise price of the Common Shares as to which such Option will be exercised and provided that accepting such Common Shares will not result in any adverse accounting consequences to the Company, as the Board of Directors determines in its sole discretion; (D) consideration received by the Company under a broker-assisted (or other) cashless exercise program (whether through a broker or otherwise) implemented by the Company in connection with the Plan; (E) by net exercise; (F) such other consideration and method of payment for the issuance of Common Shares to the extent permitted by the applicable securities laws and all applicable rules and regulations of all regulatory authorities to which the Company is subject; or (G) any combination of the foregoing methods of payment.

ARTICLE 8
INCENTIVE SHARE OPTION LIMITATIONS

8.1 To the extent required by Section 422 of the Code, if applicable, Incentive Share Options shall be subject to the following additional terms and conditions and if there is any conflict between the terms of this Article and other provisions under the Plan, the provisions under this Article shall prevail:

(a) **Dollar Limitation.** To the extent the aggregate Fair Market Value Price (determined as of the grant date) of Common Shares with respect to which Incentive Share Options are exercisable for the first time during any calendar year (under the Plan and all other Share option plans of the Company) exceeds U.S. $100,000, such portion in excess of U.S. $100,000 shall be treated as a Nonqualified Share Option. In the event the Participant holds two or more such Options that become exercisable for the first time in the same calendar year, such limitation shall be applied on the basis of the order in which such Options are granted.

(b) **10% Shareholders.** If a Participant owns 10% or more of the total voting power of all classes of the Company's shares, then the exercise price per share of an Incentive Share Option shall not be less than 110% of the fair market value of the Common Shares on the grant date and the Option term shall not exceed five years. The determination of 10% ownership shall be made in accordance with Section 422 of the Code.

(c) **Eligible Employees.** Eligible Persons who are not employees of the Company or one of its parent corporations or subsidiary corporations may not be granted Incentive Share Options. For purposes of this paragraph (c), "parent corporation" and "subsidiary corporation" shall have the meanings attributed to those terms for purposes of Section 424 of the Code.

(d) **Term.** The term of an Incentive Share Option shall not exceed 10 years.

(e) **Exercisability.** To qualify for Incentive Share Option tax treatment, an Option designated as an Incentive Share Option must be exercised within three months after termination of employment for reasons other than death, except that, in the case of termination of employment due to total disability, such Option must be exercised within one year after such termination. Employment shall not be deemed to continue beyond the first 90 days of a leave of absence unless the Participant reemployment rights are guaranteed by statute or contract. For purposes of this subparagraph (e), "total disability" shall mean a mental or physical impairment of the Participant which is expected to result in death or which has lasted or is expected to last for a continuous period of 12 months or more and which causes the Participant to be unable, in the opinion of the Company and two independent physicians, to perform his or her duties for the Company and to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the Company and the two independent physicians have furnished their opinion of total disability to the Board of Directors.

(f) **Assignability.** No Incentive Share Option granted under the Plan may be assigned or transferred by the Participant other than by will or by the laws of descent and distribution, and during the Participant's lifetime, such Incentive Share Option may be exercised only by the Participant.

(g) **Grant.** No Incentive Share Options may be granted more than ten years after the later of (i) the adoption of the Plan by the Board and (ii) the adoption by the Board of any amendment to the Plan that constitutes the adoption of a new plan for purposes of Section 422 of the Code.

ARTICLE 9
PROVISIONS OF SHARE AWARDS OTHER THAN OPTIONS.

The Board of Directors may in its discretion determine to grant other forms of Awards other than Options under this Plan on the terms and conditions set out below and all such other forms of share awards will be subject to the Share Reserve:

9.1 **Restricted Share Awards.**

(a) Each Restricted Share Award will be evidenced by an Award Agreement that shall contain such terms and conditions as the Board of Directors shall deem appropriate. The terms and conditions of each Award Agreement evidencing a

Restricted Share Award may change from time to time, and the terms and conditions of separate Restricted Share Award need not be identical, provided, however, that each Award Agreement evidencing a Restricted Share Award shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** A Restricted Share Award may be awarded in consideration for (A) cash, cheque, bank draft or money order payable to the Company; (B) past services actually rendered to the Company or an Affiliate; or (C) any other form of legal consideration that may be acceptable to the Board of Directors, in its sole discretion, and permissible under applicable law.

(ii) **Vesting; Other Restrictions.** Common Shares subject to a Restricted Share Award may be subject to forfeiture to or repurchase by the Company in accordance with a vesting schedule or other restrictions to be determined by the Board of Directors as specified in the Award Agreement evidencing the Restricted Share Award. Except as otherwise provided in this Plan, Common Shares subject to the Restricted Share Award will be released from escrow as soon as practicable after such Common Shares vest or the restrictions lapse or at such other time as the Board of Directors may determine. The Board of Directors, in its discretion, may accelerate the time at which any vesting conditions or other restrictions will lapse or be removed. On the date set forth in the Award Agreement, the Restricted Share Award for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan.

(iii) **Voting Rights; Dividend and Other Distributions.** Before the Common Shares subject to a Restricted Share Award vest or are otherwise subject to restrictions, Participants holding Common Shares subject to the Restricted Share Award granted hereunder (A) may exercise full voting rights with respect to those Common Shares, unless the Board of Directors determines otherwise and (B) will be entitled to receive all dividends and other distributions paid with respect to such Common Shares, unless the Board of Directors provides otherwise. If any such dividends or distributions are paid in Common Shares, the Common Shares will be subject to the same restrictions on transferability and forfeitability as the Common Shares subject to the Restricted Share Award with respect to which they were paid.

9.2 **Restricted Share Unit Awards.**

(a) Each Restricted Share Unit Award will be evidenced by an Award Agreement that shall contain such terms and conditions as the Board of Directors shall deem

appropriate. The terms and conditions of each Award Agreement evidencing a Restricted Share Unit Award may change from time to time, and the terms and conditions of separate Restricted Share Unit Award need not be identical, provided, however, that each Award Agreement evidencing a Restricted Share Unit Award shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Consideration.** At the time of grant of a Restricted Share Unit Award, the Board of Directors will determine the consideration, if any, to be paid by the Participant upon delivery of each Common Share subject to the Restricted Share Unit Award. The consideration to be paid (if any) by the Participant for each Common Share subject to a Restricted Share Unit Award may be paid in any form of legal consideration that may be acceptable to the Board of Directors in its sole discretion and permissible under applicable law.

(ii) **Vesting.** At the time of the grant of a Restricted Share Unit Award, the Board of Directors may impose such restrictions or conditions to the vesting of the Restricted Share Unit Award as it, in its sole discretion, deems appropriate. The Board of Directors, in its discretion, may accelerate the time at which any vesting conditions or other restrictions will lapse or be removed. On the date set forth in the Award Agreement, the Restricted Share Unit Award for which restrictions have not lapsed will revert to the Company and again will become available for grant under the Plan. Except as otherwise provided in the applicable Award Agreement, such portion of the Restricted Share Unit Award that has not vested will be forfeited upon the Participant's termination of services or employment or engagement with the Company.

(iii) **Payment.** Upon meeting the applicable vesting criteria, a Restricted Share Unit Award (or vested portion thereof) may be settled by the delivery of Common Shares, its cash equivalent, or in any combination thereof, as determined by the Board of Directors and contained in the Award Agreement evidencing the Restricted Share Unit Award.

(iv) **Additional Restrictions.** At the time of the grant of a Restricted Share Unit Award, the Board of Directors, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the Common Shares (or their cash equivalent) subject to a Restricted Share Unit Award to a time after the vesting of such Restricted Share Unit Award.

(v) **Dividend Equivalents.** Dividend equivalents may be credited in respect of Common Shares covered by a Restricted Share Unit Award, as determined by the Board of Directors and contained in the Award Agreement evidencing Restricted Share Units. At the sole discretion of the Board of Directors, such dividend equivalents may be converted into additional Common Shares covered by the Restricted Share Unit Award in such manner as determined by the Board of Directors. Any additional Common Shares covered by the Restricted Share Unit Award credited by reason of such dividend equivalents will be subject to all the terms and conditions of the underlying Award Agreement to which they relate.

9.3 **Share Appreciation Rights.**

(a) Each Share Appreciation Rights Award will be evidenced by an Award Agreement that shall contain such terms and conditions as the Board of Directors shall deem appropriate. The terms and conditions of each Award Agreement evidencing a Share Appreciation Rights Award may change from time to time, and the terms and conditions of separate Share Appreciation Right Award need not be identical, provided, however, that each Award Agreement evidencing a Share Appreciation Rights Award shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Term.** No Share Appreciation Right shall be exercisable after the expiration of ten (10) years from the date of its grant or such shorter period specified in the Share Appreciation Right Agreement.

(ii) **Exercise Price.** The exercise under each Share Appreciation Right will be determined by the Board of Directors by reference to the fair market price(s) of the Common Shares on the primary Stock Exchange for which most trading of the Common Shares occurs, generally by reference to the closing market price of the Common Shares, provided that such price may not be less than one hundred percent (100%) of the Fair Market Value Price per Common Share on the date of grant.

(iii) **Calculation of Appreciation.** The appreciation distribution payable on the exercise of a Share Appreciation Right will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value Price (on the date of the exercise of the Share Appreciation Right) of a number of Common Shares equal to the number of Common Share equivalents in which the Participant is vested under such Share Appreciation Right, and with respect to which the Participant is exercising the Share Appreciation Right on such date, over (B) the aggregate Exercise Price of such number of Common Share equivalents being exercised.

(iv) **Vesting.** At the time of the grant of a Share Appreciation Right, the Board of Directors may impose such restrictions or conditions to the vesting of such Share Appreciation Right as it, in its sole discretion, deems appropriate.

(v) **Exercise.** To exercise any outstanding Share Appreciation Right, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Award Agreement evidencing such Share Appreciation Right.

(vi) **Payment.** The appreciation distribution in respect of a Share Appreciation Right may be paid in Common Shares, in cash, in any combination of the two or in any other form of consideration, as determined by the Board of Directors and set forth in the Award Agreement evidencing such Share Appreciation Right.

(vii) **Expiry of Share Appreciation Rights.** Each Share Appreciation Right will expire upon the date determined by the Board of Directors, in its sole discretion, and set forth in the Award Agreement evidencing Share Appreciation Rights. Notwithstanding the foregoing, the rules of subparagraph (e) of paragraph 7.1 also will apply to Share Appreciation Rights.

9.4 **Performance Share Awards.**

(a) Each Performance Share Award will be evidenced by an Award Agreement that shall contain such terms and conditions as the Board of Directors shall deem appropriate. The terms and conditions of each Award Agreement evidencing a Performance Share Award may change from time to time, and the terms and conditions of separate Performance Share Award need not be identical, provided, however, that each Award Agreement evidencing a Performance Share Award shall conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) **Performance Objectives and Other Terms.** The Board of Directors will set performance objectives or other vesting provisions (including, without limitation, continued status as an Eligible Person) in its discretion which, depending on the extent to which they are met, will determine the number or value of Common Shares subject to a Performance Share Award that will be paid out to the Participant. The time period during which the performance objectives or other vesting provisions must be met will be called the “Performance Period.” Each Performance Share Award will be evidenced by an Award Agreement that will specify

the Performance Period, and such other terms and conditions as the Board of Directors, in its sole discretion, will determine. The Board of Directors may set performance objectives based upon the achievement of Company-wide, divisional, business unit or individual goals (including, but not limited to, continued employment or service), applicable federal, provincial or state securities laws, or any other basis determined by the Board of Directors in its discretion.

(ii) **Vesting.** After the applicable Performance Period has ended, the holder of Performance Share Award will be entitled to receive a payout of the number of Common Shares subject to the Performance Share Award earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives or other vesting provisions have been achieved. After the grant of a Performance Share Award, the Board of Directors, in its sole discretion, may reduce or waive any performance objectives or other vesting provisions for such Common Shares subject to the Performance Share Award.

(iii) **Payment.** Upon meeting the applicable vesting criteria, a Performance Share Award (or vested portion thereof) may be settled by the delivery of Common Shares, its cash equivalent, or in any combination thereof, as determined by the Board of Directors and contained in the Award Agreement evidencing the Performance Share Award.

(iv) **Expiry of Performance Share Award.** On the date set forth in the Award Agreement, all unearned or unvested Common Shares subject to a Performance Share Award will be forfeited to the Company, and again will be available for grant under the Plan.

ARTICLE 10
PROVISIONS APPLICABLE TO AWARDS

10.1 **Leave of Absence/Transfer Between Locations.** Unless the Board of Directors provides otherwise and subject to applicable laws, vesting of Awards granted hereunder will be suspended during any unpaid leave of absence. A Participant will not cease to be an employee in the case of (a) any leave of absence approved by the Company, (b) transfers between locations of the Company or between the Company, its parent, or any subsidiary, or (c) any statutory-protected leave. For purposes of Incentive Share Options, no such leave may exceed 3 months, unless reemployment upon expiration of such leave is guaranteed by statute or contract. If reemployment upon expiration of a leave of absence approved by the Company is not so guaranteed, then 6 months following the 1st day of such leave any Incentive Share Option held by the Participant will cease to be treated as an Incentive Share Option and will be treated for U.S. tax purposes as a Nonqualified Share Option.

10.2 **Restrictions on Transfer.** Unless the Board of Directors provides otherwise, an Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. If the Board of Directors makes an Award transferable, such Award will contain such additional terms and conditions as the Board of Directors deems appropriate.

10.3 **Adjustments; Dissolution or Liquidation; Merger or Change of Control.**

(a) **Adjustments.** In the event that any dividend or other distribution (whether in the form of cash, Common Shares, other securities, or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, or exchange of Common Shares or other securities of the Company, or other change in the corporate structure of the Company affecting the Common Shares occurs, the Board of Directors, in order to prevent diminution or enlargement of the benefits or potential benefits intended to be made available under the Plan, will adjust the number and class of Common Shares that may be delivered under the Plan and/or the number, class, and price of Common Shares covered by each outstanding Award, and the Share Reserve.

(b) **Dissolution or Liquidation.** In the event of the proposed dissolution or liquidation of the Company, the Board of Directors will notify each Participant as soon as practicable prior to the effective date of such proposed transaction. To the extent it has not been previously exercised, an Award will terminate immediately prior to the consummation of such proposed action.

(c) **Change of Control.** Subject to the immediately following paragraph, in the event of a merger of the Company with or into another corporation or other entity or a Change of Control, each outstanding Award will be treated as the Board of Directors determines, including, without limitation, that (i) Awards may be assumed, or substantially equivalent Awards will be substituted, by the acquiring or succeeding corporation (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices; (ii) upon written notice to a Participant, that the Participant's Awards will terminate upon or immediately prior to the consummation of such merger or Change of Control; (iii) outstanding Awards will vest and become exercisable, realizable, or payable, or restrictions applicable to an Award will lapse, in whole or in part prior to or upon consummation of such merger or Change of Control, and, to the extent the Board of Directors determines, terminate upon or immediately prior to the effectiveness of such merger or Change of Control; (iv) (A) the termination of an Award in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights as of the date of the occurrence of the transaction (and, for the

avoidance of doubt, if as of the date of the occurrence of the transaction the Board of Directors determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment), or (B) the replacement of such Award with other rights or property selected by the Board of Directors in its sole discretion; or (v) any combination of the foregoing. In taking any of the actions permitted under this subparagraph (c), the Board of Directors will not be required to treat all Awards similarly in the transaction.

In the event that the successor corporation does not assume or substitute for the Award consistent with subparagraph (c)(i) of this paragraph 10.3, the Participant will fully vest in and have the right to exercise all of his or her outstanding Options and Share Appreciation Rights, including Common Shares as to which such Awards would not otherwise be vested or exercisable, all restrictions on Restricted Share Awards and Restricted Share Unit Awards will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met. In addition, if an Option or Share Appreciation Right is not assumed or substituted in the event of a Change of Control, the Board of Directors will notify the Participant in writing or electronically that the Option or Share Appreciation Right will be exercisable for a period of time determined by the Board of Directors in its sole discretion, and the Option or Share Appreciation Right will terminate upon the expiration of such period.

For the purposes of this subparagraph (c), an Award will be considered assumed if, following the Change of Control, the Award confers the right to purchase or receive, for each Common Share subject to the Award immediately prior to the Change of Control, the consideration (whether stock, cash, or other securities or property) received in the Change of Control by holders of Common Shares for each Common Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Common Shares); provided, however, that if such consideration received in the Change of Control is not solely common shares or common stock of the successor corporation or its Parent, the Board of Directors may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of an Option or Share Appreciation Rights or upon the payout of a Restricted Share Unit, Performance Share Award, for each Common Share subject to such Award, to be solely common shares or common stock of the successor corporation or its parent equal in fair market value to the per share consideration received by holders of Common Shares in the Change of Control.

Notwithstanding anything in this subparagraph (c) to the contrary, an Award that vests, is earned or paid-out upon the satisfaction of one or more performance goals will not be considered assumed if the Company or its successor modifies any of such performance goals without the Participant's consent; provided,

however, a modification to such performance goals only to reflect the successor corporation's post-Change of Control corporate structure will not be deemed to invalidate an otherwise valid Award assumption.

(d) Outside Director Awards. With respect to Awards granted to an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the Participant's status as a director of the Company or a director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant (which does not include resignation at the request of the acquirer), then the Participant will fully vest in and have the right to exercise Options and/or Share Appreciation Rights as to all of the Common Shares underlying such Award, including those Common Shares which would not otherwise be vested or exercisable, all restrictions on Restricted Share Awards and Restricted Share Unit Awards will lapse, and, with respect to Awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met.

10.4 **Representations and Covenants of Award holder.** Each Award Agreement will contain representations and covenants of the holder that:

(a) the holder is a director, officer, employee or Consultant of the Company or of a subsidiary of the Company or a person otherwise approved as an "Eligible Person" under this Plan by the Board of Directors on the date of grant;

(b) the holder's participation in the Plan is voluntary and the holder has not been induced to enter into such Award Agreement by the expectation of employment or engagement as a Consultant or continued employment or engagement as a Consultant with the Company or any Affiliate;

(c) the holder is aware that the grant of the Award and the issuance by the Common Shares thereunder are exempt from the obligation under applicable securities laws to file a prospectus or other registration document (other than a registration statement on Form S-8 with the United States Securities and Exchange Commission) qualifying the distribution of the Awards or the Common Shares to be distributed thereunder under any applicable securities laws and if such exemption for any reason becomes unavailable, the obligation of the Company to grant any Awards or issue any Common Shares upon the exercise, vesting, or settlement of an Award, as the case may be, will cease; and

(d) the holder or the Legal Representative, as the case may be, will prior to and upon any sale or disposition of any Common Shares purchased pursuant to the exercise of the Share Awards, comply with all applicable securities laws and all applicable rules and regulations of all regulatory authorities to which the Company is subject, including the Stock Exchanges, and will not offer, sell or deliver any of such Common Shares, directly or indirectly, in the United States or to any citizen or resident of, or any company, partnership or other entity created or organized in

or under the laws of, the United States, or any estate or trust the income of which is subject to United States federal income taxation regardless of its source, except in compliance with the securities laws of the United States.

10.5 **Clawback/Recovery.** All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any Stock Exchange on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board of Directors may impose such other clawback, recovery or recoupment provisions in an agreement evidencing the grant of the Awards as the Board of Directors determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired Common Shares. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company or any Affiliate.

10.6 **Taxes**

(a) **Withholding Requirements.** Prior to the delivery of any Common Shares or cash pursuant to an Award (or exercise thereof) or such earlier time as any tax withholding obligations are due, the Company will have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy U.S. or Canadian federal, provincial, state, local, foreign or other taxes required to be withheld with respect to such Award (or exercise thereof).

(b) **Withholding Arrangements.** The Board of Directors, in its sole discretion and pursuant to such procedures as it may specify from time to time, may permit a Participant to satisfy such tax withholding obligation, in whole or in part by (without limitation) (i) paying cash, (ii) electing to have the Company withhold otherwise deliverable cash or Common Shares having a Fair Market Value Price equal to the minimum statutory amount required to be withheld, or (c) delivering to the Company already-owned Common Shares having a Fair Market Value Price equal to the minimum statutory amount required to be withheld. The Fair Market Value Price of the Common Shares to be withheld or delivered will be determined as of the date that the taxes are required to be withheld.

(c) **Compliance With Code Section 409A.** Awards will be designed and operated in such a manner that they are either exempt from the application of, or comply with, the requirements of Code Section 409A such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A, except as otherwise determined in the sole discretion of the Board of Directors. The Plan and each Award Agreement under the Plan is intended to meet the requirements of Code Section 409A and will be construed and interpreted in accordance with such intent, except as otherwise determined in the sole discretion of the Board of Directors. To the extent that an Award or payment, or the settlement or deferral thereof, is subject to Code Section 409A the

Award will be granted, paid, settled or deferred in a manner that will meet the requirements of Code Section 409A, such that the grant, payment, settlement or deferral will not be subject to the additional tax or interest applicable under Code Section 409A.

ARTICLE 11
SUSPENSION, AMENDMENT OR TERMINATION OF PLAN

11.1 The Plan will become effective upon the later to occur of (i) its adoption by the Board of Directors or (ii) the business day immediately prior to the Registration Date (the "Effective Date"). It will continue in effect for a term of ten (10) years from the date adopted by the Board of Directors, unless terminated earlier under paragraph 11.2 of the Plan.

11.2 The Board of Directors will have the right at any time and from time to time to suspend, amend or terminate this Plan in any manner without consent or approval from Participants or shareholders (provided that no such suspension, amendment or termination may be made that will materially prejudice the rights of any Participant under any Award previously granted to such Participant without consent by such Participant).

11.3 The full powers of the Board of Directors as provided for in this Plan will survive the termination of this Plan until all Awards have been exercised or settled in full or have otherwise expired.

ARTICLE 12
APPLICABLE LAW

12.1 The laws of the Province of British Columbia shall apply to the Plan and any Award Agreement evidencing the grant of Awards granted hereunder and will be interpreted and construed in accordance with the laws of the Province of British Columbia.

12.2 Subject to any written agreement between the parties, the parties will submit all their disputes arising out of or in connection with the Plan to the exclusive jurisdiction of the courts of the Province of British Columbia.

ARTICLE 13

13.1 The Plan will be subject to shareholder approval within 12 months after the date the Plan is adopted by the Board. Such shareholder approval will be obtained in the manner and to the degree required under applicable laws.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the reference to our firm under the caption “Experts” and to the use of our report dated March 9, 2015, in Amendment No. 1 to the Registration Statement (Form S-1 333-201813) and related Prospectus of XBiotech, Inc. for the registration of shares of its common stock.

/s/ Ernst & Young LLP

Austin, Texas

March 9, 2015