

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

SCHEDULE TO

**Tender Offer Statement under Section 14(d)(1) or 13(e)(1)
of the Securities Exchange Act of 1934**

XBIOTECH INC.

(Name of Subject Company (Issuer) and Filing Person (Offeror))

Common Stock, no par value

(Title of Class of Securities)

98400H102

(CUSIP Number of Class of Securities)

John Simard

President and Chief Executive Officer

5217 Winnebago Lane

Austin, TX 78744

(512) 386-2900

(Name, address and telephone number of person authorized to
receive notices and communications on behalf of filing persons)

Copy To:

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Calculation of Filing Fee

Transaction Valuation*	Amount of Filing Fee**
\$420,000,000	\$54,516

* The transaction value is estimated only for purposes of calculating the filing fee. This amount is based on the offer to purchase up to \$420,000,000 in value of common shares, no par value.

** The amount of the filing fee, calculated in accordance with Rule 0-11 under the Securities Exchange Act of 1934, as amended, equals \$129.80 per million dollars of the value of the transaction.

Check the box if any part of the fee is offset as provided by Rule 0-11(a)(2) and identify the filing with which the offsetting fee was previously paid. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

Amount Previously Paid: N/A

Filing Party: N/A

Form or Registration No.: N/A

Date Filed: N/A

Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

Check the appropriate boxes below to designate any transactions to which the statement relates:

third-party tender offer subject to Rule 14d-1.

issuer tender offer subject to Rule 13e-4.

going-private transaction subject to Rule 13e-3.

amendment to Schedule 13D under Rule 13d-2.

Check the following box if the filing is a final amendment reporting the results of the tender offer:

If applicable, check the appropriate box(es) below to designate the appropriate rule provision(s) relied upon:

Rule 13e-4(i) (Cross-Border Issuer Tender Offer)

Rule 14d-1(d) (Cross-Border Third Party Tender Offer)

SCHEDULE TO

This Tender Offer Statement on Schedule TO relates to the offer by XBiotech Inc., a British Columbia corporation (“XBiotech” or the “Company”), to purchase up to \$420,000,000 in value of its common shares, no par value per share (the “Shares”), at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest. The Company’s offer is being made upon the terms and subject to the conditions set forth in the Offer to Purchase dated January 14, 2020 (the “Offer to Purchase”) and in the related Letter of Transmittal, copies of which are attached to this Tender Offer Statement on Schedule TO as Exhibits (a)(1)(i) and (a)(1)(ii), respectively (which together, as they may be amended or supplemented from time to time, constitute the “Offer”). This Tender Offer Statement on Schedule TO is intended to satisfy the reporting requirements of Rule 13e-4(c)(2) under the Securities Exchange Act of 1934, as amended.

The information in the Offer to Purchase and the related Letter of Transmittal are incorporated by reference in answer to Items 1 through 11 in this Tender Offer Statement on Schedule TO.

Item 1. Summary Term Sheet.

The information set forth in the section captioned “Summary Term Sheet” of the Offer to Purchase is incorporated herein by reference.

Item 2. Subject Company Information.

- (a) **Name and Address:** The name of the subject company is XBiotech Inc. The address of its principal executive offices are located at 5217 Winnebago Lane, Austin, Texas 78744, and its telephone number is (512) 386-2900. The information set forth in Section 11 (“Certain Information Concerning Us”) of the Offer to Purchase is incorporated herein by reference.
- (b) **Securities:** The information set forth in the section of the Offer to Purchase captioned “Introduction” is incorporated herein by reference.
- (c) **Trading Market and Price:** The information set forth in the section captioned “Introduction” of the Offer to Purchase is incorporated herein by reference. The information set forth in Section 8 (“Price Range of Shares; Dividends”) of the Offer to Purchase is incorporated herein by reference.

Item 3. Identity and Background of Filing Person.

- (a) **Name and Address:** The name of the filing person is XBiotech Inc. The address of its principal executive offices are located at 5217 Winnebago Lane, Austin, Texas 78744, and its telephone number is (512) 386-2900. The information set forth in Section 11 (“Certain Information Concerning Us”) and Section 12 (“Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares”) of the Offer to Purchase is incorporated herein by reference.

Item 4. Terms of the Transaction.

- (a) **Material Terms:** The information set forth in the sections of the Offer to Purchase captioned “Introduction” and “Summary Term Sheet” is incorporated herein by reference. The information set forth in Section 1 (“Number of Shares; Proration”), Section 2 (“Background and Purpose of the Offer; Certain Effects of the Offer”), Section 3 (“Procedures for Tendering Shares”), Section 4 (“Withdrawal Rights”), Section 5 (“Purchase of Shares and Payment of Purchase Price”), Section 6 (“Conditional Tender of Shares”), Section 7 (“Conditions of the Offer”), Section 9 (“Source and Amount of Funds”), Section 10 (“Certain Financial Information”), Section 12 (“Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares”), Section 13 (“Certain Legal Matters; Regulatory Approvals”), Section 14 (“Certain United States and Canadian Federal Income Tax Consequences”), Section 15 (“Extension of the Offer; Termination; Amendment”) and Section 17 (“Miscellaneous”) of the Offer to Purchase is incorporated herein by reference.
- (b) **Purchases:** The information set forth in the sections of the Offer to Purchase captioned “Introduction” and “Summary Term Sheet” is incorporated herein by reference. The information set forth in Section 12 (“Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares”) of the Offer to Purchase is incorporated herein by reference.

Item 5. Past Contracts, Transactions, Negotiations and Agreements.

- (e) **Agreements Involving the Subject Company's Securities:** The information set forth in Section 12 ("Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares") of the Offer to Purchase is incorporated herein by reference.

Item 6. Purposes of the Transaction and Plans or Proposals.

- (a) **Purposes:** The information set forth in the section of the Offer to Purchase captioned "Summary Term Sheet" is incorporated herein by reference. The information set forth in Section 2 ("Background and Purpose of the Offer; Certain Effects of the Offer") of the Offer to Purchase is incorporated herein by reference.
- (b) **Use of the Securities Acquired:** The information set forth in Section 2 ("Background and Purpose of the Offer; Certain Effects of the Offer") of the Offer to Purchase is incorporated herein by reference.
- (c) **Plans:** The information set forth in Section 2 ("Background and Purpose of the Offer; Certain Effects of the Offer") of the Offer to Purchase is incorporated herein by reference.

Item 7. Source and Amount of Funds or Other Consideration.

- (a) **Source of Funds:** The information set forth in the section of the Offer to Purchase captioned "Summary Term Sheet" is incorporated herein by reference. The information set forth in Section 9 ("Source and Amount of Funds") of the Offer to Purchase is incorporated herein by reference.
- (b) **Conditions:** The information set forth in the section of the Offer to Purchase captioned "Summary Term Sheet" is incorporated herein by reference. The information set forth in Section 9 ("Source and Amount of Funds") of the Offer to Purchase is incorporated herein by reference.
- (d) **Borrowed Funds:** Not applicable.

Item 8. Interest in Securities of the Subject Company.

- (a) **Securities Ownership:** The information set forth in Section 12 ("Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares") of the Offer to Purchase is incorporated herein by reference.
- (b) **Securities Transactions:** The information set forth in Section 12 ("Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares") of the Offer to Purchase is incorporated herein by reference.

Item 9. Persons/Assets, Retained, Employed, Compensated or Used.

- (a) **Solicitations or Recommendations:** The information set forth in Section 16 ("Fees and Expenses") of the Offer to Purchase is incorporated herein by reference.

Item 10. Financial Statements.

- (a) **Financial Information:** The information set forth in Section 10 ("Certain Financial Information") of the Offer to Purchase is incorporated herein by reference.
- (b) **Pro Forma Information:** The information set forth in Section 10 ("Certain Financial Information") of the Offer to Purchase is incorporated herein by reference.

Item 11. Additional Information.

- (a) **Agreements, Regulatory Requirements and Legal Proceedings:** The information set forth in the section of the Offer to Purchase captioned "Summary Term Sheet" is incorporated herein by reference. The information set forth in Section 2 ("Background and Purpose of the Offer; Certain Effects of the Offer"), Section 12 ("Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares") and Section 13 ("Certain Legal Matters; Regulatory Approvals") of the Offer to Purchase is incorporated herein by reference.
- (c) **Other Material Information:** The information in the Offer to Purchase and the related Letter of Transmittal are incorporated herein by reference.

Item 12. Exhibits.

Exhibit No.	Description
(a)(1)(i)	Offer to Purchase, dated January 14, 2020.
(a)(1)(ii)	Letter of Transmittal.
(a)(1)(iii)	Notice of Guaranteed Delivery.
(a)(1)(iv)	Letter to Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(1)(v)	Letter to Clients for use by Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees.
(a)(2)	Not Applicable.
(a)(3)	Not Applicable.
(a)(4)	Not Applicable.
(a)(5)(i)	Press Release, dated January 14, 2020.
(a)(5)(ii)	Summary Advertisement, dated January 14, 2020.
(b)	Not Applicable.
(d)(i)	XBiotech 2005 Incentive Stock Option Plan (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015).
(d)(ii)	XBiotech Inc. 2015 Equity Incentive Plan (incorporated by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed with the SEC on March 10, 2015).
(d)(iii)	Executive Employment Agreement dated as of March 22, 2005 between XBiotech and John Simard (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015).
(d)(iv)	Change in Control Agreement dated as of March 22, 2005 between XBiotech and John Simard (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015).
(d)(v)	Form of indemnification agreement between XBiotech and each director of XBiotech (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 filed with the SEC on February 2, 2015).
(d)(vi)	Board Member Agreement, dated as of July 10, 2019, by and between XBiotech Inc. and Peter Libby (filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on July 16, 2019 (File No. 001-37347) and incorporated herein by reference).
(g)	Not Applicable.
(h)	Not Applicable.

Item 13. Information Required by Schedule 13E-3.

Not applicable.

SIGNATURE

After due inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

XBIOTECH INC.

By: /s/ John Simard

Name: John Simard

Title: President and Chief Executive Officer

Dated: January 14, 2020

**Offer to Purchase**

by

XBiotech Inc.

**Up to \$420,000,000 in Value of its Common Shares
At a Cash Purchase Price Not Greater Than \$33.00 per Share Nor Less Than \$30.00 Per Share**

**THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME, ON FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED
(SUCH DATE AND TIME, AS THEY MAY BE EXTENDED, THE "EXPIRATION DATE").**

XBiotech Inc., a British Columbia corporation (the "Company," "XBiotech," "we," "us" or "our"), invites our shareholders to tender up to \$420,000,000 in value of our common shares, no par value (the "Shares"), for purchase by us at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions described in this Offer to Purchase and in the related Letter of Transmittal (the "Letter of Transmittal," which together with this Offer to Purchase, as they may be amended or supplemented from time to time, constitute the "Offer").

Upon the terms and subject to the conditions of the Offer, we will determine a single per Share price that we will pay for Shares properly tendered and not properly withdrawn from the Offer, taking into account the total number of Shares tendered and the prices specified, or deemed specified, by tendering shareholders. We will select the lowest single purchase price, not greater than \$33.00 nor less than \$30.00 per Share, that will allow us to purchase \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn (such purchase price, the "Final Purchase Price"). Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price, Shares having an aggregate value of less than or equal to \$420,000,000 are properly tendered and not properly withdrawn, we will buy all Shares properly tendered and not properly withdrawn. All Shares acquired in the Offer will be acquired at the Final Purchase Price, including those Shares tendered at a price lower than the Final Purchase Price. Only Shares properly tendered at prices at or below the Final Purchase Price, and not properly withdrawn, will be purchased. We may not purchase all of the Shares tendered at or below the Final Purchase Price if, based on the Final Purchase Price, Shares having an aggregate value in excess of \$420,000,000 are properly tendered and not properly withdrawn, because of proration, "Odd Lot" priority and conditional tender provisions described in this Offer to Purchase. Shares not purchased in the Offer will be returned to the tendering shareholders promptly after the Expiration Date. We reserve the right, in our sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. In accordance with the rules of the Securities and Exchange Commission (the "SEC"), we may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer. See Section 1.

At the maximum Final Purchase Price of \$33.00 per Share, we could purchase 12,727,272 Shares if the Offer is fully subscribed, which would represent approximately 30.04% of our issued and outstanding Shares as of January 13, 2020. At the minimum Final Purchase Price of \$30.00 per Share, we could purchase 14,000,000 Shares if the Offer is fully subscribed, which would represent approximately 33.05% of our issued and outstanding Shares as of January 13, 2020.

THE OFFER IS NOT CONDITIONED ON THE RECEIPT OF FINANCING OR ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 7.

The Shares are listed and traded on the NASDAQ Global Select Market (“NASDAQ”) under the trading symbol “XBIT.” On January 13, 2020, the last full trading day prior to the commencement of the Offer, the last reported sale price of the Shares was \$18.62 per Share. Shareholders are urged to obtain current market quotations for the Shares before deciding whether and at what purchase price or purchase prices to tender their Shares. See Section 8.

Our Board of Directors has delegated authority to consider the Offer to an Independent Committee of our Board of Directors, which consists solely of independent directors who do not have a material financial interest in the transactions described in this Offer to Purchase, and the Independent Committee has approved the Offer and authorized us to make the Offer. However, none of the Company, the members of our Board of Directors (including the Independent Committee), D.F. King & Co., Inc., the Information Agent for the Offer (the “Information Agent”), or American Stock Transfer & Trust Co., LLC, the Depositary for the Offer (the “Depositary”), makes any recommendation to you as to whether you should tender or refrain from tendering your Shares or as to the purchase price or purchase prices at which you may choose to tender your Shares. Neither we nor any member of our Board of Directors (including the Independent Committee), the Information Agent or the Depositary has authorized any person to make any recommendation with respect to the Offer. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender and the purchase price or purchase prices at which you will tender them. We recommend that you consult your own financial and tax advisors, and read carefully and evaluate the information in this Offer to Purchase and in the related Letter of Transmittal, including our reasons for making the Offer, before taking any action with respect to the Offer. See Section 2.

Our directors and executive officers are entitled to participate in the Offer on the same basis as all other shareholders. John Simard, a director and our Chief Executive Officer; Sushma Shivaswamy, our Chief Scientific Officer; Queena Han, our Vice President, Finance and Human Resources and Secretary; and W. Thorpe McKenzie, a member of our Board of Directors (the “Affiliate Holders”), have advised us that, although no final decision has been made, they may tender up to 6,327,060, 47,538, 70,000 and 4,557,839 Shares, respectively, that they beneficially own in the Offer. The Affiliate Holders beneficially owned an aggregate of 16,295,181 Shares as of January 13, 2020, representing approximately 38.46% of our outstanding Shares as of January 13, 2020. Assuming that the Affiliate Holders tender the 11,002,437 Shares referred to above and all such Shares are purchased in the Offer, the Affiliate Holders will beneficially own an aggregate of 5,292,744 Shares immediately following the Offer. All of our other directors have advised us that they do not intend to tender any of their Shares in the Offer, and we are not aware of the intentions of our other 5% shareholders with respect to the Offer. There can be no assurance that the persons described above will in fact tender or sell the number of shares indicated, nor can there be any assurance that other directors or other affiliates of the Company will not decide to tender or sell shares. If the Affiliate Holders properly tender Shares in the Offer, the Affiliate Holders’ tenders could influence the price at which all of the Shares accepted for payment are purchased. See Section 12.

SHAREHOLDERS SHOULD NOTE THAT THE PURCHASE PRICE RANGE (NO GREATER THAN \$33.00 PER SHARE NOR LESS THAN \$30.00 PER SHARE) REPRESENTS A SUBSTANTIAL PREMIUM OVER THE CLOSING SALE PRICE OF THE SHARES (\$18.62 PER SHARE) AS REPORTED ON THE NASDAQ GLOBAL SELECT MARKET ON JANUARY 13, 2020, THE DAY BEFORE ANNOUNCEMENT OF THE OFFER. THE MARKET PRICE OF THE SHARES FOLLOWING CONSUMMATION OF THE OFFER IS EXPECTED TO BE LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. ACCORDINGLY, ANY SHARES NOT TENDERED PURSUANT TO THE OFFER AND ANY TENDERED SHARES NOT ACCEPTED FOR PAYMENT BY REASON OF PRORATION OR OTHERWISE, ARE EXPECTED TO HAVE A MARKET PRICE FOLLOWING CONSUMMATION OF THE OFFER THAT IS LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. IF THE MARKET PRICE FOR SHARES FOLLOWING CONSUMMATION OF THE OFFER IS BELOW THE FINAL PURCHASE PRICE, AS EXPECTED, SHAREHOLDERS CAN BE ASSURED OF MAXIMIZING THE VALUE OF THEIR HOLDINGS AFTER GIVING EFFECT TO CONSUMMATION OF THE OFFER (THE SUM OF THE MARKET PRICE OF THEIR SHARES FOLLOWING THE OFFER PLUS THE AMOUNT RECEIVED IN THE OFFER) ONLY BY TENDERING 100% OF THEIR SHARES.

The equity ownership of our directors and executive officers who do not tender their Shares in the Offer will proportionally increase as a percentage of our outstanding Shares following the consummation of the Offer. Our directors and executive officers may also, in compliance with the Company’s Insider Trading Policy, Code of Business Conduct and Ethics and SEC rules, sell all or part of their Shares in open market transactions, at prices that may or may not be more favorable than the Final Purchase Price to be paid in the Offer. Our other employees, including officers who are not executive officers, are permitted to participate in the Offer on the same terms as other shareholders and may do so in their discretion, subject to the Company’s internal compliance requirements. Such employees may also sell all or part of their Shares in open market transactions, at prices that may or may not be more favorable than the Final Purchase Price to be paid in the Offer.

Shareholders should carefully consider the income tax consequences of tendering shares pursuant to the Offer. See Section 14, “Certain United States and Canadian Federal Income Tax Consequences.”

THE OFFER HAS NOT BEEN APPROVED BY THE SEC OR ANY STATE SECURITIES COMMISSION NOR HAS THE SEC OR ANY STATE SECURITIES COMMISSION PASSED UPON THE FAIRNESS OR MERITS OF THE OFFER OR UPON THE ACCURACY OF THE INFORMATION CONTAINED IN THIS OFFER TO PURCHASE AND ANY RELATED DOCUMENTS, AND ANY REPRESENTATION TO THE CONTRARY IS UNLAWFUL AND MAY BE A CRIMINAL OFFENSE.

If you have questions or need assistance, you should contact the Information Agent at its address and telephone number set forth on the back cover of this Offer to Purchase. If you require additional copies of this Offer to Purchase, the Letter of Transmittal, the Notice of Guaranteed Delivery or other related materials, you should contact the Information Agent.

The Information Agent for this offer is:

D.F. King & Co., Inc.

48 Wall Street, 22nd Floor
New York, New York 10005

Banks and Brokers

Call: (212) 269-5550

All Others Call: (866) 856-3065

Email: xbit@dfking.com

Offer to Purchase dated January 14, 2020.

IMPORTANT

If you want to tender all or part of your Shares, you must do one of the following before the Offer expires at 5:00 p.m., New York City time, on Wednesday, February 12, 2020 (unless the Offer is extended):

- if your Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, contact the nominee and request that the nominee tender your Shares for you. Beneficial owners should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadlines for participation in the Offer. Accordingly, beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such beneficial owner must take action in order to participate in the Offer;
- if you hold certificates registered in your own name, complete and sign a Letter of Transmittal according to its Instructions, and deliver the Letter of Transmittal, together with any required signature guarantees, the certificates for your Shares and any other documents required by the Letter of Transmittal, to the Depository for the Offer;
- if you are an institution participating in The Depository Trust Company, which we call the “Book-Entry Transfer Facility” in this Offer to Purchase, tender your Shares according to the procedure for book-entry transfer described in Section 3; and
- if you are a holder of vested options, you may exercise your vested options and tender any of the Shares issued upon exercise. You must exercise your options sufficiently in advance of the Expiration Date to receive your Shares in order to tender them in the Offer. An exercise of an option cannot be revoked even if Shares received upon the exercise thereof and tendered in the Offer are not purchased in the Offer for any reason.

If you want to tender your Shares, but: (a) the certificates for your Shares are not immediately available or cannot be delivered to the Depository by the Expiration Date; (b) you cannot comply with the procedure for book-entry transfer by the Expiration Date; or (c) your other required documents cannot be delivered to the Depository by the Expiration Date, you can still tender your Shares if you comply with the guaranteed delivery procedures described in Section 3.

If you wish to maximize the chance that your Shares will be purchased in the Offer, you should check the box in the section of the Letter of Transmittal captioned “Shares Tendered At Price Determined Under The Offer.” If you agree to accept the purchase price determined in the Offer, your Shares will be deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price. **You should understand that this election may lower the Final Purchase Price and could result in your Shares being purchased at the minimum price of \$30.00 per Share, a price that could be below the last reported sale price of the Shares on the NASDAQ on the Expiration Date.**

We are not making the Offer to, and will not accept any tendered Shares from, shareholders in any jurisdiction where it would be illegal to do so.

You may contact the Information Agent or your broker, dealer, commercial bank, trust company or other nominee for assistance. The contact information for the Information Agent is set forth on the back cover of this Offer to Purchase.

OUR BOARD OF DIRECTORS HAS DELEGATED AUTHORITY TO CONSIDER THE OFFER TO AN INDEPENDENT COMMITTEE OF OUR BOARD OF DIRECTORS, WHICH CONSISTS SOLELY OF INDEPENDENT DIRECTORS WHO DO NOT HAVE A MATERIAL FINANCIAL INTEREST IN THE TRANSACTIONS DESCRIBED IN THIS OFFER TO PURCHASE, AND THE INDEPENDENT COMMITTEE HAS APPROVED THE OFFER AND AUTHORIZED US TO MAKE THE OFFER. HOWEVER, NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS MADE ANY RECOMMENDATION AS TO WHETHER YOU SHOULD TENDER OR NOT TENDER YOUR SHARES IN THE OFFER. NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER OR NOT TENDER YOUR SHARES IN THE OFFER. NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS AUTHORIZED ANY PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OTHER THAN THOSE CONTAINED IN THIS OFFER TO PURCHASE OR IN THE RELATED LETTER OF TRANSMITTAL. YOU SHOULD NOT RELY ON ANY RECOMMENDATION, OR ANY SUCH REPRESENTATION OR INFORMATION, AS HAVING BEEN AUTHORIZED BY US, ANY MEMBER OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY.

SHAREHOLDERS SHOULD NOTE THAT THE PURCHASE PRICE RANGE (NO GREATER THAN \$33.00 PER SHARE NOR LESS THAN \$30.00 PER SHARE) REPRESENTS A SUBSTANTIAL PREMIUM OVER THE CLOSING SALE PRICE OF THE SHARES (\$18.62 PER SHARE) AS REPORTED ON THE NASDAQ GLOBAL SELECT MARKET ON JANUARY 13, 2020, THE DAY BEFORE ANNOUNCEMENT OF THE OFFER. THE MARKET PRICE OF THE SHARES FOLLOWING CONSUMMATION OF THE OFFER IS EXPECTED TO BE LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. ACCORDINGLY, ANY SHARES NOT TENDERED PURSUANT TO THE OFFER AND ANY TENDERED SHARES NOT ACCEPTED FOR PAYMENT BY REASON OF PRORATION OR OTHERWISE, ARE EXPECTED TO HAVE A MARKET PRICE FOLLOWING CONSUMMATION OF THE OFFER THAT IS LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. IF THE MARKET PRICE FOR SHARES FOLLOWING CONSUMMATION OF THE OFFER IS BELOW THE FINAL PURCHASE PRICE, AS EXPECTED, SHAREHOLDERS CAN BE ASSURED OF MAXIMIZING THE VALUE OF THEIR HOLDINGS AFTER GIVING EFFECT TO CONSUMMATION OF THE OFFER (THE SUM OF THE MARKET PRICE OF THEIR SHARES FOLLOWING THE OFFER PLUS THE AMOUNT RECEIVED IN THE OFFER) ONLY BY TENDERING 100% OF THEIR SHARES.

The statements made in this Offer to Purchase are made as of the date on the cover page and the statements incorporated by reference are made as of the date of the documents incorporated by reference. The delivery of this Offer to Purchase and the related Letter of Transmittal shall not under any circumstances create any implication that the information contained herein or incorporated by reference is correct as of a later date or that there has not been any change in such information or in our affairs since such dates.

INFORMATION FOR UNITED STATES SHAREHOLDERS

The enforcement by investors of civil liabilities under U.S. federal securities laws may be adversely affected by the fact that XBiotech is incorporated under the laws of British Columbia. U.S. shareholders should be aware that the acceptance of the Offer will have certain tax consequences under United States and Canadian law, including in the event the Company is determined to be a “passive foreign investment company” under U.S. federal income tax law. See Section 14.

XBiotech has filed with the SEC an Issuer Tender Offer Statement on Schedule TO with respect to the Offer, pursuant to Section 13(e)(1) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 13e-4(c)(2) promulgated thereunder. See Section 1.

U.S. shareholders should be aware that the acceptance of the Offer will have certain tax consequences under United States and Canadian law. See Section 14, “Certain United States and Canadian Federal Income Tax Consequences”. Shareholders should consult their own tax advisors with respect to their particular circumstances and tax considerations applicable to them.

CURRENCY

All dollar references in the Offer to Purchase and the documents incorporated by reference herein are in United States dollars, except where otherwise indicated.

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SUMMARY TERM SHEET

We are providing this summary term sheet for your convenience. This summary highlights certain material information in this Offer to Purchase, but it does not describe all of the details of the Offer to the same extent described elsewhere in this Offer to Purchase. To understand the Offer fully and for a more complete description of the terms of the Offer, we urge you to read carefully this entire Offer to Purchase, the Letter of Transmittal and the other documents that constitute part of the Offer. We have included references to the sections of this Offer to Purchase where you will find a more complete description of the topics in this summary.

Who is offering to purchase my Shares?

The issuer of the Shares, XBiotech Inc., a British Columbia corporation, is offering to purchase the Shares. See Section 1.

What is XBiotech offering to purchase?

We are offering to purchase up to \$420,000,000 in value of Shares. See Section 1.

What is the purpose of the Offer?

We believe that the modified Dutch auction tender offer set forth in this Offer to Purchase represents an efficient mechanism to provide our shareholders with the opportunity to sell a significant portion of their Shares to the Company at a premium over current market prices and thereby receive a return of some or all of their investment in the Company if they so elect, while also permitting them the opportunity to retain a continuing equity interest in the Company. The Offer provides liquidity for our shareholders without their need to sell shares into the market, which could have detrimental effects on the share value/market capitalization. The Offer also provides our shareholders with an efficient way to sell their Shares without incurring brokerage fees or commissions associated with open market sales.

If we complete the Offer, shareholders who do not participate in the Offer will automatically experience an increase in their relative percentage ownership interest in the Company at no additional cost to them. See Section 2.

We believe the Offer is an attractive use of proceeds from the Janssen Transaction (as defined below), but which also allows us to maintain the financial flexibility and resources we need to continue to execute our business strategy.

How many Shares will we purchase in the Offer?

Upon the terms and subject to the conditions of the Offer, we will purchase up to \$420,000,000 in value of Shares in the Offer or a lower amount depending on the number of Shares properly tendered and not properly withdrawn pursuant to the Offer. Because the Final Purchase Price will be determined after the Expiration Date, the exact number of Shares that will be purchased will not be known until after that time.

As of January 13, 2020, we had 42,365,250 issued and outstanding Shares. As of January 13, 2020, an aggregate of approximately 415,476 Shares remained available for future awards under our 2015 Equity Incentive Plan, as amended (the "2015 Plan"), further described in Section 12, and approximately 6,120,113 stock options were outstanding under the 2015 Plan and the Prior Plan (as defined below).

At the maximum Final Purchase Price of \$33.00 per Share, we could purchase 12,727,272 Shares if the Offer is fully subscribed, which would represent approximately 30.04% of our issued and outstanding Shares as of January 13, 2020. At the minimum Final Purchase Price of \$30.00 per Share, we could purchase 14,000,000 Shares if the Offer is fully subscribed, which would represent approximately 33.05% of our issued and outstanding Shares as of January 13, 2020. If, based on the Final Purchase Price, more than \$420,000,000 in value of Shares are properly tendered and not properly withdrawn, we will purchase all Shares tendered at or below the Final Purchase Price on a pro rata basis.

If any of our shareholders who:

- hold Shares in their own name as holders of record, or
- are "registered holders" as participants in DTC's system whose names appear on a security position listing,

tender their Shares in full and that tender is accepted in full, the number of our record holders would be reduced. See Section 2.

We expressly reserve the right to purchase additional Shares in the Offer, subject to applicable law. See Section 1. The Offer is not conditioned on the receipt of financing or any minimum number of Shares being tendered but is subject to certain other conditions. See Section 7. In accordance with the rules of the SEC, we may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer. See Section 1.

What will be the purchase price for the Shares and what will be the form of payment?

We are conducting the Offer through a procedure commonly called a “modified Dutch auction.” This procedure allows you to select the price, within a price range specified by us, at which you are willing to tender your Shares. The price range for the Offer is \$30.00 to \$33.00 per Share. We will select the lowest single purchase price (in increments of \$0.25), not greater than \$33.00 nor less than \$30.00 per Share, that will allow us to purchase up to \$420,000,000 in value of Shares at such price, based on the number of Shares tendered, or, if fewer Shares are properly tendered, all Shares that are properly tendered and not properly withdrawn. We will purchase all Shares at the Final Purchase Price, even if you have selected a purchase price lower than the Final Purchase Price, but we will not purchase any Shares tendered at a price above the Final Purchase Price.

If you wish to maximize the chance that we will purchase your Shares, you should check the box in the section entitled “Shares Tendered At Price Determined Under The Offer” in the section of the Letter of Transmittal captioned “Price (In Dollars) Per Share At Which Shares Are Being Tendered,” indicating that you will accept the Final Purchase Price. If you agree to accept the purchase price determined in the Offer, your Shares will be deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price. **You should understand that this election may have the effect of lowering the Final Purchase Price and could result in your Shares being purchased at the minimum price of \$30.00 per Share, a price that could be below the last reported sale price of the Shares on the NASDAQ on the Expiration Date.**

If we purchase your Shares in the Offer, we will pay you the Final Purchase Price in cash, less any applicable withholding taxes and without interest, promptly after the Expiration Date. Under no circumstances will we pay interest on the Final Purchase Price, even if there is a delay in making payment. See the Introduction, Section 1 and Section 3.

Shareholders are urged to obtain current market quotations for the Shares before deciding whether and at what price or prices to tender their Shares. See Section 8.

How will we pay for the Shares?

The maximum value of Shares purchased in the Offer will be \$420,000,000. We expect that the maximum aggregate cost of this purchase, including all fees and expenses applicable to the Offer, will be approximately \$600,000. We intend to pay for the Shares with cash proceeds received from the Asset Purchase Agreement and ancillary agreements we entered into on December 7, 2019 with Janssen Biotech, Inc. (the “Janssen Transaction”). The Offer is not subject to a financing condition. See Section 9.

In accordance with the rules of the SEC, we may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer. See Section 1.

How long do I have to tender my Shares?

You may tender your Shares until the Offer expires on the Expiration Date. The Offer will expire at 5:00 p.m., New York City time, on Wednesday, February 12, 2020, unless we extend the Offer. See Section 1. We may choose to extend the Offer at any time and for any reason.

We cannot assure you, however, that we will extend the Offer or, if we extend it, for how long. See Section 1 and Section 15. If a broker, dealer, commercial bank, trust company or other nominee holds your Shares, it may require you to meet an earlier deadline for accepting the Offer. We urge you to contact the broker, dealer, commercial bank, trust company or other nominee that holds your Shares to find out its deadline. See Section 3.

Beneficial owners holding their Shares through a broker, dealer, commercial bank, trust company or other nominee should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadlines for participation in the Offer. Accordingly, beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer.

Can the Offer be extended, amended or terminated, and if so, under what circumstances?

Yes. We can extend or amend the Offer in our sole discretion at any time, subject to applicable laws. We may, however, decide not to extend the Expiration Date for the Offer. If we extend the Expiration Date for the Offer, we cannot indicate, at this time, the length of any extension that we may provide. In any event, if we extend the Expiration Date for the Offer, we will delay the acceptance of any Shares that have been tendered. See Section 15. We can also amend or terminate the Offer under certain circumstances and subject to applicable law. See Section 7.

How will I be notified if you extend the Offer or amend the terms of the Offer?

If we extend the Offer, we will issue a press release not later than 9:00 a.m., New York City time, on the first business day after the previously scheduled Expiration Date. If we extend the Offer, you may withdraw your Shares until the Expiration Date, as extended. We will announce any amendment to the Offer by making a public announcement of the amendment. In the event that the terms of the Offer are amended, we will file an amendment to our Offer on Schedule TO-I describing the amendment. See Section 15.

Are there any conditions to the Offer?

Yes. Our obligation to accept for payment and pay for your tendered Shares depends upon a number of conditions that must be satisfied in our reasonable judgment or waived on or prior to the Expiration Date, including, among others:

- no general suspension of trading in, or general limitation on prices for, securities on any national securities exchange or in the over-the-counter markets in the United States or the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States shall have occurred;
- no decrease of more than 10% in the market price of the Shares or in the general level of market prices for equity securities in the United States or the New York Stock Exchange Composite Index, the Dow Jones Industrial Average, the NASDAQ Global Market Composite Index or Standard & Poor's Composite Index of 500 Industrial Companies measured from the close of trading on January 13, 2020, the last full trading day prior to the commencement of the Offer, shall have occurred;
- no commencement of a war, armed hostilities or other similar national or international calamity, including, but not limited to, an act of terrorism, directly or indirectly involving the United States shall have occurred on or after January 14, 2020 nor shall any material escalation of any war or armed hostilities which had commenced prior to January 14, 2020 have occurred;
- no legal action shall have been threatened, pending or taken that might, in our reasonable judgment, adversely affect the Offer;
- no limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that, in our reasonable judgment, could materially affect, the extension of credit by banks or other lending institutions in the United States;
- no changes in the general political, market, economic or financial conditions, domestically or internationally, that are reasonably likely to materially and adversely affect our business or the trading in the Shares shall have occurred;
- no entity, "group" (as that term is used in Section 13(d)(3) of the Exchange Act) or person shall have acquired or proposed to acquire beneficial ownership of more than 5% of the outstanding Shares, whether through the acquisition of stock, the formation of a group, the grant of any option or right, or otherwise (other than as and to the extent disclosed in a Schedule 13D or Schedule 13G filed with the SEC on or before January 13, 2020);
- no entity, group or person who has filed a Schedule 13D or Schedule 13G with the SEC on or before January 13, 2020, shall have acquired or proposed to acquire, whether through the acquisition of stock, the formation of a group, the grant of any option or right, or otherwise (other than by virtue of the Offer made hereby), beneficial ownership of an additional 2% or more of the outstanding Shares;
- no change in law or in the official interpretation or administration of law, or relevant position or policy of a governmental authority with respect to any laws, applicable to the Offer;
- no person shall have filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, reflecting an intent to acquire us or any of the Shares, or has made a public announcement reflecting an intent to acquire us or any of our subsidiaries or any of our or their respective assets or securities;

- no change in our business, condition (financial or otherwise), assets, income, operations or prospects shall have occurred during the Offer that we, in our reasonable judgment, has or could have a material adverse effect on us or any of our subsidiaries or affiliates or the benefits of the Offer to us;
- any approval, permit, authorization, favorable review or consent of any governmental entity required to be obtained in connection with the Offer shall have been obtained on terms satisfactory to us in our reasonable discretion; and
- we shall not have determined that as a result of the consummation of the Offer and the purchase of Shares that there will be a reasonable likelihood that the Shares either (1) will be held of record by fewer than 300 persons or (2) will be delisted from the NASDAQ or be eligible for deregistration under the Exchange Act.

If any of the conditions in Section 7 is not satisfied, we may:

- terminate the Offer and return all tendered Shares to the tendering shareholders;
- extend the Offer and, subject to withdrawal rights as set forth in Section 4, retain all of the Shares until the expiration of the Offer as so extended;
- waive the condition and, subject to any requirement to extend the period of time during which the Offer is open, purchase all of the Shares properly tendered and not properly withdrawn prior to the Expiration Date; or
- delay acceptance for payment or payment for Shares, subject to applicable law, until satisfaction or waiver of the conditions to the Offer.

For a more detailed discussion of these and other conditions to the Offer, please see Section 7.

How do I tender my Shares?

If you want to tender all or part of your Shares, you must do one of the following by 5:00 p.m., New York City time, on Wednesday, February 12, 2020, or any later time and date to which the Offer may be extended:

- if your Shares are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, contact the nominee and request that the nominee tender your Shares for you. Beneficial owners should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadlines for participation in the Offer. Accordingly, beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer;
- if you hold certificates registered in your own name, complete and sign a Letter of Transmittal according to its instructions, and deliver it, together with any required signature guarantees, the certificates for your Shares and any other documents required by the Letter of Transmittal, to the Depositary at the address appearing on the back cover page of this Offer to Purchase;
- if you are an institution participating in Book-Entry Transfer Facility, tender your Shares according to the procedure for book-entry transfer described in Section 3; and
- if you are a holder of vested options, you may exercise your vested options and tender any of the Shares issued upon exercise. You must exercise your options sufficiently in advance of the Expiration Date to receive your Shares in order to tender them in the Offer. An exercise of an option cannot be revoked even if Shares received upon the exercise thereof and tendered in the Offer are not purchased in the Offer for any reason.

If you want to tender your Shares, but: (a) the certificates for your Shares are not immediately available or cannot be delivered to the Depositary by the Expiration Date; (b) you cannot comply with the procedure for book-entry transfer by the Expiration Date; or (c) your other required documents cannot be delivered to the Depositary by the Expiration Date, you can still tender your Shares if you comply with the guaranteed delivery procedures described in Section 3.

We are not making the Offer to, and will not accept any tendered Shares from, shareholders in any jurisdiction where it would be illegal to do so. However, we may, at our discretion, take any actions necessary for us to make the Offer to shareholders in any such jurisdiction.

You may contact the Information Agent or your broker, dealer, commercial bank, trust company or other nominee for assistance. The contact information for the Information Agent is set forth on the back cover of this Offer to Purchase. See Section 3 and the Instructions to the Letter of Transmittal.

Once I have tendered Shares in the Offer, may I withdraw my tendered Shares?

Yes. You may withdraw any Shares you have tendered at any time prior to 5:00 p.m., New York City time, on day, February 12, 2020, or any later Expiration Date, if the Offer is extended. If after 5:00 p.m., New York City time, on March 12, 2020, we have not accepted for payment the Shares you have tendered to us, you may also withdraw your Shares at any time thereafter. See Section 4.

How do I withdraw Shares I previously tendered?

If you are a registered holder of shares, to properly withdraw Shares, you must deliver on a timely basis a written notice of your withdrawal to the Depositary at one of the addresses appearing on the back cover of this Offer to Purchase. Your notice of withdrawal must specify your name, the number of Shares to be withdrawn and the name of the registered holder of the Shares. Some additional requirements apply if the certificates for Shares to be withdrawn have been delivered to the Depositary or if your Shares have been tendered under the procedure for book-entry transfer set forth in Section 3.

If you hold Shares through a broker, dealer, commercial bank, trust company or similar institution, you should consult that institution on the procedures you must comply with and the time by which such procedures must be completed in order for that institution to provide a written notice of withdrawal. See Section 4.

In what order will you purchase the tendered Shares?

We will purchase Shares on the following basis:

- *first*, we will purchase all Odd Lots (as defined in Section 1) of less than 100 Shares at the Final Purchase Price from shareholders who properly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holder (as defined in Section 1) will not qualify for this preference);
- *second*, after purchasing all the Odd Lots that were properly tendered at or below the Final Purchase Price, subject to the conditional tender provisions described in Section 6 (whereby a holder may specify a minimum number of such holder's Shares that must be purchased if any such Shares are purchased), we will purchase all Shares properly tendered at or below the Final Purchase Price on a pro rata basis with appropriate adjustment to avoid purchases of fractional Shares; and
- *third*, only if necessary to permit us to purchase \$420,000,000 in value of Shares (or such greater amount as we may elect to pay, subject to applicable law), we will purchase Shares conditionally tendered (for which the condition was not initially satisfied) at or below the Final Purchase Price, by random lot, to the extent feasible. To be eligible for purchase by random lot, shareholders whose Shares are conditionally tendered must have tendered all of their Shares.

Therefore, we may not purchase all of the Shares that you tender even if you tender them at or below the Final Purchase Price. See Section 1 and Section 6.

If I own fewer than 100 Shares and I tender all of my Shares, will I be subject to proration?

If you own, beneficially or of record, fewer than 100 Shares in the aggregate, you properly tender all of these Shares at or below the Final Purchase Price and do not properly withdraw them before the Expiration Date, and you complete the section entitled "Odd Lots" in the Letter of Transmittal (if you are a registered holder) and, if applicable, in the Notice of Guaranteed Delivery, we will purchase all of your Shares without subjecting them to the proration procedure. See Section 1.

Has the Company or its Board of Directors adopted a position on the Offer?

Our Board of Directors has delegated authority to consider the Offer to an Independent Committee of our Board of Directors, which consists solely of independent directors who do not have a material financial interest in the transactions described in this Offer to Purchase, and the Independent Committee has approved the Offer and authorized us to make the Offer. However, none of the Company (including the Independent Committee), the members of our Board of Directors, the Depositary or the Information Agent makes any recommendation to you as to whether you should tender or refrain from tendering your Shares or as to the purchase price or purchase prices at which you may choose to tender your Shares. We cannot predict how our stock will trade after the Expiration Date, and it is possible that our stock price will trade above or below the Final Purchase Price after the Expiration Date. You must make your own decision as to whether to tender your Shares and, if so, how many Shares to tender and the purchase price or purchase prices at which you will tender them. We recommend that you read carefully the information in this Offer to Purchase and in the related Letter of Transmittal, including our reasons for making the Offer, before taking any action with respect to the Offer. See Section 2. You should discuss whether to tender your Shares with your broker and other financial and tax advisors.

Shareholders should note that the purchase price range (no greater than \$33.00 per Share nor less than \$30.00 per Share) represents a substantial premium over the closing sale price of the Shares (\$18.62 per Share) as reported on the NASDAQ Global Select Market on January 13, 2020, the day before announcement of the Offer. The market price of the Shares following consummation of the Offer is expected to be lower than the Final Purchase Price and may be lower than the market price of the Shares on the date before announcement of the Offer. Accordingly, any Shares not tendered pursuant to the Offer and any tendered Shares not accepted for payment by reason of proration or otherwise, are expected to have a market price following consummation of the Offer that is lower than the Final Purchase Price and may be lower than the market price of the Shares on the date before announcement of the Offer. If the market price for Shares following consummation of the Offer is below the Final Purchase Price, as expected, shareholders can be assured of maximizing the value of their holdings after giving effect to consummation of the Offer (the sum of the market price of their Shares following the Offer plus the amount received in the Offer) only by tendering 100% of their Shares.

Will the Company's directors and executive officers tender Shares in the Offer?

Our directors and executive officers are entitled to participate in the Offer on the same basis as all other shareholders. The Affiliate Holders, who consist of John Simard, a director and our Chief Executive Officer; Sushma Shivaswamy, our Chief Scientific Officer; Queena Han, our Vice President, Finance and Human Resources and Secretary; and W. Thorpe McKenzie, a member of our Board of Directors, have advised us that, although no final decision has been made, they may tender up to 6,327,060, 47,538, 70,000 and 4,557,839 Shares, respectively, that they beneficially own in the Offer. The Affiliate Holders beneficially owned an aggregate of 16,295,181 Shares as of January 13, 2020, representing approximately 38.46% of our outstanding Shares as of January 13, 2020 (for beneficial ownership disclaimed by the Affiliate Holders, see Section 12). Assuming that the Affiliate Holders tender the 11,002,437 Shares referred to above and all such Shares are purchased in the Offer, the Affiliate Holders will beneficially own an aggregate of 5,292,744 Shares immediately following the Offer. All of our other directors have advised us that they do not intend to tender any of their Shares in the Offer, and we are not aware of the intentions of other our 5% shareholders with respect to the Offer. There can be no assurance that the persons described above will in fact tender or sell the number of shares indicated, nor can there be any assurance that other directors or other affiliates of the Company will not decide to tender or sell shares. If the Affiliate Holders properly tender Shares in the Offer, the Affiliate Holders' tenders could influence the price at which all of the Shares accepted for payment are purchased. It is anticipated that as a result of the expected high level of participation and the resulting proration, the proportional beneficial ownership of the Company will not change significantly as a result of the Offer.

Our directors, executive officers and affiliates (including the Affiliate Holders) may, subject to applicable law and applicable policies of the Company, sell their Shares from time to time in open-market and/or other transactions at prices that may be more or less favorable than the purchase price to be paid to our shareholders pursuant to the Offer. If no such transactions by our directors, executive officers and affiliates occur, and if they do not tender any of their Shares in the Offer, the beneficial ownership of our directors, executive officers and affiliates will increase as a percentage of our outstanding Shares following the consummation of the Offer, except for the Affiliate Holders, whose relative beneficial ownership may decrease if they participate in the Offer. See Section 12.

If I decide not to tender, how will the Offer affect my Shares?

If we complete the Offer, shareholders who decide not to tender will own a greater percentage interest in the outstanding Shares following the consummation of the Offer. See Section 2.

If the Offer is completed, it may also present some potential risks and disadvantages to us and our continuing shareholders (in addition to the uncertainties regarding future Share trading prices discussed above), including the following:

- as a result of the Offer, our liquidity will be reduced by the cash paid out;
- the Offer will reduce our "public float" (the number of Shares owned by non-affiliate shareholders and available for trading in the securities markets). There can be no assurance that this reduction in our public float will not result in lower prices for our Shares or reduced liquidity in the trading market for our Shares following completion of the Offer;
- shareholders with significant holdings of Shares that do not tender into the Offer in circumstances where other shareholders do participate in the Offer will see their proportionate holding in the Company increased, with a corresponding increase in the voting power of the Shares held by such shareholders. Such holders of significant holdings of Shares could exercise their voting rights in a manner that is not aligned with the interests of other shareholders. In addition, a decision to sell the Shares by such a significant shareholder could have a materially greater adverse effect on the price for Shares (due to greater proportionate supply) following the completion of the Offer.

Shareholders may be able to sell non-tendered Shares in the future, on the NASDAQ or otherwise, at a price higher or lower than the Final Purchase Price. We can give no assurance, however, as to the price at which a shareholder may be able to sell such Shares in the future.

What is the accounting treatment of the Offer?

The accounting for the purchase of Shares pursuant to the Offer will result in a reduction in shareholders' equity, which based on pro forma calculations for the quarterly period ended December 31, 2019, would change from approximately \$738 million to approximately \$318 million. See Section 5.

Following the Offer, will you continue as a public company?

Yes. We believe that the Shares will continue to be authorized for quotation on the NASDAQ and that we will continue to be subject to the periodic reporting requirements of the Exchange Act. See Section 2.

When and how will you pay me for the Shares I tender?

We will pay the Final Purchase Price to the seller, in cash, less applicable withholding taxes and without interest, for the Shares we purchase in the Offer promptly after the Expiration Date. We will announce the preliminary results of the Offer, including price and preliminary information about any expected proration, on the business day following the Expiration Date. We do not expect, however, to announce the final results of any proration or the Final Purchase Price and begin paying for tendered Shares until after the Expiration Date. We will pay for the Shares accepted for purchase by depositing the aggregate purchase price with the Depositary, promptly after the Expiration Date. The Depositary will act as your agent and will transmit to you the payment for all of your Shares accepted for payment. See Section 1 and Section 5.

If I am a holder of vested stock options, how do I participate in the Offer?

We are not offering to purchase any outstanding stock options as part of the Offer and any tenders of stock options will not be accepted. If you are a holder of vested options, you may exercise your vested options and tender any Shares issued upon such exercise. You must exercise your options sufficiently in advance of the Expiration Date to receive your Shares in order to tender. An exercise of an option cannot be revoked even if Shares received upon the exercise thereof and tendered in the Offer are not purchased in the Offer for any reason. See Section 3.

What is the recent market price of my Shares?

On January 13, 2020, the last full trading day before the commencement of the Offer, the last reported sale price of the Shares on the NASDAQ was \$18.62 per Share. You are urged to obtain current market quotations for the Shares before deciding whether and at what purchase price or purchase prices to tender your Shares. See Section 8.

Will I have to pay brokerage commissions if I tender my Shares?

If you are a registered shareholder and you tender your Shares directly to the Depositary, you will not incur any brokerage commissions. If you hold Shares through a broker, dealer, commercial bank, trust company or other nominee, we urge you to consult your broker, dealer, commercial bank, trust company or other nominee to determine whether any transaction costs are applicable. See the Introduction and Section 3.

Will I have to pay stock transfer tax if I tender my Shares?

No, British Columbia law does not impose any stock transfer tax.

I am a United States shareholder. What are the United States federal income tax consequences if I tender my Shares?

Generally, if you are a U.S. Holder (as defined in Section 14), your receipt of cash from us in exchange for the Shares you tender will be a taxable transaction for United States federal income tax purposes. The cash you receive for your tendered Shares will generally be treated for United States federal income tax purposes as consideration received either as a sale or exchange of the Shares or as a distribution in respect of the Shares, depending on your circumstances. Because we have been classified as a "passive foreign investment" company, or "PFIC", for U.S. federal income tax purposes, any gain or dividend income recognized may be subject to special rules. See Section 14 for a more detailed discussion of the tax treatment of the Offer. **We urge you to consult your own tax advisor as to the particular tax consequences to you of the Offer, including the applicability of any state, local, or non-U.S. tax laws.**

I am a United States shareholder. What are the Canadian income tax consequences if I tender my Shares?

Generally, holders of Shares who are non-residents of Canada for Canadian income tax purposes will be deemed to receive a dividend in an amount equal to the excess, if any, of the amount paid by the Company for the Shares over the paid-up capital of such Shares. Any such deemed dividend will generally be subject to Canadian non-resident withholding tax at a rate of 25% unless the recipient is eligible for a reduced rate of withholding tax pursuant to the terms of an applicable income tax treaty. In order to benefit from a treaty-reduced withholding tax rate, holders of Shares who are non-residents of Canada will need to comply with the certification process set out in the Letter of Transmittal. We urge you to consult your own tax advisor as to the particular tax consequences to you of the Offer, including the applicability of any Canadian or other tax laws. See Section 14.

Who should I contact with questions about the Offer?

The Information Agent can help answer your questions. The Information Agent is D.F. King & Co., Inc. Their contact information is set forth below.

D.F. King & Co., Inc.

48 Wall Street, 22nd Floor
New York, New York 10005
Banks and Brokers
Call: (212) 269-5550
All Others Call: (866) 856-3065
Email: xbit@dfking.com

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Offer to Purchase and the information incorporated or deemed to be incorporated herein by reference contains forward-looking statements within the meaning of the Exchange Act and the Securities Act of 1933, as amended (the “Securities Act”). 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 in this Offer to Purchase and the information incorporated or deemed to be incorporated herein by reference contain these identifying words. Forward-looking statements are subject to inherent risks and uncertainties in predicting future results and conditions, and actual results may differ materially from those referred to in the forward-looking statements for various reasons, including the factors described under “Risk Factors” in this Offer to Purchase, and in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the SEC on March 14, 2019, as amended by Amendment No. 1 filed with the SEC on March 15, 2019, and our Quarterly Report on Form 10-Q for the quarter ended September 30, 2019, which are incorporated herein by reference. The following factors, among others, could cause our actual results to differ materially from those described in the forward-looking statements:

- our ability to complete the Offer;
- our ability to recognize all of the anticipated benefits from the Janssen Transaction;
- the initiation, timing, cost, progress and success of our research and development programs, preclinical studies and clinical trials for our product candidates;;
- our ability to identify and advance next generation anti-IL-1a product candidates into clinical trials;
- our ability to advance product candidates into, and successfully complete, clinical trials;
- our ability to achieve profitability;
- our ability to obtain further funding for our operations, including research funding;
- our ability to identify additional new products using our True Human™ antibody discovery platform;
- our ability to implement our business model and strategic plans;
- our ability to continue to manufacture;
- our ability to protect our intellectual property and operate our business without infringing upon the intellectual property rights of others;
- our ability to meet expectations regarding federal, state and foreign regulatory requirements;
- uncertainty regarding 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 antibody and future products, if any;
- 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 four to five years;
- 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, projected expenditures and anticipated revenues;
- 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.

Except as required by law, we undertake no obligation to update any forward-looking statements in order to reflect any event or circumstance that may arise after the date of this Offer to Purchase. However, readers should carefully review the reports and documents we file or furnish from time to time with the SEC, particularly our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. For information about how to obtain a copy of these reports or other documents that we file with the SEC, see Section 11 in this Offer to Purchase.

INTRODUCTION

To the holders of our Shares:

We invite our shareholders to tender up to \$420,000,000 in value of Shares for purchase by us at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions described in this Offer to Purchase and in the related Letter of Transmittal, which together, as they may be amended or supplemented from time- to time, constitute the "Offer."

Upon the terms and subject to the conditions of the Offer, we will determine a single per Share price that we will pay for Shares properly tendered and not properly withdrawn from the Offer, taking into account the total number of Shares tendered and the prices specified, or deemed specified, by tendering shareholders. We will select the lowest single purchase price, not greater than \$33.00 nor less than \$30.00 per Share, that will allow us to purchase \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn. We refer to the price we will select as the "Final Purchase Price." We will acquire Shares in the Offer at the Final Purchase Price, on the terms and subject to the conditions of the Offer, including proration provisions.

We will only purchase Shares properly tendered at prices at or below the Final Purchase Price and not properly withdrawn. We may not purchase all of the Shares tendered at or below the Final Purchase Price because of proration (because Shares having an aggregate value greater than the value we seek are properly tendered), "Odd Lot" priority and conditional tender provisions described in this Offer to Purchase. Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price, Shares having an aggregate value of less than or equal to \$420,000,000 are properly tendered and not properly withdrawn, we will buy all Shares properly tendered and not properly withdrawn. Shares not purchased in the Offer, including Shares tendered at prices in excess of the Final Purchase Price and Shares not purchased because of proration or conditional tender, will be returned to the tendering shareholders promptly after the Expiration Date. See Section 1.

We expressly reserve the right, in our sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. We may increase the value of Shares sought in the Offer to an amount greater than \$420,000,000, subject to applicable law. See Section 1.

If you are a holder of vested options, you may exercise your vested options and tender any of the Shares issued upon exercise. You must exercise your options sufficiently in advance of the Expiration Date to receive your Shares in order to tender. An exercise of an option cannot be revoked even if Shares received upon the exercise thereof and tendered in the Offer are not purchased in the Offer for any reason.

THE OFFER IS NOT CONDITIONED ON THE RECEIPT OF FINANCING OR ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 7.

OUR BOARD OF DIRECTORS HAS DELEGATED AUTHORITY TO CONSIDER THE OFFER TO AN INDEPENDENT COMMITTEE OF OUR BOARD OF DIRECTORS, WHICH CONSISTS SOLELY OF INDEPENDENT DIRECTORS WHO DO NOT HAVE A MATERIAL FINANCIAL INTEREST IN THE TRANSACTIONS DESCRIBED IN THIS OFFER TO PURCHASE, AND THE INDEPENDENT COMMITTEE HAS APPROVED THE OFFER AND AUTHORIZED US TO MAKE THE OFFER. HOWEVER, NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY, MAKES ANY RECOMMENDATION TO YOU AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING YOUR SHARES OR AS TO THE PURCHASE PRICE OR PURCHASE PRICES AT WHICH YOU MAY CHOOSE TO TENDER YOUR SHARES. NEITHER WE NOR ANY MEMBER OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION WITH RESPECT TO THE OFFER. YOU MUST MAKE YOUR OWN DECISION AS TO WHETHER TO TENDER YOUR SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND THE PURCHASE PRICE OR PURCHASE PRICES AT WHICH YOU WILL TENDER THEM. IN DOING SO, YOU SHOULD CONSULT YOUR OWN FINANCIAL AND TAX ADVISORS, AND READ CAREFULLY AND EVALUATE THE INFORMATION IN THIS OFFER TO PURCHASE AND IN THE RELATED LETTER OF TRANSMITTAL, INCLUDING OUR REASONS FOR MAKING THE OFFER.

SHAREHOLDERS SHOULD NOTE THAT THE PURCHASE PRICE RANGE (NO GREATER THAN \$33.00 PER SHARE NOR LESS THAN \$30.00 PER SHARE) REPRESENTS A SUBSTANTIAL PREMIUM OVER THE CLOSING SALE PRICE OF THE SHARES (\$18.62 PER SHARE) AS REPORTED ON THE NASDAQ GLOBAL SELECT MARKET ON JANUARY 13, 2020, THE DAY BEFORE ANNOUNCEMENT OF THE OFFER. THE MARKET PRICE OF THE SHARES FOLLOWING CONSUMMATION OF THE OFFER IS EXPECTED TO BE LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. ACCORDINGLY, ANY SHARES NOT TENDERED PURSUANT TO THE OFFER AND ANY TENDERED SHARES NOT ACCEPTED FOR PAYMENT BY REASON OF PRORATION OR OTHERWISE, ARE EXPECTED TO HAVE A MARKET PRICE FOLLOWING CONSUMMATION OF THE OFFER THAT IS LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. IF THE MARKET PRICE FOR SHARES FOLLOWING CONSUMMATION OF THE OFFER IS BELOW THE FINAL PURCHASE PRICE, AS EXPECTED, SHAREHOLDERS CAN BE ASSURED OF MAXIMIZING THE VALUE OF THEIR HOLDINGS AFTER GIVING EFFECT TO CONSUMMATION OF THE OFFER (THE SUM OF THE MARKET PRICE OF THEIR SHARES FOLLOWING THE OFFER PLUS THE AMOUNT RECEIVED IN THE OFFER) ONLY BY TENDERING 100% OF THEIR SHARES.

We will pay all reasonable out-of-pocket fees and expenses incurred in connection with the Offer by the Information Agent and the Depositary. See Section 16.

As of January 13, 2020, we had 42,365,250 issued and outstanding Shares. As of January 13, 2020, an aggregate of approximately 415,476 Shares remained available for future awards under the 2015 Plan, further described in Section 12, and approximately 6,120,113 stock options were outstanding under the 2015 Plan and the Prior Plan (as defined below).

At the maximum Final Purchase Price of \$33.00 per Share, we could purchase 12,727,272 Shares if the Offer is fully subscribed, which would represent approximately 30.04% of our issued and outstanding Shares as of January 13, 2020. At the minimum Final Purchase Price of \$30.00 per Share, we could purchase 14,000,000 Shares if the Offer is fully subscribed, which would represent approximately 33.05% of our issued and outstanding Shares as of January 13, 2020. The Shares are listed and traded on the NASDAQ Global Select Market under the symbol "XBIT." On January 13, 2020, the last full trading day prior to the commencement of the Offer, the last reported sale price of the Shares was \$18.62 per Share. Shareholders are urged to obtain current market quotations for the Shares before deciding whether and at what purchase price or purchase prices to tender their Shares. See Section 8 and Section 12.

Our principal executive offices are located at 5217 Winnebago Lane, Austin, Texas 78744 and our phone number is (512) 386-2900.

THE OFFER

1. Number of Shares; Proration.

Upon the terms and subject to the conditions of the Offer, we will purchase up to \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn in accordance with Section 4 before the Expiration Date at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest (such purchase price, as finally determined by us in accordance with the terms of the Offer, the “Final Purchase Price”). Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price, Shares having an aggregate value of less than or equal to \$420,000,000 are properly tendered and not properly withdrawn, we will buy all Shares properly tendered and not properly withdrawn.

The term “Expiration Date” means 5:00 p.m., New York City time, on Wednesday, February 12, 2020, unless and until we, in our sole discretion, shall have extended the period of time during which the Offer will remain open, in which event the term “Expiration Date” shall refer to the latest time and date at which the Offer, as so extended by us, shall expire. See Section 15 for a description of our right to extend, delay, terminate or amend the Offer.

In accordance with Instruction 5 of the Letter of Transmittal, shareholders desiring to tender Shares must either (1) specify that they are willing to sell their Shares to us at the Final Purchase Price (which could result in the tendering shareholder receiving a purchase price per Share as low as \$30.00) or (2) specify the price or prices, not greater than \$33.00 nor less than \$30.00 per Share, at which they are willing to sell their Shares to us under the Offer. Prices may be specified in multiples of \$0.25. Promptly following the Expiration Date, we will determine the Final Purchase Price that we will pay for Shares properly tendered and not properly withdrawn, taking into account the number of Shares tendered and the prices specified, or deemed specified, by tendering shareholders. We will select the single lowest purchase price, not greater than \$33.00 nor less than \$30.00 per Share, that will allow us to purchase \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn. We will pay the Final Purchase Price for all Shares purchased in the Offer (less any applicable withholding taxes and without interest), but we will not purchase any Shares tendered at prices in excess of the Final Purchase Price.

If you specify that you are willing to sell your Shares to us at the Final Purchase Price (which could result in you receiving a purchase price per Share as low as \$30.00), your Shares will be deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price. You should understand that this election may have the effect of lowering the Final Purchase Price and could result in your Shares being purchased at the minimum price of \$30.00 per Share, a price that could be below the last reported sale price of the Shares on the NASDAQ on the Expiration Date.

We will announce the preliminary results of the Offer, including price and preliminary information about any expected proration, on the business day following the Expiration Date.

We will announce the Final Purchase Price by press release as promptly as practicable after such determination has been made. We do not expect, however, to announce the final results of any proration or the Final Purchase Price and begin paying for tendered Shares until after the Expiration Date. We will only purchase Shares properly tendered at prices at or below the Final Purchase Price and not properly withdrawn. We may not purchase all of the Shares tendered at or below the Final Purchase Price if, based on the Final Purchase Price, Shares representing more than \$420,000,000 (or such greater number of Shares as we may choose to purchase without extending the Offer) are properly tendered and not properly withdrawn, because of proration, the “Odd Lot” priority and conditional tender provisions of the Offer. We will return all Shares tendered and not purchased pursuant to the Offer, including Shares tendered at prices in excess of the Final Purchase Price and Shares not purchased because of proration or conditional tenders, to the tendering shareholders at our expense, promptly following the Expiration Date.

By following the Instructions to the Letter of Transmittal, shareholders can specify different minimum prices for specified portions of their Shares, but a separate Letter of Transmittal must be submitted for Shares tendered at each price. Shareholders can also specify the order in which the specified portions will be purchased in the event that, as a result of proration or otherwise, some but not all of the tendered Shares are purchased pursuant to the Offer. In the event a shareholder does not designate such order and fewer than all Shares are purchased due to proration, the Depository will select the order of Shares purchased.

We expressly reserve the right, in our sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. We may increase the value of Shares sought in the Offer to an amount greater than \$420,000,000, subject to applicable law. In accordance with the rules of the SEC, we may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer. However, if we seek to purchase an additional number of Shares in excess of 2% of the outstanding Shares, we will amend and extend the Offer to the extent required by applicable law. See Section 15.

In the event of an over-subscription of the Offer as described below, Shares tendered at or below the Final Purchase Price prior to the Expiration Date will be subject to proration, except for Odd Lots as described below. The proration period and withdrawal rights also expire on the Expiration Date.

THE OFFER IS NOT CONDITIONED ON THE RECEIPT OF FINANCING OR ANY MINIMUM NUMBER OF SHARES BEING TENDERED. THE OFFER IS, HOWEVER, SUBJECT TO CERTAIN OTHER CONDITIONS. SEE SECTION 7.

Priority of Purchases. On the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price, Shares having an aggregate value in excess of \$420,000,000, (or such greater amount as we may elect to pay, subject to applicable law), have been properly tendered at prices at or below the Final Purchase Price and not properly withdrawn before the Expiration Date, we will purchase properly tendered Shares on the basis set forth below:

- *first*, we will purchase all Odd Lots of less than 100 Shares at the Final Purchase Price from shareholders who properly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holders will not qualify for this preference);
- *second*, after purchasing all the Odd Lots that were properly tendered at or below the Final Purchase Price, subject to the conditional tender provisions described in Section 6, we will purchase all Shares properly tendered at or below the Final Purchase Price on a pro rata basis with appropriate adjustment to avoid purchases of fractional Shares; and
- *third*, only if necessary to permit us to purchase \$420,000,000, in value of Shares (or such greater amount as we may elect to pay, subject to applicable law), we will purchase Shares conditionally tendered (as described in Section 6) (for which the condition was not initially satisfied) at or below the Final Purchase Price, by random lot, to the extent feasible. To be eligible for purchase by random lot, shareholders whose Shares are conditionally tendered must have tendered all of their Shares.

As a result of the foregoing priorities applicable to the purchase of Shares tendered, it is possible that fewer than all Shares tendered by a shareholder will be purchased or that, if a tender is conditioned upon the purchase of a specified number of Shares, none of those Shares will be purchased even though those Shares were tendered at prices at or below the Final Purchase Price.

As we noted above, we may elect to purchase more than \$420,000,000, in value of Shares in the Offer, subject to applicable law. If we do so, the preceding provisions will apply to the greater value.

Odd Lots. The term “Odd Lots” means all Shares tendered by any person (an “Odd Lot Holder”) who owned beneficially or of record an aggregate of fewer than 100 Shares and so certifies in the appropriate place on the Letter of Transmittal (if that person is a registered holder) and, if applicable, the Notice of Guaranteed Delivery. This preference is not available to partial tenders or beneficial or record holders of 100 or more Shares, even if such holders have separate accounts or certificates representing fewer than 100 Shares. Odd Lots will be accepted for payment at the same time as other tendered Shares.

Proration. If proration of tendered Shares is required, we will determine the proration factor promptly following the Expiration Date. Proration for each shareholder tendering Shares (excluding Odd Lot Holders) will be based on the ratio of the number of Shares properly tendered and not properly withdrawn by such shareholder to the total number of Shares properly tendered and not properly withdrawn by all shareholders (excluding Odd Lot Holders) at or below the Final Purchase Price, subject to the provisions governing conditional tenders described in Section 6 and adjustment to avoid the purchase of fractional Shares. Because of the time required to accurately determine the number of Shares properly tendered and not withdrawn, the conditional tender procedure described in Section 6 and the guaranteed delivery procedure described in Section 3, we expect that we will not be able to announce the final proration factor or commence payment for any Shares purchased pursuant to the Offer until after the Expiration Date. The preliminary results of any proration will be announced by press release as promptly as practicable after the Expiration Date. After the Expiration Date, shareholders may obtain preliminary proration information from the Information Agent and also may be able to obtain such information from their brokers.

As described in Section 14, the number of Shares that we will purchase from a shareholder pursuant to the Offer may affect the United States federal income tax consequences to the shareholder of the purchase and, therefore, may be relevant to a shareholder’s decision whether to tender Shares. The Letter of Transmittal affords each shareholder who tenders Shares registered in such shareholder’s name directly to the Depository the opportunity to designate the order of priority in which Shares tendered are to be purchased in the event of proration as well as the ability to condition such tender on a minimum number of Shares being purchased.

This Offer to Purchase and the related Letter of Transmittal will be mailed to record holders of the Shares and will be furnished to brokers, dealers, commercial banks, trust companies and other nominees and similar persons whose names, or the names of whose nominees, appear on our shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares.

2. **Background and Purpose of the Offer; Certain Effects of the Offer.**

Background and Purpose of the Offer. The purpose of the Offer is to allow all shareholders an opportunity to sell a portion of their investment in XBiotech at a premium over recent stock prices and thereby receive a return of some or all of their investment in the Company if they so elect, while also permitting them the opportunity to retain a continuing equity interest in the Company.

The Offer also provides our shareholders with an efficient way to sell their Shares without incurring brokerage fees or commissions associated with open market sales, subject to the terms and conditions of the Offer, including proration (shareholders who hold Shares through nominees are urged to consult their nominees to determine whether transaction costs may apply if shareholders tender Shares through the nominees and not directly to the Depository).

Conversely, the Offer affords shareholders the option not to participate and, thereby, to increase their relative percentage ownership interest in the Company and our future operations at no additional cost to them, if the Offer is completed. There can be no assurance that the Company will not issue additional shares and other equity securities in the future. Non-tendering shareholders will own a greater interest in a company with greater pro forma earnings per share than would otherwise have been the case, although XBiotech cannot assure you that it will achieve that earnings per share growth.

Furthermore, Odd Lot Holders who hold Shares registered in their names and tender their Shares directly to the Depository and whose Shares are purchased in the Offer will avoid not only the payment of brokerage commissions but also any applicable Odd Lot discounts that might be payable on sales of their Shares in transactions on the NASDAQ.

The decision to pursue a tender offer came after review by the Board of Directors (the "Board") of the Company's strategic investment alternatives following the signing of the Janssen Transaction and an assessment by management of our cash requirements and its recommendation that the Board consider the possibility of returning excess cash to shareholders. See Section 9. The Board subsequently requested that an independent committee of the Board (the "Independent Committee") advise the Board as to the most appropriate means for realizing its goals of returning value to shareholders at a premium and enhancing long-term value to shareholders.

After careful consideration, the Independent Committee concluded that a significant share repurchase would be the most appropriate use for excess cash from the Janssen Transaction, taking into account the interests of all the stakeholders of the Company. The Committee concluded that such a repurchase would demonstrate to the Company's shareholders the Company's confidence in its business, and would be the optimum way to distribute cash to those shareholders who wanted to receive cash for a portion of their Shares. The Independent Committee considered paying a special dividend on the Shares, a fixed price tender offer, and entering the market to repurchase the Company's Shares as a means to return cash to shareholders. The Independent Committee, following its review of the alternatives, determined that a self-tender offer would be a more effective means for returning cash to the Company's shareholders for a number of reasons, including that a tender structure could in the future result in an accretion in earnings per share for the remaining outstanding Shares after the tender relative to a special dividend. Furthermore, relative to a special dividend, the tender structure would allow any common shareholder who chose not to tender, but to retain his or her entire holding of Shares, and own a greater interest in the Company going forward. Therefore, the Independent Committee approved a self-tender offer for up to \$420,000,000 in value of Shares at a cash purchase price not greater than \$33.00 per Share or less than \$30.00 per Share through the use of excess cash on hand.

In determining its recommendation as to the number of Shares to purchase in the Offer and the appropriate price range per share, the Independent Committee considered a broad range of factors. These include, but are not limited to, the following:

- the amount of available cash and anticipated future cash needs for future operations, including additional drug discovery efforts and other research & development activities and other general corporate purposes following completion of the Offer;
- attracting and retaining requisite scientific expertise and investor interest;
- the excess cash held by the Company above its projected requirements for the next several years;
- the potentially adverse tax consequences of retaining inactive cash resources above the Company's projected requirements;
- the extent of anticipated participation in the Offer by significant shareholders;

- trading volume in the Company's Shares prior to the Offer and trading liquidity of the Company's Shares following the Offer;
- recent trading prices of the Company's Shares, which ranged from a low of \$4.78 to a high of \$22.95 for the period from January 1, 2019, through January 13, 2020;
- recent reports and analyses of a brokerage analyst concerning the price target for the Shares;
- historical trading prices of the Company's Shares over a twelve month period, which ranged from a low of \$4.78 to a high of \$11.74 for the first quarter of the fiscal year ended December 31, 2019, from a low of \$6.76 to a high of \$11.60 for the second quarter of the fiscal year ending December 31, 2019, from a low of \$6.84 to a high of \$10.70 for the third quarter for the fiscal year ending December 31, 2019; and from a low of \$8.18 to a high of \$22.95 for the fourth quarter for the fiscal year ending December 31, 2019;
- recent trading activity;
- the Company's desire for future financial flexibility; and
- the attractiveness of the Offer to XBiotech's shareholders.

The Independent Committee also considered certain risks and uncertainties. These include, but are not limited to the following:

- The accounting for the purchase of Shares pursuant to the Offer will result in a reduction in shareholders' equity, which based on pro forma calculations for the quarterly period ended December 31, 2019, would change from approximately \$738 million to approximately \$318 million;
- the possibility of lower stock prices and reduced liquidity in the trading of the Company's Shares following completion of the Offer due to the reduction of our "public float" (the number of Shares owned by nonaffiliate shareholders and available for trading in the securities markets) or otherwise;
- the reduction in our liquidity due to the cash paid out in the Offer;
- the possibility that shareholders that do not tender into the Offer and thereby increase their proportionate holdings in the Company significantly may exercise their voting rights in a manner that is not aligned with the interests of other shareholders, or may have a materially greater adverse effect on the price for Shares if they decide to sell Shares following the completion of the Offer; and
- potential unanticipated cash needs.

Following its review, the Independent Committee concluded that the interests of the Company and its shareholders, employees and other stakeholders are best served at this time by balancing the goals of returning excess capital to shareholders while preserving the Company's ability to make the necessary investments in research and development, facilities, technology and people and develop its drug discovery, manufacturing and commercial capabilities that have the potential to expand its business and increase its market value. Accordingly, the Independent Committee approved the Offer on the terms reflected in this Offer to Purchase. Before the opening of business on January 14, 2020, the Company announced its intention to commence the Offer.

While the Company believes that the Offer is consistent with its corporate goal of increasing long-term shareholder value, actual experience may differ significantly from its expectations. Future events, such as the condition of the healthcare and pharmaceutical markets, regulatory developments, adverse research and development results, adverse effects on operations, or levels of capital and other expenditures, could have the effect of reducing the Company's ability to meet its product development and business objectives, which could adversely affect revenue expectations, available cash or ability to maintain operations as anticipated. In addition, the Company is subject to certain risks described in its annual report on Form 10-K for the period ended December 31, 2018 filed with the SEC on March 14, 2019, as amended on March 15, 2019, and in its other reports filed with the SEC, which XBiotech encourages you to read.

Shareholders may be able to sell Shares which are not tendered, or tendered and not purchased in the Offer, in the future on the NASDAQ or otherwise, at a net price higher than the purchase price in the Offer. XBiotech can give no assurance, however, as to the price at which a shareholder may be able to sell his or her Shares in the future, which may be higher or lower than the purchase price paid by the Company in the Offer.

Shares that XBiotech acquires in the Offer will immediately be canceled and restored to the status of authorized but unissued Shares and will be available for the Company to issue without further shareholder action (except as required by applicable law or stock exchange rules) for all purposes including, but not limited to, acquiring other businesses, raising additional capital and satisfying obligations under existing or future employee compensation plans. XBiotech has no current plans for the reissuance of Shares repurchased pursuant to the Offer, except pursuant to the 2015 Plan.

We believe that the Offer is an appropriate and prudent use of our financial resources and an efficient way to provide for shareholder return. Following the completion or termination of the Offer, we expressly reserve the absolute right, in our sole discretion from time to time in the future, to purchase Shares, whether or not any Shares are purchased pursuant to the Offer, through open market purchases, privately negotiated transactions, accelerated stock repurchases, tender offers, exchange offers or otherwise, upon the same terms or on terms that are more or less favorable to the selling shareholders in those transactions than the terms of the Offer. However, Rule 13e-4 under the Exchange Act generally prohibits us and our affiliates from purchasing any Shares, other than through the Offer, until at least ten business days after the expiration or termination of the Offer, except pursuant to certain limited exceptions provided in Rule 14e-5. Any possible future purchases by us will depend on many factors, including the market price of the Shares, the results of the Offer, our business and financial position and general economic and market conditions. We cannot assure you as to which, if any, of these alternatives, or combinations thereof, we might pursue.

The Offer will reduce our “public float” (the number of shares of our Shares owned by non-affiliated shareholders and available for trading in the securities markets), and is likely to reduce the number of our shareholders. These reductions may reduce the volume of trading in our shares and may result in lower stock prices and reduced liquidity in the trading of our shares following completion of the Offer.

As of January 13, 2020, there were 42,365,250 Shares issued and outstanding. Since the Final Purchase Price will only be determined after the Expiration Date, the number of Shares that will be purchased will not be known until after that time. At the maximum Final Purchase Price of \$33.00 per Share, we could purchase 12,727,272 Shares if the Offer is fully subscribed, which would represent approximately 30.04% of our issued and outstanding Shares as of January 13, 2020. At the minimum Final Purchase Price of \$30.00 per Share, we could purchase 14,000,000 Shares if the Offer is fully subscribed, which would represent approximately 33.05% of our issued and outstanding Shares as of January 13, 2020.

Certain Effects of the Offer. If we complete the Offer, shareholders who do not participate in the Offer will automatically increase their relative percentage ownership interest in us and our future operations. These shareholders will also continue to bear the risks associated with owning the Shares. Shareholders may be able to sell non-tendered Shares in the future on the NASDAQ or otherwise, at a net price significantly higher or lower than the Final Purchase Price in the Offer. We can give no assurance, however, as to the price at which a shareholder may be able to sell his or her Shares in the future.

Our Shares are currently “margin securities” under the rules of the Federal Reserve Board. This has the effect, among other things, of allowing brokers to extend credit to their customers using such shares as collateral. We believe that, following the purchase of shares pursuant to the Offer, our Shares will continue to be “margin securities” for purposes of the Federal Reserve Board’s margin rules and regulations.

The Offer is conditioned upon, among other things, our having determined that the consummation of the Offer will not cause our Shares to be delisted from the NASDAQ or be eligible for deregistration under the Exchange Act. See Section 7.

We anticipate that there will be a sufficient number of Shares outstanding and publicly traded following completion of the Offer to ensure a continued trading market for the Shares. Based upon published guidelines of the NASDAQ and the conditions of the Offer, we do not believe that our purchase of Shares under the Offer will cause our remaining outstanding Shares to be delisted from the NASDAQ. The Shares are registered under the Exchange Act, which requires, among other things, that we furnish certain information to our shareholders and comply with proxy rules in connection with meetings of our shareholders. We believe that our purchase of Shares under the Offer will not result in the Shares becoming eligible for deregistration under the Exchange Act.

Our directors and executive officers are entitled to participate in the Offer on the same basis as all other shareholders. The Affiliate Holders, who include consist of John Simard, a director and our Chief Executive Officer; Sushma Shivaswamy, our Chief Scientific Officer; Queena Han, our Vice President, Finance and Human Resources and Secretary; and W. Thorpe McKenzie, a member of our Board of Directors, have advised us that, although no final decision has been made, they may tender up to 6,327,060, 47,538, 70,000 and 4,557,839 Shares, respectively, that they beneficially own in the Offer. The Affiliate Holders beneficially owned an aggregate of 16,295,181 Shares as of January 13, 2020, representing approximately 38.46% of our outstanding Shares as of January 13, 2020 (for beneficial ownership disclaimed by the Affiliate Holders, see Section 12). Assuming that the Affiliate Holders tender the 11,002,437 Shares referred to above and all such Shares are purchased in the Offer, the Affiliate Holders will beneficially own an aggregate of 5,292,744 Shares immediately following the Offer. All of our other directors have advised us that they do not intend to tender any of their Shares in the Offer, and we are not aware of the intentions of our other 5% shareholders with respect to the Offer. There can be no assurance that the persons described above will in fact tender or sell the number of shares indicated, nor can there be any assurance that other directors or other affiliates of the Company will not decide to tender or sell shares. If the Affiliate Holders properly tender Shares in the Offer, the Affiliate Holders' tenders could influence the price at which all of the Shares accepted for payment are purchased. It is anticipated that as a result of the expected high level of participation and the resulting proration, the proportional beneficial ownership of the Company will not change significantly as a result of the Offer.

OUR BOARD OF DIRECTORS HAS DELEGATED AUTHORITY TO CONSIDER THE OFFER TO AN INDEPENDENT COMMITTEE OF OUR BOARD OF DIRECTORS, WHICH CONSISTS SOLELY OF INDEPENDENT DIRECTORS WHO DO NOT HAVE A MATERIAL FINANCIAL INTEREST IN THE TRANSACTIONS DESCRIBED IN THIS OFFER TO PURCHASE, AND THE INDEPENDENT COMMITTEE HAS APPROVED THE OFFER AND AUTHORIZED US TO MAKE THE OFFER. HOWEVER, NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY, MAKES ANY RECOMMENDATION TO YOU AS TO WHETHER YOU SHOULD TENDER OR REFRAIN FROM TENDERING YOUR SHARES OR AS TO THE PURCHASE PRICE OR PURCHASE PRICES AT WHICH YOU MAY CHOOSE TO TENDER YOUR SHARES. NEITHER WE NOR ANY MEMBER OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION WITH RESPECT TO THE OFFER. YOU MUST MAKE YOUR OWN DECISION AS TO WHETHER TO TENDER YOUR SHARES AND, IF SO, HOW MANY SHARES TO TENDER AND THE PURCHASE PRICE OR PURCHASE PRICES AT WHICH YOU WILL TENDER THEM. IN DOING SO, YOU SHOULD CONSULT YOUR OWN FINANCIAL AND TAX ADVISORS, AND READ CAREFULLY AND EVALUATE THE INFORMATION IN THIS OFFER TO PURCHASE AND IN THE RELATED LETTER OF TRANSMITTAL, INCLUDING OUR REASONS FOR MAKING THE OFFER.

SHAREHOLDERS SHOULD NOTE THAT THE PURCHASE PRICE RANGE (NO GREATER THAN \$33.00 PER SHARE NOR LESS THAN \$30.00 PER SHARE) REPRESENTS A SUBSTANTIAL PREMIUM OVER THE CLOSING SALE PRICE OF THE SHARES (\$18.62 PER SHARE) AS REPORTED ON THE NASDAQ GLOBAL SELECT MARKET ON JANUARY 13, 2020, THE DAY BEFORE ANNOUNCEMENT OF THE OFFER. THE MARKET PRICE OF THE SHARES FOLLOWING CONSUMMATION OF THE OFFER IS EXPECTED TO BE LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. ACCORDINGLY, ANY SHARES NOT TENDERED PURSUANT TO THE OFFER AND ANY TENDERED SHARES NOT ACCEPTED FOR PAYMENT BY REASON OF PRORATION OR OTHERWISE, ARE EXPECTED TO HAVE A MARKET PRICE FOLLOWING CONSUMMATION OF THE OFFER THAT IS LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. IF THE MARKET PRICE FOR SHARES FOLLOWING CONSUMMATION OF THE OFFER IS BELOW THE FINAL PURCHASE PRICE, AS EXPECTED, SHAREHOLDERS CAN BE ASSURED OF MAXIMIZING THE VALUE OF THEIR HOLDINGS AFTER GIVING EFFECT TO CONSUMMATION OF THE OFFER (THE SUM OF THE MARKET PRICE OF THEIR SHARES FOLLOWING THE OFFER PLUS THE AMOUNT RECEIVED IN THE OFFER) ONLY BY TENDERING 100% OF THEIR SHARES.

We intend to cancel the Shares we acquire pursuant to the Offer. Such Shares will return to the status of authorized and unissued shares and will be available to us to issue without further shareholder action for all purposes except as required by applicable law or the rules of the NASDAQ.

The accounting for the purchase of Shares pursuant to the Offer will result in a reduction in shareholders' equity, which based on pro forma calculations for the quarterly period ended December 31, 2019, would change from approximately \$738 million to approximately \$318 million. See Section 5.

Plans and Proposals. Except as disclosed or incorporated by reference in this Offer to Purchase, we have no current plans, proposals or negotiations that relate to or would result in:

- any extraordinary transaction, such as a merger, reorganization or liquidation, involving us or any of our subsidiaries (other than internal reorganization transactions with respect to our subsidiaries);

- any purchase, sale or transfer of an amount of our assets or any of our subsidiaries' assets which is material to us and our subsidiaries, taken as a whole;
- any material change in our present dividend policy, our indebtedness or capitalization;
- any change in our present Board of Directors or management or any plans or proposals to change the number or the terms of directors (although we may fill vacancies arising on the Board of Directors) or to change any material term of the employment contract of any executive officer;
- any material change in our corporate structure or business;
- any class of our equity securities becoming delisted from the NASDAQ, or ceasing to be authorized to be quoted on the NASDAQ;
- any class of our equity securities becoming eligible for termination of registration under Section 12(g)(4) of the Exchange Act;
- the termination or suspension of our obligation to file reports under 15(d) of the Exchange Act;
- the acquisition or disposition by any person of our securities, other than the grant of stock options to directors, officers and employees in the ordinary course of business, the issuance of Shares upon the vesting or exercise thereof and the retention of our securities by the Company from employees or directors to satisfy tax withholding obligations upon vesting or exercise of any such equity awards; or
- any changes in our charter, bylaws or other governing instruments or other actions that could impede the acquisition of control of us.

Nothing in the Offer will preclude us from considering any of the foregoing events or pursuing, developing or engaging in future plans, proposals or negotiations that relate to or would result in one or more of the foregoing events, subject to applicable law, and we reserve the right to do so. Although we may not have any current plans, other than as disclosed or incorporated by reference in this Offer to Purchase, that relate to or would result in any of the events discussed above, we consider from time to time, and may undertake or plan actions that relate to or could result in, one or more of these events. Shareholders tendering Shares in the Offer may run the risk of foregoing the benefit of any appreciation in the market price of the Shares resulting from such potential future events.

3. **Procedures for Tendering Shares.**

Proper Tender of Shares. For Shares to be properly tendered pursuant to the Offer, the certificates for such Shares (or confirmation of receipt of such Shares pursuant to the procedure for book-entry transfer set forth below), together with a properly completed and duly executed Letter of Transmittal, including any required signature guarantees, or an "Agent's Message" (as defined below), and any other documents required by the Letter of Transmittal, must be received before 5:00 p.m., New York City time, on Wednesday, February 12, 2020, by the Depositary at one of its addresses set forth on the back cover of this Offer to Purchase. Beneficial owners should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadlines for participation in the Offer. Accordingly, beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer.

In the alternative, the tendering shareholder must, before the Expiration Date, comply with the guaranteed delivery procedure described below.

In accordance with Instruction 5 of the Letter of Transmittal, each shareholder desiring to tender Shares under the Offer must complete the section captioned "Price (In Dollars) Per Share At Which Shares Are Being Tendered" by either (1) checking the box in the section entitled "Shares Tendered At Price Determined Under The Offer" or (2) checking one of the boxes in the section entitled "Shares Tendered At Price Determined By Shareholder," indicating the price at which Shares are being tendered.

Shareholders who desire to tender Shares at more than one price must complete a separate Letter of Transmittal for each price at which Shares are tendered, provided that the same Shares cannot be tendered (unless properly withdrawn previously in accordance with Section 4) at more than one price. To tender Shares properly, one and only one box must be checked in the section captioned "Price (In Dollars) Per Share At Which Shares Are Being Tendered" in the Letter of Transmittal.

If tendering shareholders wish to maximize the chance that we will purchase their Shares, they should check the box in the section entitled “Shares Tendered At Price Determined Under The Offer” in the Letter of Transmittal under the section captioned “Price (In Dollars) Per Share At Which Shares Are Being Tendered.” If you agree to accept the purchase price determined in the Offer, your Shares will be deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price. Note that this election may have the effect of lowering the Final Purchase Price and could result in the tendered Shares being purchased at the minimum price of \$30.00 per Share. If tendering shareholders wish to indicate a specific price (in multiples of \$0.25) at which their Shares are being tendered, they must check the appropriate box in the section entitled “Shares Tendered At Price Determined By Shareholder” in the section captioned “Price (In Dollars) Per Share At Which Shares Are Being Tendered” in the Letter of Transmittal. Tendering shareholders should be aware that this election could mean that none of their Shares will be purchased if they check a box other than the box representing the price at or below the Final Purchase Price.

Shareholders holding their Shares through a broker, dealer, commercial bank, trust company or other nominee must contact the nominee in order to tender their Shares. Shareholders who hold Shares through nominees are urged to consult their nominees to determine whether transaction costs may apply if shareholders tender Shares through the nominees and not directly to the Depository.

Shareholders may tender Shares subject to the condition that all, or a specified minimum number of Shares, be purchased. Any shareholder desiring to make such a conditional tender should so indicate in the box entitled “Conditional Tender” in the Letter of Transmittal. See Section 6. It is the tendering shareholder’s responsibility to determine the minimum number of Shares to be purchased. Shareholders should consult their own financial and tax advisors with respect to the effect of proration of the Offer and the advisability of making a conditional tender. See Section 6 and Section 14.

Signature Guarantees and Method of Delivery. No signature guarantee is required if:

- the Letter of Transmittal is signed by the registered holder of the Shares (which term, for purposes of this Section 3, will include any participant in the Book-Entry Transfer Facility whose name appears on a security position listing as the owner of the Shares) tendered and such holder has not completed either the section entitled “Special Payment Instructions” or the section entitled “Special Delivery Instructions” in the Letter of Transmittal; or
- Shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Agents Medallion Program or an “eligible guarantor institution,” as the term is defined in Exchange Act Rule 17Ad-15, each of the foregoing constituting an “Eligible Institution.” See Instruction 1 of the Letter of Transmittal.

If a certificate for Shares is registered in the name of a person other than the person executing the Letter of Transmittal, or if payment is to be made, or new certificates for Shares not purchased or tendered are to be issued, to a person other than the registered holder, then the certificate must be endorsed or accompanied by an appropriate stock power, signed in either case exactly as the name of the registered holder appears on the certificate, with the signature guaranteed by an Eligible Institution.

Payment for Shares tendered and accepted for payment pursuant to the Offer will be made only after timely receipt by the Depository of:

- one of (a) certificates for the Shares or (b) a timely confirmation of the book-entry transfer of the Shares into the Depository’s account at the Book-Entry Transfer Facility as described below;
- one of (a) a properly completed and duly executed Letter of Transmittal, including any required signature guarantees or (b) an Agent’s Message (as defined below) in the case of a book-entry transfer; and
- any other documents required by the Letter of Transmittal.

Odd Lot Holders who tender all of their Shares must also complete the section captioned “Odd Lots” in the Letter of Transmittal (if that person is a registered holder) and, if applicable, in the Notice of Guaranteed Delivery, to qualify for the priority treatment available to Odd Lot Holders as set forth in Section 1.

The method of delivery of all documents, including certificates for Shares, the Letter of Transmittal and any other required documents, is at the sole election and risk of the tendering shareholder. If delivery is by mail, then registered mail with return receipt requested, properly insured, is recommended. Shares will be deemed delivered only when actually received by the Depository (including, in the case of a book-entry transfer, by book-entry confirmation). In all cases, sufficient time should be allowed to ensure timely delivery.

All deliveries in connection with the Offer, including a Letter of Transmittal and certificates for Shares, must be made to the Depository and not to us, the Information Agent or the Book-Entry Transfer Facility. ANY DOCUMENTS DELIVERED TO US, THE INFORMATION AGENT OR THE BOOK-ENTRY TRANSFER FACILITY WILL NOT BE FORWARDED TO THE DEPOSITARY AND WILL NOT BE DEEMED TO BE PROPERLY TENDERED.

Book-Entry Delivery. The Depository will establish an account with respect to the Shares for purposes of the Offer at the Book-Entry Transfer Facility within two business days after the date of this Offer to Purchase, and any financial institution that is a participant in the Book-Entry Transfer Facility's system may make book-entry delivery of the Shares by means of a book-entry transfer by causing the Book-Entry Transfer Facility to transfer Shares into the Depository's account in accordance with the Book-Entry Transfer Facility's procedures for transfer. Although delivery of Shares may be effected through a book-entry transfer into the Depository's account at the Book-Entry Transfer Facility, a properly completed and duly executed Letter of Transmittal, including any required signature guarantees, or an Agent's Message, and any other required documents must, in any case, be transmitted to and received by the Depository at one of its addresses set forth on the back cover of this Offer to Purchase before the Expiration Date, or the tendering shareholder must comply with the guaranteed delivery procedure described below. Delivery of the Letter of Transmittal and any other required documents to the Book-Entry Transfer Facility does not constitute delivery to the Depository.

The term "Agent's Message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Depository, which states that the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the Shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that we may enforce such agreement against the participant.

Guaranteed Delivery. If you wish to tender Shares in the Offer and your certificates for Shares are not immediately available or the procedures for book-entry transfer cannot be completed on a timely basis or time will not permit all required documents to reach the Depository prior to the Expiration Date, your tender may be effected if all the following conditions are met:

- your tender is made by or through an Eligible Institution;
- a properly completed and duly executed Notice of Guaranteed Delivery in the form we have provided is received by the Depository, as provided below, prior to the Expiration Date; and
- the Depository receives at the address listed on the back cover of this Offer to Purchase and within the period of two NASDAQ trading days after the date of execution of that Notice of Guaranteed Delivery, either: (i) the certificates representing the Shares being tendered, in the proper form for transfer, together with all other required documents and a Letter of Transmittal, which has been properly completed and duly executed and includes all signature guarantees required; or (ii) confirmation of book-entry transfer of the Shares into the Depository's account at the Book-Entry Transfer Facility, together with all other required documents and either a Letter of Transmittal, which has been properly completed and duly executed and includes all signature guarantees required, or an Agent's Message.

A Notice of Guaranteed Delivery must be delivered to the Depository by overnight courier, or mail before the Expiration Date and must include a guarantee by an Eligible Institution in the form set forth in the Notice of Guaranteed Delivery.

The Notice of Guaranteed Delivery form is filed as an exhibit to the Schedule TO. Copies of the form may also be obtained from the Information Agent, who may be contacted at any of its telephone numbers listed on the back cover of this Offer to Purchase.

If you hold Shares through a broker, dealer, commercial bank, trust company or similar institution, that institution must tender your Shares on your behalf. The Book-Entry Transfer Facility is expected to remain open until 5:00 p.m., New York City time, on the Expiration Date and institutions may be able to process tenders for our Shares through the Book-Entry Transfer Facility during that time (although there is no assurance that this will be the case). If you hold Shares through a broker, dealer, commercial bank, trust company or similar institution, that institution must submit any Notice of Guaranteed Delivery on your behalf. It will generally not be possible to direct such an institution to submit a Notice of Guaranteed Delivery once that institution has closed for the day. You should consult with such institution on the procedures that must be complied with and the time by which such procedures must be completed to ensure that the institution has ample time to submit a Notice of Guaranteed Delivery on your behalf prior to 5:00 p.m., New York City time, on the Expiration Date. In addition, any such institution, if it is not an eligible institution, will need to obtain a Medallion guarantee from an eligible institution in the form set forth in the applicable Notice of Guaranteed Delivery in connection with the delivery of those Shares.

As described above, once the Notice of Guaranteed Delivery is delivered, which must occur prior to 5:00 p.m., New York City time, on the Expiration Date, you or your institution will have two (2) NASDAQ trading days following such delivery to meet the conditions described above in order to effect the tender of your Shares. Therefore, the earliest your tender could be effected is at 8:00 a.m., New York City time, on the next NASDAQ trading day when the Book-Entry Transfer Facility reopens, assuming all such conditions have been met. The form of Notice of Guaranteed Delivery can be obtained from the Information Agent at the address or telephone number set forth on the back cover of this Offer to Purchase.

Procedures for Stock Options. We are not offering, as part of the Offer, to purchase any outstanding stock options, and tenders of stock options will not be accepted. Holders of vested stock options may exercise options and tender the Shares received upon exercise into the Offer. Options must be exercised sufficiently in advance of the Expiration Date in order to have time for the exercise to settle before the Shares received upon exercise of the options may be tendered. An exercise of an option cannot be revoked even if Shares received upon the exercise thereof and tendered in the Offer are not purchased in the Offer for any reason.

If you are a holder of vested but unexercised options, you should evaluate this Offer to Purchase carefully to determine if participation would be advantageous to you, based on the exercise prices of your stock options, the date of your stock option grants, the remaining term in which you may exercise your options and the provisions for prorated purchases described in Section 1.

Return of Unpurchased Shares. If any properly tendered Shares are not purchased under the Offer or are properly withdrawn before the Expiration Date, or if less than all Shares evidenced by a shareholder's certificate(s) are tendered, we will credit the certificates to book-entry for unpurchased Shares promptly after the expiration or termination of the Offer or, in the case of Shares tendered by book-entry transfer at the Book-Entry Transfer Facility, the Shares will be credited to the appropriate account maintained by the tendering shareholder at the Book-Entry Transfer Facility, in each case without expense to the shareholder.

Determination of Validity; Rejection of Shares; Waiver of Defects; No Obligation to Give Notice of Defects. All questions as to the number of Shares to be accepted, the Final Purchase Price to be paid for Shares to be accepted and the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares will be determined by us, in our sole discretion, and our determination will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. We reserve the absolute right to reject any or all tenders of any Shares that we determine are not in proper form or the acceptance for payment of or payment for which may, in the opinion of our counsel, be unlawful. We also reserve the absolute right to waive any of the conditions of the Offer on or prior to the Expiration Date, or any defect or irregularity in any tender with respect to any particular Shares or any particular shareholder (whether or not we waive similar defects or irregularities in the case of other shareholders), and our interpretation of the terms of the Offer will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. In the event a condition of the Offer is waived with respect to any particular shareholder, the same condition will be waived with respect to all shareholders. No tender of Shares will be deemed to have been properly made until all defects or irregularities have been cured by the tendering shareholder or waived by us. We will not be liable for failure to waive any condition of the Offer, or any defect or irregularity in any tender of Shares. None of the Company, nor the Depository, the Information Agent or any other person will be obligated to give notice of any defects or irregularities in tenders, nor will any of the foregoing incur any liability for failure to give such notification.

Tendering Shareholder's Representation and Warranty; Our Acceptance Constitutes an Agreement. It is a violation of Exchange Act Rule 14e-4 for a person, directly or indirectly, to tender Shares for that person's own account unless, at the time of tender and at the end of the proration period or period during which Shares are accepted by lot (including any extensions of such period), the person so tendering (1) has a "net long position" equal to or greater than the amount of Shares tendered in (a) Shares or (b) other securities convertible into or exchangeable or exercisable for Shares and, upon acceptance of the tender, will acquire the Shares by conversion, exchange or exercise and (2) will deliver or cause to be delivered the Shares in accordance with the terms of the Offer. Rule 14e-4 also provides a similar restriction applicable to a tender on behalf of another person.

A tender of Shares in accordance with any of the procedures described above will constitute the tendering shareholder's acceptance of the terms and conditions of the Offer, as well as the tendering shareholder's representation and warranty to us that (1) the shareholder has a "net long position," within the meaning of Rule 14e-4 promulgated under the Exchange Act, in the Shares or equivalent securities at least equal to the Shares being tendered, and (2) the tender of Shares complies with Rule 14e-4. Our acceptance for payment of Shares tendered pursuant to the Offer will constitute a binding agreement between the tendering shareholder and us on the terms and subject to the conditions of the Offer, which agreement will be governed by, and construed in accordance with, the laws of the State of New York.

A tender of Shares made pursuant to any method of delivery set forth herein will also constitute a representation and warranty to us that the tendering shareholder has full power and authority to tender, sell, assign and transfer the Shares tendered, and that, when the same are accepted for purchase by us, we will acquire good, marketable and unencumbered title thereto, free and clear of all security interests, liens, restrictions, claims, encumbrances and other obligations relating to the sale or transfer of the Shares, and the same will not be subject to any adverse claim or right.

Any such tendering shareholder will, on request by the Depositary or us, execute and deliver any additional documents deemed by the Depositary or us to be necessary or desirable to complete the sale, assignment and transfer of the Shares tendered, all in accordance with the terms of the Offer.

All authority conferred or agreed to be conferred by delivery of the Letter of Transmittal shall be binding on the successors, assigns, heirs, personal representatives, executors, administrators and other legal representatives of the tendering shareholder and shall not be affected by, and shall survive, the death or incapacity of such tendering shareholder.

Lost or Destroyed Certificates. Shareholders whose certificates for part or all of their Shares have been lost, destroyed or stolen may contact American Stock Transfer & Trust Co., LLC, the Depositary and transfer agent for the Shares, at the toll-free number (877) 248-6417 or at the address set forth on the back cover of this Offer to Purchase for instructions to obtain a replacement certificate. That certificate will then be required to be submitted together with the Letter of Transmittal in order to receive payment for Shares that are tendered and accepted for payment. A bond may be required to be posted by the shareholder to secure against the risk that the certificates may be subsequently recirculated. The Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost or destroyed certificates have been followed. Shareholders are requested to contact the Depositary immediately in order to permit timely processing of this documentation. Certificates for Shares, together with a properly completed Letter of Transmittal (including required tax certifications) and any other documents required by the Letter of Transmittal, must be delivered to the Depositary and not to us or the Information Agent. Any certificates delivered to us or the Information Agent will not be forwarded to the Depositary and will not be deemed to be properly tendered.

Information Reporting and Backup Withholding. Payments made to shareholders in the Offer may be reported to the IRS. In addition, under the United States federal income tax laws, backup withholding at the statutory rate (currently 24%) may apply to the amount paid to certain shareholders (who are not “exempt” recipients) pursuant to the Offer. To prevent such backup United States federal income tax withholding, each non-corporate shareholder who is a U.S. Holder (as defined in Section 14) and who does not otherwise establish an exemption from backup withholding must notify the Depositary or other applicable withholding agent of the shareholder’s taxpayer identification number (employer identification number or social security number) and provide certain other information by completing, under penalties of perjury, an IRS Form W-9, a copy of which is included in the Letter of Transmittal. Failure to timely provide the correct taxpayer identification number on the IRS Form W-9 may subject the shareholder to a \$50 penalty imposed by the IRS.

Certain “exempt” recipients (including, among others, generally all corporations and certain non-U.S. Holders (as defined in Section 14)) are not subject to these backup withholding requirements. For a non-U.S. Holder to qualify for such exemption, such non-U.S. Holder must submit a statement (generally, an IRS Form W-8BEN or W-8BEN-E or other applicable Form W-8), signed under penalties of perjury, attesting to such non-U.S. Holder’s exempt status. A copy of the appropriate IRS Form W-8 may be obtained from the Depositary or from the IRS website (www.irs.gov). A disregarded domestic entity that has a regarded foreign owner must use the appropriate IRS Form W-8, and not the IRS Form W-9. See Instruction 10 to the Letter of Transmittal.

Backup withholding is not an additional tax. Taxpayers may use amounts withheld as a credit against their United States federal income tax liability or may claim a refund of such amounts if they timely provide certain required information to the IRS.

Shareholders should consult their own tax advisors regarding the application of backup withholding to their particular circumstances and the availability of, and procedure for obtaining, an exemption from backup withholding.

4. Withdrawal Rights.

Except as otherwise provided in this Section 4, tenders of Shares pursuant to the Offer are irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time before the Expiration Date. Shares that have not previously been accepted by us for payment may be withdrawn at any time after 5:00 p.m., New York City time, on March 12, 2020.

If you are a registered holder of Shares, for a withdrawal to be effective, a notice of withdrawal must be in written form and must be received in a timely manner by the Depository at one of its addresses set forth on the back cover of this Offer to Purchase. Any notice of withdrawal must specify the name of the tendering shareholder; the number of Shares to be withdrawn; and the name of the registered holder of the Shares. If certificates for Shares to be withdrawn have been delivered or otherwise identified to the Depository, then, before the release of the certificates, the tendering shareholder must also submit the serial numbers shown on the particular certificates for Shares to be withdrawn and the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution (except in the case of Shares tendered for the account of an Eligible Institution). If Shares have been tendered pursuant to the procedure for book-entry transfer described in Section 3, the notice of withdrawal also must specify the name and the number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and must otherwise comply with the Book-Entry Transfer Facility's procedures. If a shareholder has used more than one Letter of Transmittal or has otherwise tendered Shares in more than one group of Shares, the shareholder may withdraw Shares using either separate notices of withdrawal or a combined notice of withdrawal, so long as the information specified above is included.

If you hold Shares through a broker, dealer, commercial bank, trust company or similar institution, you should consult that institution on the procedures you must comply with and the time by which such procedures must be completed in order for that institution to provide a written notice of withdrawal.

We will determine all questions as to the form and validity, including the time of receipt, of any notice of withdrawal, in our sole discretion, which determination will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. Neither we nor the Depository, the Information Agent or any other person will be obligated to give notice of any defects or irregularities in any notice of withdrawal, nor will any of the foregoing incur liability for failure to give any such notification. Withdrawals may not be rescinded, and any Shares properly withdrawn will be deemed not properly tendered for purposes of the Offer. However, withdrawn Shares may be re-tendered before the Expiration Date by again following one of the procedures described in Section 3.

If we extend the Offer, are delayed in our purchase of Shares or are unable to purchase Shares pursuant to the Offer for any reason, then, without prejudice to our rights under the Offer, the Depository may, subject to applicable law, retain tendered Shares on our behalf, and the Shares may not be withdrawn except to the extent tendering shareholders are entitled to withdrawal rights as described in this Section 4. Our reservation of the right to delay payment for Shares that we have accepted for payment is limited by Exchange Act Rule 13e-4(f)(5), which requires that we must pay the consideration offered or return the Shares tendered promptly after termination or withdrawal of the Offer.

If you hold Shares through a broker, dealer, commercial bank, trust company or similar institution, any notice of withdrawal must be delivered by that institution on your behalf. The Book-Entry Transfer Facility is expected to remain open until 5:00 p.m., New York City time, on the Expiration Date and institutions may be able to process withdrawals of Shares through the Book-Entry Transfer Facility during that time (although there can be no assurance that this will be the case). It will generally not be possible to direct such an institution to submit a written notice of withdrawal once that institution has closed for the day. You should consult with such institution on the procedures that must be complied with and the time by which such procedures must be completed to ensure that the institution has ample time to submit a written notice of withdrawal on your behalf prior to 5:00 p.m., New York City time, on the Expiration Date. Such notice of withdrawal must be in the form of the Book-Entry Transfer Facility's notice of withdrawal, must specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and must otherwise comply with the Book-Entry Transfer Facility's procedures. Shares can be properly withdrawn only if the Depository receives a written notice of withdrawal directly from the relevant institution that tendered the Shares through the Book-Entry Transfer Facility.

5. Purchase of Shares and Payment of Purchase Price.

Upon the terms and subject to the conditions of the Offer, promptly following the Expiration Date, we will:

- determine the Final Purchase Price, taking into account the number of Shares so tendered and the prices specified, or deemed specified, by tendering shareholders; and
- accept for payment and pay for (and thereby purchase) Shares properly tendered at prices at or below the Final Purchase Price and not properly withdrawn. We intend to purchase Shares having an aggregate value of up to \$420,000,000 and may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer.

For purposes of the Offer, we will be deemed to have accepted for payment (and therefore purchased), subject to proration, “Odd Lot” priority and conditional tender provisions of the Offer, Shares that are properly tendered at or below the Final Purchase Price and not properly withdrawn only when, as and if we give oral or written notice to the Depositary of our acceptance of the Shares for payment pursuant to the Offer.

Upon the terms and subject to the conditions of the Offer, promptly after the Expiration Date, we will accept for payment and pay a single per Share purchase price for all of the Shares accepted for payment in accordance with the Offer. In all cases, payment for Shares tendered and accepted for payment in accordance with the Offer will be made promptly, subject to possible delay due to proration, but only after timely receipt by the Depositary of:

- certificates for Shares or a timely confirmation of a book-entry transfer of Shares into the Depositary’s account at the Book-Entry Transfer Facility;
- a properly completed and duly executed Letter of Transmittal or an Agent’s Message in the case of book-entry transfer; and
- any other documents required.

We will pay for Shares purchased pursuant to the Offer by depositing the aggregate purchase price for the Shares with the Depositary, which will act as agent for tendering shareholders for the purpose of receiving payment from us and transmitting payment to the tendering shareholders. In the event of proration, the Depositary will determine the proration factor and pay for those tendered Shares accepted for payment promptly after the Expiration Date. Certificates for all Shares tendered and not purchased, including all Shares tendered at prices in excess of the Final Purchase Price and Shares not purchased due to proration or conditional tenders, will be credited to book-entry with the Depositary, and, in the case of Shares tendered by book-entry transfer, will be credited to the account maintained with the Book-Entry Transfer Facility by the participant who delivered the Shares, to the tendering shareholder promptly after the expiration or termination of the Offer at our expense.

Under no circumstances will interest be paid on the Final Purchase Price for the Shares, regardless of any delay in making payment. In addition, if certain events occur, we may not be obligated to purchase Shares pursuant to the Offer. See Section 7.

There will be no stock transfer taxes payable on the transfer to us of Shares purchased pursuant to the Offer, as British Columbia law does not impose any such taxes. See Instruction 7 of the Letter of Transmittal.

Other Terms

We will publicly announce the “specified amount” in respect of each Share for the purposes of subsection 191(4) of the Income Tax Act (Canada) by press release when we announce the Final Purchase Price pursuant to the Offer. For greater certainty, the announcement of such “specified amount” will be incorporated into and form part of the Offer.

6. Conditional Tender of Shares.

In the event of an over-subscription of the Offer, Shares tendered at or below the Final Purchase Price prior to the Expiration Date will be subject to proration (subject to the exception for Odd Lot Holders). See Section 1. As discussed in Section 14, the number of Shares to be purchased from a particular shareholder may affect the tax treatment of the purchase to the shareholder and the shareholder’s decision whether to tender. Accordingly, a shareholder may tender Shares subject to the condition that a specified minimum number of the shareholder’s Shares tendered pursuant to a Letter of Transmittal must be purchased if any Shares tendered are purchased. Any shareholder desiring to make a conditional tender must so indicate in the box entitled “Conditional Tender” in the Letter of Transmittal, and, if applicable, in the Notice of Guaranteed Delivery. **We urge each shareholder to consult with his or her own financial and tax advisors with respect to the advisability of making a conditional tender.**

Any tendering shareholder wishing to make a conditional tender must calculate and appropriately indicate the minimum number of Shares that must be purchased from that shareholder if any are to be purchased. After the Offer expires, if, based on the Final Purchase Price determined in the Offer, Shares representing more than \$420,000,000 (or such greater number of Shares as we may choose to purchase without extending the Offer) are properly tendered and not properly withdrawn, so that we must prorate our acceptance of and payment for tendered Shares, we will calculate a preliminary proration percentage based upon all Shares properly tendered, conditionally or unconditionally (including Shares of Odd Lot Holders). If the effect of this preliminary proration would be to reduce the number of Shares to be purchased from any shareholder below the minimum number specified, the conditional tender will automatically be regarded as withdrawn (except as provided in the next paragraph). All Shares tendered by a shareholder subject to a conditional tender pursuant to the Letter of Transmittal and regarded as withdrawn as a result of proration will be returned promptly after the Expiration Date.

After giving effect to these withdrawals, we will accept the remaining Shares properly tendered, conditionally or unconditionally, at or below the Final Purchase Price on a pro rata basis, if necessary. If conditional tenders would otherwise be regarded as withdrawn and would cause the total number of Shares to be purchased to fall below an aggregate value of \$420,000,000 (or such greater amount as we may elect to pay, subject to applicable law) then, to the extent feasible, we will select enough of the conditional tenders that would otherwise have been deemed withdrawn to permit us to purchase \$420,000,000 in value of Shares (or such greater amount as we may elect to pay, subject to applicable law).

7. Conditions of the Offer.

The Offer is not conditioned on the receipt of financing or any minimum number of Shares being tendered. Notwithstanding any other provision of the Offer, we will not be required to accept for payment, purchase or pay for any Shares tendered, and may terminate or amend the Offer or may postpone the acceptance for payment of or the payment for Shares tendered, subject to Exchange Act Rule 13e-4(f)(5), which requires that we must pay the consideration offered or return the Shares tendered promptly after termination or withdrawal of the Offer, if at any time on or after the commencement of the Offer and prior to the Expiration Date any of the following events have occurred (or are determined by us to have occurred) that, in our reasonable judgment and regardless of the circumstances giving rise to the event or events (including any action or inaction by us), makes it inadvisable to proceed with the Offer or with acceptance for payment or payment for the Shares in the Offer:

- there has occurred any of the following:
 - any general suspension of trading in, or limitation on prices for, securities on any United States national securities exchange or in the over-the-counter market;
 - the declaration of a banking moratorium or any suspension of payments in respect of banks in the United States, whether or not mandatory;
 - a material change in United States or any other currency exchange rates or a suspension of or limitation on the markets therefor;
 - a decrease of more than 10% in the market price of the Shares or in the general level of market prices for equity securities in the United States of the New York Stock Exchange Composite Index, the Dow Jones Industrial Average, the NASDAQ Global Market Composite Index or Standard & Poor's Composite Index of 500 Industrial Companies, in each case measured from the close of trading on January 13, 2020 the last trading day prior to the commencement of the Offer;
 - the commencement of a war, armed hostilities or other similar national or international calamity, including, but not limited to, an act of terrorism, directly or indirectly involving the United States, on or after January 14, 2020;
 - any material escalation of any war or armed hostilities which had commenced prior to January 14, 2020;
 - any limitation, whether or not mandatory, by any governmental, regulatory or administrative agency or authority on, or any event that, in our reasonable judgment, could materially affect, the extension of credit by banks or other lending institutions in the United States;
 - any change in the general political, market, economic or financial conditions, domestically or internationally, that is reasonably likely to materially and adversely affect our business or the trading in the Shares; or
 - in the case of any of the foregoing existing at the time of the commencement of the Offer, a material acceleration or worsening thereof;
- there has been any action threatened, pending or taken, including any settlement, or any approval withheld, or any statute, rule, regulation, judgment, order or injunction threatened, invoked, proposed, sought, promulgated, enacted, entered, amended, enforced or deemed to be applicable to the Offer or us or any of our subsidiaries, including any settlement, by any court, government or governmental, regulatory or administrative authority, agency or tribunal, domestic, foreign or supranational, that, in our reasonable judgment, seeks to or might directly or indirectly:
 - make illegal, or delay or otherwise directly or indirectly restrain, prohibit or otherwise affect the consummation of the Offer, the acquisition of some or all of the Shares pursuant to the Offer or otherwise relates in any manner to the Offer;
 - make the acceptance for payment of, or payment for, some or all of the Shares illegal or otherwise restrict or prohibit consummation of the Offer;
 - delay or restrict our ability, or render us unable, to accept for payment or pay for some or all of the Shares to be purchased pursuant to the Offer;

- materially and adversely affect our or our subsidiaries’ or our affiliates’ business, condition (financial or otherwise), income, operations or prospects, taken as a whole, or otherwise materially impair the contemplated future conduct of our business or our ability to purchase some or all of the Shares pursuant to the Offer;
- our acceptance for payment, purchase or payment for any shares tendered in the Offer shall violate or conflict with, or otherwise be contrary to, any applicable law, statute, rule, regulation, decree or order; or
- the completion of the Offer resulting in Company being unable to pay its debts as they become due in the ordinary course of its business or the directors of the Company, in their absolute discretion, otherwise determining the completion of the Offer could reasonably be expected to render the Company insolvent;
- a tender or exchange offer for any or all of the Shares (other than the Offer), or any merger, acquisition, business combination or other similar transaction with or involving us or any subsidiary, has been proposed, announced or made by any person or has been publicly disclosed;
- we learn that after the date of this Offer to Purchase:
 - any entity, “group” (as that term is used in Section 13(d)(3) of the Exchange Act) or person has acquired or proposes to acquire beneficial ownership of more than 5% of the outstanding Shares, whether through the acquisition of stock, the formation of a group, the grant of any option or right, or otherwise (other than as and to the extent disclosed in a Schedule 13D or Schedule 13G filed with the SEC on or before January 13, 2020);
 - any entity, group or person who has filed a Schedule 13D or Schedule 13G with the SEC on or before January 13, 2020, has acquired or proposes to acquire, whether through the acquisition of stock, the formation of a group, the grant of any option or right, or otherwise (other than by virtue of the Offer made hereby), beneficial ownership of an additional 2% or more of the outstanding Shares;
 - there has been any change in law or in the official interpretation or administration of law, or relevant position or policy of a governmental authority with respect to any laws, applicable to the Offer;
 - any person, entity or group has filed a Notification and Report Form under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, reflecting an intent to acquire us or any of the Shares, or has made a public announcement reflecting an intent to acquire us or any of our subsidiaries or any of our or their respective assets or securities; or
 - any change or changes have occurred or are threatened in our or our subsidiaries’ or affiliates’ business, condition (financial or otherwise), properties, assets, income, operations or prospects that, in our reasonable judgment, has or could have a material adverse effect on us or any of our subsidiaries or affiliates or the benefits of the Offer to us;
- any approval, permit, authorization, favorable review or consent of any governmental entity required to be obtained in connection with the Offer shall not have been obtained on terms satisfactory to us in our reasonable discretion; or
- we determine that the consummation of the Offer and the purchase of the Shares may (1) cause the Shares to be held of record by fewer than 300 persons, or (2) cause the Shares to be delisted from the NASDAQ or to be eligible for deregistration under the Exchange Act.

If any of the conditions referred to above is not satisfied, we may:

- terminate the Offer and return all tendered Shares to the tendering shareholders;
- extend the Offer and, subject to withdrawal rights as set forth in Section 4, retain all of the tendered Shares until the expiration of the Offer as so extended;
- waive the condition and, subject to any requirement to extend the period of time during which the Offer is open, purchase all of the Shares properly tendered and not properly withdrawn prior to the Expiration Date; or
- delay acceptance for payment or payment for Shares, subject to applicable law, until satisfaction or waiver of the conditions to the Offer.

The conditions referred to above are for our sole benefit and may be asserted by us regardless of the circumstances giving rise to any such condition, and may be waived by us, in whole or in part, at any time and from time to time in our reasonable discretion on or prior to the Expiration Date. Our failure at any time to exercise any of the foregoing rights will not be deemed a waiver of any right, and each such right will be deemed an ongoing right that may be asserted at any time and from time to time. In certain circumstances, if we waive any of the conditions described above, we may be required to extend the Expiration Date. Any determination by us concerning the events described above will be final and binding on all parties. See Section 15.

8. Price Range of Shares; Dividends.

The Shares are listed and traded on the NASDAQ under the trading symbol “XBIT.” The following table sets forth, for the fiscal quarters indicated, the high and low sales prices of the Shares on the NASDAQ:

	<u>High</u>	<u>Low</u>
<u>2017</u>		
First Quarter	\$ 19.20	\$ 9.44
Second Quarter	\$ 17.17	\$ 3.20
Third Quarter	\$ 5.58	\$ 4.14
Fourth Quarter	\$ 4.66	\$ 3.90
<u>2018</u>		
First Quarter	\$ 5.35	\$ 3.92
Second Quarter	\$ 5.13	\$ 4.04
Third Quarter	\$ 4.69	\$ 2.31
Fourth Quarter	\$ 6.27	\$ 3.22
<u>2019</u>		
First Quarter	\$ 11.74	\$ 4.78
Second Quarter	\$ 11.60	\$ 6.76
Third Quarter	\$ 10.70	\$ 6.84
Fourth Quarter	\$ 22.95	\$ 8.18
<u>2020</u>		
First Quarter (through January 13, 2020)	\$ 19.64	\$ 17.88

On January 13, 2020, the last full trading day before the commencement of the Offer, the last closing sale price of the Shares on the NASDAQ was \$18.62 per Share. Shareholders are urged to obtain current market quotations for the Shares.

We have never paid or declared any cash dividends on our Shares. We currently intend to retain any earnings for future growth and, therefore, do not expect to pay cash dividends in the foreseeable future.

9. Source and Amount of Funds.

Assuming that the Offer is fully subscribed, the value of Shares purchased in the Offer will be \$420,000,000. We expect that the maximum aggregate cost of these purchases, including all fees and expenses applicable to the Offer, will be approximately \$600,000.

We intend to pay for the Shares with existing cash resources, representing a portion of the proceeds we received from the sale of one of our businesses pursuant to the Asset Purchase Agreement dated as of December 7, 2019, with Janssen Biotech, Inc. (“Janssen”), which we refer to as the “Janssen Transaction.” In the Janssen Transaction, Janssen acquired all rights to the Company’s True Human Antibody bermekimab to target interleukin-1 alpha (IL-1 α) for dermatological indications. The Company retained its True Human Antibody discovery program targeting IL-1 α to treat all non-dermatological diseases. At the closing on December 30, 2019, the Company received \$750 million in cash from Janssen, \$75 million of which is being held in an escrow account for 18 months to satisfy any indemnity claims. In addition, the Company will be eligible to receive up to four milestone payments of \$150 million each, i.e. a maximum of \$600 million, if Janssen develops pharmaceutical products that contain bermekimab and that are for non-dermatological indications, subject to the conditions set forth in the Asset Purchase Agreement, which include Janssen’s receipt of certain required commercial authorizations for such products within a specified timeframe. At the closing, the following ancillary agreements were entered into:

- The Company and Janssen entered into an IP Non-Assertion and License Agreement, pursuant to which the Company has granted Janssen a non-exclusive license to certain patents and intellectual property of the Company. Janssen has agreed not to assert against the Company certain claims from the patents acquired from the Company in the transaction in connection with the Company’s new antibodies targeting IL-1 α , as described in the Purchase Agreement, to treat non-dermatological diseases.
- XBiotech USA, Inc., a subsidiary of the Company (“XBiotech USA”), and Janssen Research & Development, LLC (“JRD”) entered into a Clinical Manufacturing Agreement, pursuant to which XBiotech USA has agreed to manufacture bermekimab for use by Janssen in clinical trials, in exchange for payments, paid in quarterly installments.
- XBiotech USA and JRD entered into a Transition Services Agreement, pursuant to which XBiotech USA has agreed to continue operational management, on a fee-for-service basis, of certain ongoing clinical trials related to bermekimab.

10. Certain Financial Information.

Historical Financial Information. We incorporate by reference the consolidated financial statements and notes thereto included in Part II, Item 8 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. In addition, we incorporate by reference the unaudited condensed consolidated financial statements and notes thereto included in Part I, Item 1 of our Quarterly Report filed on Form 10-Q for the quarterly period ended September 30, 2019. You should refer to Section 11 for instructions on how you can obtain copies of our SEC filings, including filings that contain our financial statements.

Summary Historical Consolidated Financial Data. The following tables set forth our summary historical consolidated balance sheet data as of September 30, 2019 and our summary historical consolidated financial data for the fiscal years ended December 31, 2018 and December 31, 2017 and the three and nine months ended September 30, 2019 and 2018. This financial data has been derived from, and should be read in conjunction with, the audited consolidated financial statements and the related notes filed as part of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018 and the unaudited condensed consolidated financial statements and the related notes filed as part of our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2019. Financial data for the three- and nine-month periods ended September 30, 2019 and 2018 are unaudited but, in the opinion of our management, include all adjustments necessary for a fair presentation of the data. Historical results are not necessarily indicative of the results to be expected for future periods, and interim results may not be indicative of results for the full year.

XBiotech Inc.
Consolidated Balance Sheets
(in thousands, except share data)

	September 30, 2019 (unaudited)	December 31, 2018	December 31, 2017
Assets			
Current assets:			
Cash and cash equivalents	\$ 40,338	\$ 15,823	\$ 31,768
Prepaid expenses and other current assets	573	1,193	1,564
Total current assets	40,911	17,016	33,332
Property and equipment, net	25,732	27,329	29,640
Total assets	\$ 66,643	\$ 44,345	\$ 62,972
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 1,061	\$ 1,653	\$ 1,730
Accrued expenses	960	1,291	1,062
Total current liabilities	2,021	2,944	2,792
Long-term liabilities:			
Other liabilities	—	3	18
Total liabilities	2,021	2,947	2,810
Shareholders' equity:			
Preferred stock, no par value, unlimited shares authorized, no shares outstanding	—	—	—
Common stock, no par value, unlimited shares authorized, 41,066,467, 35,899,772 and 35,439,272 shares outstanding at September 30, 2019, December 31, 2018, and December 31, 2017 respectively	320,130	279,353	277,492
Accumulated other comprehensive income (loss)	58	(255)	(768)
Accumulated deficit	(255,566)	(237,700)	(216,562)
Total shareholders' equity	64,622	41,398	60,162
Total liabilities and shareholders' equity	\$ 66,643	\$ 44,345	\$ 62,972

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Operating expenses:				
Research and development	\$ 4,533	\$ 3,940	\$ 13,753	\$ 10,882
General and administrative	1,578	1,175	4,169	4,004
Total operating expenses	<u>6,111</u>	<u>5,115</u>	<u>17,922</u>	<u>14,886</u>
Loss from operations	(6,111)	(5,115)	(17,922)	(14,886)
Other income (loss):				
Interest income	250	100	379	270
Other income	—	—	10	—
Foreign exchange (loss)	(289)	(36)	(333)	(411)
Total other income (loss)	<u>(39)</u>	<u>64</u>	<u>56</u>	<u>(141)</u>
Net loss	<u>\$ (6,150)</u>	<u>\$ (5,051)</u>	<u>\$ (17,866)</u>	<u>\$ (15,027)</u>
Net loss per share—basic and diluted	\$ (0.15)	\$ (0.14)	\$ (0.47)	\$ (0.42)
Shares used to compute basic and diluted net loss per share	41,019,230	35,819,772	38,190,584	35,795,881
Net loss	\$ (6,150)	\$ (5,051)	\$ (17,866)	\$ (15,027)
Foreign currency translation adjustment	274	28	313	415
Comprehensive loss	<u>\$ (5,876)</u>	<u>\$ (5,023)</u>	<u>\$ (17,553)</u>	<u>\$ (14,612)</u>

Summary Unaudited Pro Forma Consolidated Financial Data. The following unaudited pro forma consolidated financial information of the Company gives effect to:

- the disposition of certain rights in bermekimab pursuant to the Asset Purchase Agreement dated December 7, 2019, with Janssen;
- the clinical manufacturing and transition services agreements entered into with JRD; and
- assumed repurchases of Shares in the aggregate amount of \$420,000,000 pursuant to the Offer.

The unaudited pro forma condensed consolidated financial information should be read in conjunction with the historical financial statements and related notes of the Company. The unaudited pro forma condensed consolidated financial information is provided for informational purposes only and is not necessarily indicative of the results that would have occurred if the disposition of certain rights in bermekimab rights had occurred on the date indicated or the expected financial position or results of operations in the future. The information includes pro forma adjustments which reflect the bermekimab transaction.

The unaudited pro forma condensed consolidated balance sheet as of September 30, 2019 was prepared assuming the bermekimab transaction occurred as of January 1, 2019.

The unaudited pro forma condensed consolidated statement of operations for the nine month period ended September 30, 2019 has been presented assuming the bermekimab transaction occurred as of January 1, 2019.

The unaudited pro forma condensed consolidated statement of operations for the fiscal year ended December 31, 2018, has been presented assuming the bermekimab transaction occurred as of January 1, 2018.

XBiotech Inc.
Consolidated Balance Sheet

	As of September 30, 2019		
	As Reported (unaudited)	Pro Forma (unaudited)	Adjustment (unaudited)
Assets			
Current assets:			
Cash and cash equivalents	\$ 40,338	\$ 243,668	\$ 284,006
Account receivable	—	4,500	4,500
Prepaid expenses and other current assets	573	—	573
Total current assets	40,911	248,168	289,079
Property and equipment, net	25,732		25,732
Total assets	<u>\$ 66,643</u>	<u>\$ 248,168</u>	<u>\$ 314,811</u>
Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 1,061	\$ 2,686	\$ 3,747
Accrued expenses	960	(960)	0
Total current liabilities	2,021	1,726	3,747
Long-term liabilities:			
Other liabilities	—		—
Total liabilities	2,021	1,726	3,747
Shareholders' equity:			
Repurchase of shares	—	(420,000)	(420,000)
Common stock, no par value, unlimited shares authorized, 27,066,467 shares outstanding at September 30, 2019	320,130		320,130
Accumulated other comprehensive income (loss)	58		58
Accumulated (income) deficit	(255,566)	666,442	410,876
Total shareholders' equity	64,622	246,442	311,064
Total liabilities and shareholders' equity	<u>\$ 66,643</u>	<u>\$ 248,168</u>	<u>\$ 314,811</u>
Book value per share	<u>\$ 1.69</u>	<u>\$ 7.94</u>	<u>\$ 9.63</u>

Explanation of adjustments for Pro Forma Consolidated Balance Sheet

243,668 adjustment –

To reflect cash received from the sale of Bermekimab IP plus anticipated cash to be received under the manufacturing and clinical service arrangements through 2021, net of \$75 million which will be held in a 18 month cash escrow, less cash outlay for repurchase of shares.

4,500 adjustment –

Based on manufacturing revenue receivable of \$4.5 million per the terms of the clinical supply manufacturing agreement.

420,000 adjustment –

Based on the \$420 million repurchase of shares.

666,442 adjustment –

Net result from nine month ended September 30, 2019 pro forma consolidated statement of operations adjustment.

Book value per share –

Represents shareholders' equity divided by the actual number of outstanding shares

XBiotech Inc.
Consolidated Statements of Operations

	Nine Months Ended September 30, 2019		
	As Reported	Pro Forma	Adjustment
	(unaudited)	(unaudited)	(unaudited)
Revenues:			
Clinical trial drug manufacturing revenue	\$ —	\$ 13,500	\$ 13,500
Clinical trial service revenue	—	33,821	33,821
Total revenues	<u>—</u>	<u>47,321</u>	<u>47,321</u>
Cost of sales:			
Cost of drug manufacturing	—	10,255	10,255
Clinical trial cost	—	26,016	26,016
Total Cost of sales	<u>—</u>	<u>36,271</u>	<u>36,271</u>
Operating expenses:			
Research and development	13,753	(11,050)	2,703
General and administrative	4,169	(353)	3,816
Total operating expenses	<u>17,922</u>	<u>(11,403)</u>	<u>6,519</u>
Gain on sale of Bermekimab IP		674,566	674,566
Income (loss) from operations	<u>(17,922)</u>	<u>697,019</u>	<u>679,097</u>
Other income (loss):			
Interest income	379	—	379
Other income	10	—	10
Foreign exchange (loss)	(333)	—	(333)
Total other income (loss)	<u>56</u>	<u>—</u>	<u>56</u>
Income before income tax	(17,866)	697,019	679,153
Income tax		30,577	30,577
Net Income (loss)	<u>\$ (17,866)</u>	<u>\$ 666,442</u>	<u>\$ 648,576</u>
Net Income (loss) per share—basic and diluted	<u>\$ (0.47)</u>		<u>\$ 20.07</u>
Shares used to compute basic and fully diluted net income (loss) per share	38,190,584	(5,880,253)	32,310,331

XBiotech Inc.
Consolidated Statements of Operations

	Year Ended December 31, 2018		
	As Reported	Pro Forma	Adjustment
	(unaudited)	(unaudited)	(unaudited)
Revenues:			
Clinical trial drug manufacturing revenue	—	18,000	18,000
Clinical trial service revenue	—	45,094	45,094
Total revenues	—	63,094	63,094
Cost of sales			
Cost of drug manufacturing	—	13,673	13,673
Clinical trial cost	—	34,688	34,688
Total Cost of sales	—	48,361	48,361
Operating expenses:			
Research and development	15,725	(11,868)	3,857
General and administrative	5,269	(470)	4,799
Total operating expenses	20,994	(12,338)	8,656
Gain on sale of Bermekimab IP	—	674,566	674,566
Income (loss) from operations	(20,994)	701,637	680,643
Other income (loss):			
Interest income	400	—	400
Other income	4	—	4
Foreign exchange gain (loss)	(548)	—	(548)
Total other income (loss)	(144)		(144)
Net Income (loss) before income tax	(21,138)	701,637	680,499
Income tax		\$ 30,859	\$ 30,859
Net Income (loss) After Tax	\$ (21,138)	\$ 670,778	\$ 649,640
Net Income (loss) per share—basic and diluted	\$ (0.59)		\$ 20.30
Shares used to compute basic and fully diluted net income (loss) per share	35,804,304	(3,797,918)	32,006,386

Explanation of adjustments for Pro Forma Consolidated Statement of Operations for Year Ended December 31, 2018

Adjustment for 18,000 –

Per the terms of the clinical supply manufacturing agreement Janssen will pay XBiotech \$4.5M per fiscal quarter which would result in \$18,000,000 per year.

Adjustment for 45,094 –

This amount is based on an estimated pass through expense of \$34 million based on forecasts and agreements in place related to the ongoing studies. Per the terms of the clinical services agreement, Janssen will pay XBiotech all pass through costs of the clinical studies plus a 30% markup, therefore resulting in \$45 million included in the pro forma.

Adjustment for 13,673 –

This amount is based on forecasted drug production costs for XBiotech.

Adjustment for 34,688 –

This amount is calculated on an estimated pass through expense of \$34 million based on forecasts and agreements in place related to the ongoing studies.

Adjustment for (11,868) and (470) –

These amounts are based on adjustments made for manufacturing and clinical costs, respectively.

Adjustment for 674,566 –

This is the net amount received from \$750M payment from Janssen, less the costs associated with the transaction.

Explanation of adjustments for Pro Forma Consolidated Statement of Operations for Nine Months Ended September 30, 2019

Amounts included for revenue and cost of goods sold were calculated using fiscal year totals then adjusting for nine months. Adjustment for R&D are based on nine months of manufacturing costs for 2019. Adjustment for clinical trials are based on nine months of clinical costs for 2019.

11. Certain Information Concerning Us.

General. We are a pre-market 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. We are focused on developing our True Human™ pipeline and manufacturing system.

The majority of our efforts to date have been concentrated on developing our lead product candidate, bermekimab (also known as MABp1, 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. Clinical studies conducted to date have shown that blocking IL-1a with our lead product candidate may have a beneficial effect on several diseases.

Our Shares are listed on the NASDAQ Global Select Market under the symbol “XBIT.” Our principal executive offices are located at 5217 Winnebago Lane, Austin, Texas. 78744, and our telephone number is (512) 386-2900. Our website address is www.xbiotech.com. Our website and the information contained on our website are not incorporated by reference into this Offer to Purchase.

Availability of Reports and Other Information. We are subject to the informational filing requirements of the Exchange Act which obligates us to file reports, statements and other information with the SEC relating to our business, financial condition and other matters. Information, as of particular dates, concerning our directors and officers, their remuneration, options granted to them, the principal holders of our securities and any material interest of these persons in transactions with us is required to be disclosed in proxy statements distributed to our shareholders and filed with the SEC. As required by Exchange Act Rule 13e-4(c)(2), we have also filed with the SEC the Schedule TO, which includes additional information relating to the Offer.

These reports, statements and other information, including the Schedule TO and documents incorporated by reference, are available to the public on the SEC’s site at <https://www.sec.gov>. This website address is not intended to function as a hyperlink, and the information contained on the SEC’s website is not incorporated by reference in this Offer to Purchase and it should not be considered to be a part of this Offer to Purchase.

Incorporation by Reference. The rules of the SEC allow us to “incorporate by reference” information into this document, which means that we can disclose important information to you by referring you to another document filed separately with the SEC. The following documents (File No. 001-37347) contain important information about us and we incorporate them by reference (excluding any portions of such documents that have been furnished but not filed for purposes of the Exchange Act):

- our Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on March 14, 2019, as amended by that certain Form 10-K/A, filed with the SEC on March 15, 2019;
- our Quarterly Reports on Form 10-Q for the quarter ended March 31, 2019, filed with the SEC on May 9, 2019; the quarter ended June 30, 2019, filed with the SEC on August 9, 2019; and for the quarter ended September 30, 2019, filed with the SEC on November 12, 2019;
- our Current Reports on Forms 8-K filed with the SEC on April 3, 2019, May 1, 2019, May 30, 2019 (two filings), June 3, 2019, June 20, 2019, July 16, 2019, December 9, 2019 and December 30, 2019;
- the portions of our Definitive Proxy Statement on Schedule 14A filed with the SEC on April 30, 2019, that are incorporated by reference into our Annual Report on Form 10-K for the fiscal year ended December 31, 2018; and
- the description of our Shares contained in our registration statement on Form 8-A filed with the SEC on April 14, 2015 (File No. 001-37347), including any amendment or report filed for purposes of updating such description.

We, or the Information Agent, will provide to each person, including any beneficial owner of a Share, to whom an Offer to Purchase is delivered, upon written or oral request and without charge, a copy of the documents referred to above that we have incorporated in this Offer to Purchase. The Information Agent may be contacted at the address set forth on the back cover of this Offer to Purchase. You can request copies of such documents if you call or write us at the following address or telephone number: XBiotech Inc., attention Investor Relations, 5217 Winnebago Lane, Austin, Texas 78744, telephone: (512) 386-2900, or you may visit our website at www.xbiotech.com for copies of any such documents. The information contained on, or accessible through, our website is not deemed to be incorporated by reference in this Offer to Purchase.

This Offer to Purchase and the information incorporated by reference herein contain summaries of certain agreements that we have filed as exhibits to various SEC filings. The descriptions of these agreements contained in this Offer to Purchase or the information incorporated by reference herein do not purport to be complete and are subject to, or qualified in their entirety by reference to, the definitive agreements. Copies of the definitive agreements will be made available without charge to you by making a written or oral request to us.

Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein will be deemed to be modified or superseded for purposes of this Offer to Purchase to the extent that a statement contained herein, in any other subsequently filed document that also is or is deemed to be incorporated by reference herein, modifies or supersedes such statement. Any such statement so modified or superseded will not be deemed, except as so modified and superseded, to constitute a part of this Offer to Purchase.

12. Interests of Directors, Executive Officers and Affiliates; Transactions and Arrangements Concerning the Shares.

A list of our directors and executive officers as of January 13, 2020, is attached to this Offer to Purchase as [Schedule I](#).

Beneficial Ownership. As of January 13, 2020, we had 42,365,250 issued and outstanding Shares. We are offering to purchase up to \$420,000,000 in value of Shares. At the maximum Final Purchase Price of \$33.00 per Share, we could purchase 12,727,272 Shares if the Offer is fully subscribed, which would represent approximately 30.04% of our issued and outstanding Shares as of January 13, 2020. At the minimum Final Purchase Price of \$30.00 per Share, we could purchase 14,000,000 Shares if the Offer is fully subscribed, which would represent approximately 33.05% of our issued and outstanding Shares as of January 13, 2020.

As of January 13, 2020, our directors and executive officers as a group (7 persons) beneficially owned, as defined in accordance with the rules of the SEC, an aggregate of approximately 13,299,482 Shares (including Shares that such persons had the right to purchase within 60 days of January 13, 2020 pursuant to outstanding options for each such person), representing approximately 29.90% of the total issued and outstanding Shares (including the Shares underlying options referred to in the preceding parenthetical).

Our directors and executive officers are entitled to participate in the Offer on the same basis as all other shareholders. The Affiliate Holders, consist of John Simard, a director and our Chief Executive Officer; Sushma Shivaswamy, our Chief Scientific Officer; Queena Han, our Vice President, Finance, and Human Resources and Secretary; and W. Thorpe McKenzie, a member of our Board of Directors, have advised us that, although no final decision has been made, they may tender up to 6,327,060, 47,538, 70,000 and 4,557,839 Shares, respectively, that they beneficially own in the Offer. The Affiliate Holders beneficially owned an aggregate of 16,295,181 Shares as of January 13, 2020, representing approximately 38.46% of our outstanding Shares as of January 13, 2020 (for beneficial ownership disclaimed by the Affiliate Holders, see Section 12). Assuming that the Affiliate Holders tender the 11,002,437 Shares referred to above and all such Shares are purchased in the Offer, the Affiliate Holders will beneficially own an aggregate of 5,292,744 Shares immediately following the Offer. All of our other directors have advised us that they do not intend to tender any of their Shares in the Offer, and we are not aware of the intentions of our other 5% shareholders with respect to the Offer. There can be no assurance that the persons described above will in fact tender or sell the number of shares indicated, nor can there be any assurance that other directors or other affiliates of the Company will not decide to tender or sell shares. If the Affiliate Holders properly tender Shares in the Offer, the Affiliate Holders' tenders could influence the price at which all of the Shares accepted for payment are purchased. It is anticipated that as a result of the expected high level of participation and the resulting proration, the proportional beneficial ownership of the Company will not change significantly as a result of the Offer.

Our directors, executive officers and affiliates (including the Affiliate Holders) may, subject to applicable law and applicable policies of the Company, sell their Shares from time to time in open-market and/or other transactions at prices that may be more or less favorable than the purchase price to be paid to our shareholders pursuant to the Offer. If no such transactions by our directors, executive officers and affiliates occur, and if they do not tender any of their Shares in the Offer, the beneficial ownership of our directors, executive officers and affiliates will increase as a percentage of our outstanding Shares following the consummation of the Offer, except for the Affiliate Holders, whose relative beneficial ownership may decrease if they participate in the Offer.

The following table sets forth certain information with respect to the beneficial ownership of our Shares by (i) each of our named executive officers, (ii) each of our directors; (iii) all executive officers and directors as a group; and (iv) our greater than 5% shareholders. The business address of each of our directors and executive officers is 5217 Winnebago Lane, Austin, Texas 78744. We based the Share amounts on each person's beneficial ownership of our Shares as of January 13, 2020. The number of Shares beneficially owned is determined under rules of the SEC. The information is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership includes any Shares as to which the individual has either sole or shared voting power or investment power and also any Shares that the individual has the right to acquire within 60 days through the exercise of any stock option or other right. Unless otherwise indicated in the footnotes, each person has sole voting and investment power with respect to the Shares set forth in following table:

Beneficial Owner	Beneficial Ownership	
	Number of Shares	Percent of Total
Named Executive Officers and Directors:		
John Simard ⁽¹⁾⁽³⁾	7,504,977	17.24%
Mr. Jan-Paul Waldin ⁽²⁾	350,000	*
W. Thorpe McKenzie ⁽¹⁾⁽²⁾	5,065,339	11.81%
Mr. Donald MacAdam ⁽¹⁾	50,000	*
Dr. Peter Libby ⁽¹⁾	12,500	*
Dr. Sushma Shivaswamy ⁽¹⁾	215,833	*
Queena Han ⁽¹⁾	100,833	*
All current executive officers and directors as a group (7 persons) ⁽⁴⁾	13,299,482	29.90%
Greater than 5% Shareholders:		
Josef Karl Gut ⁽⁵⁾ UFC Ltd. Family Office Selnaustrasse 5 8001 Zurich, Switzerland	2,909,989	6.87%
Thomas Gut ⁽⁶⁾ UFC Ltd. Family Office Selnaustrasse 5 8001 Zurich, Switzerland	3,364,989	7.94%
Rennes Fondation ⁽⁷⁾ Rätikonstrasse 13, Vaduz Principality of Liechtenstein Liechtenstein FL-9490	5,110,282	12.06%

* Less than one percent.

- (1) These figures include Shares underlying stock options held by our executive officers and directors that are immediately exercisable or scheduled to become immediately exercisable within 60 days of January 13, 2020. Underlying stock options include the following amounts: John Simard – 1,177,917; Jan-Paul Waldin – 50,000; Thorpe McKenzie – 507,500; Donald MacAdam – 50,000; Peter Libby – 12,500; Queena Han – 100,833; and Sushma Shivaswamy – 215,833.
- (2) Includes 100,000 Shares held by the McKenzie Foundation which Mr. McKenzie directly controls. 47,738 shares held by Mr. McKenzie's spouse and 11,500 shares held in a Trust for Mr. McKenzie's stepchildren.
- (3) Includes 11,250 stock options held by Mr. John Simard's spouse.
- (4) Includes 2,134,583 Shares underlying stock options held by our executive officers and directors (7 persons total) that are immediately exercisable or are scheduled to become exercisable within 60 days of January 13, 2020.
- (5) Includes Shares held by Josef Gut as of March 15, 2017 as reflected on a Schedule 13G/A filed with the SEC on March 17, 2017.
- (6) Includes Shares held by Thomas Gut as of December 31, 2017 as reflected on a Schedule 13G/A filed with the SEC on February 14, 2018 and based on additional information represented to the Company. The Reporting Person's spouse owns, controls and holds sole dispositive power to 10,000 shares for which the Reporting Person disclaims beneficial ownership according to Rule 13d-4.
- (7) Based on information set forth in a Schedule 13G/A filed with the SEC on June 12, 2019. Excludes short put options pursuant to which the Reporting Person may be required to purchase 3,100 Shares.

Securities Transactions. Based on our records and on information provided to us by our directors, executive officers, affiliates and subsidiaries, neither we nor any of our directors, our executive officers, or our affiliates or our subsidiaries nor, to the best of our knowledge, any person controlling the Company or any executive officer or director of any such controlling entity or of our subsidiaries, has effected any transactions involving the Shares during the 60 days prior to the date hereof, except for the following transactions:

- On November 29, 2019, W. Thorpe McKenzie exercised a stock option to purchase 185,000 shares at an exercise price of \$3.75 per share. The option was due to expire on November 30, 2019.
- On December 6, 2019, John Simard was granted incentive stock options to acquire 1,000,000 Shares at an exercise price of \$11.12 per share, pursuant to the 2015 Plan. The options vest in two equal installments commencing as of the six-month anniversary and the first anniversary of the grant date with an expiry of ten years from the grant date.
- On January 6, 2020, W. Thorpe McKenzie exercised a stock option to purchase 123,000 shares at an exercise price of \$3.75 per share. The option was due to expire on February 1, 2020.
- On January 9 2020, W. Thorpe McKenzie exercised stock options to purchase 692,000 shares at an exercise price of \$3.75 per share. The options were due to expire on March 29, 2020 (as to 327,000 stock options), July 14, 2020 (as 320,000 stock options) and December 15, 2020 (as to 45,000 stock options).

Arrangements Concerning the Shares.

Equity Compensation Plans. The 2015 Equity Incentive Plan, as amended (the “2015 Plan”), was adopted by the Board of Directors on April 1, 2015, and approved by the Company’s shareholders on March 13, 2015, and replaced the Company’s 2005 Incentive Stock Option Plan (the “Prior Plan”). The 2015 Plan has a term of ten (10) years from the date adopted by the Board, unless terminated earlier by the Board. The 2015 Plan provides for the grant of incentive and non-qualified stock options, stock appreciation rights, restricted share awards, restricted share unit awards and performance share awards. To date, the Company has only granted stock options under the 2015 Plan. Stock options typically vest over periods of two or three years and are exercisable for up to ten years from the grant date.

Upon adoption, the 2015 Plan had 1,000,000 Shares of the Company available for issuance under the 2015 Plan. On May 13, 2016, the Board adopted an amendment to the 2015 Plan that increased the number of shares reserved for issuance thereunder to 4,000,000, which increase was approved by the Company’s shareholders on June 20, 2016. On December 18, 2019, the Board adopted an amendment to the 2015 Plan that increased the number of shares reserved for issuance thereunder to 5,000,000, subject to shareholder approval, which will be sought at the Company’s 2020 annual meeting of shareholders. If any award (or portion thereof) expires or terminates without having been exercised in full or is forfeited to or repurchased by the Company, the number of Shares subject to such award will again be available for issuance under the 2015 Plan. 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 under the 2015 Plan. To the extent an award under the 2015 Plan is paid out in cash rather than Shares, such cash payment will not result in a reduction in the number of Shares available for issuance under the 2015 Plan. As of January 13, 2020, an aggregate of approximately 415,476 Shares remained available for future awards under the 2015 Plan, and approximately 6,120,113 stock options were outstanding under the 2015 Plan and the Prior Plan. The Board of Directors of the Company may amend or terminate the 2015 Plan at any time. Certain amendments, including an increase in the share reserve, require shareholder approval.

Director Equity Compensation. We compensate non-employee members of the Board of Directors in the form of annual equity grants under the 2015 Plan. Directors who are also employees do not receive cash or equity compensation for service on the Board of Directors in addition to compensation payable for their service as our employees. The non-employee members of our Board of Directors are reimbursed for travel, lodging and other reasonable expenses incurred in attending Board of Directors or committee meetings. Currently, it is the Company’s policy that each non-employee director is granted non-qualified stock options under the Company’s 2015 Equity Incentive Plan to purchase 25,000 Shares, which options are granted annually on or about the date of the Company’s annual shareholders’ meeting, are exercisable at a price equal to the closing price of the Company’s Shares, as reported by NASDAQ, on the date of grant, and vest in two equal installments occurring six months and 12 months following the date of grant, subject to continued service as a director.

The foregoing descriptions of agreements and arrangements involving the Shares are qualified in their entirety by reference to the text of the respective agreements and arrangements, copies of which have been filed with the SEC.

Certain Other Arrangements. John Simard, Founder, President, Chief Executive Officer & Chairman, Sushma Shivaswamy, Ph.D., Chief Scientific Officer, and Queena Han, Vice President Finance & Human Resources (together, our “Named Executive Officers”) have employment agreements and/or offer letters with us that provide that their employment is at will and may be terminated at any time by the executive or by us with or without cause and without notice. The employment agreements provide for certain base salary, target bonus and severance payments to our Named Executive Officers as follows:

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 \$565,000 per year, 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 Board of Directors 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. 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" 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.

We do not have written employment agreements with Dr. Shivaswamy or Ms. Han. We entered into an offer letter with Dr. Shivaswamy upon her hiring, which originally provided that she was paid an annual base salary of \$70,000 per year as well as granted stock options Dr. Shivaswamy's current base salary is \$306,240 and from time to time she receives option grants as approved by the Board of Directors or Compensation Committee. We have a written employment arrangement with Ms. Han, pursuant to which she receives a current base salary of \$200,000 and from time to time she receives option grants as approved by the Board of Directors or Compensation Committee.

None of the Named Executive Officers' employment agreements provide for the gross up of any excise taxes imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"). If any of the payments under the employment agreements would constitute a "parachute payment" within the meaning of Section 280G of the Code, subject to the excise tax imposed by Section 4999 of the Code, the employment agreements provide for a best-after tax analysis with respect to such payments, under which the executive will receive whichever of the following two alternative forms of payment would result in the executive officer's receipt, on an after-tax basis, of the greater amount of the transaction payment notwithstanding that all or some portion of the transaction payment may be subject to the excise tax: (i) payment in full of the entire amount of the transaction payment, or (ii) payment of only a part of the transaction payment so that the executive receives the largest payment possible without the imposition of the excise tax.

The foregoing descriptions of agreements and arrangements involving the Shares are qualified in their entirety by reference to the text of the respective agreements and arrangements, copies of which have been filed with the SEC.

Except as otherwise described herein, neither we nor, to the best of our knowledge, any of our affiliates, directors or executive officers, is a party to any contract, agreement, arrangement, understanding or relationship with any other person with respect to any of our securities.

13. Certain Legal Matters; Regulatory Approvals.

Part 2 of National Instrument 62-104 ("NI 62-104") requires an issuer making a bid for its own securities to (among other things) prepare, and file with relevant Canadian securities regulatory authorities, an issuer bid circular providing its shareholders with specified disclosures. However, the Company will not be complying with these requirements because: (a) it is relying on the exemption available to "foreign issuers" under section 4.10 of NI62-104; and (b) this Offer to Purchase and the related documents that constitute part of the Offer have been prepared in compliance with applicable United States securities legislation.

We are not aware of any other license or regulatory permit that is reasonably likely to be material to our business that might be adversely affected by our acquisition of Shares as contemplated in the Offer or of any approval or other action by any government or governmental, administrative or regulatory authority or agency, domestic, foreign or supranational, that would be required for our acquisition or ownership of Shares as contemplated by the Offer. Should any approval or other action be required, we presently contemplate that we will seek that approval or other action, but we have no current intention to delay the purchase of Shares tendered pursuant to the Offer pending the outcome of any such matter, subject to our right to decline to purchase Shares if any of the conditions in Section 7 have occurred or are deemed by us to have occurred or have not been waived. We cannot predict whether we would be required to delay the acceptance for payment of or payment for Shares tendered pursuant to the Offer pending the outcome of any such matter. We cannot assure you that any approval or other action, if needed, would be obtained or would be obtained without substantial cost or conditions or that the failure to obtain the approval or other action might not result in adverse consequences to our business and financial condition. If certain types of adverse actions are taken with respect to the matters discussed above, or certain approvals, consents, licenses or permits identified above are not obtained, we can decline to accept for payment or pay for any Shares tendered. See Section 7.

14. Certain United States and Canadian Federal Income Tax Consequences.

Certain U.S. Federal Income Tax Considerations.

The following discussion describes certain United States federal income tax consequences of participating in the Offer for U.S. Holders (as defined below). This summary is based upon the Internal Revenue Code of 1986, as amended (the "Code"), United States Treasury Regulations issued thereunder, IRS rulings and pronouncements, and judicial decisions, all as of the date hereof and all of which are subject to differing interpretations or change which could affect the tax consequences described in this Offer to Purchase (possibly on a retroactive basis). This discussion is for general information only and does not address all of the aspects of United States federal income taxation that may be relevant to a particular shareholder or to shareholders subject to special rules (including, without limitation, financial institutions, brokers, dealers or traders in securities or commodities, traders who elect to apply a mark-to-market method of accounting, insurance companies, regulated investment companies, real estate investment trusts, "S" corporations, partnerships or other pass-through entities, controlled foreign corporations, passive foreign investment companies, U.S. expatriates, tax-exempt organizations, tax-qualified retirement plans, qualified foreign pension funds, persons who hold Shares as a position in a "straddle" or as part of a "hedging," "conversion" or "integrated" transaction or other risk reduction strategy, directors, employees, former employees or other persons who acquired their Shares as compensation, including upon the exercise of employee stock options, and U.S. Holders that have a functional currency other than the United States dollar). In particular, this summary does not address any tax consequences arising from the Medicare tax on net investment income, the sale of Shares acquired pursuant to employee benefit plans or the alternative minimum tax. This summary also does not address tax considerations arising under any state, local or foreign laws, or under United States federal estate or gift tax laws. This summary assumes that shareholders hold the Shares as "capital assets" within the meaning of Section 1221 of the Code (generally, property held for investment). No IRS ruling has been or will be sought regarding any matter discussed herein.

As used herein, the term "U.S. Holder" means a beneficial owner of Shares that for United States federal income tax purposes is:

- an individual who is a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the "substantial presence" test under Section 7701(b) of the Code;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons" within the meaning of Section 7701(a)(30) of the Code have the authority to control all substantial decisions of the trust, or, if the trust was in existence on August 20, 1996 and it has elected to continue to be treated as a United States person.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) holds Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A partnership holding Shares, and each partner in such partnership, is urged to consult its tax advisor regarding the tax consequences of participating in the Offer.

Each shareholder is urged to consult its tax advisor as to the particular United States federal income tax consequences to such shareholder of participating or not participating in the Offer and the applicability and effect of any state, local and foreign tax laws and other tax consequences with respect to the Offer.

Non-Participation in the Offer. The Offer will generally have no United States federal income tax consequences to shareholders that do not tender any Shares in the Offer.

Consequences of the Offer to U.S. Holders.

Characterization of the Purchase—Distribution vs. Sale Treatment. The exchange of Shares for cash pursuant to the Offer will be a taxable transaction for United States federal income tax purposes. A U.S. Holder that participates in the Offer will be treated, depending on such U.S. Holder's particular circumstances, either as recognizing gain or loss from the disposition of the Shares or as receiving a distribution with respect to the Shares. Under the stock redemption rules of Section 302 of the Code, a U.S. Holder will recognize gain or loss on an exchange of Shares for cash if the exchange: (a) results in a "complete termination" of all such U.S. Holder's equity interest in the Company, (b) results in a "substantially disproportionate" redemption with respect to such U.S. Holder, or (c) is "not essentially equivalent to a dividend" with respect to the U.S. Holder (clauses (a), (b) and (c) together, the "Section 302 tests"), or (d) is in partial liquidation of XBiotech and the U.S. Holder is other than a corporation.

Special “constructive ownership” rules will apply in determining whether any of the Section 302 tests has been satisfied. A U.S. Holder must take into account not only the Shares that are actually owned by the U.S. Holder, but also Shares that are constructively owned by the U.S. Holder within the meaning of Section 318 of the Code. Very generally, a U.S. Holder may constructively own Shares actually owned, and in some cases constructively owned, by certain members of the U.S. Holder’s family and certain entities (such as corporations, partnerships, trusts and estates) in which the U.S. Holder has an equity interest or which hold an equity interest in the U.S. Holder, as well as Shares the U.S. Holder has an option to purchase.

The receipt of cash by a U.S. Holder will be a “complete termination” of the U.S. Holder’s equity interest if either (i) the U.S. Holder owns none of our Shares either actually or constructively immediately after the Shares are sold pursuant to the Offer, or (ii) the U.S. Holder actually owns none of our Shares immediately after the sale of Shares pursuant to the Offer and, with respect to Shares constructively owned by the U.S. Holder immediately after the Offer, the U.S. Holder is eligible to waive, and effectively waives, constructive ownership of all such Shares under procedures described in Section 302(c)(2) of the Code and the applicable Treasury regulations. U.S. Holders intending to satisfy the “complete termination” test through waiver of the constructive ownership rules should consult their own tax advisors.

The receipt of cash by a U.S. Holder will be a “substantially disproportionate” redemption if, among other things, the percentage of our outstanding voting stock (including Shares) actually and constructively owned by the U.S. Holder immediately following the sale of Shares pursuant to the Offer is less than 80% of the percentage of our outstanding voting stock (including Shares) actually and constructively owned by the U.S. Holder immediately before the sale of Shares pursuant to the Offer.

Even if the receipt of cash by a U.S. Holder fails to satisfy the “complete termination” test or the “substantially disproportionate” test, a U.S. Holder may nevertheless satisfy the “not essentially equivalent to a dividend” test if the U.S. Holder’s surrender of Shares pursuant to the Offer results in a “meaningful reduction” in the U.S. Holder’s interest in us. Whether the receipt of cash by a U.S. Holder will be “not essentially equivalent to a dividend” will depend upon the U.S. Holder’s particular facts and circumstances. The IRS has indicated in published rulings that even a small reduction in the proportionate interest of a small minority stockholder in a publicly held corporation who exercises no control over corporate affairs may constitute a “meaningful reduction.”

We cannot predict whether any particular U.S. Holder will be subject to sale or exchange treatment, on the one hand, or distribution treatment, on the other hand, under the Section 302 tests. Contemporaneous dispositions or acquisitions of Shares (pursuant to the Offer or otherwise, including market sales and purchases) by a U.S. Holder or related individuals or entities may be deemed to be part of a single integrated transaction and may be taken into account in determining whether the Section 302 tests have been satisfied. Each U.S. Holder should be aware that because proration may occur in the Offer, even if all the Shares actually and constructively owned by a U.S. Holder are tendered pursuant to the Offer, fewer than all of such Shares may be purchased by us. Consequently, we cannot assure you that a sufficient number of any particular U.S. Holder’s Shares will be purchased to ensure that this purchase will be treated as a sale or exchange, rather than as a distribution, for United States federal income tax purposes pursuant to the rules discussed herein. Accordingly, a tendering U.S. Holder may choose to submit a “conditional tender” under the procedures described in Section 6, which allows the U.S. Holder to tender Shares subject to the condition that a specified minimum number of the U.S. Holder’s Shares must be purchased by us if any such Shares so tendered are purchased.

Unlike the Section 302 tests discussed above, which analyze the effect of the Offer on a shareholder’s stock ownership, whether a distribution is in partial liquidation is determined by analyzing the effect of the distribution on the Company, is dependent on the facts specific to the Company, and is highly complex. Amounts distributed in partial liquidation within the meaning of Section 302(e) to non-corporate U.S. Holders in redemption of their Shares generally qualify for sale or exchange treatment under Section 302 without regard to the Section 302 tests described above. While the Company intends the sale of our barmekimab business in the Janssen Transaction, together with the Offer, to constitute a partial liquidation of the Company, and for this Offer to Purchase to constitute a plan of partial liquidation, we cannot be certain that the IRS will not take a different position concerning the tax consequences of the Offer or that any such position would not be sustained by a court if the issue were litigated. Accordingly, non-corporate U.S. Holders should consult their tax advisers regarding the application of the partial liquidation rules in Section 302(e) to Shares purchased as part of the Offer.

Sale or Exchange Treatment. If a U.S. Holder is treated as recognizing gain or loss from the “sale or exchange” of the Shares for cash, such gain or loss will be equal to the difference, if any, between the amount of cash received and such U.S. Holder’s tax basis in the Shares exchanged therefor. Generally, a U.S. Holder’s tax basis in the Shares will be equal to the cost of the Shares to the U.S. Holder reduced by any previous returns of capital. Subject to the discussion of the passive foreign investment company rules below, any gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period of the Shares exceeds one year as of the date of the exchange. Long-term capital gain is subject to a reduced rate of tax for non-corporate U.S. Holders (including individuals). The deductibility of capital losses is subject to limitations. A U.S. Holder must calculate gain or loss separately for each block of Shares (generally, Shares acquired at the same cost in a single transaction). A U.S. Holder may be able to designate which blocks of Shares it wishes to tender and the order in which different blocks will be purchased in the event that less than all of its Shares are tendered.

Distribution Treatment. If a U.S. Holder is not treated as recognizing gain or loss from the “sale or exchange” of Shares for cash, the entire amount of cash received by such U.S. Holder pursuant to the Offer will be treated as a distribution by the Company with respect to the U.S. Holder’s Shares. Subject to the discussion of the passive foreign investment company rules below, the distribution would be treated as a dividend to the extent of such U.S. Holder’s pro rata share of our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. While we have not completed a computation of our current earnings and profits at this time, given the magnitude of the gain recognized on the Janssen Transaction, we anticipate that we will have accumulated earnings and profits in an amount greater than the amount of proceeds to be paid in connection with the Offer. Accordingly, in the event that you determine that the distribution in redemption of a U.S. Holder’s Shares does not qualify for sale or exchange treatment, we believe that the entire amount received by a U.S. Holder for his or her Shares will be classified as a dividend for U.S. federal income tax purposes.

Foreign Tax Credit. A portion or all of the amount distributed to a U.S. Holder in redemption of his or her shares may be subject to Canadian income tax withholding. Subject to various limitations based on the character, source, and amount of income or gain recognized by a U.S. Holder as a result of receiving the distribution in redemption of his or her Shares, a U.S. Holder may elect to claim a foreign tax credit (in lieu of a deduction) against his or her United States federal income tax liability for Canadian income tax paid with respect to any such distribution. The rules relating to the foreign tax credit determination are complex. Accordingly, U.S. Holders should consult their own tax advisors to determine whether and to what extent you may be entitled to the credit.

Passive Foreign Investment Company Status. For US federal income taxation purposes, we will be a passive foreign investment company (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 U.S. shareholder in that year will be PFIC shares for that year and, generally, in all subsequent years in which they are held by that shareholder.

We believe XBiotech satisfied the test for classification as a PFIC in certain of its prior taxable years as its gross income during most of those prior taxable years consisted principally of interest income. However, the character and amount of our gross income changed significantly in 2019 and we believe, but cannot guarantee, that XBiotech did not satisfy the tests for classification as a PFIC for the year ended 2019. In addition, we expect, but cannot guarantee, that XBiotech will not satisfy the tests for classification as a PFIC for the taxable year that includes the Offer. However, these conclusions depend on complex factual determinations that are made annually and thus there can be no assurance that XBiotech will not satisfy the test for classification as a PFIC for the taxable year 2019 or the taxable year that includes the Offer.

U.S. Holders are subject to special potentially adverse rules if XBiotech were classified as a PFIC at any time during such U.S. Holder’s holding period for Shares depending on whether the U.S. Holder (i) takes no action, (ii) makes an election to treat us as a “Qualified Electing Fund” (a “QEF election”) or (iii) if permitted, makes a “mark-to-market” election with respect to our Ordinary Shares. A U.S. Holder of our shares will also be required under applicable Treasury Regulations, to file an annual information return (Form 8621) containing information regarding our company. Additional explanations of the PFIC rules are set forth below. This material is complex and may affect different U.S. Holders differently, depending on the U.S. Holder’s tax profile. Accordingly, U.S. Holders should consult their own tax advisors about the consequences of our company being classified as a PFIC and about what steps, if any, they might take related to the tax impact of our PFIC status on them.

Taxation of U.S. Holders Making a Timely QEF Election. If a U.S. Holder makes a timely QEF election, which U.S. Holder is referred to as an “Electing Holder,” the Electing Holder must report, for each taxable year for U.S. federal income tax purposes that XBiotech is classified as a PFIC, his pro rata share of our ordinary earnings and its net capital gain, if any, for our taxable year that ends with or within the taxable year of the Electing Holder, regardless of whether or not distributions were received from us by the Electing Holder. The Electing Holder’s adjusted tax basis in the Shares will be increased to reflect taxed but undistributed earnings and profits. Distributions of earnings and profits that had been previously taxed will result in a corresponding reduction in the adjusted tax basis in the Shares and will not be taxed again once distributed. An Electing Holder would generally recognize capital gain or loss on the sale, exchange or other disposition of the Shares. A U.S. Holder would make a QEF election with respect to any year that we are a PFIC by filing IRS Form 8621 with his, her or its U.S. federal income tax return. After the end of each taxable year, we will determine whether we were a PFIC for such taxable year.

Taxation of U.S. Holders Making a “Mark-to-Market” Election. Alternatively, if we were to be treated as a PFIC for any taxable year and, as anticipated, our Shares are treated as “marketable stock,” a U.S. Holder would be allowed to make a “mark-to-market” election with respect to our Shares. If that election is made, the U.S. Holder generally would include as ordinary income in each taxable year the excess, if any, of the fair market value of the Shares at the end of the taxable year over such U.S. Holder’s adjusted tax basis in the Shares. The U.S. Holder would also be permitted an ordinary loss in respect of the excess, if any, of the U.S. Holder’s adjusted tax basis in the Shares over their fair market value at the end of the taxable year, but only to the extent of the net amount previously included in income as a result of the mark-to-market election. A U.S. Holder’s tax basis in his Shares would be adjusted to reflect any such income or loss amount. Gain realized on the sale, exchange or other disposition of the Shares would be treated as ordinary income, and any loss realized on the sale, exchange or other disposition of the Shares would be treated as ordinary loss to the extent that such loss does not exceed the net mark-to-market gains previously included by the U.S. Holder.

Taxation of U.S. Holders Not Making a Timely QEF or Mark-to-Market Election. Finally, if we were to be treated as a PFIC for any taxable year, a U.S. Holder who does not make either a QEF election or a “mark-to-market” election for that year, whom we refer to as a “Non-Electing Holder,” would be subject to special rules with respect to (1) any excess distribution (i.e., the portion of any distributions received by the Non-Electing Holder on our Shares in a taxable year in excess of 125 percent of the average annual distributions received by the Non-Electing Holder in the three preceding taxable years, or, if shorter, the Non-Electing Holder’s holding period for the Shares), and (2) any gain realized on the sale, exchange or other disposition of our common stock. Under these special rules:

- the excess distribution or gain would be allocated ratably over the Non-Electing Holders’ aggregate holding period for the Shares;
- the amount allocated to the current taxable year and any taxable year before we became a passive foreign investment company would be taxed as ordinary income; and
- the amount allocated to each of the other taxable years would be subject to tax at the highest rate of tax in effect for the applicable class of taxpayer for that year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax attributable to each such other taxable year.

Information Reporting and Backup Withholding. We may be required to report to the IRS any payments made to U.S. Holders in the Offer. In addition, under the United States federal income tax laws, backup withholding at the statutory rate (currently 24%) may apply to the amount paid to certain shareholders (who are not “exempt” recipients) pursuant to the Offer. To prevent such backup United States federal income tax withholding, each non-corporate shareholder who is a U.S. Holder and who does not otherwise establish an exemption from backup withholding must notify the Depository or other applicable withholding agent of the shareholder’s taxpayer identification number (employer identification number or social security number) and provide certain other information by completing, under penalties of perjury, an IRS Form W-9, a copy of which is included in the Letter of Transmittal. Failure to timely provide the correct taxpayer identification number on the IRS Form W-9 may subject the shareholder to a \$50 penalty imposed by the IRS.

Certain “exempt” recipients (including, among others, generally all corporations and certain non-U.S. Holders) are not subject to these backup withholding requirements. For a non-U.S. Holder to qualify for such exemption, such non-U.S. Holder must submit a statement (generally, an IRS Form W-8BEN or W-8BEN-E or other applicable Form W-8), signed under penalties of perjury, attesting to such non-U.S. Holder’s exempt status. A copy of the appropriate IRS Form W-8 may be obtained from the Depository or from the IRS website (www.irs.gov). A disregarded domestic entity that has a regarded foreign owner must use the appropriate IRS Form W-8, and not the IRS Form W-9. See Instruction 10 to the Letter of Transmittal.

Backup withholding is not an additional tax. Taxpayers may use amounts withheld as a credit against their United States federal income tax liability or may claim a refund of such amounts if they timely provide certain required information to the IRS.

Shareholders are urged to consult their tax advisors regarding the application of backup withholding to their particular circumstances and the availability of, and procedure for obtaining, an exemption from backup withholding.

Certain Canadian Federal Income Tax Considerations.

General. The following summary describes, as of the date hereof, certain of the material Canadian federal income tax considerations under the Income Tax Act (Canada) (the “Tax Act”) generally applicable to shareholders who sell Shares to the Company pursuant to the Offer.

This summary is based on the current provisions of the Tax Act and the regulations thereunder, all specific proposals to amend the Tax Act and the regulations thereunder publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof (referred to in this part as the “Tax Proposals”) and an understanding of the current administrative policies and assessing practices of the Canada Revenue Agency (the “CRA”) which have been published in writing prior to the date hereof. The summary assumes that all of the Tax Proposals will be implemented in the form proposed, although no assurance in this regard can be given. This summary does not otherwise take into account or anticipate any changes in law or administrative policies and practices, whether legislative, regulatory, administrative or judicial decision or action, nor does it take into account provincial, territorial or foreign tax considerations, which may differ significantly from those discussed herein.

This summary is not applicable to a shareholder (i) that is a “financial institution” for the purposes of the “mark-to-market” rules, (ii) that is a “specified financial institution”, (iii) that reports its “Canadian tax results” in a currency other than Canadian dollars, (iv) an interest in which is a “tax shelter investment”, or (v) that has entered into a “derivative forward agreement” as defined in the Tax Act in respect of the Shares, as each of those terms is defined in the Tax Act.

Certain additional considerations not discussed in this summary may apply to a shareholder that acquired Shares pursuant to the exercise of an employee stock option and who disposes of such Shares pursuant to the Offer. Such shareholders should consult their own tax advisors regarding their particular circumstances.

This summary is not exhaustive of all Canadian federal income tax considerations. Further, this summary is of a general nature only and is not intended to be, nor should it be considered to be, legal or tax advice to any particular shareholder and no representation is made with respect to the income tax consequences to any particular shareholder. Accordingly, shareholders should consult their own tax advisors concerning the application and effect of the income and other taxes of any country, province, territory, state or local tax authority, having regard to their particular circumstances.

Canadian Currency. Generally, for purposes of the Tax Act, all amount relating to the acquisition, holding or disposition or deemed disposition of a share must be expressed in Canadian dollars. Amounts denominated in another currency must be converted into Canadian dollars using the single daily rate of exchange (for purposes of the Tax Act) quoted by the Bank of Canada (“Applicable Exchange Rate”) on the date such amounts arose, or such other rate of exchange as is acceptable to the CRA.

Shareholders Resident in Canada

The following portion of the summary is, subject to the discussion under “General” above, applicable to a shareholder who, for the purposes of the Tax Act and at all relevant times, is or is deemed to be a resident of Canada, deals at arm’s length with, and is not affiliated with, the Company, holds its shares as capital property and is not exempt from tax under Part I of the Tax Act (a “Canadian Resident Shareholder”). The Shares will generally be considered to be capital property to a Canadian Resident Shareholder provided that the Canadian Resident Shareholder does not hold the Shares in the course of carrying on a business of buying and selling shares and has not acquired the Shares in a transaction considered to be an adventure or concern in the nature of trade. Certain Canadian Resident Shareholders that might not otherwise be considered to hold their Shares as capital property may, in certain circumstances, be entitled to have the Shares and every other “Canadian security” (as defined in the Tax Act) owned by such Canadian Resident Shareholders in the taxation year of the election and all subsequent taxation years deemed to be capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. Such Canadian Resident Shareholders should consult their own tax advisors for advice with respect to whether an election under subsection 39(4) of the Tax Act is available or advisable having regard to their particular circumstances.

Having regard to the deemed dividend tax treatment described below on a sale of Shares pursuant to the Offer as opposed to capital gains (or capital loss) treatment which would generally apply to a sale in the market, Canadian Resident Shareholders who wish to sell their Shares should consult their tax advisors regarding selling their Shares in the market as an alternative to selling Shares pursuant to the Offer.

Disposition of Shares and Deemed Dividend. A Canadian Resident Shareholder who sells Shares to the Company pursuant to the Offer will be deemed to receive a taxable dividend equal to the amount, if any, by which the amount paid by the Company for the Shares exceeds the paid-up capital of such Shares for the purposes of the Tax Act. The Company estimates that the paid-up capital per Share as of the date hereof is C\$8.86. Accordingly, the Company expects that a Canadian Resident Shareholder who sells Shares pursuant to the Offer will be deemed to have received a taxable dividend for the purposes of the Tax Act. Following the Expiration Date, the Company will publicly confirm the amount of the paid-up capital per Share, expressed in Canadian currency.

Any dividend deemed to be received by a Canadian Resident Shareholder who is an individual will be subject to the gross-up and dividend tax credit rules normally applicable to taxable dividends received by Canadian resident individuals from a taxable Canadian corporation, including the enhanced gross-up and dividend tax credit if the Company validly designates the dividend as an “eligible dividend”. If a dividend is designated as an eligible dividend, the effective income tax rate on the related income for a Canadian Resident Shareholder who is an individual will generally be lower relative to effective income tax rate for income received in connection with a dividend that was not designated as an eligible dividend. There may be limitations on the ability of a corporation to designate dividends as eligible dividends. Subject to such limitations, the Company intends to designate all deemed dividends arising as a result of a sale of shares pursuant to the Offer as eligible dividends for these purposes.

Subject to the application of subsection 55(2) of the Tax Act, as described below, any dividend deemed to be received by a Canadian Resident Shareholder that is a corporation will be included in computing such Canadian Resident Shareholder’s income as a dividend and will ordinarily be deductible in computing its taxable income subject also to all other limitations under the Tax Act. To the extent that such a deduction is available, private corporations (as defined in the Tax Act) and certain other corporations may be liable to pay refundable tax under Part IV of the Tax Act.

Under subsection 55(2) of the Tax Act, a Canadian Resident Shareholder that is a corporation may be required to treat all or a portion of any deemed dividend that is deductible in computing taxable income as proceeds of disposition and not as a dividend, generally in circumstances where the Canadian Resident Shareholder would have realized a capital gain if it disposed of any share at fair market value immediately before the sale of Shares to the Company and the sale resulted in a significant reduction in such capital gain. The application of subsection 55(2) involves a number of factual considerations that will differ for each Canadian Resident Shareholder, and a Canadian Resident Shareholder to whom it may be relevant is urged to consult its own tax advisors concerning its application having regard to its particular circumstances.

The amount paid by the Company pursuant to the Offer for the Shares less any amount deemed to be received by the Canadian Resident Shareholder as a dividend (after the application of subsection 55(2) in the case of a corporate Canadian Resident Shareholder) will be treated as proceeds of disposition of the Shares. The Canadian Resident Shareholder will realize a capital gain (or capital loss) on the disposition of the Shares equal to the amount by which the Canadian Resident Shareholder’s proceeds of disposition, net of any costs of disposition, exceed (or are less than) the adjusted cost base to the Canadian Resident Shareholder of the Shares sold to the Company pursuant to the Offer.

Taxation of Capital Gains and Losses. Generally, a Canadian Resident Shareholder will be required to include in computing its income for a taxation year one-half of any capital gain (a “taxable capital gain”) realized by it in that year. Subject to and in accordance with the provisions of the Tax Act, a Canadian Resident Shareholder must deduct one-half of the amount of any capital loss (an “allowable capital loss”) realized in a taxation year from taxable capital gains realized by the Canadian Resident Shareholder in that year, and any excess may be carried back to any of the three preceding taxation years or carried forward to any subsequent taxation year and deducted against net taxable capital gains realized in such years.

The amount of a capital loss realized on the disposition of a share by a Canadian Resident Shareholder that is a corporation may, to the extent and under the circumstances specified in the Tax Act, be reduced by the amount of dividends received or deemed to be received on the Shares (including any dividends deemed to be received as a result of the sale of Shares to the Company pursuant to the Offer). Similar rules may apply where a corporation is a member of a partnership or a beneficiary of a trust that owns Shares, directly or indirectly, through a partnership or trust. The Tax Act also contains rules which may apply to a Canadian Resident Shareholder to suspend or deny all or a portion of any capital loss realized on the sale of Shares pursuant to the Offer in cases where the Canadian Resident Shareholder (or a person affiliated with such shareholder for purposes of the Tax Act) acquires additional Shares in the period commencing thirty days prior to, and ending thirty days after, the disposition of the Shares pursuant to the Offer. Canadian Resident Shareholders who may be affected by these rules are urged to consult with their own tax advisors with respect to the “superficial loss” rules in this regard.

A Canadian Resident Shareholder who is an individual, including most trusts, may have all or a portion of any capital loss on the sale of Shares pursuant to the Offer denied if the “superficial loss” rules in the Tax Act apply. This may arise where the Canadian Resident Shareholder (or a person affiliated with the Canadian Resident Shareholder for purposes of the Tax Act) acquires additional shares in the period commencing thirty days prior to, and ending thirty days after, the disposition of the Shares pursuant to the Offer. Similarly, a Canadian Resident Shareholder that is a corporation may have all or a portion of any capital loss on the sale of the Shares pursuant to the Offer suspended if it (or a person affiliated with it for purposes of the Tax Act) acquires additional shares in the period commencing thirty days prior to, and ending thirty days after, the disposition of Shares pursuant to the Offer. Canadian Resident Shareholders are urged to consult their own tax advisors with respect to the “superficial loss” rules.

Other Taxes. A Canadian Resident Shareholder that is a Canadian-controlled private corporation throughout the year (as defined in the Tax Act) may be liable to pay an additional tax (refundable in certain circumstances) on its “aggregate investment income” for the year, which is defined to include an amount in respect of taxable capital gains (but not dividends, or deemed dividends, that are deductible in computing taxable income).

A capital gain realized, or a dividend received (or deemed to be received) by a Canadian Resident Shareholder who is an individual, including a trust (other than certain specified trusts), as a result of the sale of Shares pursuant to the Offer may give rise to a liability for alternative minimum tax. Such Canadian Resident Shareholders should consult their own tax advisors with respect to the alternative minimum tax rules set out in the Tax Act.

Non-Canadian Resident Shareholders

The following portion of the summary is, subject to the discussion under “General” above, applicable to a shareholder who, for purposes of the Tax Act and at all relevant times: (i) is not resident or deemed to be resident in Canada, (ii) does not use or hold, and is not deemed to use or hold, its Shares in connection with carrying on a business in Canada, (iii) deals at arm’s length with, and is not affiliated with, the Company, and (iv) is not an insurer that carries on an insurance business in Canada and elsewhere (a “Non-Canadian Resident Shareholder”).

A Non-Canadian Resident Shareholder who sells Shares to the Company pursuant to the Offer will be deemed to receive a taxable dividend equal to the amount, if any, by which the amount paid by the Company for the Shares exceeds the paid-up capital of such Shares for the purposes of the Tax Act. The Company estimates that the paid-up capital per Share as of the date hereof is C\$8.86. Accordingly, the Company expects that a Non-Canadian Resident Shareholder who sells Shares pursuant to the Offer will be deemed to have received a taxable dividend for the purposes of the Tax Act. Following the Expiration Date, the Company will publicly confirm the amount of the paid-up capital per Share, expressed in Canadian currency.

Any such dividend will be subject to Canadian withholding tax at a rate of 25% or such lower rate as may be substantiated under the terms of an applicable tax treaty. For example, a dividend received or deemed to be received by a Non-Canadian Resident Shareholder that is a resident of the United States for the purposes of the Canada-United States Income Tax Convention (the “US Treaty”), is eligible for benefits under the US Treaty, and is the beneficial owner of such dividends will generally be subject to withholding tax at a treaty-reduced rate of 15% (or 5% if the beneficial owner of the dividends is a company that owns at least 10% of the voting shares of the Company).

The amount paid by the Company for the Shares (less any amount deemed to be received by the Non-Canadian Resident Shareholder as a dividend) will be treated as proceeds of disposition of the Shares. A Non-Canadian Resident Shareholder will not be subject to tax under the Tax Act in respect of any capital gain realized on the disposition of Shares pursuant to the Offer unless the Shares are “taxable Canadian property” to the Non-Canadian Resident Shareholder at the time of such sale and such gain is not otherwise exempt from tax under the Tax Act pursuant to the provisions of an applicable tax treaty (if any).

The Company is of the view that the Shares are not, and have never been, taxable Canadian property to any particular shareholder. Nevertheless, a Share may be deemed to be taxable Canadian property to a Non-Canadian Resident Shareholder in certain circumstances specified in the Tax Act. Even if a Share is taxable Canadian property to a Non-Canadian Resident Shareholder, any capital gain realized on a disposition of the Share may be exempt from tax under the Tax Act pursuant to the provisions of an applicable tax treaty (if any). Non-Canadian Resident Shareholders should consult their own tax advisors in this regard.

Even if a Share is taxable Canadian property to a Non-Canadian Resident Shareholder, any capital gain realized on a disposition of the Share may be exempt from tax under the Tax Act pursuant to the provisions of an applicable tax treaty (if any). Non-Canadian Resident Shareholders should consult their own tax advisors in this regard.

In the event a Share is taxable Canadian property to a Non-Canadian Resident Shareholder at the time of disposition and the capital gain realized on disposition of the Share is not exempt from tax under the Tax Act pursuant to the provisions of an applicable tax treaty, the tax consequences in respect of capital gains described above under “Shareholders Resident in Canada – Taxation of Capital Gains and Losses” will generally apply.

In view of the deemed dividend tax treatment described above on a sale of Shares pursuant to the Offer and the resulting Canadian withholding tax, Non-Canadian Resident Shareholders should consult their own tax advisors regarding selling their Shares in the market as an alternative to selling Shares pursuant to the Offer.

THE TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE. YOU ARE URGED TO CONSULT YOUR TAX ADVISOR TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO YOU OF THE OFFER, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND TREATIES.

15. Extension of the Offer; Termination; Amendment.

We expressly reserve the right to extend the period of time the Offer is open and delay acceptance for payment of, and payment for, any Shares by giving oral or written notice of such extension to the Depositary and making a public announcement of such extension. During any such extension, all Shares previously tendered and not properly withdrawn will remain subject to the Offer and to the rights of a tendering shareholder to withdraw such shareholder's Shares.

We also expressly reserve the right, in our sole discretion, not to accept for payment and not pay for any Shares not previously accepted for payment or paid for, subject to applicable law, to postpone payment for Shares or terminate the Offer upon the occurrence of any of the conditions specified in Section 7 by giving oral or written notice of the termination or postponement to the Depositary and making a public announcement of the termination or postponement. Our reservation of the right to delay payment for Shares that we have accepted for payment is limited by Exchange Act Rule 13e-4(f)(5), which requires that we must pay the consideration offered or return the Shares tendered promptly after termination or withdrawal of the Offer.

Subject to compliance with applicable law, we further reserve the right, in our reasonable discretion, and regardless of whether any of the events set forth in Section 7 have occurred or are deemed by us to have occurred, to amend the Offer in any respect, including, without limitation, by changing the per Share purchase price range or by increasing or decreasing the value of Shares sought in the Offer. Amendments to the Offer may be made at any time and from time to time by public announcement of the amendment. In the case of an extension, the amendment shall be issued no later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled or announced Expiration Date. Any public announcement made pursuant to the Offer will be disseminated promptly to shareholders in a manner reasonably designed to inform shareholders of the change. Without limiting the manner in which we may choose to make a public announcement, except as required by applicable law, we will have no obligation to publish, advertise or otherwise communicate any public announcement other than by issuing a press release to the Dow Jones News Service or comparable service.

If we materially change the terms of the Offer or the information concerning the Offer, or if we waive a material condition of the Offer, we will extend the Offer to the extent required by Exchange Act Rule 13e-4(e)(3) and 13e-4(f)(1). This rule and related releases and interpretations of the SEC provide that the minimum period during which an offer must remain open following material changes in the terms of the offer or information concerning the offer (other than a change in price or a change in percentage of securities sought) will depend on the facts and circumstances, including the relative materiality of the terms or information. In a public release, the SEC has stated its views that an offer must remain open for a minimum period of time following a material change in the terms of the offer and that a waiver of a material condition is a material change in the terms of the offer. The release states that an offer should remain open for a minimum of five business days from the date a material change is first published or sent or given to security holders and that, if material changes are made with respect to information not materially less significant than the offer price, and the number of Shares being sought, a minimum of 10 business days may be required to allow for adequate dissemination to shareholders and investor response. If:

- we increase or decrease the price range to be paid for Shares or increase or decrease the value of Shares sought in the Offer (and thereby increase or decrease the number of Shares purchasable in the Offer), and, in the event of an increase in the value of Shares purchased in the Offer, the number of Shares accepted for payment in the Offer increases by more than 2% of the outstanding Shares, and
- the Offer is scheduled to expire at any time earlier than the expiration of a period ending on the tenth business day from, and including, the date that notice of such an increase or decrease is first published, sent or given to security holders in the manner specified in this Section 15.

then in each case the Offer will be extended until the expiration of the period of at least ten business days from, and including, the date of such notice. For purposes of the Offer, a "business day" means any day other than a Saturday, Sunday or Federal holiday and consists of the time period from 12:01 A.M. through 12:00 a.m., New York City time. The requirements to extend the Offer do not apply to the extent that the number of business days remaining between the occurrence of the change and the then-scheduled Expiration Date equals or exceeds the minimum extension period that would be required because of such amendment.

If we extend the Offer, you may withdraw your Shares until the Expiration Date, as extended. In the event that the terms of the Offer are amended, we will file an amendment to our Offer on Schedule TO-I describing the amendment.

If we increase the value of Shares purchased in the Offer such that the additional amount of Shares accepted for payment in the Offer does not exceed 2% of the outstanding Shares, this will not be deemed a material change to the terms of the Offer and we will not be required to extend the Offer. See Section 1.

16. Fees and Expenses.

We have retained D. F. King & Co., Inc. to act as Information Agent and American Stock Transfer & Trust Co., LLC to act as Depositary in connection with the Offer. The Information Agent may contact holders of Shares by mail, telephone, telegraph and personal interviews and may request brokers, dealers, commercial banks, trust companies and other nominee shareholders to forward materials relating to the Offer to beneficial owners. The Information Agent and the Depositary will each receive reasonable and customary compensation for their respective services, will be reimbursed by us for reasonable out-of-pocket expenses and will be indemnified against certain liabilities in connection with the Offer.

Certain officers and employees of the Company may render services in connection with the Offer but they will not receive any additional compensation for such services.

We will not pay any fees or commissions to brokers, dealers, commercial banks, trust companies or other nominees (other than fees to the Information Agent as described above) for soliciting tenders of Shares pursuant to the Offer. Shareholders holding Shares through brokers, dealers, commercial banks, trust companies or other nominees are urged to consult the brokers, dealers, commercial banks, trust companies or other nominees to determine whether transaction costs may apply if shareholders tender Shares through the brokers, dealers, commercial banks, trust companies or other nominees and not directly to the Depositary. We will, however, upon request, reimburse brokers, dealers, commercial banks, trust companies or other nominees for customary mailing and handling expenses incurred by them in forwarding this Offer to Purchase, the Letter of Transmittal and related materials to the beneficial owners of Shares held by them as a nominee or in a fiduciary capacity. No broker, dealer, commercial bank, trust company or other nominee has been authorized to act as our agent or the agent of the Information Agent or the Depositary for purposes of the Offer. There will be no stock transfer taxes payable on the transfer to us of Shares purchased pursuant to the Offer, as British Columbia law does not impose any such taxes. See Instruction 7 of the Letter of Transmittal.

17. Miscellaneous.

We are not aware of any jurisdiction where the making of the Offer is not in compliance with applicable law. If we become aware of any jurisdiction where the making of the Offer or the acceptance of Shares pursuant to the Offer is not in compliance with any applicable law, we will make a good faith effort to comply with the applicable law. If, after a good faith effort, we cannot comply with the applicable law, the Offer will not be made to, nor will tenders be accepted from or on behalf of, the holders of Shares residing in that jurisdiction. In any jurisdiction where the securities, "blue sky" or other laws require the Offer to be made by a licensed broker or dealer, the Offer will be deemed to be made on our behalf by one or more registered brokers or dealers licensed under the laws of the jurisdiction.

Pursuant to Exchange Act Rule 13e-4, we have filed with the SEC the Schedule TO, which contains additional information relating to the Offer. The Schedule TO, including the exhibits and any amendments thereto, may be examined, and copies may be obtained, at the same places and in the same manner set forth in Section 11 with respect to information concerning our company.

You should rely only on the information contained in this document or to which we have referred you. We have not authorized anyone to provide you with information or to make any representation on our behalf in connection with the Offer other than those contained in this Offer to Purchase and the related Letter of Transmittal. If given or made, you should not rely on that information or representation as having been authorized by us, any member of the Board of Directors, the Depositary or the Information Agent.

OUR BOARD OF DIRECTORS HAS DELEGATED AUTHORITY TO CONSIDER THE OFFER TO AN INDEPENDENT COMMITTEE OF OUR BOARD OF DIRECTORS, WHICH CONSISTS SOLELY OF INDEPENDENT DIRECTORS WHO DO NOT HAVE A MATERIAL FINANCIAL INTEREST IN THE TRANSACTIONS DESCRIBED IN THIS OFFER TO PURCHASE, AND THE INDEPENDENT COMMITTEE HAS APPROVED THE OFFER AND AUTHORIZED US TO MAKE THE OFFER. HOWEVER, NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS MADE ANY RECOMMENDATION AS TO WHETHER YOU SHOULD TENDER OR NOT TENDER YOUR SHARES IN THE OFFER NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS AUTHORIZED ANY PERSON TO MAKE ANY RECOMMENDATION ON OUR BEHALF AS TO WHETHER YOU SHOULD TENDER OR NOT TENDER YOUR SHARES IN THE OFFER. NONE OF THE COMPANY, THE MEMBERS OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY HAS AUTHORIZED ANY PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATION IN CONNECTION WITH THE OFFER OTHER THAN THOSE CONTAINED IN THIS OFFER TO PURCHASE OR IN THE RELATED LETTER OF TRANSMITTAL. YOU SHOULD NOT RELY ON ANY RECOMMENDATION, OR ANY SUCH REPRESENTATION OR INFORMATION, AS HAVING BEEN AUTHORIZED BY US, ANY MEMBER OF OUR BOARD OF DIRECTORS (INCLUDING THE INDEPENDENT COMMITTEE), THE INFORMATION AGENT OR THE DEPOSITARY.

SHAREHOLDERS SHOULD NOTE THAT THE PURCHASE PRICE RANGE (NO GREATER THAN \$33.00 PER SHARE NOR LESS THAN \$30.00 PER SHARE) REPRESENTS A SUBSTANTIAL PREMIUM OVER THE CLOSING SALE PRICE OF THE SHARES (\$18.62 PER SHARE) AS REPORTED ON THE NASDAQ GLOBAL SELECT MARKET ON JANUARY 13, 2020, THE DAY BEFORE ANNOUNCEMENT OF THE OFFER. THE MARKET PRICE OF THE SHARES FOLLOWING CONSUMMATION OF THE OFFER IS EXPECTED TO BE LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. ACCORDINGLY, ANY SHARES NOT TENDERED PURSUANT TO THE OFFER AND ANY TENDERED SHARES NOT ACCEPTED FOR PAYMENT BY REASON OF PRORATION OR OTHERWISE, ARE EXPECTED TO HAVE A MARKET PRICE FOLLOWING CONSUMMATION OF THE OFFER THAT IS LOWER THAN THE FINAL PURCHASE PRICE AND MAY BE LOWER THAN THE MARKET PRICE OF THE SHARES ON THE DATE BEFORE ANNOUNCEMENT OF THE OFFER. IF THE MARKET PRICE FOR SHARES FOLLOWING CONSUMMATION OF THE OFFER IS BELOW THE FINAL PURCHASE PRICE, AS EXPECTED, SHAREHOLDERS CAN BE ASSURED OF MAXIMIZING THE VALUE OF THEIR HOLDINGS AFTER GIVING EFFECT TO CONSUMMATION OF THE OFFER (THE SUM OF THE MARKET PRICE OF THEIR SHARES FOLLOWING THE OFFER PLUS THE AMOUNT RECEIVED IN THE OFFER) ONLY BY TENDERING 100% OF THEIR SHARES.

XBiotech Inc.
January 14, 2020

SCHEDULE I

DIRECTORS AND EXECUTIVE OFFICERS OF XBIOTECH INC.

The following table sets forth the names and positions of the directors and executive officers of XBiotech Inc. The address of each of our directors and executive officers is care of XBiotech Inc., 5217 Winnebago Lane, Austin, Texas 78744, telephone number: (512) 386-2900.

<u>Name</u>	<u>Position Held With the Company</u>
Officers:	
John Simard	Founder, President, Chief Executive Officer & Chairman
Dr. Sushma Shivaswamy, Ph.D.	Chief Scientific Officer
Queena Han, C.P.A., C.G.A.	Vice President, Finance and Human Resources and Secretary
Directors:	
John Simard	Founder, President, Chief Executive Officer & Chairman
W. Thorpe McKenzie	Director
Jan-Paul Waldin, Esq.	Director
Donald MacAdam	Director
Dr. Peter Libby	Director

The Letter of Transmittal and certificates for Shares, and any other required documents should be sent or delivered by each shareholder or the shareholder's broker, dealer, commercial bank, trust company or nominee to the Depositary at one of its addresses set forth below. To confirm delivery of Shares, shareholders are directed to contact the Depositary. Shareholders submitting certificates representing Shares to be tendered must deliver such certificates together with the Letter of Transmittal and any other required documents by mail or overnight courier. Facsimile copies of Share certificates will not be accepted.

The Depositary for the Offer is:

American Stock Transfer & Trust Co., LLC

*By Hand, Express Mail, Courier or
Other Expedited Service:*

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

By Mail:

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

For assistance call (877) 248-6417 or (718) 921-8317

Any questions or requests for assistance may be directed to the Information Agent at its telephone number and address set forth below. Requests for additional copies of this Offer to Purchase, this Letter of Transmittal, the Notice of Guaranteed Delivery or related documents may be directed to the Information Agent at its telephone number or address set forth below. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:

D.F. KING & CO., INC.

48 Wall Street, 22nd Floor
New York, New York 10005
Banks and Brokers
Call: (212) 269-5550
All Others Call: (866) 856-3065
Email: xbit@dfking.com

Letter of Transmittal

For Tender of Common Shares of

XBiotech Inc.

**At a Purchase Price Not Greater than \$33.00 per Share Nor Less than \$30.00 per Share
Pursuant to the Offer to Purchase Dated January 14, 2020**

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED (SUCH DATE AND TIME, AS THEY MAY BE EXTENDED, THE "EXPIRATION DATE").

The undersigned seller represents that I (we) have full authority to tender without restriction the certificate(s) listed below. You are hereby authorized and instructed to deliver to the address indicated below (unless otherwise instructed in the boxes in the following page) a check representing a cash payment for common shares, no par value per share, of XBiotech Inc. ("XBiotech") (collectively the "Shares") tendered pursuant to this Letter of Transmittal, for purchase by you at a price not greater than \$33.00 nor less than \$30.00 per Share, to the undersigned seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions in the Offer to Purchase, dated January 14, 2020 (the "Offer to Purchase" and, together with this Letter of Transmittal, as they may be amended or supplemented from time to time, the "Offer").

THIS FORM SHOULD BE COMPLETED, SIGNED AND SENT TOGETHER WITH ALL OTHER DOCUMENTS, INCLUDING YOUR CERTIFICATES FOR SHARES TO AMERICAN STOCK TRANSFER & TRUST COMPANY, LLC (THE "DEPOSITARY") AT ONE OF THE ADDRESSES SET FORTH BELOW. DELIVERY OF THIS LETTER OF TRANSMITTAL OR OTHER DOCUMENTS TO AN ADDRESS OTHER THAN AS SET FORTH BELOW DOES NOT CONSTITUTE VALID DELIVERY. DELIVERIES TO XBIOTECH OR D.F. KING & CO., INC. (THE "INFORMATION AGENT") WILL NOT BE FORWARDED TO THE DEPOSITARY AND THEREFORE WILL NOT CONSTITUTE VALID DELIVERY. DELIVERIES TO THE DEPOSITARY TRUST COMPANY WILL NOT CONSTITUTE VALID DELIVERY TO THE DEPOSITARY.

Pursuant to the Offer to Purchase up to \$420,000,000 in value of Shares, the undersigned encloses herewith and tenders the following certificates representing shares of XBiotech:

Name(s) and Address of Registered Holder(s)

If there is any error in the name or address shown below, please make the necessary corrections

DESCRIPTION OF SHARES SURRENDERED

(Please fill in. Attach separate schedule if needed)

Certificate No(s)	Number of Shares
TOTAL SHARES ☞	

Method of delivery of the certificate(s) is at the option and risk of the owner thereof. See Instruction 2.

Mail or deliver this Letter of Transmittal, together with the certificate(s) representing your Shares, to:

American Stock Transfer & Trust Company, LLC

*By Hand, Express Mail, Courier or
Other Expedited Service:*

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

By Mail:

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

For assistance call (877) 248-6417 or (718) 921-8317

**READ THE INSTRUCTIONS CAREFULLY BEFORE
COMPLETING THIS LETTER OF TRANSMITTAL.**

Indicate below the order (by certificate number) in which Shares are to be purchased in the event of proration (attach additional signed list if necessary). If you do not designate an order and if less than all Shares tendered are purchased due to proration, Shares will be selected for purchase by the Depository. See Instruction 16.

1st: _____ 2nd: _____ 3rd: _____

4th: _____ 5th: _____

Lost Certificates. I have lost my certificate(s) for Shares and I require assistance in replacing the Shares. See Instruction 12.

**YOU MUST SIGN THIS LETTER OF TRANSMITTAL WHERE INDICATED BELOW AND
COMPLETE THE IRS FORM W-9 PROVIDED BELOW.**

(Non-U.S. Holders Please Obtain and Complete an Applicable IRS Form W-8)

This Letter of Transmittal is to be used either if certificates for common shares, no par value per share (the "Shares"), being tendered are to be forwarded with this Letter of Transmittal or, unless an Agent's Message (defined below) is utilized, if delivery of Shares is to be made by book-entry transfer to an account maintained by the Depository at The Depository Trust Company, which is referred to as the Book-Entry Transfer Facility, pursuant to the procedures set forth in Section 3 of the Offer to Purchase dated January 14, 2020 (as may be amended or supplemented from time to time, the "Offer to Purchase"). Tendering shareholders must deliver either the certificates for, or timely confirmation of book-entry transfer in accordance with the procedures described in Section 3 of the Offer to Purchase with respect to, their Shares and all other documents required by this Letter of Transmittal to the Depository by 5:00 p.m., New York City time, on Wednesday, February 12, 2020 (as this time may be extended at any time or from time to time by XBiotech in its sole discretion in accordance with the terms of the Offer, the "Expiration Date"). Tendering shareholders whose certificates for Shares are not immediately available or who cannot deliver either the certificates for, or timely confirmation of book-entry in accordance with the procedures described in Section 3 of the Offer to Purchase with respect to, their Shares and all other documents required by this Letter of Transmittal to the Depository by the time provided immediately above must tender their Shares in accordance with the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase. All capitalized terms not otherwise defined herein have the meaning ascribed to them in the Offer to Purchase.

Your attention is directed in particular to the following:

1. If you want to retain the Shares you own, you do not need to take any action.
2. If you want to participate in the Offer and wish to maximize the chance that XBiotech will accept for payment Shares you are tendering by this Letter of Transmittal, you should check the box marked "Shares Tendered At Price Determined Under The Offer" below and complete the other portions of this Letter of Transmittal as appropriate. You should understand that this election may effectively lower the Final Purchase Price (defined below) and could result in your tendered Shares being purchased at the minimum price of \$30.00 per Share.
3. If you wish to select a specific price at which you will be tendering your Shares, you should select one of the boxes in the section captioned "Shares Tendered At Price Determined By Shareholder" below and complete the other portions of this Letter of Transmittal as appropriate.

Shareholders should carefully consider the income tax consequences of tendering shares pursuant to the Offer. See Section 14, "Certain United States and Canadian Federal Income Tax Consequences," in the Offer to Purchase that accompanies this Letter of Transmittal.

METHOD OF DELIVERY

- CHECK HERE IF CERTIFICATES FOR TENDERED SHARES ARE ENCLOSED HEREWITH.**
- CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED BY BOOK-ENTRY TRANSFER MADE TO AN ACCOUNT MAINTAINED BY THE DEPOSITARY WITH THE BOOK-ENTRY TRANSFER FACILITY AND COMPLETE THE FOLLOWING (ONLY PARTICIPANTS IN THE BOOK- ENTRY TRANSFER FACILITY MAY DELIVER SHARES BY BOOK-ENTRY TRANSFER):**

Name of Tendering Institution: _____

Account Number: _____

Transaction Code Number: _____

- CHECK HERE IF TENDERED SHARES ARE BEING DELIVERED PURSUANT TO THE GUARANTEED DELIVERY PROCEDURES OUTLINED IN SECTION 3 OF THE OFFER TO PURCHASE AND COMPLETE THE FOLLOWING:**

Name (s) of Registered Owner (s): _____

Date of Execution of Notice of Guaranteed Delivery: _____

Name of Institution that Guaranteed Delivery: _____

Account Number: _____

PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED

(See Instruction 5)

THE UNDERSIGNED IS TENDERING SHARES AS FOLLOWS (CHECK ONLY ONE BOX UNDER (1) OR (2) BELOW).

1. SHARES TENDERED AT PRICE DETERMINED UNDER THE OFFER

By checking the box below INSTEAD OF ONE OF THE BOXES UNDER “Shares Tendered At Price Determined By Shareholder,” the undersigned hereby tenders Shares at the purchase price as shall be determined by XBiotech in accordance with the terms of the Offer.

- The undersigned wants to maximize the chance that XBiotech will accept for payment all of the Shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking this box instead of one of the price boxes below, the undersigned hereby tenders Shares at, and is willing to accept, the purchase price determined by XBiotech in accordance with the terms of the Offer. The undersigned understands that this action will result in the undersigned’s Shares being deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price. This may effectively lower the Final Purchase Price and could result in the undersigned receiving a per Share price as low as \$30.00.

2. SHARES TENDERED AT PRICE DETERMINED BY SHAREHOLDER

By checking ONE of the following boxes INSTEAD OF THE BOX UNDER “Shares Tendered At Price Determined Under The Offer,” the undersigned hereby tenders Shares at the price checked. The undersigned understands that this action could result in XBiotech purchasing none of the Shares tendered hereby if the purchase price determined by XBiotech for the Shares is less than the price checked below.

- | | | | | |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <input type="checkbox"/> \$30.00 | <input type="checkbox"/> \$30.25 | <input type="checkbox"/> \$30.50 | <input type="checkbox"/> \$30.75 | <input type="checkbox"/> \$31.00 |
| <input type="checkbox"/> \$31.25 | <input type="checkbox"/> \$31.50 | <input type="checkbox"/> \$31.75 | <input type="checkbox"/> \$32.00 | <input type="checkbox"/> \$32.25 |
| <input type="checkbox"/> \$32.50 | <input type="checkbox"/> \$32.75 | <input type="checkbox"/> \$33.00 | | |

CHECK ONLY ONE BOX UNDER (1) OR (2) ABOVE. IF MORE THAN ONE BOX IS CHECKED ABOVE, OR IF NO BOX IS CHECKED, THERE IS NO VALID TENDER OF SHARES.

A SHAREHOLDER DESIRING TO TENDER SHARES AT MORE THAN ONE PRICE MUST COMPLETE A SEPARATE LETTER OF TRANSMITTAL FOR EACH PRICE AT WHICH SHARES ARE TENDERED. THE SAME SHARES CANNOT BE TENDERED, UNLESS PREVIOUSLY PROPERLY WITHDRAWN AS PROVIDED IN SECTION 4 OF THE OFFER TO PURCHASE, AT MORE THAN ONE PRICE.

ODD LOTS
(See Instruction 15)

As described in Section 1 of the Offer to Purchase, under certain conditions, shareholders holding fewer than 100 Shares may have their Shares accepted for payment before any proration of other tendered Shares. This preference is not available to partial tenders, or to beneficial or record holders of an aggregate of 100 or more Shares, even if such holders have separate accounts or certificates representing fewer than 100 Shares. Accordingly, this section is to be completed ONLY if Shares are being tendered by or on behalf of a person owning, beneficially or of record, an aggregate of fewer than 100 Shares. The undersigned:

- owns, whether beneficially or of record, an aggregate of fewer than 100 Shares and is tendering all such Shares.

CONDITIONAL TENDER
(See Instruction 14)

A shareholder may tender Shares subject to the condition that a specified minimum number of the shareholder's Shares tendered pursuant to the Letter of Transmittal must be purchased if any Shares tendered are purchased, all as described in the Offer to Purchase, particularly in Section 6 of the Offer to Purchase. Unless at least the minimum number of Shares indicated below is purchased by XBiotech pursuant to the terms of the Offer, none of the Shares tendered will be purchased. It is the tendering shareholder's responsibility to calculate that minimum number of Shares that must be purchased if any are purchased, and XBiotech urges shareholders to consult their own financial and tax advisors before completing this section. Unless this box has been checked and a minimum specified, the tender will be deemed unconditional.

The minimum number of Shares that must be purchased, if any are purchased, is: _____ Shares.

If, because of proration, the minimum number of Shares designated will not be purchased, XBiotech may accept conditional tenders by random lot, if necessary. However, to be eligible for purchase by random lot, the tendering shareholder must have tendered all of his or her Shares and checked this box:

- The tendered Shares represent all Shares held by the undersigned.

LOST OR DESTROYED CERTIFICATE(S)

IF ANY STOCK CERTIFICATE REPRESENTING SHARES THAT YOU OWN HAS BEEN LOST, STOLEN OR DESTROYED, PLEASE CONTACT THE DEPOSITARY AT (877) 248-6417 (DOMESTIC) or (718) 921-8317 (FOREIGN) PROMPTLY TO OBTAIN INSTRUCTIONS AS TO THE STEPS THAT MUST BE TAKEN IN ORDER TO REPLACE THE CERTIFICATE. THIS LETTER OF TRANSMITTAL AND RELATED DOCUMENTS CANNOT BE PROCESSED UNTIL THE PROCEDURES FOR REPLACING LOST OR DESTROYED CERTIFICATES HAVE BEEN FOLLOWED. PLEASE CONTACT THE DEPOSITARY IMMEDIATELY TO PERMIT TIMELY PROCESSING OF THE REPLACEMENT DOCUMENTATION. SEE INSTRUCTION 13.

NOTE: SIGNATURES MUST BE PROVIDED WHERE INDICATED BELOW. PLEASE READ THE ACCOMPANYING INSTRUCTIONS CAREFULLY.

Ladies and Gentleman:

The undersigned hereby tenders to XBiotech Inc., a British Columbia corporation (“XBiotech”), the above-described common shares, no par value per share, of XBiotech (the “Shares”), at the price per Share indicated in this Letter of Transmittal, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions set forth in XBiotech’s Offer to Purchase dated January 14, 2020 (as may be amended or supplemented from time to time, the “Offer to Purchase”) and this Letter of Transmittal (which together, as they may be amended or supplemented from time to time, constitute the “Offer”), receipt of which is hereby acknowledged.

Subject to and effective on acceptance for payment of, and payment for, the Shares tendered with this Letter of Transmittal in accordance with, and subject to, the terms of the Offer, the undersigned hereby sells, assigns and transfers to, or upon the order of, XBiotech, all right, title and interest in and to all the Shares that are being tendered and irrevocably constitutes and appoints American Stock Transfer & Trust Co., LLC (the “Depositary”), the true and lawful agent and attorney-in-fact of the undersigned, with full power of substitution (such power of attorney being deemed to be an irrevocable power coupled with an interest), to the full extent of the undersigned’s rights with respect to such tendered Shares, to (a) deliver certificates for such tendered Shares or transfer ownership of such tendered Shares on the account books maintained by The Depositary Trust Company (the “Book-Entry Transfer Facility”), together, in any such case, with all accompanying evidences of transfer and authenticity to, or upon the order of, XBiotech upon receipt by the Depositary, as the undersigned’s agent, of the aggregate purchase price with respect to such tendered Shares, (b) present such tendered Shares for cancellation and transfer on XBiotech’s books and (c) receive all benefits and otherwise exercise all rights of beneficial ownership of such tendered Shares, all in accordance with the terms of the Offer.

The undersigned hereby represents and warrants that the undersigned has full power and authority to tender, sell, assign and transfer the tendered Shares and, when the same are accepted for payment, XBiotech will acquire good title thereto, free and clear of all liens, security interests, restrictions, charges, claims, encumbrances, conditional sales agreements or other similar obligations relating to the sale or transfer of the tendered Shares, and the same will not be subject to any adverse claim or right. The undersigned will, on request by the Depositary or XBiotech, execute any additional documents deemed by the Depositary or XBiotech to be necessary or desirable to complete the sale, assignment and transfer of the tendered Shares (and any and all such other Shares or other securities or rights), all in accordance with the terms of the Offer.

All authority conferred or agreed to be conferred pursuant to this Letter of Transmittal shall be binding on the successors, assigns, heirs, personal representatives, executors, administrators and other legal representatives of the undersigned and shall not be affected by, and shall survive, the death or incapacity of the undersigned. Except as stated in the Offer to Purchase, this tender is irrevocable.

The undersigned understands that:

1. the valid tender of Shares pursuant to any of the procedures described in Section 3 of the Offer to Purchase and in the instructions to this Letter of Transmittal constitutes the undersigned’s acceptance of the terms and conditions of the Offer; XBiotech’s acceptance of the tendered Shares will constitute a binding agreement between the undersigned and XBiotech on the terms and subject to the conditions of the Offer;
2. it is a violation of Rule 14e-4 promulgated under the Securities Exchange Act of 1934, as amended, for a person acting alone or in concert with others, directly or indirectly, to tender Shares for such person’s own account unless at the time of tender and at the Expiration Date such person has a “net long position” in (a) the Shares that is equal to or greater than the amount tendered and will deliver or cause to be delivered such Shares for the purpose of tender to XBiotech within the period specified in the Offer or (b) other securities immediately convertible into, exercisable for or exchangeable into Shares (“Equivalent Securities”) that is equal to or greater than the amount tendered and, upon the acceptance of such tender, will acquire such Shares by conversion, exchange or exercise of such Equivalent Securities to the extent required by the terms of the Offer and will deliver or cause to be delivered such Shares so acquired for the purpose of tender to XBiotech within the period specified in the Offer. Rule 14e-4 also provides a similar restriction applicable to the tender or guarantee of a tender on behalf of another person. A tender of Shares made pursuant to any method of

delivery set forth in this Letter of Transmittal will constitute the tendering shareholder's representation and warranty to XBiotech that (y) such shareholder has a "net long position" in Shares or Equivalent Securities being tendered within the meaning of Rule 14e-4, and (z) such tender of Shares complies with Rule 14e-4. XBiotech's acceptance for payment of Shares tendered pursuant to the Offer will constitute a binding agreement between the tendering shareholder and XBiotech upon the terms and subject to the conditions of the Offer;

3. XBiotech will, upon the terms and subject to the conditions of the Offer, determine a single per Share price (the "Final Purchase Price"), not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, that it will pay for Shares properly tendered and not properly withdrawn from the Offer, taking into account the number of Shares so tendered and the prices specified, or deemed specified, by tendering shareholders;

4. the Final Purchase Price will be the lowest single purchase price, not greater than \$33.00 nor less than \$30.00 per Share, that will allow us to purchase \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn;

5. XBiotech reserves the right, in its sole discretion, to increase or decrease the per Share purchase price and to increase or decrease the value of Shares sought in the Offer. We may increase the value of Shares sought in the Offer to an amount greater than \$420,000,000, subject to applicable law. In accordance with the rules of the Securities and Exchange Commission, we may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer;

6. Shares properly tendered prior to the Expiration Date at or below the Final Purchase Price and not properly withdrawn will be purchased in the Offer at the Final Purchase Price, upon the terms and subject to the conditions of the Offer, including the "odd lot" priority, proration (because more than the number of Shares sought are properly tendered) and conditional tender provisions described in the Offer to Purchase;

7. XBiotech will return at its expense all Shares it does not purchase, including Shares tendered at prices greater than the Final Purchase Price and not properly withdrawn and Shares not purchased because of proration or conditional tenders, promptly following the Expiration Date;

8. under the circumstances set forth in the Offer to Purchase, XBiotech expressly reserves the right, in its sole discretion, to terminate the Offer at any time and from time to time, upon the occurrence of any of the events set forth in Section 7 of the Offer to Purchase and to extend the period of time during which the Offer is open and thereby delay acceptance for payment of, and payment for, any Shares by giving oral or written notice of such extension to the Depository and making a public announcement thereof. During any such extension, all Shares previously tendered and not properly withdrawn will remain subject to the Offer and to the rights of a tendering shareholder to withdraw such shareholder's Shares;

9. shareholders who cannot deliver their certificates and all other required documents to the Depository or complete the procedures for book-entry transfer prior to the Expiration Date may tender their Shares by properly completing and duly executing the Notice of Guaranteed Delivery pursuant to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase;

10. XBiotech has advised the undersigned to consult with the undersigned's own advisors as to the consequences of tendering Shares pursuant to the Offer; and

11. THE OFFER IS NOT BEING MADE TO (NOR WILL TENDERS OF SHARES BE ACCEPTED FROM OR ON BEHALF OF) HOLDERS IN ANY JURISDICTION IN WHICH THE MAKING OR ACCEPTANCE OF THE OFFER WOULD NOT BE IN COMPLIANCE WITH THE LAWS OF THAT JURISDICTION.

The undersigned agrees to all of the terms and conditions of the Offer.

Unless otherwise indicated below in the section captioned "Special Issuance Instructions," please issue the check for payment of the purchase price and/or return any certificates for Shares not tendered or accepted for payment in the name(s) of the registered holder(s) appearing under "Description of Shares Tendered." Similarly, unless otherwise indicated under "Special Delivery Instructions," please mail the check for payment of the purchase price and/or return any certificates for Shares not tendered or accepted for payment (and accompanying documents, as appropriate) to the address(es) of the registered holder(s) appearing under "Description of Shares Tendered." In the event that both the "Special Delivery Instructions" and the "Special Payment Instructions" are completed, please issue the check for payment of the purchase price and/or return any certificates for Shares not tendered or accepted for payment (and any accompanying documents, as appropriate) in the name(s) of, and deliver such check and/or return such certificates (and any accompanying documents, as appropriate) to, the person or persons so indicated. Please credit any Shares tendered herewith by book-entry transfer that are not accepted for payment by crediting the account at the Book-Entry Transfer Facility designated above. Appropriate medallion signature guarantees by an Eligible Institution (as defined in Instruction 1) have been included with respect to Shares for which Special Issuance Instructions have been given. The undersigned recognizes that

XBiotech has no obligation pursuant to the "Special Payment Instructions" to transfer any Shares from the name of the registered holder(s) thereof if XBiotech does not accept for payment any of the Shares.

SPECIAL DELIVERY INSTRUCTIONS

(See Instructions 1, 6, 7 and 8)

To be completed ONLY if the check for the aggregate purchase price of Shares purchased and/or certificates for Shares not tendered or not purchased are to be mailed to someone other than the undersigned or to the undersigned at an address other than that shown below the undersigned's signature.

Mail: Check
 Certificate(s) to:

Name: _____
(Please Print)

Address: _____

(Please Include Zip Code)

(Taxpayer Identification or Social Security Number)

(Taxpayer Identification or Social Security Number)

SPECIAL DELIVERY INSTRUCTIONS

(See Instructions 1, 6, 7 and 8)

To be completed ONLY if the check for the aggregate purchase price of Shares purchased and/or certificates for Shares not tendered or not purchased are to be mailed to someone other than the undersigned or to the undersigned at an address other than that shown below the undersigned's signature.

Mail: Check
 Certificate(s) to:

Name: _____
(Please Print)

Address: _____

(Please Include Zip Code)

(Taxpayer Identification or Social Security Number)

(Taxpayer Identification or Social Security Number)

CANADIAN WITHHOLDING TAX

The following certifications assume that the undersigned is either (i) the beneficial holder of the Shares tendered (the "Beneficial Owner"), or (ii) holds the Shares tendered on behalf of only one Beneficial Owner. Shareholders holding Shares tendered on behalf of more than one Beneficial Owner should provide the certifications below by completing Schedule A of this Letter of Transmittal on the following page.

I. Tax Residency.

All Shareholders must complete the following. See Instruction 11.

The undersigned certifies that the Beneficial Owner (please check one box only):

- is resident in Canada for purposes of the Income Tax Act (Canada) (the "Tax Act")
- is not resident in Canada for purposes of the Tax Act

II. Non-Residents of Canada

Shareholders are only required to complete the following if the Beneficial Owner is not resident in Canada for purposes of the Tax Act. See Instruction 11.

Applicability of a Tax Convention

Non-resident withholding tax may apply, at a rate of 25%, to certain amounts paid or deemed to be paid in respect of Shares beneficially owned by persons not resident in Canada for purposes of the Tax Act. Withholding tax may arise for example with respect to a deemed dividend arising pursuant to the Offer, if any. However, if the Beneficial Owner is entitled to the benefits of a tax convention entered into between Canada and the Beneficial Owner's country of residence (a "Tax Convention"), the withholding tax rate may be reduced to less than 25%. To benefit from a Tax Convention, the Shareholder must properly complete and provide the documentation described below.

The undersigned certifies that (please check one box only):

- The Shareholder (a) is the Beneficial Owner of the tendered Shares and (b) has completed and provided Canada Revenue Agency Form NR301 – Declaration of Eligibility for Benefits Under a Tax Treaty for a Non-Resident Taxpayer (a "Form NR301")*, a copy of which is included with this Letter of Transmittal;
- The Shareholder (a) is not the Beneficial Owner of the tendered Shares and (b) has completed Schedule B of this Letter of Transmittal certifying that the Beneficial Owner is entitled to the benefits of a Tax Convention; or
- The Shareholder has not completed or provided Form NR 301 or Schedule B of this Letter of Transmittal. FAILURE TO PROVIDE THIS INFORMATION WILL RESULT IN THE APPLICATION OF A 25% WITHHOLDING TAX RATE TO A RELEVANT AMOUNT IF ANY.

* Partnerships or Hybrid Entities must complete Form NR 302 or Form NR 303, as applicable.

SCHEDULE A

**TO BE COMPLETED BY SHAREHOLDERS HOLDING UNITS ON BEHALF OF MORE THAN ONE
BENEFICIAL OWNER**

Country of Residence of Beneficial Owners of tendered Shares	Number of Tendered Shares Held	Withholding Tax Rate
Canada		Not applicable
United States		
Other (please indicate)		
Total (Attach an additional schedule if more space is needed)		

By completing this Schedule A, the Shareholder hereby certifies that:

1. the Shareholder holds the number of Tendered Shares indicated above in the row entitled "Canada" on behalf of persons resident in Canada for purposes of the Tax Act; and
2. with respect to Beneficial Owners not resident in Canada who are eligible for withholding tax rates of less than 25%, the Tendered Shares indicated above, registered in the Shareholder's name, are held solely for the beneficial ownership of persons resident in the country indicated and eligible to claim tax treaty benefits under a tax treaty between Canada and the country indicated above which provides for a Canadian withholding tax rate as indicated above on any deemed dividend arising pursuant to the Offer;

By completing this Schedule A, the Shareholder undertakes to provide to the Purchaser and the Canada Revenue Agency, upon request, such additional information as may be necessary to further substantiate the accuracy of the information contained herein, and such further or other information as the Purchaser or the Canada Revenue Agency may for any reason request in respect of any relevant tax matter arising pursuant to the Offer.

SCHEDULE B

TO BE COMPLETED BY SHAREHOLDERS HOLDING UNITS ON BEHALF OF NON-RESIDENT BENEFICIAL OWNERS

TO: XBiotech Inc.

AND TO: American Stock Transfer & Trust Co., LLC

RE: Tendered Shares of XBiotech Inc.

I/We, _____ (insert name of Shareholder), hereby certify that the tendered Shares, which units are registered in my/our name, are held solely for the beneficial ownership of a person resident in (insert country) and eligible to claim tax treaty benefits under a tax treaty between Canada and the country of residence which provides for a Canadian withholding tax rate of ____ % on dividends that may be deemed paid pursuant to the Offer (if any).

I/We undertake to provide to you or to the Canada Revenue Agency, upon request, such information as may be necessary to substantiate the accuracy of the information contained herein, such as Form NR301, NR302, or NR303, or the information requested in these forms received from the beneficial holders or payees, and to provide such additional information as you may require.

Dated, _____, 2020.

(Signature of Shareholder or authorized signatory)

IMPORTANT: SHAREHOLDERS SIGN HERE
(also please complete IRS Form W-9 below or appropriate IRS Form W-8)

Signature(s) of Owner(s):

Dated:

(Must be signed by registered holder(s) exactly as name(s) appear(s) on stock certificate(s) or by person(s) authorized to become registered holder(s) of stock certificate(s) as evidenced by endorsement or stock powers transmitted herewith. If signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, the full title of the person should be set forth. See Instruction 6.).

Name(s): _____

(Please Print)

Capacity (full title): _____

Address: _____

(Include Zip Code)

Daytime Area Code and Telephone Number: _____

Taxpayer Identification or Social Security No.: _____

Complete accompanying IRS Form W-9 or appropriate IRS Form W-8.
GUARANTEE OF SIGNATURE(S)

(For use by Eligible Institutions only; see Instructions 1 and 6)

Name of Firm: _____

Address: _____

(Include Zip Code)

Authorized Signature: _____

Name: _____

(Please Type or Print)

Area Code and Telephone Number: _____

Dated: _____, 2020

NOTE: A notarization by a notary public is not acceptable.
PLACE MEDALLION GUARANTEE IN SPACE BELOW.

INSTRUCTIONS
Forming Part of the Terms and Conditions of the Offer

1. **Guarantee of Signatures.** No signature guarantee is required on this Letter of Transmittal if (a) this Letter of Transmittal is signed by the registered holder(s) (which term, for purposes of this Instruction 1, includes any participant in the Book-Entry Transfer Facility's system whose name appears on a security position listing as the owner of the Shares) of Shares tendered herewith, unless such registered holder(s) has (have) completed the section captioned "Special Issuance Instructions" on this Letter of Transmittal) or (b) such Shares are tendered for the account of a bank, broker, dealer, credit union, savings association or other entity that is a member in good standing of a Medallion Program approved by the Securities Transfer Agents Association, Inc., including the Securities Transfer Agents Medallion Program, the New York Stock Exchange, Inc. Medallion Signature Program or the Stock Exchange Medallion Program, or is otherwise an "eligible guarantor institution," as the term is defined in Exchange Act Rule 17Ad-15, each of the foregoing constituting an "Eligible Institution." In all other cases, all signatures on this Letter of Transmittal must be guaranteed by an Eligible Institution. See Instruction 6. If you have any questions regarding the need for a signature guarantee, please call the Information Agent at (212) 269-5550 (banks and brokers) or (866) 856-3065 (all others).

2. **Requirements of Tender.** This Letter of Transmittal is to be completed by shareholders either if certificates are to be forwarded herewith or, unless an Agent's Message is utilized, if delivery of Shares is to be made pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase. For a shareholder to properly tender Shares pursuant to the Offer, (a) a Letter of Transmittal, properly completed and duly executed, and the certificate(s) representing the tendered Shares, together with any required signature guarantees, and any other required documents, must be received by the Depository at one of its addresses set forth on the back of this Letter of Transmittal prior to the Expiration Date, or (b) a Letter of Transmittal, properly completed and duly executed, together with any required Agent's Message and any other required documents, must be received by the Depository at one of its addresses set forth on the back of this Letter of Transmittal prior to the Expiration Date and Shares must be delivered pursuant to the procedures for book-entry transfer set forth in this Letter of Transmittal (and a book-entry confirmation must be received by the Depository) prior to the Expiration Date, or (c) the shareholder must comply with the guaranteed delivery procedures set forth below and in Section 3 of the Offer to Purchase.

Tenders of Shares made pursuant to the Offer may be withdrawn at any time prior to the Expiration Date. If XBiotech extends the Offer beyond that time, tendered Shares may be withdrawn at any time until the extended Expiration Date. Shares that have not previously been accepted by XBiotech for payment may be withdrawn at any time after 5:00 p.m., New York City time, on February 12, 2020. To withdraw tendered Shares, shareholders must deliver a written notice of withdrawal to the Depository within the prescribed time period at one of the addresses set forth in this Letter of Transmittal.

Any notice of withdrawal must specify the name of the tendering shareholder, the number of Shares to be withdrawn, and the name of the registered holder of the Shares. In addition, if the certificates for Shares to be withdrawn have been delivered or otherwise identified to the Depository, then, before the release of the certificates, the tendering shareholder must also submit the serial numbers shown on the particular certificates for Shares to be withdrawn and the signature(s) on the notice of withdrawal must be guaranteed by an Eligible Institution (except in the case of Shares tendered by an Eligible Institution). If Shares have been tendered pursuant to the procedures for book-entry transfer, the notice of withdrawal also must specify the name and the number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and must otherwise comply with the procedures of that facility. Withdrawals may not be rescinded and any Shares withdrawn will not be properly tendered for purposes of the Offer unless the withdrawn Shares are properly re-tendered prior to the Expiration Date by following the procedures described above.

Shareholders whose certificates for Shares are not immediately available or who cannot deliver their certificates and all other required documents to the Depository or complete the procedures for book-entry transfer prior to the Expiration Date may tender their Shares by properly completing and duly executing the Notice of Guaranteed Delivery pursuant to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase. Pursuant to those procedures, (a) tender must be made by or through an Eligible Institution, (b) a properly completed and duly executed Notice of Guaranteed Delivery, substantially in the form provided by XBiotech, must be received by the Depository prior to the Expiration Date and (c) the certificates for all tendered Shares in proper form for transfer (or a book-entry confirmation with respect to all such Shares), together with a Letter of Transmittal, properly completed and duly executed, with any required signature guarantees, or, in the case of a book-entry transfer, an Agent's Message, and any other required documents, must be received by the Depository, in each case within two trading days after the date of execution of the Notice of Guaranteed Delivery as provided in Section 3 of the Offer to Purchase. A "trading day" is any day on which the NASDAQ Global Select Market is open for business. The term "Agent's Message" means a message transmitted by the Book-Entry Transfer Facility to, and received by, the Depository, which states that the Book-Entry Transfer Facility has received an express acknowledgment from the participant in the Book-Entry Transfer Facility tendering the Shares that such participant has received and agrees to be bound by the terms of the Letter of Transmittal and that XBiotech may enforce such agreement against the participant.

THE METHOD OF DELIVERY OF SHARES, THIS LETTER OF TRANSMITTAL AND ANY OTHER REQUIRED DOCUMENTS, INCLUDING DELIVERY THROUGH THE BOOK-ENTRY TRANSFER FACILITY, IS AT THE SOLE ELECTION AND RISK OF THE TENDERING SHAREHOLDER. SHARES, THIS LETTER OF TRANSMITTAL AND ALL OTHER DOCUMENTS WILL BE DEEMED DELIVERED ONLY WHEN ACTUALLY RECEIVED BY THE

DEPOSITARY (INCLUDING, IN THE CASE OF A BOOK-ENTRY TRANSFER, BY BOOK-ENTRY CONFIRMATION). WHEN DELIVERING BY MAIL, WE RECOMMEND THAT YOU USE REGISTERED MAIL WITH RETURN RECEIPT REQUESTED, AND THAT YOU PROPERLY INSURE THE DOCUMENTS. IN ALL CASES, YOU SHOULD ALLOW SUFFICIENT TIME TO ENSURE TIMELY DELIVERY.

Except as specifically provided by the Offer to Purchase, no alternative, conditional or contingent tenders will be accepted. No fractional Shares will be purchased. All tendering shareholders, by execution of this Letter of Transmittal, waive any right to receive any notice of the acceptance for payment of their Shares.

3. **Inadequate Space.** If the space provided in this Letter of Transmittal is inadequate, the certificate numbers and/or the number of Shares should be listed on a separate signed schedule attached hereto.

4. **Partial Tenders of Shares Represented By Certificates.** If fewer than all of the Shares represented by any certificate submitted to the Depository are to be tendered, fill in the number of Shares that are to be tendered in the box entitled "Description of Shares Tendered." In any such case, new certificate(s) for the remainder of the Shares that were evidenced by the old certificate(s) will be sent to the registered holder(s), unless otherwise provided in the appropriate box on this Letter of Transmittal, as soon as practicable after the acceptance for payment of, and payment for, the Shares tendered herewith. All Shares represented by certificates delivered to the Depository will be deemed to have been tendered unless otherwise indicated.

5. **Indication of Price at Which Shares are Being Tendered.** For Shares to be properly tendered, the shareholder MUST either (1) check the box in the section captioned "Shares Tendered At Price Determined Under The Offer" in order to maximize the chance of having XBiotech accept for payment all of the Shares tendered (subject to the possibility of proration) or (2) check the box indicating the price per Share at which such shareholder is tendering Shares under "Shares Tendered At Price Determined by Shareholder." Selecting option (1) could result in the shareholder receiving a price per Share as low as \$30.00. ONLY ONE BOX UNDER (1) OR (2) MAY BE CHECKED. IF MORE THAN ONE BOX IS CHECKED, OR IF NO BOX IS CHECKED, THERE IS NO PROPER TENDER OF SHARES. A SHAREHOLDER WISHING TO TENDER PORTIONS OF SUCH SHAREHOLDER'S SHARE HOLDINGS AT DIFFERENT PRICES MUST COMPLETE A SEPARATE LETTER OF TRANSMITTAL FOR EACH PRICE AT WHICH SUCH SHAREHOLDER WISHES TO TENDER EACH SUCH PORTION OF SUCH SHAREHOLDER'S SHARES. The same Shares cannot be tendered more than once, unless previously properly withdrawn as provided in Section 4 of the Offer to Purchase, at more than one price.

6. **Signatures on Letter of Transmittal, Stock Powers and Endorsements.** If this Letter of Transmittal is signed by the registered holder(s) of the Shares tendered hereby, the signature(s) must correspond with the name(s) as written on the face of the certificate(s) without any change or alteration whatsoever.

If any of the Shares tendered hereby are owned of record by two or more joint owners, all such persons must sign this Letter of Transmittal.

If any Shares tendered hereby are registered in different names on several certificates, it will be necessary to complete, sign and submit as many separate Letters of Transmittal as there are different registrations of certificates.

If this Letter of Transmittal or any certificate or stock power is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, he or she should so indicate when signing and submit proper evidence satisfactory to XBiotech of his or her authority to so act.

If this Letter of Transmittal is signed by the registered owner(s) of the Shares tendered hereby, no endorsements of certificates or separate stock powers are required unless payment of the purchase price is to be made, or certificates for Shares not tendered or accepted for payment are to be issued, to a person other than the registered owner(s). Signatures on any such certificates or stock powers must be guaranteed by an Eligible Institution.

If this Letter of Transmittal is signed by a person other than the registered owner(s) of the Shares tendered hereby, the certificate(s) representing such Shares must be properly endorsed for transfer or accompanied by appropriate stock powers, in either case signed exactly as the name(s) of the registered owner(s) appear(s) on the certificates(s). The signature(s) on any such certificate(s) or stock power(s) must be guaranteed by an Eligible Institution.

7. **Stock Transfer Taxes.** XBiotech will pay any stock transfer taxes with respect to the transfer and sale of Shares to it pursuant to the Offer. If, however, payment of the purchase price is to be made to, or if Shares not tendered or accepted for payment are to be registered in the name of, any person(s) other than the registered owner(s), or if Shares tendered hereby are registered in the name(s) of any person(s) other than the person(s) signing this Letter of Transmittal, the amount of any stock transfer taxes (whether imposed on the registered owner(s) or such other person(s)) payable on account of the transfer to such person(s) will be deducted from the purchase price unless satisfactory evidence of the payment of such taxes or exemption from the payment of such taxes is submitted with this Letter of Transmittal.

Except as provided in this Instruction 7, it will not be necessary for transfer tax stamps to be affixed to the certificates listed in this Letter of Transmittal.

8. **Special Payment and Delivery Instructions.** If a check for the purchase price of any Shares accepted for payment is to be issued in the name of, and/or certificates for any Shares not accepted for payment or not tendered are to be issued in the name of and/or returned to, a person other than the signer of this Letter of Transmittal or if a check is to be sent, and/or such certificates are to be returned, to a person other than the signer of this Letter of Transmittal or to an address other than that shown above, the appropriate boxes on this Letter of Transmittal should be completed.

9. **Waiver of Conditions; Irregularities.** All questions as to the number of Shares to be accepted, the purchase price to be paid for Shares to be accepted, the validity, form, eligibility (including time of receipt) and acceptance for payment of any tender of Shares and the validity (including time of receipt) and form of any notice of withdrawal of tendered Shares will be determined by XBiotech, in its sole discretion, and such determination will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. XBiotech may delegate power in whole or in part to the Depository. XBiotech reserves the absolute right to reject any or all tenders of any Shares that XBiotech determines are not in proper form or the acceptance for payment of or payment for which may, in the opinion of XBiotech's counsel, be unlawful. XBiotech reserves the absolute right to reject any notices of withdrawal that it determines are not in proper form. XBiotech also reserves the absolute right, subject to the applicable rules and regulations of the Securities and Exchange Commission, to waive any of the conditions of the Offer prior to the Expiration Date, or any defect or irregularity in any tender or withdrawal with respect to any particular Shares or any particular shareholder (whether or not XBiotech waives similar defects or irregularities in the case of other shareholders), and XBiotech's interpretation of the terms of the Offer (including these instructions) will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. In the event a condition is waived with respect to any particular shareholder, the same condition will be waived with respect to all shareholders. No tender or withdrawal of Shares will be deemed to have been properly made until all defects or irregularities have been cured by the tendering or withdrawing shareholder or waived by XBiotech. XBiotech will not be liable for failure to waive any condition of the Offer, or any defect or irregularity in any tender or withdrawal of Shares. Unless waived, any defects or irregularities in connection with tenders or withdrawals must be cured within the period of time XBiotech determines. None of XBiotech, the Information Agent, the Depository or any other person will be obligated to give notice of any defects or irregularities in any tender or withdrawal, nor will any of the foregoing incur any liability for failure to give any such notification.

10. **Backup Withholding.** In order to avoid backup withholding of U.S. federal income tax on payments of cash pursuant to the Offer, a U.S. Holder (as defined below) tendering Shares in the Offer must (a) qualify for an exemption, as described below or (b) provide the Depository or other applicable withholding agent with such U.S. Holder's correct taxpayer identification number ("TIN") (i.e., social security number or employer identification number) on IRS Form W-9, a copy of which is included with this Letter of Transmittal, and certify under penalties of perjury that (i) the TIN provided is correct, (ii) (x) the U.S. Holder is exempt from backup withholding, (y) the U.S. Holder has not been notified by the Internal Revenue Service (the "IRS") that such U.S. Holder is subject to backup withholding as a result of a failure to report all interest or dividends, or (z) the IRS has notified the U.S. Holder that such U.S. Holder is no longer subject to backup withholding, and (iii) the U.S. Holder is a U.S. person (including a U.S. resident alien). If a U.S. Holder does not provide a correct TIN or fails to provide the certifications described above, the IRS may impose a \$50 penalty on such U.S. Holder and payment of cash to such U.S. Holder pursuant to the Offer may be subject to backup withholding at the applicable statutory rate (currently 24%).

A "U.S. Holder" is any shareholder that for U.S. federal income tax purposes is (i) a citizen or resident of the United States, including an alien individual who is a lawful permanent resident of the United States or meets the "substantial presence" test under Section 7701(b) of the Code, (ii) a corporation or partnership created or organized in or under the laws of the United States, any state thereof or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income taxation regardless of its source, or (iv) a trust, if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more "United States persons" within the meaning of Section 7701(a)(30) of the Code have the authority to control all substantial decisions of the trust, or, if the trust was in existence on August 20, 1996, and it has elected to continue to be treated as a United States person.

Backup withholding is not an additional tax. Rather, the amount of the backup withholding can be credited against the U.S. federal income tax liability of the person subject to the backup withholding, provided that the required information is timely given to the IRS. If backup withholding results in an overpayment of tax, a refund can be obtained upon timely filing an income tax return.

A tendering U.S. Holder is required to give the Depository or other applicable withholding agent the TIN of the record owner of the Shares being tendered. If the Shares are held in more than one name or are not in the name of the actual owner, consult the instructions to the enclosed IRS Form W-9 for guidance on which number to report.

If a U.S. Holder has not been issued a TIN and has applied for one or intends to apply for one in the near future, such U.S. Holder should write "Applied For" in the space provided for the TIN in Part I of the IRS Form W-9, and sign and date the IRS Form W-9. Writing "Applied For" means that a U.S. Holder has already applied for a TIN or that such U.S. Holder intends to apply for one soon. Notwithstanding that the U.S. Holder has written "Applied For" in Part I, the Depository will withhold the applicable statutory rate (currently 24%) on all payments made prior to the time a properly certified TIN is provided to the Depository.

Some shareholders are exempt from backup withholding. To prevent possible erroneous backup withholding, exempt shareholders should consult the instructions to the enclosed IRS Form W-9 for additional guidance.

Non-U.S. Holders (as defined below) should complete and sign the main signature form and IRS Form W-8BEN or W-8BEN-E (or other applicable IRS Form W-8) in order to avoid backup withholding. A copy of the appropriate IRS Form W-8 may be obtained from the Depository or from the IRS website (www.irs.gov). A "Non-U.S. Holder" is a shareholder that is not a U.S. Holder. A disregarded domestic entity that has a foreign owner must use the appropriate IRS Form W-8, and not the IRS Form W-9. See the instructions to the enclosed IRS Form W-9 for more instructions.

11. Tax Residency – Canadian Withholding Tax.

Canadian Resident Shareholders

To ensure that non-resident withholding tax is not withheld in respect of tendered Shares beneficially owned by a person resident in Canada for purposes of the Tax Act (a "Canadian Resident Beneficial Owner"), the Shareholder must certify in Section I of the Canadian Withholding Tax form above that the Canadian Resident Beneficial Owner is a resident of Canada. Canadian Resident Beneficial Owners and Shareholders holding tendered Shares on behalf of a Canadian Resident Beneficial Owner are only required to complete Section I of the Canadian Withholding Tax form on page 10 of this Letter of Transmittal.

Non-Resident Shareholders

Non-resident withholding tax may apply in respect of Shares beneficially owned by a person who is not resident in Canada for purposes of the Tax Act (a "Non-Resident Beneficial Owner"). Non-Resident Beneficial Owners and Shareholders holding units on behalf of a Non-Resident Beneficial Owner are required to complete Sections I and II of the Canadian Withholding Tax form on page 10 of this Letter of Transmittal.

Applicability of a Tax Convention

Non-resident withholding tax may apply at a rate of 25% to certain amounts paid or deemed to be paid (including a deemed dividend arising under the Offer, if any) in respect of Shares beneficially owned by persons not resident in Canada for purposes of the Tax Act unless a Tax Convention is applicable to reduce the withholding tax rate. Non-Resident Beneficial Owners will be subject to withholding tax at 25% on any relevant amounts unless the information indicated in Section II of the Canadian Withholding Tax form on page 10 of this Letter of Transmittal is properly completed and provided along with the Letter of Transmittal.

If the Shareholder is the Beneficial Owner of the tendered Shares, the Shareholder must complete Form NR301, a copy of which is included with this Letter of Transmittal (or, in the case of a partnership or hybrid entity, Forms NR302 and NR303, as applicable).

If the Shareholder is not the Beneficial Owner of the tendered Shares, the Shareholder is required to complete the certification set out in Schedule B to this Letter of Transmittal.

Shareholders who do not properly complete and provide Form NR301 (or, in the case of a partnership or hybrid entity, Form NR302 or NR303, as applicable) or Schedule B, will be assumed to be subject to 25% non-resident withholding tax rate on any relevant amounts.

12. **Requests for Assistance or Additional Copies.** If you have questions or need assistance, you should contact the Information Agent at its address and telephone number set forth on the back cover of this Letter of Transmittal. If you require additional copies of the Offer to Purchase, this Letter of Transmittal, the Notice of Guaranteed Delivery, the IRS Form W-9 or other related materials, you should contact the Information Agent. Copies will be furnished promptly at XBiotech's expense.

13. **Lost, Destroyed or Stolen Certificates.** If any certificate representing Shares has been lost, destroyed or stolen, the shareholder should promptly notify the Depository at (877) 248-6417 (domestic) or (718) 921-8317 (foreign). The shareholder will then be instructed by the Depository as to the steps that must be taken in order to replace the certificate. This Letter of Transmittal and related documents cannot be processed until the procedures for replacing lost, destroyed or stolen certificates have been followed.

14. **Conditional Tenders.** As described in Sections 3 and 6 of the Offer to Purchase, shareholders may condition their tenders on all or a minimum number of their tendered Shares being purchased.

If you wish to make a conditional tender you must indicate this in the box captioned “Conditional Tender” in this Letter of Transmittal and, if applicable, the Notice of Guaranteed Delivery. In this box in this Letter of Transmittal and, if applicable, the Notice of Guaranteed Delivery, you must calculate and appropriately indicate the minimum number of Shares that must be purchased if any are to be purchased.

As discussed in Sections 3 and 6 of the Offer to Purchase, proration may affect whether XBiotech accepts conditional tenders and may result in Shares tendered pursuant to a conditional tender being deemed withdrawn if the minimum number of Shares would not be purchased. Upon the terms and subject to the conditions of the Offer, if, because of proration (because more than the number of Shares sought are properly tendered), the minimum number of Shares that you designate will not be purchased, XBiotech may accept conditional tenders made at or below the Final Purchase Price by random lot, if necessary. However, to be eligible for purchase by random lot, you must have tendered all of your Shares and check the box so indicating. Upon selection by lot, if any, XBiotech will limit its purchase in each case to the designated minimum number of Shares.

All tendered Shares will be deemed unconditionally tendered unless the “Conditional Tender” box is completed. If you are an Odd Lot Holder and you tender all of your Shares, you cannot conditionally tender, because your Shares will not be subject to proration.

The conditional tender alternative is made available so that a shareholder may seek to structure the purchase of Shares pursuant to the Offer in such a manner that the purchase will be treated as a sale of such Shares by the shareholder, rather than the payment of a dividend to the shareholder, for U.S. federal income tax purposes. It is the tendering shareholder’s responsibility to calculate the minimum number of Shares that must be purchased from the shareholder in order for the shareholder to qualify for sale rather than dividend treatment. Each shareholder is urged to consult his or her own tax advisor. No assurances can be provided that a conditional tender will achieve the intended U.S. federal income tax result for any shareholder tendering Shares. See Section 6 of the Offer to Purchase.

15. **Odd Lots.** As described in Section 1 of the Offer to Purchase, if XBiotech is to purchase fewer than all Shares tendered before the Expiration Date and not properly withdrawn, the Shares purchased first will consist of all Odd Lots of less than 100 Shares from shareholders who properly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holder will not qualify for this preference). This preference will not be available to registered holders unless the section captioned “Odd Lots” in this Letter of Transmittal is completed.

16. **Order of Purchase in Event of Proration.** As described in Section 1 of the Offer to Purchase, shareholders may designate the order in which their Shares are to be purchased in the event of proration. The order of purchase may have an effect on the U.S. federal income tax classification and the amount of any gain or loss on the Shares purchased. See Section 1 and Section 14 of the Offer to Purchase.

IMPORTANT: THIS LETTER OF TRANSMITTAL, TOGETHER WITH ANY REQUIRED SIGNATURE GUARANTEES, OR, IN THE CASE OF A BOOK-ENTRY TRANSFER, AN AGENT’S MESSAGE, AND ANY OTHER REQUIRED DOCUMENTS, MUST BE RECEIVED BY THE DEPOSITARY PRIOR TO THE EXPIRATION DATE AND EITHER CERTIFICATES FOR TENDERED SHARES MUST BE RECEIVED BY THE DEPOSITARY OR SHARES MUST BE DELIVERED PURSUANT TO THE PROCEDURES FOR BOOK-ENTRY TRANSFER, IN EACH CASE PRIOR TO THE EXPIRATION DATE, OR THE TENDERING SHAREHOLDER MUST COMPLY WITH THE PROCEDURES FOR GUARANTEED DELIVERY.

Request for Taxpayer Identification Number and Certification

Give Form to the requester. Do not send to the IRS.

▶ Go to www.irs.gov/FormW9 for instructions and the latest information.

Print or type. See Specific Instructions on page 3.	1 Name (as shown on your income tax return). Name is required on this line; do not leave this line blank.	
	2 Business name/disregarded entity name, if different from above	
	3 Check appropriate box for federal tax classification of the person whose name is entered on line 1. Check only one of the following seven boxes. <input type="checkbox"/> Individual/sole proprietor or single-member LLC <input type="checkbox"/> C Corporation <input type="checkbox"/> S Corporation <input type="checkbox"/> Partnership <input type="checkbox"/> Trust/estate <input type="checkbox"/> Limited liability company. Enter the tax classification (C=C corporation, S=S corporation, P=Partnership) ▶ _____ Note: Check the appropriate box in the line above for the tax classification of the single-member owner. Do not check LLC if the LLC is classified as a single-member LLC that is disregarded from the owner unless the owner of the LLC is another LLC that is not disregarded from the owner for U.S. federal tax purposes. Otherwise, a single-member LLC that is disregarded from the owner should check the appropriate box for the tax classification of its owner. <input type="checkbox"/> Other (see instructions) ▶ _____	4 Exemptions (codes apply only to certain entities, not individuals; see instructions on page 3): Exempt payee code (if any) _____ Exemption from FATCA reporting code (if any) _____ <i>(Applies to accounts maintained outside the U.S.)</i>
	5 Address (number, street, and apt. or suite no.) See instructions.	Requester's name and address (optional)
	6 City, state, and ZIP code	
	7 List account number(s) here (optional)	

Part I Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. The TIN provided must match the name given on line 1 to avoid backup withholding. For individuals, this is generally your social security number (SSN). However, for a resident alien, sole proprietor, or disregarded entity, see the instructions for Part I, later. For other entities, it is your employer identification number (EIN). If you do not have a number, see *How to get a TIN*, later.

Note: If the account is in more than one name, see the instructions for line 1. Also see *What Name and Number To Give the Requester* for guidelines on whose number to enter.

Social security number					
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	-		-		
OR					
Employer identification number					
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Part II Certification

Under penalties of perjury, I certify that:

- The number shown on this form is my correct taxpayer identification number (or I am waiting for a number to be issued to me); and
- I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (IRS) that I am subject to backup withholding as a result of a failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding; and
- I am a U.S. citizen or other U.S. person (defined below); and
- The FATCA code(s) entered on this form (if any) indicating that I am exempt from FATCA reporting is correct.

Certification instructions. You must cross out item 2 above if you have been notified by the IRS that you are currently subject to backup withholding because you have failed to report all interest and dividends on your tax return. For real estate transactions, item 2 does not apply. For mortgage interest paid, acquisition or abandonment of secured property, cancellation of debt, contributions to an individual retirement arrangement (IRA), and generally, payments other than interest and dividends, you are not required to sign the certification, but you must provide your correct TIN. See the instructions for Part II, later.

Sign Here	Signature of U.S. person ▶ _____	Date ▶ _____
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General Instructions

Section references are to the Internal Revenue Code unless otherwise noted.

Future developments. For the latest information about developments related to Form W-9 and its instructions, such as legislation enacted after they were published, go to www.irs.gov/FormW9.

Purpose of Form

An individual or entity (Form W-9 requester) who is required to file an information return with the IRS must obtain your correct taxpayer identification number (TIN) which may be your social security number (SSN), individual taxpayer identification number (ITIN), adoption taxpayer identification number (ATIN), or employer identification number (EIN), to report on an information return the amount paid to you, or other amount reportable on an information return. Examples of information returns include, but are not limited to, the following.

- Form 1099-INT (interest earned or paid)

- Form 1099-DIV (dividends, including those from stocks or mutual funds)
- Form 1099-MISC (various types of income, prizes, awards, or gross proceeds)
- Form 1099-B (stock or mutual fund sales and certain other transactions by brokers)
- Form 1099-S (proceeds from real estate transactions)
- Form 1099-K (merchant card and third party network transactions)
- Form 1098 (home mortgage interest), 1098-E (student loan interest), 1098-T (tuition)
- Form 1099-C (canceled debt)
- Form 1099-A (acquisition or abandonment of secured property)
Use Form W-9 only if you are a U.S. person (including a resident alien), to provide your correct TIN.
If you do not return Form W-9 to the requester with a TIN, you might be subject to backup withholding. See What is backup withholding, later.

By signing the filled-out form, you:

1. Certify that the TIN you are giving is correct (or you are waiting for a number to be issued),
2. Certify that you are not subject to backup withholding, or
3. Claim exemption from backup withholding if you are a U.S. exempt payee. If applicable, you are also certifying that as a U.S. person, your allocable share of any partnership income from a U.S. trade or business is not subject to the withholding tax on foreign partners' share of effectively connected income, and
4. Certify that FATCA code(s) entered on this form (if any) indicating that you are exempt from the FATCA reporting, is correct. See *What is FATCA reporting*, later, for further information.

Note: If you are a U.S. person and a requester gives you a form other than Form W-9 to request your TIN, you must use the requester's form if it is substantially similar to this Form W-9.

Definition of a U.S. person. For federal tax purposes, you are considered a U.S. person if you are:

- An individual who is a U.S. citizen or U.S. resident alien;
- A partnership, corporation, company, or association created or organized in the United States or under the laws of the United States;
- An estate (other than a foreign estate); or
- A domestic trust (as defined in Regulations section 301.7701-7).

Special rules for partnerships. Partnerships that conduct a trade or business in the United States are generally required to pay a withholding tax under section 1446 on any foreign partners' share of effectively connected taxable income from such business. Further, in certain cases where a Form W-9 has not been received, the rules under section 1446 require a partnership to presume that a partner is a foreign person, and pay the section 1446 withholding tax. Therefore, if you are a U.S. person that is a partner in a partnership conducting a trade or business in the United States, provide Form W-9 to the partnership to establish your U.S. status and avoid section 1446 withholding on your share of partnership income.

In the cases below, the following person must give Form W-9 to the partnership for purposes of establishing its U.S. status and avoiding withholding on its allocable share of net income from the partnership conducting a trade or business in the United States.

- In the case of a disregarded entity with a U.S. owner, the U.S. owner of the disregarded entity and not the entity;
- In the case of a grantor trust with a U.S. grantor or other U.S. owner, generally, the U.S. grantor or other U.S. owner of the grantor trust and not the trust; and
- In the case of a U.S. trust (other than a grantor trust), the U.S. trust (other than a grantor trust) and not the beneficiaries of the trust.

Foreign person. If you are a foreign person or the U.S. branch of a foreign bank that has elected to be treated as a U.S. person, do not use Form W-9. Instead, use the appropriate Form W-8 or Form 8233 (see Pub. 515, *Withholding of Tax on Nonresident Aliens and Foreign Entities*).

Nonresident alien who becomes a resident alien. Generally, only a nonresident alien individual may use the terms of a tax treaty to reduce or eliminate U.S. tax on certain types of income. However, most tax treaties contain a provision known as a "saving clause." Exceptions specified in the saving clause may permit an exemption from tax to continue for certain types of income even after the payee has otherwise become a U.S. resident alien for tax purposes.

If you are a U.S. resident alien who is relying on an exception contained in the saving clause of a tax treaty to claim an exemption from U.S. tax on certain types of income, you must attach a statement to Form W-9 that specifies the following five items.

1. The treaty country. Generally, this must be the same treaty under which you claimed exemption from tax as a nonresident alien.
2. The treaty article addressing the income.
3. The article number (or location) in the tax treaty that contains the saving clause and its exceptions.
4. The type and amount of income that qualifies for the exemption from tax.
5. Sufficient facts to justify the exemption from tax under the terms of the treaty article.

Example. Article 20 of the U.S.-China income tax treaty allows an exemption from tax for scholarship income received by a Chinese student temporarily present in the United States. Under U.S. law, this student will become a resident alien for tax purposes if his or her stay in the United States exceeds 5 calendar years. However, paragraph 2 of the first Protocol to the U.S.-China treaty (dated April 30, 1984) allows the provisions of Article 20 to continue to apply even after the Chinese student becomes a resident alien of the United States. A Chinese student who qualifies for this exception (under paragraph 2 of the first protocol) and is relying on this exception to claim an exemption from tax on his or her scholarship or fellowship income would attach to Form W-9 a statement that includes the information described above to support that exemption.

If you are a nonresident alien or a foreign entity, give the requester the appropriate completed Form W-8 or Form 8233.

Backup Withholding

What is backup withholding? Persons making certain payments to you must under certain conditions withhold and pay to the IRS 24% of such payments. This is called "backup withholding." Payments that may be subject to backup withholding include interest, tax-exempt interest, dividends, broker and barter exchange transactions, rents, royalties, nonemployee pay, payments made in settlement of payment card and third party network transactions, and certain payments from fishing boat operators. Real estate transactions are not subject to backup withholding.

You will not be subject to backup withholding on payments you receive if you give the requester your correct TIN, make the proper certifications, and report all your taxable interest and dividends on your tax return.

Payments you receive will be subject to backup withholding if:

1. You do not furnish your TIN to the requester,
2. You do not certify your TIN when required (see the instructions for Part II for details),
3. The IRS tells the requester that you furnished an incorrect TIN,
4. The IRS tells you that you are subject to backup withholding because you did not report all your interest and dividends on your tax return (for reportable interest and dividends only), or
5. You do not certify to the requester that you are not subject to backup withholding under 4 above (for reportable interest and dividend accounts opened after 1983 only).

Certain payees and payments are exempt from backup withholding. See *Exempt payee code*, later, and the separate Instructions for the Requester of Form W-9 for more information.

Also see *Special rules for partnerships*, earlier.

What is FATCA Reporting?

The Foreign Account Tax Compliance Act (FATCA) requires a participating foreign financial institution to report all United States account holders that are specified United States persons. Certain payees are exempt from FATCA reporting. See *Exemption from FATCA reporting code*, later, and the Instructions for the Requester of Form W-9 for more information.

Updating Your Information

You must provide updated information to any person to whom you claimed to be an exempt payee if you are no longer an exempt payee and anticipate receiving reportable payments in the future from this person. For example, you may need to provide updated information if you are a C corporation that elects to be an S corporation, or if you no longer are tax exempt. In addition, you must furnish a new Form W-9 if the name or TIN changes for the account; for example, if the grantor of a grantor trust dies.

Penalties

Failure to furnish TIN. If you fail to furnish your correct TIN to a requester, you are subject to a penalty of \$50 for each such failure unless your failure is due to reasonable cause and not to willful neglect.

Civil penalty for false information with respect to withholding. If you make a false statement with no reasonable basis that results in no backup withholding, you are subject to a \$500 penalty.

Criminal penalty for falsifying information. Willfully falsifying certifications or affirmations may subject you to criminal penalties including fines and/or imprisonment.

Misuse of TINs. If the requester discloses or uses TINs in violation of federal law, the requester may be subject to civil and criminal penalties.

Specific Instructions

Line 1

You must enter one of the following on this line; **do not** leave this line blank. The name should match the name on your tax return.

If this Form W-9 is for a joint account (other than an account maintained by a foreign financial institution (FFI)), list first, and then circle, the name of the person or entity whose number you entered in Part I of Form W-9. If you are providing Form W-9 to an FFI to document a joint account, each holder of the account that is a U.S. person must provide a Form W-9.

a. **Individual.** Generally, enter the name shown on your tax return. If you have changed your last name without informing the Social Security Administration (SSA) of the name change, enter your first name, the last name as shown on your social security card, and your new last name.

Note: ITIN applicant: Enter your individual name as it was entered on your Form W-7 application, line 1a. This should also be the same as the name you entered on the Form 1040/1040A/1040EZ you filed with your application.

b. **Sole proprietor or single-member LLC.** Enter your individual name as shown on your 1040/1040A/1040EZ on line 1. You may enter your business, trade, or "doing business as" (DBA) name on line 2.

c. **Partnership, LLC that is not a single-member LLC, C corporation, or S corporation.** Enter the entity's name as shown on the entity's tax return on line 1 and any business, trade, or DBA name on line 2.

d. **Other entities.** Enter your name as shown on required U.S. federal tax documents on line 1. This name should match the name shown on the charter or other legal document creating the entity. You may enter any business, trade, or DBA name on line 2.

e. **Disregarded entity.** For U.S. federal tax purposes, an entity that is disregarded as an entity separate from its owner is treated as a "disregarded entity." See Regulations section 301.7701-2(c)(2)(iii). Enter the owner's name on line 1. The name of the entity entered on line 1 should never be a disregarded entity. The name on line 1 should be the name shown on the income tax return on which the income should be reported. For example, if a foreign LLC that is treated as a disregarded entity for U.S. federal tax purposes has a single owner that is a U.S. person, the U.S. owner's name is required to be provided on line 1. If the direct owner of the entity is also a disregarded entity, enter the first owner that is not disregarded for federal tax purposes. Enter the disregarded entity's name on line 2, "Business name/disregarded entity name." If the owner of the disregarded entity is a foreign person, the owner must complete an appropriate Form W-8 instead of a Form W-9. This is the case even if the foreign person has a U.S. TIN.

Line 2

If you have a business name, trade name, DBA name, or disregarded entity name, you may enter it on line 2.

Line 3

Check the appropriate box on line 3 for the U.S. federal tax classification of the person whose name is entered on line 1. Check only one box on line 3.

IF the entity/person on line 1 is a(n) . . .	THEN check the box for . . .
• Corporation	Corporation
• Individual • Sole proprietorship, or • Single-member limited liability company (LLC) owned by an individual and disregarded for U.S. federal tax purposes.	Individual/sole proprietor or single-member LLC
• LLC treated as a partnership for U.S. federal tax purposes, • LLC that has filed Form 8832 or 2553 to be taxed as a corporation, or • LLC that is disregarded as an entity separate from its owner but the owner is another LLC that is not disregarded for U.S. federal tax purposes.	Limited liability company and enter the appropriate tax classification. (P= Partnership; C= C corporation; or S= S corporation)
• Partnership	Partnership
• Trust/estate	Trust/estate

Line 4, Exemptions

If you are exempt from backup withholding and/or FATCA reporting, enter in the appropriate space on line 4 any code(s) that may apply to you.

Exempt payee code.

- Generally, individuals (including sole proprietors) are not exempt from backup withholding.
- Except as provided below, corporations are exempt from backup withholding for certain payments, including interest and dividends.
- Corporations are not exempt from backup withholding for payments made in settlement of payment card or third party network transactions.
- Corporations are not exempt from backup withholding with respect to attorneys' fees or gross proceeds paid to attorneys, and corporations that provide medical or health care services are not exempt with respect to payments reportable on Form 1099-MISC.

The following codes identify payees that are exempt from backup withholding. Enter the appropriate code in the space in line 4.

1—An organization exempt from tax under section 501(a), any IRA, or a custodial account under section 403(b)(7) if the account satisfies the requirements of section 401(f)(2)

2—The United States or any of its agencies or instrumentalities

3—A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions or instrumentalities

4—A foreign government or any of its political subdivisions, agencies, or instrumentalities

5—A corporation

6—A dealer in securities or commodities required to register in the United States, the District of Columbia, or a U.S. commonwealth or possession

7—A futures commission merchant registered with the Commodity Futures Trading Commission

8—A real estate investment trust

9—An entity registered at all times during the tax year under the Investment Company Act of 1940

10—A common trust fund operated by a bank under section 584(a)

11—A financial institution

12—A middleman known in the investment community as a nominee or custodian

13—A trust exempt from tax under section 664 or described in section 4947

The following chart shows types of payments that may be exempt from backup withholding. The chart applies to the exempt payees listed above, 1 through 13.

IF the payment is for . . .	THEN the payment is exempt for . . .
Interest and dividend payments	All exempt payees except for 7
Broker transactions	Exempt payees 1 through 4 and 6 through 11 and all C corporations. S corporations must not enter an exempt payee code because they are exempt only for sales of noncovered securities acquired prior to 2012.
Barter exchange transactions and patronage dividends	Exempt payees 1 through 4
Payments over \$600 required to be reported and direct sales over \$5,000 ¹	Generally, exempt payees 1 through 5 ²
Payments made in settlement of payment card or third party network transactions	Exempt payees 1 through 4

¹ See Form 1099-MISC, Miscellaneous Income, and its instructions.

² However, the following payments made to a corporation and reportable on Form 1099-MISC are not exempt from backup withholding: medical and health care payments, attorneys' fees, gross proceeds paid to an attorney reportable under section 6045(f), and payments for services paid by a federal executive agency.

Exemption from FATCA reporting code. The following codes identify payees that are exempt from reporting under FATCA. These codes apply to persons submitting this form for accounts maintained outside of the United States by certain foreign financial institutions. Therefore, if you are only submitting this form for an account you hold in the United States, you may leave this field blank. Consult with the person requesting this form if you are uncertain if the financial institution is subject to these requirements. A requester may indicate that a code is not required by providing you with a Form W-9 with "Not Applicable" (or any similar indication) written or printed on the line for a FATCA exemption code.

A—An organization exempt from tax under section 501(a) or any individual retirement plan as defined in section 7701(a)(37)

B—The United States or any of its agencies or instrumentalities

C—A state, the District of Columbia, a U.S. commonwealth or possession, or any of their political subdivisions or instrumentalities

D—A corporation the stock of which is regularly traded on one or more established securities markets, as described in Regulations section 1.1472-1(c)(1)(i)

E—A corporation that is a member of the same expanded affiliated group as a corporation described in Regulations section 1.1472-1(c)(1)(i)

F—A dealer in securities, commodities, or derivative financial instruments (including notional principal contracts, futures, forwards, and options) that is registered as such under the laws of the United States or any state

G—A real estate investment trust

H—A regulated investment company as defined in section 851 or an entity registered at all times during the tax year under the Investment Company Act of 1940

I—A common trust fund as defined in section 584(a) J—

A bank as defined in section 581

K—A broker

L—A trust exempt from tax under section 664 or described in section 4947(a)(1)

M—A tax exempt trust under a section 403(b) plan or section 457(g) plan

Note: You may wish to consult with the financial institution requesting this form to determine whether the FATCA code and/or exempt payee code should be completed.

Line 5

Enter your address (number, street, and apartment or suite number). This is where the requester of this Form W-9 will mail your information returns. If this address differs from the one the requester already has on file, write NEW at the top. If a new address is provided, there is still a chance the old address will be used until the payor changes your address in their records.

Line 6

Enter your city, state, and ZIP code.

Part I. Taxpayer Identification Number (TIN)

Enter your TIN in the appropriate box. If you are a resident alien and you do not have and are not eligible to get an SSN, your TIN is your IRS individual taxpayer identification number (ITIN). Enter it in the social security number box. If you do not have an ITIN, see *How to get a TIN* below.

If you are a sole proprietor and you have an EIN, you may enter either your SSN or EIN.

If you are a single-member LLC that is disregarded as an entity separate from its owner, enter the owner's SSN (or EIN, if the owner has one). Do not enter the disregarded entity's EIN. If the LLC is classified as a corporation or partnership, enter the entity's EIN.

Note: See *What Name and Number To Give the Requester*, later, for further clarification of name and TIN combinations.

How to get a TIN. If you do not have a TIN, apply for one immediately. To apply for an SSN, get Form SS-5, Application for a Social Security Card, from your local SSA office or get this form online at www.SSA.gov. You may also get this form by calling 1-800-772-1213. Use Form W-7, Application for IRS Individual Taxpayer Identification Number, to apply for an ITIN, or Form SS-4, Application for Employer Identification Number, to apply for an EIN. You can apply for an EIN online by accessing the IRS website at www.irs.gov/Businesses and clicking on Employer Identification Number (EIN) under Starting a Business. Go to www.irs.gov/Forms to view, download, or print Form W-7 and/or Form SS-4. Or, you can go to www.irs.gov/OrderForms to place an order and have Form W-7 and/or SS-4 mailed to you within 10 business days.

If you are asked to complete Form W-9 but do not have a TIN, apply for a TIN and write "Applied For" in the space for the TIN, sign and date the form, and give it to the requester. For interest and dividend payments, and certain payments made with respect to readily tradable instruments, generally you will have 60 days to get a TIN and give it to the requester before you are subject to backup withholding on payments. The 60-day rule does not apply to other types of payments. You will be subject to backup withholding on all such payments until you provide your TIN to the requester.

Note: Entering "Applied For" means that you have already applied for a TIN or that you intend to apply for one soon.

Caution: A disregarded U.S. entity that has a foreign owner must use the appropriate Form W-8.

Part II. Certification

To establish to the withholding agent that you are a U.S. person, or resident alien, sign Form W-9. You may be requested to sign by the withholding agent even if item 1, 4, or 5 below indicates otherwise.

For a joint account, only the person whose TIN is shown in Part I should sign (when required). In the case of a disregarded entity, the person identified on line 1 must sign. Exempt payees, see *Exempt payee code*, earlier.

Signature requirements. Complete the certification as indicated in items 1 through 5 below.

1. Interest, dividend, and barter exchange accounts opened before 1984 and broker accounts considered active during 1983. You must give your correct TIN, but you do not have to sign the certification.

2. Interest, dividend, broker, and barter exchange accounts opened after 1983 and broker accounts considered inactive during 1983. You must sign the certification or backup withholding will apply. If you are subject to backup withholding and you are merely providing your correct TIN to the requester, you must cross out item 2 in the certification before signing the form.

3. Real estate transactions. You must sign the certification. You may cross out item 2 of the certification.

4. Other payments. You must give your correct TIN, but you do not have to sign the certification unless you have been notified that you have previously given an incorrect TIN. "Other payments" include payments made in the course of the requester's trade or business for rents, royalties, goods (other than bills for merchandise), medical and health care services (including payments to corporations), payments to a nonemployee for services, payments made in settlement of payment card and third party network transactions, payments to certain fishing boat crew members and fishermen, and gross proceeds paid to attorneys (including payments to corporations).

5. Mortgage interest paid by you, acquisition or abandonment of secured property, cancellation of debt, qualified tuition program payments (under section 529), ABL accounts (under section 529A), IRA, Coverdell ESA, Archer MSA or HSA contributions or distributions, and pension distributions. You must give your correct TIN, but you do not have to sign the certification.

What Name and Number To Give the Requester

For this type of account:	Give name and SSN of:
1. Individual	The individual
2. Two or more individuals (joint account) other than an account maintained by an FFI	The actual owner of the account or, if combined funds, the first individual on the account ¹
3. Two or more U.S. persons (joint account maintained by an FFI)	Each holder of the account
4. Custodial account of a minor (Uniform Gift to Minors Act)	The minor ²
5. a. The usual revocable savings trust (grantor is also trustee) b. So-called trust account that is not a legal or valid trust under state law	The grantor-trustee ¹ The actual owner ¹
6. Sole proprietorship or disregarded entity owned by an individual	The owner ³
7. Grantor trust filing under Optional Form 1099 Filing Method 1 (see Regulations section 1.671-4(b)(2)(i)(A))	The grantor*

For this type of account:	Give name and EIN of:
8. Disregarded entity not owned by an individual	The owner
9. A valid trust, estate, or pension trust	Legal entity ⁴
10. Corporation or LLC electing corporate status on Form 8832 or Form 2553	The corporation
11. Association, club, religious, charitable, educational, or other tax-exempt organization	The organization
12. Partnership or multi-member LLC	The partnership
13. A broker or registered nominee	The broker or nominee

For this type of account:	Give name and EIN of:
14. Account with the Department of Agriculture in the name of a public entity (such as a state or local government, school district, or prison) that receives agricultural program payments	The public entity
15. Grantor trust filing under the Form 1041 Filing Method or the Optional Form 1099 Filing Method 2 (see Regulations section 1.671-4(b)(2)(i)(B))	The trust

¹ List first and circle the name of the person whose number you furnish. If only one person on a joint account has an SSN, that person's number must be furnished.

² Circle the minor's name and furnish the minor's SSN.

³ You must show your individual name and you may also enter your business or DBA name on the "Business name/disregarded entity" name line. You may use either your SSN or EIN (if you have one), but the IRS encourages you to use your SSN.

⁴ List first and circle the name of the trust, estate, or pension trust. (Do not furnish the TIN of the personal representative or trustee unless the legal entity itself is not designated in the account title.) Also see *Special rules for partnerships*, earlier.

*Note: The grantor also must provide a Form W-9 to trustee of trust.

Note: If no name is circled when more than one name is listed, the number will be considered to be that of the first name listed.

Secure Your Tax Records From Identity Theft

Identity theft occurs when someone uses your personal information such as your name, SSN, or other identifying information, without your permission, to commit fraud or other crimes. An identity thief may use your SSN to get a job or may file a tax return using your SSN to receive a refund.

To reduce your risk:

- Protect your SSN,
- Ensure your employer is protecting your SSN, and
- Be careful when choosing a tax preparer.

If your tax records are affected by identity theft and you receive a notice from the IRS, respond right away to the name and phone number printed on the IRS notice or letter.

If your tax records are not currently affected by identity theft but you think you are at risk due to a lost or stolen purse or wallet, questionable credit card activity or credit report, contact the IRS Identity Theft Hotline at 1-800-908-4490 or submit Form 14039.

For more information, see Pub. 5027, Identity Theft Information for Taxpayers.

Victims of identity theft who are experiencing economic harm or a systemic problem, or are seeking help in resolving tax problems that have not been resolved through normal channels, may be eligible for Taxpayer Advocate Service (TAS) assistance. You can reach TAS by calling the TAS toll-free case intake line at 1-877-777-4778 or TTY/TDD 1-800-829-4059.

Protect yourself from suspicious emails or phishing schemes. Phishing is the creation and use of email and websites designed to mimic legitimate business emails and websites. The most common act is sending an email to a user falsely claiming to be an established legitimate enterprise in an attempt to scam the user into surrendering private information that will be used for identity theft.

The IRS does not initiate contacts with taxpayers via emails. Also, the IRS does not request personal detailed information through email or ask taxpayers for the PIN numbers, passwords, or similar secret access information for their credit card, bank, or other financial accounts.

If you receive an unsolicited email claiming to be from the IRS, forward this message to phishing@irs.gov. You may also report misuse of the IRS name, logo, or other IRS property to the Treasury Inspector General for Tax Administration (TIGTA) at 1-800-366-4484. You can forward suspicious emails to the Federal Trade Commission at spam@uce.gov or report them at www.ftc.gov/complaint. You can contact the FTC at www.ftc.gov/idtheft or 877-IDTHEFT (877-438-4338). If you have been the victim of identity theft, see www.IdentityTheft.gov and Pub. 5027.

Visit www.irs.gov/IdentityTheft to learn more about identity theft and how to reduce your risk.

Privacy Act Notice

Section 6109 of the Internal Revenue Code requires you to provide your correct TIN to persons (including federal agencies) who are required to file information returns with the IRS to report interest, dividends, or certain other income paid to you; mortgage interest you paid; the acquisition or abandonment of secured property; the cancellation of debt; or contributions you made to an IRA, Archer MSA, or HSA. The person collecting this form uses the information on the form to file information returns with the IRS, reporting the above information. Routine uses of this information include giving it to the Department of Justice for civil and criminal litigation and to cities, states, the District of Columbia, and U.S. commonwealths and possessions for use in administering their laws. The information also may be disclosed to other countries under a treaty, to federal and state agencies to enforce civil and criminal laws, or to federal law enforcement and intelligence agencies to combat terrorism. You must provide your TIN whether or not you are required to file a tax return. Under section 3406, payers must generally withhold a percentage of taxable interest, dividend, and certain other payments to a payee who does not give a TIN to the payer. Certain penalties may also apply for providing false or fraudulent information.



Declaration of eligibility for benefits (reduced tax) under a tax treaty for a non-resident person

(NOTE: Partnerships should use Form NR302 and hybrid entities should use Form NR303)

Use this form if you are a non-resident taxpayer resident in a country that Canada has a tax treaty with and you are eligible to receive the reduced rate of tax or exemption provided by the treaty on all or certain income and you:

- receive income subject to Part XIII withholding tax, such as investment income, pension, annuities, royalties, and estate or trust income, and the withholding tax rate is reduced by the tax treaty, or
- are completing forms T2062, *Request by a Non-Resident of Canada for a Certificate of Compliance Related to the Disposition of Taxable Canadian Property* or T2062A, *Request by a Non-Resident of Canada for a Certificate of Compliance Related to the Disposition of Canadian Resource or Timber Resource Property, Canadian Real Property (Other Than Capital Property), or Depreciable Taxable Canadian Property* to request a certificate of compliance for the disposition of treaty protected property, or
- derive income of any kind through a partnership or hybrid entity and it asks you to complete Form NR301 to support a declaration by the partnership or hybrid entity.

Please refer to the instruction pages for more information.

Part 1. Legal name of non-resident taxpayer (for individuals: first name, last name)				
Part 2. Mailing address: P.O. box, apt no., street no., street name and city				
State, province or territory	Postal or zip code		Country	
Part 3. Foreign tax identification number				
Part 4. Recipient type				
<input type="checkbox"/> Individual	<input type="checkbox"/> Corporation	<input type="checkbox"/> Trust		
Part 5. Tax identification number		Enter the trust's Canadian account number, if it has one:		
Enter your Canadian social insurance number or Canadian individual tax number, if you have one:		Enter the corporation's Canadian business number, if it has one:		
_ _ _ _ _ _ _ _ _	_ _ _ _ _ _ _ _ _	R	C	T _ _ _ _ _ _ _ _ _ _
Part 6. Country of residence for treaty purposes				
Part 7. Type of income for which the non-resident taxpayer is making this declaration				
<input type="checkbox"/> Interest, dividends, and/or royalties	<input type="checkbox"/> Trust income	<input type="checkbox"/> Other – specify income type or indicate "all income" _____		
Part 8. Certification and undertaking				
<ul style="list-style-type: none">• I certify that the information given on this form is correct and complete.• I certify that I am, or the non-resident taxpayer is, the beneficial owner of all income to which this form relates.• I certify that to the best of my knowledge and based on the factual circumstances that I am, or the non-resident taxpayer is, entitled to the benefits of the tax treaty between Canada and the country indicated in part 6 on the income listed in part 7.• I undertake to immediately notify whoever I am submitting this form to (whether it is the payer, agent or nominee, CRA, or the partnership or hybrid entity through which the income is derived) of any changes to the information provided on this form.				
_____ Signature of non-resident taxpayer or authorized person	_____ Name of authorized person (print)	_____ Position/title of authorized person	_____ Telephone number	_____ Date (YYYY/MM/DD)
Expiry date – For Part XIII tax withholding purposes, this declaration expires when there is a change in the taxpayer's eligibility for treaty benefits or three years from the end of the calendar year in which this form is signed and dated, whichever is earlier.				

Do not use this form:

- to support exemptions from tax under Article XXI of the Canada-U.S. tax treaty. You must apply to the CRA for a Letter of Exemption. Refer to guide T4016, *Exempt U.S. Organizations – Under Article XXI of the Canada-United States Tax Convention*.
- to support exemptions under a tax treaty that does not tax pension income if the total amount received from all payers is less than a certain threshold amount, or in other situations where Form NR5, *Application by a non-resident of Canada for a reduction in the amount of non-resident tax required to be withheld*, is applicable. See guide T4061, NR4 – *Non-resident tax withholding, remitting, and reporting* for more information on pension exemptions. In these cases, you have to file Form NR5 to receive a letter authorizing a reduction in withholding tax on pension income.
- to support exemptions from Part XIII withholding tax that are provided for in the *Income Tax Act*, such as fully exempt interest as defined in subsection 212(3); to support arm's length interest payments that are not captured by paragraph 212(1)(b); or to support reductions of the Part XIII withholding tax on rental income when the non-resident makes an election under Section 216. In these circumstances, the exemption or reduction is in the *Income Tax Act* rather than in one of Canada's tax treaties.

Business profits and disposition gains

For exemptions pertaining to services provided in Canada, including those provided by artists and athletes who are exempt from tax under a tax treaty, see Rendering services in Canada at cra.gc.ca/tx/nrdsnts/cmmn/rndr/menu-eng.html or Film Advisory Services at cra.gc.ca/tx/nrdsnts/fim/menu-eng.html. These pages contain links to information for non-residents, including how to apply for a waiver of withholding tax. You may need to attach Form NR302, *Declaration of eligibility for benefits (reduced tax) under a tax treaty for a partnership with non-resident partners* or NR303, *Declaration of eligibility for benefits (reduced tax) under a tax treaty for a hybrid entity* to an application for a waiver in certain circumstances, such as when the applicant for the waiver is a partnership or hybrid entity. The payer of income for services provided in Canada must withhold tax on these payments unless the non-resident provides the payer with a copy of a tax waiver or reduction issued by the CRA for those services.

For exemptions pertaining to dispositions of taxable Canadian property, see Disposing of or acquiring certain Canadian property at cra.gc.ca/nrdpositions/. Vendors and purchasers will find information on filing forms T2062, T2062A, and T2062C on this page. Generally, the purchaser of taxable Canadian property has to withhold tax on the purchase price unless the vendor receives a certificate of compliance from the CRA, or other rules apply.

Information and instructions for the non-resident taxpayer**Part XIII tax**

Part XIII tax is a withholding tax imposed on certain amounts paid or credited to non-residents of Canada. Subject to certain exceptions specified in the law, the rate of Part XIII tax is generally 25%. However, an income tax treaty between Canada and another country may provide for complete exemption from Part XIII tax or may reduce its rate.

It is the payer's responsibility to withhold and remit Part XIII tax at the appropriate rate and the payer is liable for any deficiency. For this reason, the payer may request a completed Form NR301 or equivalent information before applying a reduced rate of withholding tax. Without Form NR301, the payer may not be satisfied of your entitlement to treaty benefits for the application of less than the full 25% Part XIII tax rate.

Foreign tax identification number

Enter the tax identification number that you use, if you have one, in your country of residence. For individuals who are resident in the United States, this is your social security number.

Recipient type

Tick the appropriate type of non-resident taxpayer.

A foreign partnership that is treated as fiscally transparent under the laws of a foreign country, resulting in the partners paying tax on the partnership's worldwide income, should use Form NR302 to claim treaty benefits the partners are entitled to.

Hybrid entities (see "Amounts derived through hybrid entities" below) should use Form NR303 if they are considered "fiscally transparent" by a country that Canada has a tax treaty with and that treaty contemplates extending treaty benefits for income derived through the entity to the residents of that country who have an interest in the entity (e.g., see paragraph 6 of Article IV of the Canada-U.S. tax treaty). A foreign entity that is taxed as a corporation on its worldwide income under the laws of the foreign country completes Form NR301.

For other entity types, such as government entities and professional unincorporated associations, go to the CRA website at cra.gc.ca/formspubs/frms/nr301-2-3-eng.html.

Canadian tax number

Provide a Canadian tax number, if you have one.

Country of residence

Indicate your country of residence. You must be a resident of the country as defined in the tax treaty between Canada and that country. For more information, consult the publication *Income Tax Technical News No. 35* at cra-arc.gc.ca/E/pub/tp/itnews-35/, published February 26, 2007.

Type of income

Enter the types of income being paid for which you are eligible for tax treaty benefits (such as an exemption from tax in Canada or a reduced withholding tax rate).

Note: Income, including interest and dividend income, paid by a trust (other than a deemed dividend paid by a SIFT trust to which subsection 104(16) applies) to a non-resident is considered "trust income" under the *Income Tax Act* and Canada's tax treaties.

Some tax treaties only reduce the Part XIII withholding tax on specific income types, such as interest or trust income, if the amount is taxable in the non-resident taxpayer's country of residence. To check if this applies to the income you receive, go to the Department of Finance website at fin.gc.ca/treaties-conventions/treatystatus_-eng.asp, or try the non-resident tax calculator at cra.gc.ca/partxiii-calculator/. For example, the Canada-United Kingdom tax treaty contains such a provision in paragraph 2 of Article 27.

Limitation on benefits

Limitation on benefits provisions prevent the unintended use of treaties by residents of a third country. Tax treaty benefits will be refused if any applicable limitation on benefits provision is not satisfied.

For example, Article XXIX-A of the Canada-U.S. tax treaty generally restricts full treaty benefits to "qualifying persons" as defined in that article. U.S. resident individuals are "qualifying persons." Corporations, trusts, and other organizations resident in the United States should consult the tax treaty article to find out if they meet the criteria. The document "CRA guidelines for taxpayers requesting treaty benefits pursuant to paragraph 6 of article XXIX A of the Canada-U.S. Tax Convention" at cra.gc.ca/tx/nrdsnts/rtcl29-eng.html, provides the Canada-U.S. tax treaty in Appendix II and information for those who do not meet the criteria.

Certification and undertaking

This area should be completed and signed by:

- the non-resident taxpayer in the case of an individual;
- an authorized officer in the case of a corporation;
- the trustee, executor, or administrator if the person filing the form is a trust;
- an authorized partner in the case of a partnership.

A non-resident who does not satisfy the requirements of the limitation on benefits provisions, if any, contained in the tax treaty will not be entitled to all the benefits of the tax treaty. By signing this form you are certifying that the non-resident is entitled to a reduced rate of tax under a tax treaty.

During an audit or review, or while processing a related request, the CRA may ask you for more information to support the tax treaty benefit you claimed.

Change in circumstances

If a change in circumstances makes any information on the form incorrect, notify the payer immediately and fill out a new form.

Amounts derived through hybrid entities

A hybrid entity is in general a foreign entity (other than a partnership) whose income is taxed at the beneficiary, member, or participant level. For example, the United States resident members/owners of a Limited Liability Company (that is treated as a fiscally transparent entity under U.S. tax laws) may be entitled to treaty benefits if all the conditions in paragraph 6 of Article IV of the Canada-U.S. treaty are met. Under paragraph 6, an amount of income, profit or gain is considered to be derived by a resident of the United States if;

- 1) the amount is derived by that person through an entity (other than an entity that is a resident of Canada), and
- 2) by reason of that entity being considered fiscally transparent under U.S. tax laws, the treatment of the amount under U.S. tax laws is the same as it would be if that amount had been derived directly by that person. Paragraph 7 of Article IV contains additional restrictions on this look-through provision.

Entities that are subject to tax, but whose tax may be relieved under an integrated system, are not considered hybrid entities.

Where do I send this form?

Depending on your circumstances, send this form to one of the three areas noted below.

- If you receive income subject to Part XIII tax from a Canadian payer, or from an agent, nominee, or other financial intermediary who requested that you complete this form, send this form and your completed worksheets directly to the person who requested it, to reduce the Part XIII withholding tax on income being paid to you.
- If you derive income through a partnership or hybrid entity, and that partnership or hybrid entity asked you to complete Form NR301, send it to that partnership or hybrid entity.
- If requesting a certificate of compliance for the disposition of treaty-protected property, send this form, along with forms T2062 or T2062A, to the CRA according to the instructions on those forms.

Agents and nominees, or financial intermediaries

If you are an agent or nominee providing financial intermediary services as a part of a business, you should collect Form NR301, NR302, or NR303, or equivalent information, from the beneficial owner. See the instructions in Information Circular 76-12, *Applicable rate of part XIII tax on amounts paid or credited to persons in countries with which Canada has a tax convention*, and published updates to this information on the CRA website, for the suggested format to use for submitting the information to the Canadian payer or withholding agent. If you are an agent or nominee providing financial intermediary services as part of a business and you pay another agent or nominee amounts for non-resident beneficial owners, collect an agent/nominee certification from them as described in Information Circular 76-12 and published updates.

Instructions for payers

To determine the appropriate reduced rate of withholding, see the relevant Canadian tax treaty on the Department of Finance website at fin.gc.ca/treaties-conventions/treatystatus_-eng.asp, or try the non-resident tax calculator at cra.gc.ca/partxiii-calculator/.

Do not apply a reduced rate of withholding in the following circumstances:

- the non-resident taxpayer has not provided Form NR301 or equivalent information and you are not sure if the reduced rate applies;
- the form is incomplete (see note below);
- a tax treaty is not in effect with the taxpayer's country of residence; or
- you have reason to believe that the information provided in this declaration is incorrect or misleading.

Note: The foreign and Canadian tax number fields may be blank because not all non-residents will have these tax numbers.

Expiry date

For Part XIII tax withholding purposes, this declaration expires when there is a change in the taxpayer's eligibility for the declared treaty benefits or three years from the end of the calendar year in which the form is signed and dated, whichever is earlier. For example, if the taxpayer's mailing address has changed to a different country, you should ask the taxpayer for a revised Form NR301.

If you need more information, see Part XIII withholding tax at cra.gc.ca/tx/nrdsnts/pyr/prtxiii/wthldng/menu-eng.html and select Beneficial ownership or Rates for part XIII tax.

Any questions or requests for assistance may be directed to the Information Agent at their respective telephone numbers and addresses set forth below. Requests for additional copies of the Offer to Purchase, this Letter of Transmittal, the Notice of Guaranteed Delivery or related documents may be directed to the Information Agent at its telephone numbers or address set forth below. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Depository for the Offer is:

American Stock Transfer & Trust Co., LLC

*By Hand, Express Mail, Courier or
Other Expedited Service:*

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

By Mail:

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

For assistance call (877) 248-6417 or (718) 921-8317

The Information Agent for the Offer is:

D.F. King & Co., Inc.

48 Wall Street, 22nd Floor
New York, New York 10005
Banks and Brokers
Call: (212) 269-5550
All Others Call: (866) 856-3065
Email: xbit@dfking.com

**Notice of Guaranteed Delivery
For Tender of Common Shares of
XBiotech Inc.**

**THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME, ON FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED
(SUCH DATE AND TIME, AS THEY MAY BE EXTENDED, THE "EXPIRATION DATE").**

This Notice of Guaranteed Delivery, or a form substantially equivalent hereto, must be used to accept the Offer (as defined below) if you want to tender your Shares but:

- your certificates for the Shares are not immediately available or cannot be delivered to the Depository by the Expiration Date;
- you cannot comply with the procedure for book-entry transfer by the Expiration Date; or
- your other required documents cannot be delivered to the Depository by the Expiration Date,

in which case, you can still tender your Shares if you comply with the guaranteed delivery procedure described in Section 3 of the Offer to Purchase dated January 14, 2020 (as may be amended or supplemented from time to time, the "Offer to Purchase").

This Notice of Guaranteed Delivery, properly completed and duly executed, may be delivered to the Depository by mail, overnight courier prior to the Expiration Date. See Section 3 of the Offer to Purchase.

Deliver to:

American Stock Transfer & Trust Co., LLC

the Depository for the Offer

*By Hand, Express Mail, Courier or
Other Expedited Service:*

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

By Mail:

American Stock Transfer & Trust Co., LLC
Operations Center
Attn: Reorganization Department
6201 15th Avenue
Brooklyn, New York 11219

For assistance call (877) 248-6417 or (718) 921-8317

For this notice to be validly delivered, it must be received by the Depository at one of the above addresses prior to the Expiration Date. Delivery of this instrument to an address other than as set forth above will not constitute a valid delivery. Deliveries to XBiotech or D.F. King & Co., Inc., the Information Agent, will not be forwarded to the Depository and therefore will not constitute valid delivery. Deliveries to The Depository Trust Company will not constitute valid delivery to the Depository.

This Notice of Guaranteed Delivery is not to be used to guarantee signatures. If a signature on the Letter of Transmittal is required to be guaranteed by an Eligible Institution (as defined in the Offer to Purchase) under the instructions to the Letter of Transmittal, the signature guarantee must appear in the applicable space provided in the signature box on the Letter of Transmittal.

Ladies and Gentlemen:

The undersigned hereby tenders to XBiotech Inc., a British Columbia corporation (“XBiotech”), upon the terms and subject to the conditions set forth in its Offer to Purchase dated January 14, 2020 (the “Offer to Purchase”) and the related Letter of Transmittal (the “Letter of Transmittal,” which together with the Offer to Purchase, as they may be amended or supplemented from time to time, constitute the “Offer”), receipt of which is hereby acknowledged, the number of common shares, no par value per share, of XBiotech (the “Shares”), listed below, pursuant to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase.

Number of Shares to be tendered: _____ Shares.

**NOTE: SIGNATURES MUST BE PROVIDED WHERE INDICATED BELOW
PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED
(See Instruction 5 to the Letter of Transmittal)**

THE UNDERSIGNED IS TENDERING SHARES AS FOLLOWS (CHECK ONLY ONE BOX UNDER (1) OR (2) BELOW):

(1) SHARES TENDERED AT PRICE DETERMINED UNDER THE OFFER

By checking the box below INSTEAD OF ONE OF THE BOXES UNDER “Shares Tendered At Price Determined By Shareholder,” the undersigned hereby tenders Shares at the purchase price as shall be determined by XBiotech in accordance with the terms of the Offer.

- The undersigned wants to maximize the chance that XBiotech will accept for payment all of the Shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking this box instead of one of the price boxes below, the undersigned hereby tenders Shares at, and is willing to accept, the purchase price determined by XBiotech in accordance with the terms of the Offer. The undersigned understands that this action will result in the undersigned’s Shares being deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price (as defined in the Offer to Purchase). This may effectively lower the Final Purchase Price and could result in the undersigned receiving a per Share price as low as \$30.00.

(2) SHARES TENDERED AT PRICE DETERMINED BY SHAREHOLDER

By checking ONE of the following boxes INSTEAD OF THE BOX UNDER “Shares Tendered At Price Determined Under The Offer,” the undersigned hereby tenders Shares at the price checked. The undersigned understands that this action could result in XBiotech purchasing none of the Shares tendered hereby if the purchase price determined by XBiotech for the Shares is less than the price checked below.

- | | | | | |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <input type="checkbox"/> \$30.00 | <input type="checkbox"/> \$30.25 | <input type="checkbox"/> \$30.50 | <input type="checkbox"/> \$30.75 | <input type="checkbox"/> \$31.00 |
| <input type="checkbox"/> \$31.25 | <input type="checkbox"/> \$31.50 | <input type="checkbox"/> \$31.75 | <input type="checkbox"/> \$32.00 | <input type="checkbox"/> \$32.25 |
| <input type="checkbox"/> \$32.50 | <input type="checkbox"/> \$32.75 | <input type="checkbox"/> \$33.00 | | |

CHECK ONLY ONE BOX UNDER (1) OR (2) ABOVE. IF MORE THAN ONE BOX IS CHECKED ABOVE, OR IF NO BOX IS CHECKED, THERE IS NO VALID TENDER OF SHARES.

A SHAREHOLDER DESIRING TO TENDER SHARES AT MORE THAN ONE PRICE MUST COMPLETE A SEPARATE NOTICE OF GUARANTEED DELIVERY FOR EACH PRICE AT WHICH SHARES ARE TENDERED. THE SAME SHARES CANNOT BE TENDERED, UNLESS PREVIOUSLY PROPERLY WITHDRAWN AS PROVIDED IN SECTION 4 OF THE OFFER TO PURCHASE, AT MORE THAN ONE PRICE.

ODD LOTS

(See Instruction 15 of the Letter of Transmittal)

As described in Section 1 of the Offer to Purchase, under certain conditions, shareholders holding fewer than 100 Shares may have their Shares accepted for payment before any proration of other tendered Shares. This preference is not available to partial tenders, or to beneficial or record holders of an aggregate of 100 or more Shares, even if such holders have separate accounts or certificates representing fewer than 100 Shares. Accordingly, this section is to be completed **ONLY** if Shares are being tendered by or on behalf of a person owning, beneficially or of record, an aggregate of fewer than 100 Shares. The undersigned:

owns, whether beneficially or of record, an aggregate of fewer than 100 Shares and is tendering all such Shares.

CONDITIONAL TENDER

(See Instruction 14 to the Letter of Transmittal)

A shareholder may tender Shares subject to the condition that a specified minimum number of the shareholder's Shares tendered pursuant to the Letter of Transmittal must be purchased if any Shares tendered are purchased, all as described in the Offer to Purchase, particularly in Section 6 thereof. Unless at least that minimum number of Shares indicated below is purchased by XBiotech pursuant to the terms of the Offer, none of the Shares tendered by you will be purchased. It is the tendering shareholder's responsibility to calculate that minimum number of Shares that must be purchased if any are purchased, and XBiotech urges shareholders to consult their own financial and tax advisors before completing this section. Unless this box has been checked *and* a minimum specified, the tender will be deemed unconditional.

The minimum number of Shares that must be purchased, if any are purchased, is: _____ Shares.

If, because of proration, the minimum number of Shares designated will not be purchased, XBiotech may accept conditional tenders by random lot, if necessary. However, to be eligible for purchase by random lot, the tendering shareholder must have tendered all of his or her Shares and checked this box:

The tendered Shares represent all Shares held by the undersigned.

PLEASE SIGN ON THIS PAGE

Name(s) of Record Holder(s): _____
(Please Print)

Signature(s): _____

Address(es) _____
(Include Zip Code)

Area code and telephone number: _____

If delivery will be by book-entry transfer, check this box.

Name of tendering institution: _____

Account number: _____

**GUARANTEE
(NOT TO BE USED FOR SIGNATURE GUARANTEE)**

The undersigned, a bank, broker, dealer, credit union, savings association or other entity which is a member in good standing of the Securities Transfer Association Medallion Signature Guarantee Program, or an "eligible guarantor institution," (as such term is defined in Rule 17Ad-15 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), hereby guarantees (i) that the above-named person(s) has a net long position in the Shares being tendered within the meaning of Rule 14e-4 promulgated under the Exchange Act, (ii) that such tender of Shares complies with Rule 14e-4 and (iii) to deliver to the Depository at one of its addresses set forth above certificate(s) for the Shares tendered hereby, in proper form for transfer, or a confirmation of the book-entry transfer of the Shares into the Depository's account at The Depository Trust Company, together with a properly completed and duly executed Letter of Transmittal and any other required documents, within two trading days (as defined in the Letter of Transmittal) after the date of receipt by the Depository.

The Eligible Institution that completes this form must communicate the guarantee to the Depository and must deliver the Letter of Transmittal and certificates for Shares to the Depository within the time period shown herein. Failure to do so could result in financial loss to such Eligible Institution. Participants should notify the Depository prior to covering through the submission of a physical security directly to the Depository based on a guaranteed delivery that was submitted via DTC's PTOP platform.

Name of Eligible Institution Guaranteeing Delivery

Authorized Signature

Address

Name (Print Name)

Zip Code

Title

(Area Code) Telephone No.

Dated: _____, 2020

This form is not to be used to guarantee signatures. If a signature on a Letter of Transmittal is required to be guaranteed by an Eligible Institution under the Instructions thereto, such signature guarantee must appear in the applicable space provided in the signature box on the Letter of Transmittal.

NOTE: DO NOT SEND SHARE CERTIFICATES WITH THIS FORM. YOUR SHARE CERTIFICATES MUST BE SENT WITH THE LETTER OF TRANSMITTAL.

Offer to Purchase for Cash

by

XBiotech Inc.

Up to \$420,000,000 in Value of Common Shares

At a Cash Purchase Price Not Greater than \$33.00 per Share Nor Less than \$30.00 per Share

THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M, NEW YORK CITY TIME, ON FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED (SUCH DATE AND TIME, AS THEY MAY BE EXTENDED, THE "EXPIRATION DATE").

January 14, 2020

To Brokers, Dealers, Commercial Banks, Trust Companies and Other Nominees:

XBiotech Inc., a British Columbia corporation ("XBiotech"), has appointed us to act as Information Agent in connection with its offer to purchase for cash up to \$420,000,000 in value of its common shares, no par value per share (the "Shares"), at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions set forth in the Offer to Purchase dated January 14, 2020 (the "Offer to Purchase"), and the related Letter of Transmittal (the "Letter of Transmittal," which together with the Offer to Purchase, as they may be amended or supplemented from time to time, constitute the "Offer"). Capitalized terms used herein and not defined herein shall have the meanings given to them in the Offer to Purchase. The description of the Offer in this letter is only a summary and is qualified by all of the terms and conditions of the Offer set forth in the Offer to Purchase and Letter of Transmittal.

XBiotech will, upon the terms and subject to the conditions of the Offer, determine a single per Share price that it will pay for Shares properly tendered and not properly withdrawn from the Offer, taking into account the number of Shares so tendered and the prices specified, or deemed specified (as described in the Offer to Purchase), by tendering shareholders. XBiotech will select the single lowest purchase price, not greater than \$33.00 nor less than \$30.00 per Share, that will allow it to purchase up to \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn. Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price (defined below), Shares having an aggregate value of less than or equal to \$420,000,000 are properly tendered and not properly withdrawn, XBiotech will buy all Shares properly tendered and not properly withdrawn. The price XBiotech will select is sometimes referred to as the "Final Purchase Price." Only Shares properly tendered prior to the Expiration Date at prices at or below the Final Purchase Price and not properly withdrawn will be purchased in the Offer at the Final Purchase Price, upon the terms and subject to the conditions of the Offer, including the "Odd Lot" priority, proration and conditional tender provisions described in the Offer to Purchase. Under no circumstances will interest be paid on the purchase price for the Shares, regardless of any delay in making such payment. All Shares acquired in the Offer will be acquired at the Final Purchase Price. XBiotech reserves the right, in its sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. In accordance with the rules of the Securities and Exchange Commission (the "SEC"), XBiotech may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer.

XBiotech reserves the right, in its sole discretion, to terminate the Offer upon the occurrence of certain conditions more specifically described in Section 7 of the Offer to Purchase, or to amend the Offer in any respect, subject to applicable law.

Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price, Shares having an aggregate value in excess of \$420,000,000, or such greater amount as XBiotech may elect to pay, subject to applicable law, have been properly tendered, and not properly withdrawn before the Expiration Date, at prices at or below the Final Purchase Price, XBiotech will accept the Shares to be purchased in the following order of priority: (i) *first*, XBiotech will purchase all Odd Lots of less than 100 Shares at the Final Purchase Price from shareholders who properly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holder will not qualify for this preference); (ii) *second*, after purchasing all the Odd Lots that were properly tendered at or below the Final Purchase Price, from all shareholders who properly tender Shares at or below the Final Purchase Price, on a pro rata basis, subject to the conditional tender provisions described in the Offer to Purchase and with appropriate adjustment to avoid purchases of fractional Shares; and (iii) *third*, only if necessary to permit XBiotech to purchase \$420,000,000 in value of Shares (or such greater amount as XBiotech may elect to pay, subject to applicable law), from holders who have tendered Shares at or below the Final Purchase Price subject to the condition that a specified minimum number of the holder's Shares be purchased if any Shares are purchased in the Offer as described in the Offer to Purchase (for which the condition was not initially satisfied) by random lot, to the extent feasible. To be eligible for purchase by random lot, shareholders whose Shares are conditionally tendered must have tendered all of their Shares. Therefore, it is possible that XBiotech will not purchase all of the Shares tendered by a shareholder even if such shareholder tenders its Shares at or below the Final Purchase Price. Shares tendered at prices greater than the Final Purchase Price and Shares not purchased because of proration provisions will be returned to the tendering shareholders at XBiotech's expense promptly after the Expiration Date. See Section 1, Section 3 and Section 5 of the Offer to Purchase.

The Offer is not conditioned on the receipt of financing or any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 7 of the Offer to Purchase.

For your information and for forwarding to those of your clients for whom you hold Shares registered in your name or in the name of your nominee, we are enclosing the following documents:

1. The Offer to Purchase;
2. The Letter of Transmittal for your use and for the information of your clients;
3. Notice of Guaranteed Delivery to be used to accept the Offer if the Share certificates and all other required documents cannot be delivered to the Depository before the Expiration Date or if the procedure for book-entry transfer cannot be completed before the Expiration Date;
4. A letter to clients that you may send to your clients for whose accounts you hold Shares registered in your name or in the name of your nominee, with space provided for obtaining such clients' instructions with regard to the Offer; and
5. A return envelope addressed to American Stock Transfer & Trust Co., LLC, as Depository for the Offer.

Our Board of Directors has delegated authority to consider the Offer to an Independent Committee of our Board of Directors, which consists solely of independent directors who do not have a material financial interest in the transactions described in the Offer to Purchase, and the Independent Committee has approved the Offer and authorized us to make the Offer. However, none of XBiotech, the members of its Board of Directors (including the Independent Committee), the Depository or the Information Agent makes any recommendation to any shareholder as to whether to tender or refrain from tendering any Shares or as to the price or prices at which shareholders may choose to tender their Shares. None of XBiotech, the members of its Board of Directors (including the Independent Committee), the Depository or the Information Agent has authorized any person to make any recommendation with respect to the Offer. Shareholders should carefully evaluate all information in the Offer to Purchase and in the related Letter of Transmittal and should consult their own financial and tax advisors. Shareholders must decide whether to tender their Shares and, if so, how many Shares to tender and the price or prices at which a shareholder will tender. In doing so, a shareholder should read carefully the information in the Offer to Purchase and in the related Letter of Transmittal before making any decision with respect to the Offer.

YOUR PROMPT ACTION IS REQUESTED. WE URGE YOU TO CONTACT YOUR CLIENTS AS PROMPTLY AS POSSIBLE. PLEASE NOTE THAT THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON WEDNESDAY, FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED.

For Shares to be tendered properly pursuant to the Offer, one of the following must occur: (1) the certificates for such Shares, or confirmation of receipt of such Shares pursuant to the procedure for book-entry transfer set forth in Section 3 of the Offer to Purchase, together with (a) a properly completed and duly executed Letter of Transmittal including any required signature guarantees and any documents required by the Letter of Transmittal or (b) an Agent's Message (as defined in Section 3 of the Offer to Purchase) in the case of a book-entry transfer, must be received before 5:00 p.m., New York City time, on Wednesday, February 12, 2020 by the Depository at one of its addresses set forth on the back cover of the Offer to Purchase or (2) shareholders whose certificates for Shares are not immediately available or who cannot deliver their certificates and all other required documents to the Depository or complete the procedures for book-entry transfer prior to the Expiration Date must properly complete, duly execute and deliver the Notice of Guaranteed Delivery to the Depository pursuant to the guaranteed delivery procedures set forth in Section 3 of the Offer to Purchase.

XBiotech will not pay any fees or commissions to brokers, dealers, commercial banks or trust companies or other nominees (other than fees to the Information Agent, as described in Section 16 of the Offer to Purchase) for soliciting tenders of Shares pursuant to the Offer. XBiotech will, however, upon request, reimburse brokers, dealers, commercial banks, trust companies or other nominees for customary mailing and handling expenses incurred by them in forwarding the Offer and related materials to the beneficial owners of Shares held by them as a nominee or in a fiduciary capacity. No broker, dealer, commercial bank or trust company has been authorized to act as the agent of XBiotech, the Information Agent or the Depository for purposes of the Offer. XBiotech will pay or cause to be paid all stock transfer taxes, if any, on its purchase of the Shares except as otherwise provided in the Offer to Purchase or Instruction 7 in the Letter of Transmittal.

Any questions or requests for assistance may be directed to the Information Agent at their respective telephone numbers and addresses set forth on the back cover of the Offer to Purchase. You may request additional copies of enclosed materials and direct questions and requests for assistance to the Information Agent, D.F. King & Co., Inc., at: (212) 269-5550 (banks and brokers) or (866) 856-3065 (all others).

Very truly yours,

D.F. KING & CO., INC.

NOTHING CONTAINED IN THIS DOCUMENT OR IN THE ENCLOSED DOCUMENTS WILL MAKE YOU OR ANY OTHER PERSON AN AGENT OF XBIOTECH, THE INFORMATION AGENT OR THE DEPOSITARY OR ANY AFFILIATE OF ANY OF THE FOREGOING, OR AUTHORIZE YOU OR ANY OTHER PERSON TO USE ANY DOCUMENT OR MAKE ANY STATEMENT ON BEHALF OF ANY OF THEM IN CONNECTION WITH THE OFFER OTHER THAN THE DOCUMENTS ENCLOSED AND THE STATEMENTS CONTAINED IN THOSE DOCUMENTS.

Offer to Purchase for Cash

by

XBioTech Inc.

Up to \$420,000,000 in Value of Common Shares

At a Cash Purchase Price Not Greater than \$33.00 per Share Nor Less than \$30.00 per Share

**THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME, ON FEBRUARY 12, 2020,
UNLESS THE OFFER IS EXTENDED (SUCH DATE AND TIME, AS THEY MAY BE EXTENDED,
THE "EXPIRATION DATE").**

January 14, 2020

To Our Clients:

Enclosed for your consideration are the Offer to Purchase, dated January 14, 2020 (the "Offer to Purchase"), and related Letter of Transmittal (the "Letter of Transmittal," which together with the Offer to Purchase, as they may be amended or supplemented from time to time, constitute the "Offer") in connection with the offer by XBioTech Inc., a British Columbia corporation ("XBioTech"), to purchase for cash up to \$420,000,000 in value of its common shares, no par value per share (the "Shares"), at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions of the Offer. Capitalized terms used herein and not defined herein shall have the meanings given to them in the Offer to Purchase. The description of the Offer in this letter is only a summary and is qualified by all of the terms and conditions of the Offer set forth in the Offer to Purchase and Letter of Transmittal.

XBioTech will, upon the terms and subject to the conditions of the Offer, determine a single per Share price that it will pay for Shares properly tendered and not properly withdrawn from the Offer, taking into account the number of Shares so tendered and the prices specified, or deemed specified (as described in the attached Instruction Form), by tendering shareholders. XBioTech will select the single lowest purchase price, not greater than \$33.00 nor less than \$30.00 per Share, that will allow it to purchase \$420,000,000 in value of Shares, or a lower amount depending on the number of Shares properly tendered and not properly withdrawn. Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price (defined below), Shares having an aggregate value of less than or equal to \$420,000,000 are properly tendered and not properly withdrawn, XBioTech will buy all Shares properly tendered and not properly withdrawn. The price XBioTech will select is sometimes referred to as the "Final Purchase Price." Only Shares properly tendered prior to the Expiration Date at prices at or below the Final Purchase Price and not properly withdrawn will be purchased in the Offer at the Final Purchase Price, upon the terms and subject to the conditions of the Offer, including the "Odd Lot" priority, proration and conditional tender provisions described in the Offer to Purchase. Under no circumstances will interest be paid on the purchase price for the Shares, regardless of any delay in making such payment. All Shares acquired in the Offer will be acquired at the Final Purchase Price. XBioTech reserves the right, in its sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. In accordance with the rules of the Securities and Exchange Commission, XBioTech may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer.

XBioTech reserves the right, in its sole discretion, to terminate the Offer upon the occurrence of certain conditions more specifically described in Section 7 of the Offer to Purchase, or to amend the Offer in any respect, subject to applicable law.

Upon the terms and subject to the conditions of the Offer, if, based on the Final Purchase Price, Shares having an aggregate value in excess of \$420,000,000, or such greater amount as XBioTech may elect to pay, subject to applicable law, have been validly tendered, and not properly withdrawn before the Expiration Date, at prices at or below the Final Purchase Price, XBioTech will accept the Shares to be purchased in the following order of priority: (i) first, XBioTech will purchase all Odd Lots of less than 100 Shares at the Final Purchase Price from shareholders who validly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holders will not qualify for this preference); (ii) second, after purchasing all the Odd Lots that were properly tendered at or below the Final Purchase Price from all shareholders who properly tender Shares at or below the Final Purchase Price, on a pro rata basis, subject to the conditional tender provisions described in the Offer to Purchase and with appropriate adjustment to avoid purchases of fractional Shares; and (iii) third, only if necessary to permit XBioTech to purchase \$420,000,000 in value of Shares (or such greater amount as XBioTech may elect to pay, subject to applicable law), from holders who have tendered Shares at or below the Final Purchase Price subject to the condition that a specified minimum number of the holder's Shares be purchased if any Shares are

purchased in the Offer as described in the Offer to Purchase (for which the condition was not initially satisfied) by random lot, to the extent feasible. To be eligible for purchase by random lot, shareholders whose Shares are conditionally tendered must have tendered all of their Shares. Therefore, it is possible that XBiotech will not purchase all of the Shares that you tender even if you tender them at or below the Final Purchase Price. Shares tendered at prices greater than the Final Purchase Price and Shares not purchased because of proration provisions will be returned to the tendering shareholders at XBiotech's expense promptly after the Expiration Date. See Section 1, Section 3 and Section 5 of the Offer to Purchase.

The Offer is not conditioned on the receipt of financing or any minimum number of Shares being tendered. The Offer is, however, subject to certain other conditions. See Section 7 of the Offer to Purchase.

We are the owner of record of Shares held for your account. As such, we are the only ones who can tender your Shares, and then only pursuant to your instructions. **WE ARE SENDING YOU THE LETTER OF TRANSMITTAL FOR YOUR INFORMATION ONLY; YOU CANNOT USE IT TO TENDER SHARES WE HOLD FOR YOUR ACCOUNT.**

Please instruct us as to whether you wish us to tender any or all of the Shares we hold for your account on the terms and subject to the conditions of the Offer.

Please note the following:

1. You may tender your Shares at prices not greater than \$33.00 nor less than \$30.00 per Share, as indicated in the attached Instruction Form, to you in cash, less any applicable withholding taxes and without interest, or you may instruct us to tender your Shares at the Final Purchase Price determined by XBiotech in accordance with the terms of the Offer.
2. You should consult with your broker or other financial or tax advisors on the possibility of designating the priority in which your Shares will be purchased in the event of proration.
3. The Offer, proration period and withdrawal rights will expire at 5:00 p.m., New York City time, on Wednesday, February 12, 2020, unless XBiotech extends the Offer.
4. The Offer is for up to \$420,000,000 in value of Shares. At the maximum Final Purchase Price of \$33.00 per Share, XBiotech could purchase 12,727,272 Shares if the Offer is fully subscribed (representing approximately 30.04% of the Shares outstanding as of January 13, 2020). At the minimum Final Purchase Price of \$30.00, XBiotech could purchase 14,000,000 Shares if the Offer is fully subscribed (representing approximately 33.05% of the Shares outstanding as of January 13, 2020).
5. Tendering shareholders who are tendering Shares held in their name or who tender their Shares directly to the Depository will not be obligated to pay any brokerage commissions or fees to XBiotech or, except as set forth in the Offer to Purchase and the Letter of Transmittal, stock transfer taxes on XBiotech's purchase of Shares under the Offer.
6. If you wish to tender portions of your Shares at different prices, you must complete a separate Instruction Form for each price at which you wish to tender each such portion of your Shares. We must submit separate Letters of Transmittal on your behalf for each price you will accept for each portion tendered.
7. If you wish to condition your tender upon the purchase of all Shares tendered or upon XBiotech's purchase of a specified minimum number of the Shares which you tender, you may elect to do so and thereby avoid possible proration of your tender. XBiotech's purchase of Shares from all tenders at or below the Final Purchase Price that are so conditioned will be determined by random lot. To elect such a condition complete the box entitled "Conditional Tender" in the attached Instruction Form.

YOUR PROMPT ACTION IS REQUESTED. YOUR INSTRUCTION FORM SHOULD BE FORWARDED TO US IN AMPLE TIME TO PERMIT US TO SUBMIT A TENDER ON YOUR BEHALF BEFORE THE EXPIRATION DATE. PLEASE NOTE THAT THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M., NEW YORK CITY TIME, ON WEDNESDAY, FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED.

If you wish to have us tender any or all of your Shares, please so instruct us by completing, executing, detaching and returning to us the attached Instruction Form. If you authorize us to tender your Shares, we will tender all such Shares unless you specify otherwise on the attached Instruction Form.

The Offer is being made solely under the Offer to Purchase and the related Letter of Transmittal and is being made to all record holders of Shares of XBiotech. The Offer is not being made to, nor will tenders be accepted from or on behalf of, holders of Shares of XBiotech residing in any jurisdiction in which the making of the Offer or acceptance thereof would not be in compliance with the securities, blue sky or other laws of such jurisdiction.

INSTRUCTION FORM

The undersigned acknowledge(s) receipt of your letter and the enclosed Offer to Purchase, dated January 14, 2020 (the "Offer to Purchase"), and the related Letter of Transmittal (the "Letter of Transmittal," which together with the Offer to Purchase, as they may be amended and supplemented from time to time, constitute the "Offer"), in connection with the offer by XBiotech Inc., a British Columbia corporation ("XBiotech"), to purchase for cash up to \$420,000,000 in value of its common shares, no par value per share (the "Shares"), at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest.

The undersigned hereby instruct(s) you to tender to XBiotech the number of Shares indicated below or, if no number is specified, all Shares you hold for the account of the undersigned, at the price per Share indicated below, upon the terms and subject to the conditions of the Offer.

**Aggregate Number Of Shares To Be Tendered
By You For The Account Of The Undersigned _____ Shares.**

PRICE (IN DOLLARS) PER SHARE AT WHICH SHARES ARE BEING TENDERED
(SEE INSTRUCTION 5 TO THE LETTER OF TRANSMITTAL)

THE UNDERSIGNED IS TENDERING SHARES AS FOLLOWS (CHECK ONLY ONE BOX UNDER (1) OR (2) BELOW):

(1) SHARES TENDERED AT PRICE DETERMINED UNDER THE OFFER

By checking the box below INSTEAD OF ONE OF THE BOXES UNDER "Shares Tendered At Price Determined By Shareholder," the undersigned hereby tenders Shares at the purchase price as shall be determined by XBiotech in accordance with the terms of the Offer.

- The undersigned wants to maximize the chance that XBiotech will accept for payment all of the Shares the undersigned is tendering (subject to the possibility of proration). Accordingly, by checking this box instead of one of the price boxes below, the undersigned hereby tenders Shares at, and is willing to accept, the purchase price determined by XBiotech in accordance with the terms of the Offer. The undersigned understands that this action will result in the undersigned's Shares being deemed to be tendered at the minimum price of \$30.00 per Share for purposes of determining the Final Purchase Price (as defined in the Offer to Purchase). This may effectively lower the Final Purchase Price and could result in the undersigned receiving a per Share price as low as \$30.00.

(2) SHARES TENDERED AT PRICE DETERMINED BY SHAREHOLDER

By checking ONE of the following boxes INSTEAD OF THE BOX UNDER "Shares Tendered At Price Determined Under The Offer," the undersigned hereby tenders Shares at the price checked. The undersigned understands that this action could result in XBiotech purchasing none of the Shares tendered hereby if the purchase price determined by XBiotech for the Shares is less than the price checked below.

- | | | | | |
|----------------------------------|----------------------------------|----------------------------------|----------------------------------|----------------------------------|
| <input type="checkbox"/> \$30.00 | <input type="checkbox"/> \$30.25 | <input type="checkbox"/> \$30.50 | <input type="checkbox"/> \$30.75 | <input type="checkbox"/> \$31.00 |
| <input type="checkbox"/> \$31.25 | <input type="checkbox"/> \$31.50 | <input type="checkbox"/> \$31.75 | <input type="checkbox"/> \$32.00 | <input type="checkbox"/> \$32.25 |
| <input type="checkbox"/> \$32.50 | <input type="checkbox"/> \$32.75 | <input type="checkbox"/> \$33.00 | | |

CHECK ONLY ONE BOX UNDER (1) OR (2) ABOVE. IF MORE THAN ONE BOX IS CHECKED ABOVE, OR IF NO BOX IS CHECKED, THERE IS NO VALID TENDER OF SHARES.

A SHAREHOLDER DESIRING TO TENDER SHARES AT MORE THAN ONE PRICE MUST COMPLETE A SEPARATE INSTRUCTION FORM FOR EACH PRICE AT WHICH SHARES ARE TENDERED. THE SAME SHARES CANNOT BE TENDERED, UNLESS PREVIOUSLY PROPERLY WITHDRAWN AS PROVIDED IN SECTION 4 OF THE OFFER TO PURCHASE, AT MORE THAN ONE PRICE.

ODD LOTS
(See Instruction 15 of the Letter of Transmittal)

As described in Section 1 of the Offer to Purchase, under certain conditions, shareholders holding fewer than 100 Shares may have their Shares accepted for payment before any proration of other tendered Shares. This preference is not available to partial tenders, or to beneficial or record holders of an aggregate of 100 or more Shares, even if such holders have separate accounts or certificates representing fewer than 100 Shares. Accordingly, this section is to be completed ONLY if Shares are being tendered by or on behalf of a person owning, beneficially or of record, an aggregate of fewer than 100 Shares. The undersigned:

owns, whether beneficially or of record, an aggregate of fewer than 100 Shares and is tendering all such Shares.

CONDITIONAL TENDER
(See Instruction 14 of the Letter of Transmittal)

A shareholder may tender Shares subject to the condition that a specified minimum number of the shareholder's Shares tendered pursuant to the Letter of Transmittal must be purchased if any Shares tendered are purchased, all as described in the Offer to Purchase, particularly in Section 6 thereof. Unless at least that minimum number of Shares indicated below is purchased by XBiotech pursuant to the terms of the Offer, none of the Shares tendered by you will be purchased. It is the tendering shareholder's responsibility to calculate that minimum number of Shares that must be purchased if any are purchased, and XBiotech urges shareholders to consult their own financial and tax advisors before completing this section. Unless this box has been checked and a minimum specified, the tender will be deemed unconditional.

The minimum number of Shares that must be purchased, if any are purchased, is: _____ Shares.

If, because of proration, the minimum number of Shares designated will not be purchased, XBiotech may accept conditional tenders by random lot, if necessary. However, to be eligible for purchase by random lot, the tendering shareholder must have tendered all of his or her Shares and checked this box:

The tendered Shares represent all Shares held by the undersigned.

The method of delivery of this document, is at the election and risk of the tendering shareholder. If delivery is by mail, then registered mail with return receipt requested, properly insured, is recommended. In all cases, sufficient time should be allowed to ensure timely delivery.

XBiotech's Board of Directors has delegated authority to consider the Offer to an Independent Committee of our Board of Directors, which consists solely of independent directors who do not have a material financial interest in the transactions described in the Offer to Purchase, and the Independent Committee has approved the Offer and authorized us to make the Offer. However, none of XBiotech, any of the members of its Board of Directors (including the Independent Committee), the Information Agent or the Depositary makes any recommendation to shareholders as to whether they should tender or refrain from tendering their Shares or as to the purchase price or purchase prices at which any shareholder may choose to tender Shares. None of XBiotech, nor any of the members of its Board of Directors (including the Independent Committee), the Information Agent or the Depositary has authorized any person to make any recommendation with respect to the Offer. Shareholders should carefully evaluate all information in the Offer to Purchase, consult their own financial and tax advisors and make their own decisions about whether to tender Shares and, if so, how many Shares to tender and the purchase price or purchase prices at which to tender.

SIGNATURE

Signature(s) _____
(Please Print)

Name(s) _____
(Please Print)

Taxpayer Identification or Social Security No.: _____

Address(es) _____
(Include Zip Code)

Phone Number (including Area Code) _____

Date: _____, 2020

XBioTech Commences Tender Offer to Purchase up to \$420,000,000 of its Shares

AUSTIN, Texas, January 14, 2020 (GLOBE NEWSWIRE) -- XBioTech Inc. (NASDAQ: XBIT) ("XBioTech") announced today that it commenced a "modified Dutch auction" tender offer to purchase up to \$420,000,000 of its common shares, or such lesser number of common shares as are properly tendered and not properly withdrawn, at a price not less than \$30.00 nor greater than \$33.00 per common share, to the seller in cash, less any applicable withholding taxes and without interest (the "Offer"). The Offer is made upon the terms and subject to the conditions described in the offer to purchase and in the related letter of transmittal. The closing price of XBioTech's common shares on the NASDAQ Global Select Market on January 13, 2020, the last full trading day before the commencement of the Offer, was \$18.62 per share. The Offer is scheduled to expire at 5:00 p.m., New York City time, on February 12, 2020, unless the Offer is extended.

XBioTech believes that the Offer represents an efficient mechanism to provide XBioTech's stockholders with the opportunity to tender all or a portion of their stock and thereby receive a return of some or all of their investment in XBioTech if they so elect. The Offer provides stockholders with an opportunity to obtain liquidity with respect to all or a portion of their stock without the potential disruption to XBioTech's stock price.

The Offer is not contingent upon obtaining any financing. However, the Offer is subject to a number of other terms and conditions, which are described in detail in the offer to purchase. Specific instructions and a complete explanation of the terms and conditions of the Offer will be contained in the offer to purchase, the letter of transmittal and the related materials, which will be mailed to stockholders of record shortly after commencement of the Offer.

None of XBioTech, the members of its Board of Directors (including the Independent Committee who authorized the Offer), the information agent or the depositary makes any recommendation as to whether any stockholder should participate or refrain from participating in the Offer or as to the price or prices at which stockholders may choose to tender their shares in the Offer.

D.F. King & Co., Inc. will serve as information agent for the Offer. Stockholders with questions, or who would like to receive additional copies of the Offer documents may call D.F. King at (212) 269-5550 (banks and brokers) or (866) 856-3065 (all others).

About XBioTech

XBioTech is a fully integrated, global biopharmaceutical company dedicated to pioneering the discovery, development and commercialization of therapeutic antibodies. XBioTech currently is advancing a pipeline of therapies by harnessing naturally occurring antibodies from patients with immunity to certain diseases. Utilizing natural human immunity as a source of new medicines offers the potential to redefine the standards of care for a wide range of diseases. The discovery and manufacturing techniques which enable this were designed by and are exclusive to XBioTech. Headquartered in Austin, Texas, XBioTech also leads the development of innovative, proprietary manufacturing technology to reduce the cost and complexity of biological drug production. For more information, visit www.xbiotech.com.

Additional Information and Where to Find It

This communication is for informational purposes only. This communication is not a recommendation to buy or sell XBioTech common shares or any other securities, and it is neither an offer to purchase nor a solicitation of an offer to sell XBioTech common shares or any other securities. XBioTech will be filing today a tender offer statement on Schedule TO, including an offer to purchase, letter of transmittal and related materials, with the United States Securities and Exchange Commission (the "SEC"). The Offer will only be made pursuant to the offer to purchase, letter of transmittal and related materials filed as a part of the Schedule TO, in each case as amended from time to time. Stockholders should read carefully the offer to purchase, letter of transmittal and related materials, as filed and as may be amended from time to time, because they contain important information, including the various terms of, and conditions to, the Offer. Stockholders will be able to obtain a free copy of the tender offer statement on Schedule TO, the offer to purchase, letter of transmittal and other documents that XBioTech will be filing with the SEC at the SEC's website at www.sec.gov or from XBioTech's website at www.xbiotech.com. In addition, free copies of these documents may be obtained by contacting D.F. King & Co., Inc., the information agent for the Offer, at (212) 269-5550 (banks and brokers) or (866) 856-3065 (all others).

Cautionary Note Regarding Forward-Looking Statements

This press release contains forward-looking statements, including declarations regarding management's beliefs and expectations that involve substantial risks and uncertainties. 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. These risks and uncertainties are subject to the disclosures set forth in the "Risk Factors" section of certain of our SEC filings. Forward-looking statements are not guarantees of future performance, and our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from the forward-looking statements contained in this press release. Any forward-looking statements that we make in this press release speak only as of the date of this press release. We assume no obligation to update our forward-looking statements whether as a result of new information, future events or otherwise, after the date of this press release.

Contact

Ashley Otero
aotero@xbiotech.com
512-386-2930

This announcement is neither an offer to purchase nor a solicitation of an offer to sell common shares of XBiotech Inc.. The Offer (as defined below) is made solely by the Offer to Purchase, dated January 14, 2020, and the related Letter of Transmittal, and any amendments or supplements thereto. The Offer is not being made to, nor will tenders be accepted from or on behalf of holders of common shares in any jurisdiction in which the making or acceptance of offers to sell common shares would not be in compliance with the laws of that jurisdiction. In any jurisdiction where the securities, blue sky, or other laws require the Offer to be made by a licensed broker or dealer, the Offer shall be deemed made on behalf of XBiotech Inc. by one or more brokers or dealers registered under the laws of such jurisdiction.



Notice of Offer to Purchase for Cash
by
XBiotech Inc.
Up to \$420,000,000 in Value of Common Shares
At a Cash Purchase Price Not Greater than \$33.00 per Share
Nor Less than \$30.00 per Share

XBiotech Inc., a British Columbia corporation (the “Company,” “we,” “us,” or “our”), is offering to purchase up to \$420,000,000 in value of its common shares, no par value per share (the “Shares”), at a price not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, upon the terms and subject to the conditions described in the Offer to Purchase, dated January 14, 2020 (the “Offer to Purchase”), and the related Letter of Transmittal (the “Letter of Transmittal,” which together with the Offer to Purchase, as they may be amended or supplemented from time to time, constitute the “Offer”).

**THE OFFER, PRORATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 5:00 P.M.,
NEW YORK CITY TIME, ON FEBRUARY 12, 2020, UNLESS THE OFFER IS EXTENDED
(SUCH DATE AND TIME, AS THEY MAY BE EXTENDED, THE “EXPIRATION DATE”).**

The Offer is not conditioned on the receipt of financing or any minimum number of Shares being tendered. The Offer is, however, subject to other conditions as set forth in the Offer to Purchase.

Upon the terms and subject to the conditions of the Offer, which will be conducted through a “modified Dutch auction” process, the Company will determine a single per Share purchase price, not greater than \$33.00 nor less than \$30.00 per Share, to the seller in cash, less any applicable withholding taxes and without interest, that the Company will pay for Shares properly tendered and not properly withdrawn in the Offer, taking into account the total number of Shares tendered and the prices specified, or deemed specified (as described below), by tendering shareholders. The Company will select the lowest single purchase price (in increments of \$0.25) within the price range specified above that will allow it to purchase up to \$420,000,000 in value of Shares. Upon the terms and subject to the conditions of the Offer, if, based on the purchase price determined by the Company, Shares having an aggregate value of less than or equal to \$420,000,000 are properly tendered and not properly withdrawn, the Company will select the lowest price that will allow the Company to buy all the Shares that are properly tendered and not properly withdrawn before the Offer expires. All Shares the Company purchases in the Offer will be acquired at the same purchase price regardless of whether any shareholder tenders at a lower price. Only Shares properly tendered at prices at or below the purchase price selected by the Company and not properly withdrawn will be purchased. However, because of the “Odd Lot” priority, proration and conditional tender provisions described in the Offer to Purchase, the Company may not purchase all of the Shares tendered at or below the purchase price if, based on the purchase price determined by the Company, more than \$420,000,000 in value of Shares are properly tendered and not properly withdrawn. If any properly tendered Shares are not purchased under the Offer or are properly withdrawn before the Expiration Date, or if less than all Shares evidenced by a shareholder’s certificate(s) are tendered, the Company will credit the certificates to book entry for unpurchased Shares promptly after the expiration or termination of the Offer.

The Company reserves the right, in its sole discretion, to change the per Share purchase price range and to increase or decrease the value of Shares sought in the Offer, subject to applicable law. In accordance with the rules of the Securities and Exchange Commission, the Company may increase the number of Shares accepted for payment in the Offer by no more than 2% of the outstanding Shares without extending the Offer.

As of January 13, 2020, we had 42,365,250 issued and outstanding Shares. At the maximum purchase price of \$33.00 per Share, we could purchase 12,727,272 Shares if the Offer is fully subscribed, which would represent approximately 30.04% of our issued and outstanding Shares as of January 13, 2020. At the minimum purchase price of \$30.00 per Share, the Company could purchase 14,000,000 Shares if the Offer is fully subscribed, which would represent approximately 33.05% of our issued and outstanding Shares as of January 13, 2020. The Shares are listed and traded on the NASDAQ Global Select Market under the symbol “XBIT.” **Shareholders are urged to obtain current market quotations for the Shares before deciding whether and at what purchase price or purchase prices to tender their Shares.**

The Company expressly reserves the right, in its sole discretion, at any time and from time to time, to extend the period of time during which the Offer is open and thereby delay acceptance for payment of, and payment for, any Shares by giving oral or written notice of such extension to American Stock Transfer & Trust Co., LLC, the depositary for the Offer (the “Depositary”), and making a public announcement of such extension not later than 9:00 a.m., New York City time, on the next business day after the last previously scheduled or announced Expiration Date.

The Offer will expire at 5:00 p.m., New York City time, on Wednesday, February 12, 2020, unless the Company exercises its right, in its sole discretion, to extend the period of time during which the Offer will remain open. Beneficial owners should be aware that their broker, dealer, commercial bank, trust company or other nominee may establish its own earlier deadlines for participation in the Offer. Accordingly, beneficial owners wishing to participate in the Offer should contact their broker, dealer, commercial bank, trust company or other nominee as soon as possible in order to determine the times by which such owner must take action in order to participate in the Offer.

In accordance with the instructions to the Letter of Transmittal, shareholders wishing to tender Shares must specify the price or prices, not greater than \$33.00 nor less than \$30.00 per Share, at which they are willing to sell their Shares to the Company in the Offer. Alternatively, each shareholder desiring to tender Shares can choose not to specify a price and, instead, elect to tender their Shares at the purchase price ultimately paid for Shares properly tendered and not properly withdrawn in the Offer. If a shareholder agrees to accept the purchase price determined in the Offer, its Shares will be deemed to be tendered at the minimum price of \$30.00 per Share for the purpose of determining the Final Purchase Price, which could result in the tendering shareholder receiving the minimum price of \$30.00 per Share. See the Offer to Purchase for recent market prices for the Shares.

Shareholders wishing to tender Shares must follow the procedures set forth in the Offer to Purchase and in the related Letter of Transmittal. Generally, for Shares to be properly tendered pursuant to the Offer, the certificates for such Shares (or confirmation of receipt of such Shares pursuant to the procedure for book-entry transfer set forth in the Offer to Purchase), together with a properly completed and duly executed Letter of Transmittal, including any required signature guarantees, or an “Agent’s Message” (as defined in the Offer to Purchase), and any other documents required by the Letter of Transmittal, must be received before 5:00 p.m., New York City time, on Wednesday, February 12, 2020, by the Depositary at one of its addresses set forth on the back cover of the Offer to Purchase.

Upon the terms and subject to the conditions of the Offer, if, based on the purchase price determined by the Company, Shares having an aggregate value in excess of \$420,000,000 (or such greater amount as the Company may elect to pay, subject to applicable law) are properly tendered at or below the purchase price and not properly withdrawn prior to the Expiration Date, the Company will purchase Shares as follows:

- *first*, all Odd Lots (as defined in the Offer to Purchase) of less than 100 Shares at the Final Purchase Price (as defined in the Offer to Purchase) from shareholders who properly tender all of their Shares at or below the Final Purchase Price and who do not properly withdraw them before the Expiration Date (tenders of less than all of the Shares owned, beneficially or of record, by such Odd Lot Holder (as defined in the Offer to Purchase) will not qualify for this preference);
- *second*, after purchasing all the Odd Lots that were properly tendered at or below the Final Purchase Price, subject to the conditional tender provisions (whereby a holder may specify a minimum number of such holder’s Shares that must be purchased if any such Shares are purchased), the Company will purchase all Shares properly tendered at or below the Final Purchase Price on a pro rata basis with appropriate adjustment to avoid purchases of fractional Shares; and
- *third*, only if necessary to permit the Company to purchase \$420,000,000 in value of Shares (or such greater amount as the Company may elect to pay, subject to applicable law), the Company will purchase Shares conditionally tendered (for which the condition was not initially satisfied) at or below the Final Purchase Price, by random lot, to the extent feasible. To be eligible for purchase by random lot, shareholders whose Shares are conditionally tendered must have tendered all of their Shares.

For purposes of the Offer, the Company will be deemed to have accepted for payment (and therefore purchased), subject to proration and conditional tender provisions of the Offer, Shares that are properly tendered at or below the purchase price selected by the Company and not properly withdrawn only when, as and if the Company gives oral or written notice to the Depositary of the Company’s acceptance of the Shares for payment pursuant to the Offer.

Upon the terms and subject to the conditions of the Offer, the Company will determine a single per Share price that the Company will pay for all of the Shares accepted for payment pursuant to the Offer promptly after the Expiration Date. In all cases, payment for Shares tendered and accepted for payment pursuant to the Offer will be made promptly, subject to possible delay in the event of proration, but only after timely receipt by the Depositary of: (i) certificates for Shares or a timely book-entry confirmation of the deposit of Shares into the Depositary’s account at the Book-Entry Transfer Facility (as defined in the Offer to Purchase); (ii) a properly completed and duly executed Letter of Transmittal, including any required signature guarantee (or, in the case of a book-entry transfer, an Agent’s Message (as defined in the Offer to Purchase)); and (iii) any other required documents.

Because of the difficulty in determining the number of Shares properly tendered and not properly withdrawn, and because of the proration and conditional tender provisions described in the Offer to Purchase, the Company expects that it will not be able to announce the final proration factor or commence payment for any Shares purchased pursuant to the Offer until after the Expiration Date. The preliminary results of any proration will be announced by press release as promptly as practicable after the Expiration Date.

Tenders of Shares are irrevocable, except that such Shares may be withdrawn at any time prior to the Expiration Date and, unless such Shares have been accepted for payment as provided in the Offer, shareholders may also withdraw their previously tendered Shares at any time after 5:00 p.m., New York City time, on March 12, 2020. For a withdrawal to be effective, a written notice of withdrawal must be received in a timely manner by the Depositary at one of its addresses listed on the back cover of the Offer to Purchase. Any such notice of withdrawal must specify the name of the tendering shareholder, the number of Shares to be withdrawn and the name of the registered holder of the Shares to be withdrawn, if different from the name of the person who tendered the Shares. If certificates for Shares have been delivered or otherwise identified to the Depositary, then, before the release of those certificates, the serial numbers shown on those certificates must be submitted to the Depositary and, unless an Eligible Institution (as defined in the Offer to Purchase) has tendered those Shares, an Eligible Institution must guarantee the signatures on the notice of withdrawal. If a shareholder has used more than one Letter of Transmittal or has otherwise tendered Shares in more than one group of Shares, the shareholder may withdraw Shares using either separate notices of withdrawal or a combined notice of withdrawal,

so long as the information specified above is included. If Shares have been delivered in accordance with the procedures for book-entry transfer described in the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the Book-Entry Transfer Facility to be credited with the withdrawn Shares and otherwise comply with the Book-Entry Transfer Facility's procedures.

The Company will decide, in its sole discretion, all questions as to the form and validity, including time of receipt, of notices of withdrawal, and each such decision will be final and binding on all parties absent a finding to the contrary by a court of competent jurisdiction. None of the Company, its Board of Directors, American Stock Transfer & Trust Co., LLC, as the Depository, D.F. King & Co., Inc., as the information agent (the "Information Agent"), or any other person will be obligated to give notice of any defects or irregularities in tenders, nor will any of the foregoing incur any liability for failure to give such notification.

XBiotech believes that the Offer represents an efficient mechanism to provide XBiotech's shareholders with the opportunity to tender all or a portion of their stock and thereby receive a return of some or all of their investment in XBiotech if they so elect. The Offer provides shareholders with an opportunity to obtain liquidity with respect to all or a portion of their stock without the potential disruption to XBiotech's stock price.

Generally, if you are a U.S. Holder (as defined in the Offer to Purchase), your receipt of cash from us in exchange for the Shares you tender will be a taxable transaction for United States federal income tax purposes. The Offer will likely also give rise to Canadian income tax consequences. The cash you receive for your tendered Shares will generally be treated for United States federal income tax purposes as consideration received either as a sale or exchange of the Shares or as a distribution in respect of the Shares, depending on your circumstances. Because we have been classified as a "passive foreign investment" company, or "PFIC", for U.S. federal income tax purposes, any gain or dividend income recognized may be subject to special rules if the U.S. Holder has not made timely a "qualified electing fund" election or "mark-to-market" election. We urge you to consult your own tax advisor as to the particular tax consequences to you of the Offer. All shareholders should read carefully the Offer to Purchase, in particular Section 3 and Section 14, for additional information regarding the United States and Canadian federal income tax consequences of participating in the Offer and should consult their financial and tax advisors.

Our Board of Directors has delegated authority to consider the Offer to an Independent Committee of our Board of Directors, which consists solely of independent directors who do not have a material financial interest in the transactions described in the Offer to Purchase, and the Independent Committee has approved the Offer and authorized us to make the Offer. However, none of the Company, the members of its Board of Directors (including the Independent Committee), the Depository or the Information Agent makes any recommendation to any shareholder as to whether to tender or refrain from tendering any Shares or as to the price or prices at which shareholders may choose to tender their Shares. None of the Company, the members of its Board of Directors (including the Independent Committee), the Depository or the Information Agent has authorized any person to make any recommendation with respect to the Offer. Shareholders should carefully evaluate all information in the Offer to Purchase and in the related Letter of Transmittal and should consult their own financial and tax advisors. Shareholders must decide whether to tender their Shares and, if so, how many Shares to tender and the price or prices at which a shareholder will tender. In doing so, a shareholder should read carefully the information in the Offer to Purchase and in the related Letter of Transmittal before making any decision with respect to the Offer.

The information required to be disclosed by Rule 13e-4(d)(1) of the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference. The Company is also filing with the Securities and Exchange Commission an Issuer Tender Offer Statement on Schedule TO, which includes certain additional information relating to the Offer.

Copies of the Offer to Purchase and the related Letter of Transmittal are being mailed to all holders of the Shares, including brokers, dealers, commercial banks and trust companies whose names, or the names of whose nominees, appear on the Company's shareholder list or, if applicable, who are listed as participants in a clearing agency's security position listing for subsequent transmittal to beneficial owners of Shares, as reflected on the records of the transfer agent as of January 13, 2020. The Offer is explained in detail in those materials.

Questions or requests for assistance may be directed to the Information Agent at its address and telephone number set forth below. Copies of the Offer to Purchase, the Letter of Transmittal and other related materials will be furnished promptly by the Information Agent at the Company's expense. Shareholders may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer.

The Information Agent for the Offer is:
D.F. King & Co., Inc.

48 Wall Street, 22nd Floor
New York, New York 10005
Banks and Brokers
Call: (212) 269-5550
All Others Call: (866) 856-3065
Email: xbit@dfking.com

January 14, 2020