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

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number: 001-38068

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

British Columbia, Canada	**47-2569713**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

Suite 540–1385 West 8th Avenue Vancouver, BC V6H 3V9
(Address of principal executive offices, including zip code)

Registrant's telephone number, including area code: (604) 678-1388

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

Title of each class	**Name of each exchange on which registered**
Common Shares, no par value per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

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

Large accelerated filer ☐	Accelerated filer ☒
Non-accelerated filer ☐	Smaller reporting company ☒
	Emerging growth company ☒

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Securities Exchange Act of 1934). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, based on the closing sale price of the registrant's common shares on the last business day of its most recently completed second fiscal quarter, as reported on the NYSE was approximately $406.9 million.

The number of outstanding common shares of the registrant, no par value per share, as of March 5, 2019 was 32,025,299.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement in connection with the registrant's 2019 annual meeting of shareholders, which will be filed with the Securities and Exchange Commission (the "SEC") subsequent to the date hereof, are incorporated by reference into Part III of this Form 10-K. Such proxy statement will be filed with the SEC not later than 120 days following the end of the registrant's fiscal year ended December 31, 2018.

ZYMEWORKS INC.

FORM 10-K

For the Fiscal Year Ended December 31, 2018

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and “forward-looking information” within the meaning of Canadian securities laws, or collectively, forward-looking statements. Forward-looking statements include statements that may relate to our plans, objectives, goals, strategies, future events, future revenue or performance, capital expenditures, financing needs and other information that is not historical information. Many of these statements appear, in particular, under the headings “Business,” “Risk Factors,” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”. Forward-looking statements can often be identified by the use of terminology such as “subject to”, “believe,” “anticipate,” “plan,” “expect,” “intend,” “estimate,” “project,” “may,” “will,” “should,” “would,” “could,” “can,” the negatives thereof, variations thereon and similar expressions, or by discussions of strategy. In addition, any statements or information that refer to expectations, beliefs, plans, projections, objectives, performance or other characterizations of future events or circumstances, including any underlying assumptions, are forward-looking. In particular, these forward-looking statements include, but are not limited to:

- the size of our addressable markets and our ability to commercialize product candidates;
- the achievement of advances in and expansion of our therapeutic platforms and antibody engineering expertise;
- the likelihood of product candidate development and clinical trial progression, initiation or success; and
- our ability to predict and manage government regulation.

All forward-looking statements, including, without limitation, our examination of historical operating trends, are based upon our current expectations and various assumptions. Certain assumptions made in preparing the forward-looking statements include:

- our ability to manage our growth effectively;
- the absence of material adverse changes in our industry or the global economy;
- trends in our industry and markets;
- our ability to maintain good business relationships with our strategic partners;
- our ability to comply with current and future regulatory standards;
- our ability to protect our intellectual property rights;
- our continued compliance with third-party license terms and the non-infringement of third-party intellectual property rights;
- our ability to manage and integrate acquisitions;
- our ability to retain key personnel; and
- our ability to raise sufficient debt or equity financing to support our continued growth.

We believe there is a reasonable basis for our expectations and beliefs, but they are inherently uncertain. We may not realize our expectations, and our beliefs may not prove correct. Actual results could differ materially from those described or implied by such forward-looking statements. The following uncertainties and factors, among others (including those set forth under “Risk Factors”), could affect future performance and cause actual results to differ materially from those matters expressed in or implied by forward-looking statements:

- our ability to obtain regulatory approval for our product candidates without significant delays;
- the predictive value of our current or planned clinical trials;

- delays with respect to the development and commercialization of our product candidates, which may cause increased costs or delay receipt of product revenue;
- our, or any of our partners', ability to enroll subjects in clinical trials and thereby complete trials on a timely basis;
- the design or our execution of clinical trials may not support regulatory approval, including where clinical trials are conducted outside the United States;
- our discretion to discontinue or reprioritize the development of any of our product candidates;
- the potential for our product candidates to have undesirable side effects;
- no regulatory agency has made a determination that any of our product candidates are safe or effective for use by the general public or for any indication;
- our ability to face significant competition;
- the competitive threat of biosimilar products;
- the likelihood of broad market acceptance of our product candidates;
- our ability to obtain Orphan Drug Designation or exclusivity for some or all of our product candidates;
- our ability to commercialize products outside of the United States;
- the outcome of reimbursement decisions by third-party payors relating to our products;
- our expectations with respect to the market opportunities for any product that we or our strategic partners develop;
- our ability to pursue product candidates that may be profitable or have a high likelihood of success;
- our ability to use and expand our therapeutic platforms to build a pipeline of product candidates;
- our ability to meet the requirements of ongoing regulatory review;
- the threat of product liability lawsuits against us or any of our strategic partners;
- changes in product candidate manufacturing or formulation that may result in additional costs or delay;
- the potential disruption of our business and dilution of our shareholdings associated with acquisitions and joint ventures;
- the potential for foreign governments to impose strict price controls;
- the risk of security breaches or data loss, which could compromise sensitive business or health information;
- current and future legislation that may increase the difficulty and cost of commercializing our product candidates;
- economic, political, regulatory and other risks associated with international operations;
- our exposure to legal and reputational penalties as a result of any of our current and future relationships with various third parties;
- our ability to comply with export control and import laws and regulations;
- our history of significant losses since inception;
- our ability to generate revenue from product sales and achieve profitability;
- our requirement for substantial additional funding;
- the potential dilution to our shareholders associated with future financings;

- restrictions on our ability to seek financing, which may be imposed by future debt;
- unstable market and economic conditions;
- currency fluctuations and changes in foreign currency exchange rates;
- our ability to maintain existing and future strategic partnerships;
- our ability to realize the anticipated benefits of our strategic partnerships;
- our ability to secure future strategic partners;
- our reliance on third-party manufacturers to produce our clinical product candidate supplies and on other third parties to store, monitor and transport bulk drug substance and drug product;
- risk related to the manufacture of product candidates and difficulties in production;
- our reliance on third parties to oversee clinical trials of our product candidates and, in some cases, maintain regulatory files for those product candidates;
- our reliance on the performance of independent clinical investigators and contract research organizations ("CROs");
- our reliance on third parties for various operational and administrative aspects of our business including our reliance on third parties' cloud-based software platforms;
- our ability to operate without infringing the patents and other proprietary rights of third parties;
- our ability to obtain and enforce patent protection for our product candidates and related technology;
- our patents could be found invalid or unenforceable if challenged;
- our intellectual property rights may not necessarily provide us with competitive advantages;
- we may become involved in expensive and time-consuming patent lawsuits;
- the risk that the duration of our patents will not adequately protect our competitive position;
- our ability to obtain protection under the Hatch-Waxman Amendments and similar foreign legislation;
- we may be unable to protect the confidentiality of our proprietary information;
- our ability to comply with procedural and administrative requirements relating to our patents;
- the risk of claims challenging the inventorship of our patents and other intellectual property;
- our intellectual property rights for some of our product candidates are dependent on the abilities of third parties to assert and defend such rights;
- patent reform legislation and court decisions can diminish the value of patents in general, thereby impairing our ability to protect our products;
- we may not be able to protect our intellectual property rights throughout the world;
- we will require U.S. Food and Drug Administration ("FDA") approval for any proposed product candidate names and any failure or delay associated with such approval may adversely affect our business;
- the risk of employee misconduct including noncompliance with regulatory standards and insider trading;
- our ability to market our products in a manner that does not violate the law and subject us to civil or criminal penalties;

- if we do not comply with laws regulating the protection of the environment and health and human safety, our business could be adversely affected;our abilitiy to retain key executives and attract and retain qualified personnel;
- our ability to manage organizational growth;
- additional costs and expenses related to the change from foreign private issuer to U.S. domestic issuer status;
- our exposure to potential securities class action ligitgation; and
- if securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our share price and trading volume could decline.

Consequently, forward-looking statements should be regarded solely as our current plans, estimates and beliefs. You should not place undue reliance on forward-looking statements. We cannot guarantee future results, events, levels of activity, performance or achievements. We do not undertake and specifically decline any obligation to update, republish or revise forward-looking statements to reflect future events or circumstances or to reflect the occurrences of unanticipated events, except as required by law.

We own or have rights to trademarks, service marks or trade names that we use in connection with the operation of our business. In addition, our names, logos and website names and addresses are our service marks or trademarks. Azymetric, Zymeworks, ZymeCAD and the phrase “Building Better Biologics” are our registered trademarks. Additionally, AlbuCORE, EFECT and ZymeLink are subject to our pending trademark applications. The other trademarks, trade names and service marks appearing in this Annual Report on Form 10-K are the property of their respective owners. Solely for convenience, the trademarks, service marks, tradenames and copyrights referred to in this Annual Report on Form 10-K are listed without the ©, ® and TM symbols, but we will assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks and tradenames.

We express all amounts in this Annual Report on Form 10-K in U.S. dollars, except where otherwise indicated. References to “$” and “US$” are to U.S. dollars and references to “C$” are to Canadian dollars.

Except as otherwise indicated, references in this Annual Report on Form 10-K to “Zymeworks,” “the Company,” “we,” “us” and “our” refer to Zymeworks Inc. and its consolidated subsidiaries.

PART I

Item 1. Business

Overview

Zymeworks is a clinical-stage biopharmaceutical company dedicated to the development of next-generation multifunctional biotherapeutics. Our suite of complementary therapeutic platforms and our fully integrated drug development engine provide the flexibility and compatibility to precisely engineer and develop highly differentiated product candidates. These capabilities have resulted in multiple product candidates with the potential to drive positive outcomes in large underserved and unaddressed patient populations.

Our lead product candidate, ZW25, is a novel bispecific (dual-targeting) antibody which targets two distinct domains of the human epidermal growth factor receptor 2 ("HER2"). In our adaptive Phase 1 clinical trial, ZW25 has been well tolerated with promising single-agent anti-tumor activity in patients with heavily pretreated HER2-expressing cancers that have progressed after standard of care, including multiple HER2-targeted regimens. Its unique design may enable ZW25 to address patient populations with all levels of HER2 expression, including those with low to intermediate HER2-expressing tumors, who are otherwise limited to chemotherapy or hormone therapy. Our second product candidate, ZW49, capitalizes on the unique design of ZW25 and is a bispecific antibody-drug conjugate ("ADC") based on the same antibody framework as ZW25 but armed with our proprietary ZymeLink-cytotoxic (potent cancer cell-killing) payload. We designed ZW49 to be a best-in-class HER2-targeting ADC for several indications characterized by HER2 expression. A Phase 1 clinical trial evaluating ZW49 began in the first quarter of 2019. We are also advancing a deep pipeline of preclinical product candidates and discovery-stage programs in immuno-oncology ("I-O") and other therapeutic areas. In addition to our robust pipeline, our Azymetric™ and EFECT™ therapeutic platforms have been further leveraged through multiple revenue-generating strategic partnerships with the following global pharmaceutical companies: Merck Sharp & Dohme Research GmbH ("Merck"), Eli Lilly and Company ("Lilly"), Celgene Corporation and Celgene Alpine Investment Co. LLC ("Celgene"), GlaxoSmithKline Intellectual Property Development Limited ("GSK"), Daiichi Sankyo Co., Ltd. ("Daiichi Sankyo"), Janssen Biotech, Inc. ("Janssen"), LEO Pharma A/S ("LEO"), and BeiGene, Ltd. ("BeiGene").

Our proprietary capabilities and technologies include several modular, complementary therapeutic platforms that can be used in combination with each other and with existing approaches. This ability to layer technologies without compromising manufacturability enables us to engineer next-generation biotherapeutics with synergistic activity, which we believe will result in positive patient outcomes. Our core platforms include:

- ***Azymetric***, our bispecific platform, which enables therapeutic antibodies to bind multiple distinct locations on target(s), known as epitopes. This is achieved by tailoring multiple configurations of the antibody's Fab regions (locations on the antibody to which epitopes bind);
- ***ZymeLink,*** our ADC platform which comprises multiple cytotoxic payloads and the linker technology used to couple these payloads to tumor-targeting antibodies or proteins. This platform can be used in conjunction with our other therapeutic platforms to increase safety and efficacy as compared to existing ADC technologies; and
- ***EFECT,*** which enables finely tuned modulation (both up and down) of immune cell recruitment and function.

Our protein engineering expertise and proprietary structure-guided molecular modeling capabilities enable these therapeutic platforms. Together with our internal antibody discovery and generation technologies, we have established a fully integrated drug development engine and toolkit capable of rapidly delivering a steady pipeline of next-generation product candidates in oncology and other therapeutic areas.

Our Strategy

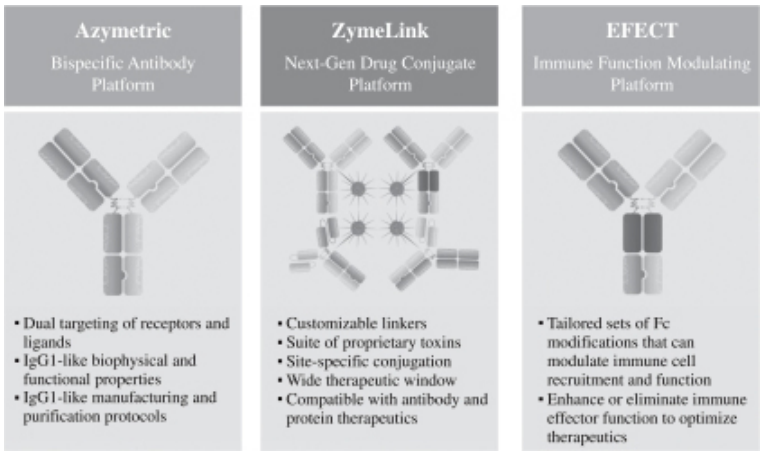
Our goal is to leverage our next-generation therapeutic platforms and proprietary protein engineering capabilities to become a domain dominator in the discovery, development, and commercialization of best-in-class multifunctional biotherapeutics for the treatment of cancer and other diseases with high unmet medical need.

Our key strategies in 2019 to achieve this goal are to:

- initiate multiple Phase 2 studies for ZW25;
- expand the clinical development of ZW25 further into Asia and into Europe;
- obtain and report ZW25 data from combination studies (chemotherapy and/or targeted agents);
- obtain and report data from the Phase 1 clinical trial for ZW49; and
- establish additional drug development collaborations with a focus on new platforms.

Our Proprietary Therapeutic Platforms

Our expertise in protein engineering has enabled the development of our proprietary therapeutic platforms, a complementary suite of highly tailored biologics solutions. Our therapeutic platforms can be used alone or in combination to develop multifunctional fit-for-purpose biotherapeutics with bispecific capabilities (Azymetric), cytotoxic payload delivery (ZymeLink) and finely tuned immune function modulation (EFECT). The modular design and ease of use of our therapeutic platforms allow for the design and evaluation of multiple candidates with different formats to determine the optimal therapeutic combination early in development. We continue to leverage these therapeutic platforms to expand our pipeline of next-generation biotherapeutics that we believe could represent significant improvements to the standard of care in multiple cancer types.



Azymetric Bispecific Antibody Platform

The Azymetric platform consists of a library of proprietary amino acid substitutions that enable the transformation of monospecific antibodies into bispecific antibodies, which gives them the ability to simultaneously bind two non-overlapping epitopes. Azymetric bispecific technology enables the development of biotherapeutics with dual-targeting of receptors/ligands and simultaneous blockade of multiple signaling pathways, increasing tumor-specific targeting and efficacy while reducing toxicities and the potential for drug resistance. In preclinical studies, the dual-targeting of Azymetric antibodies has demonstrated synergistic activity relative to the application of an equivalent dose of the corresponding monospecific antibodies. Azymetric bispecifics can also be engineered to enhance internalization of the antibody into the tumor cell and consequently increase the delivery of cytotoxic payloads.

Azymetric bispecifics retain the desirable drug-like qualities of monoclonal antibodies, including long half-life, stability and low immunogenic potential, which increases their probability of success. Azymetric bispecifics are also compatible with standard manufacturing processes with high production yields and purity, which accelerates manufacturing timelines and reduces costs.

ZymeLink Conjugation Platform and Cytotoxins

The ZymeLink conjugation platform is a suite of novel site-specific protein coupling technologies and customizable cleavable linkers that can be combined with any of our product candidates to enable the delivery of our proprietary cytotoxic payloads to target cells. We believe that ZymeLink provides multiple competitive advantages over existing approaches, including optimized activity and tolerability profiles through increased drug delivery to target cells with reduced off-target effects, product homogeneity, preservation of immune-cell interaction and stable pharmacokinetics.

EFECT Antibody Effector Function Modulation Platform

The EFECT platform comprises sets of modifications to the crystallizable fragment ("Fc") region of antibodies that enable the selective modulation of recruited cytotoxic immune cells for diverse therapeutic applications. This allows us to rationally tailor the selective enhancement or elimination of immune effector function to optimize product candidates.

Product Candidate Pipeline and Advanced Preclinical and Discovery Programs

We currently have two lead product candidates in clinical development and several product candidates in preclinical development that leverage our multiple therapeutic platforms to address areas of significant unmet medical need. Our lead product candidates, ZW25 and ZW49, utilize our Azymetric bispecific platform to address patient populations with all levels of HER2 expression, including those with low to intermediate HER2-expressing tumors. We are also actively advancing a diverse set of preclinical and discovery programs, which leverage one or more of our proprietary therapeutic platforms to create multifunctional biotherapeutics. Our bispecific ADC programs utilize the Azymetric and ZymeLink platforms and have demonstrated potent anti-tumor activity in preclinical studies with the potential for an enhanced therapeutic window. Our most advanced T cell-engaging bispecific program leverages the Azymetric platform combined with our proprietary protein engineering expertise resulting in potent anti-tumor activity in preclinical studies. We are also developing several checkpoint-modulating bispecifics for immuno-oncology and other therapeutic areas to create a deep pipeline of well-differentiated product candidates.

The table below summarizes our current product candidate pipeline.

The table below summarizes the therapeutic class of our preclinical and advanced discovery programs.

PRECLINICAL AND ADVANCED DISCOVERY PROGRAMS			STATUS				
Programs	**Enabling Platform(s)**	**Indication(s)**	DISCOVERY	PRECLINICAL	PHASE 1	PHASE 2	COMMERCIAL RIGHTS
Bispecific ADCs Multiple	Azymetric ZymeLink	Solid Tumors					Zymeworks
T Cell Engaging Bispecifics Multiple	Azymetric EFECT	Solid Tumors					Zymeworks
Microenvironment Modulators Multiple	Azymetric EFECT	Solid Tumors					Zymeworks
Cytokine-Receptor Modulators Multiple	Azymetric EFECT	Inflammation, Autoimmune					Zymeworks

The table below summarizes the stage of each of our partners' most advanced publicly disclosed program.

PARTNERSHIPS			STATUS				
Programs	**Enabling Platform(s)**	**Indication(s)**	DISCOVERY	PRECLINICAL	PHASE 1	PHASE 2	COMMERCIAL RIGHTS
Bispecific	Azymetric	Immuno-Oncology					Lilly
Bispecific	Azymetric, EFECT	Not Disclosed					Merck
Bispecific	Azymetric	Not Disclosed					Celgene
Bispecific	Azymetric, EFECT	Not Disclosed					GSK
Bispecific	Azymetric, EFECT	Immuno-Oncology					Daiichi Sankyo
Bispecific	Azymetric, EFECT	Not Disclosed					Janssen
Bispecific	Azymetric, EFECT	Dermatology					LEO
Bispecific	Azymetric, EFECT	Not Disclosed					BeiGene

ZW25: HER2-Targeted Bispecific Antibody

Overview

ZW25, our lead product candidate currently being evaluated in an adaptive Phase 1 clinical trial in the United States, Canada, and South Korea, is based on our Azymetric platform. It is a bispecific antibody that can simultaneously bind two non-overlapping epitopes, known as biparatopic binding, of HER2 resulting in dual HER2 signal blockade, increased binding and removal of HER2 protein from the cell surface, and potent effector function. These combined mechanisms of action have led to activity in preclinical models of breast cancer, including trastuzumab-resistant (currently branded as Herceptin) high HER2-expressing tumors, as well as in tumors with lower levels of HER2 expression. Approximately 81% of patients with HER2-expressing breast cancer and 57% of patients with HER2-expressing gastric and gastroesophageal junction cancer have tumors that express low to intermediate levels of HER2, making them ineligible for treatment with currently approved HER2-targeted therapies, such as Herceptin and Perjeta. In addition, multiple other cancers, including ovarian, bladder, colorectal and non-small cell lung cancer express HER2 at varying levels. Therefore, there is a significant unmet need for HER2-targeted agents that can effectively treat these patients.

We are developing ZW25 as a best-in-class HER2-targeting antibody as a treatment option for patients with any solid tumor that expresses HER2. Our focus is on the treatment of patients with high HER2-expressing breast or gastric cancers that have progressed after treatment with HER2-targeted therapies, such as Herceptin and Perjeta, or that are not eligible for approved HER2-targeted therapies based on lower levels of HER2 expression. We are also evaluating ZW25 as a therapeutic agent for other HER2-expressing cancers for which HER2-targeted therapies are not currently approved. ZW25 has been granted Orphan Drug Designation for the treatment of both gastric and ovarian cancer by the FDA.

In our Phase 1 clinical trial, ZW25 has been well tolerated with promising single-agent anti-tumor activity in patients with heavily pretreated HER2-expressing cancers that have progressed after standard of care treatment, including multiple HER2-targeted regimens.

Potential Advantages of ZW25

ZW25's biparatopic binding mode increases the number of antibodies bound to HER2 receptors at the cell surface relative to monospecific antibodies and promotes receptor clustering and internalization.

ZW25 mediates its therapeutic effect on HER2-expressing tumors through a combination of therapeutic mechanisms including:

- cross-linked trans HER2 binding and HER2 receptor clustering;
- enhanced antibody internalization and HER2 downregulation;
- increased maximum binding density and potent effector function-mediated cytotoxicity; and
- enhanced blockade of ligand-dependent and ligand-independent tumor growth.

Clinical Development of ZW25

A first-in-human Phase 1 clinical trial for ZW25 commenced in September 2016, consisting of three segments. We have completed Part 1, the dose escalation segment, and identified the Phase 2 recommended dose and schedule of ZW25 as 20 mg/kg every other week. Part 2 and Part 3 of the Phase 1 clinical trial are underway and consist of five expansion cohorts that span HER2 High breast cancer, HER2 High gastric cancer, HER2 Intermediate breast cancer, HER2 Intermediate gastric cancer, and other HER2 gene amplified cancers to evaluate ZW25 as both a monotherapy (Part 2) and in combination with standard of care chemotherapy (Part 3).

ZW25 has been well tolerated with promising single-agent anti-tumor activity in patients with heavily pre-treated HER2-expressing cancer that progressed after standard of care, including multiple HER2-targeted regimens.

These data were highlighted at several medical conferences in 2018, including the annual meeting of the American Society of Clinical Oncology (ASCO) and the Symposium on Molecular Targets and Cancer Therapeutics sponsored by the European Organization for Research and Treatment of Cancer (EORTC), the National Cancer Institute (NCI) and the American Association for Cancer Research (AACR).

At the ASCO annual meeting, we presented a snapshot of the clinical database from April 18, 2018, highlighting 18 response-evaluable (defined as having measurable disease and at least one tumor restaging or clinical progression) breast cancer patients with a median of six prior systemic regimens, including trastuzumab, pertuzumab, T-DM1, and lapatinib. The disease control rate (percentage of patients with either a partial response or stable disease) in these patients was 50%.

At the Symposium on Molecular Targets and Cancer Therapeutics, updated clinical data included 24 gastroesophageal and other cancer patients treated at 10 mg/kg weekly or 20 mg/kg every other week (the Phase 2 recommended dose), of which 17 were response-evaluable at the time of data cut-off (October 16, 2018). The disease control rate in these patients was 82%.

Overall in the study, ZW25 was well tolerated and the majority of treatment-related adverse events were Grade 1 or 2. There were no treatment-related Grade 4 or 5 adverse events.

ZW49: HER2-Targeted Bispecific ADC

Overview

ZW49, our second product candidate, is currently being evaluated in an adaptive Phase 1 clinical trial. It is a biparatopic anti-HER2 ADC that is based on the same antibody framework as ZW25 and takes advantage of ZW25's antibody-targeted internalization to deliver our proprietary ZymeLink cytotoxic payload. We are developing ZW49 as a best-in-class HER2-targeting ADC for several indications characterized by HER2

expression, especially for patients whose tumors have progressed or are refractory to HER2-targeted agents and those that express lower levels of HER2 and are ineligible for treatment with HER2-targeted therapies including T-DM1.

Potential Advantages of ZW49

ZW49 is a combination of an Azymetric biparatopic anti-HER2 antibody conjugated to our proprietary ZymeLink cytotoxic payload via a cleavable linker. Our cytotoxic payload destabilizes tubulin, a protein necessary for cell division, and therefore selectively kills rapidly dividing cancer cells. Compared to existing HER2-targeted therapies, ZW49 mediates a superior therapeutic effect on HER2-expressing tumors through a combination of mechanisms, including:

- cross-linked trans HER2 binding and HER2 receptor clustering;
- increased HER2-mediated antibody internalization leading to:
  - enhanced toxin-mediated cytotoxicity and tumor growth inhibition;
  - enhanced HER2 downregulation;
- increased maximum binding density and potent effector-function mediated cytotoxicity; and
- enhanced blockade of ligand-dependent and ligand-independent tumor growth.

Preclinical Development of ZW49

In preclinical studies, ZW49 demonstrated complete tumor regressions in a panel of high and low HER2-expressing patient-derived xenografts and promising efficacy in a model of breast cancer brain metastases. These results compared favorably when benchmarked against approved and leading HER2 ADCs in clinical development. In a repeat dose toxicology study in non-human primates, ZW49 was well tolerated at 18 mg/kg, suggesting a broad therapeutic window.

Anticipated Clinical Development of ZW49

We are currently evaluating ZW49 as a monotherapy in a non-randomized, open-label Phase 1 clinical trial in patients with HER2 High breast, gastric and other HER2-expressing cancers, whose disease has progressed after all standard of care therapies. The primary objective of the Phase 1 clinical trial is to characterize the safety, tolerability, pharmacokinetics and maximum tolerated dose of ZW49. The secondary objectives for the trial include evaluation of preliminary anti-tumor activity of ZW49, as well as an exploration of potential biomarkers of response. Based upon the observed safety and activity, subsequent development may focus on patients with HER2 High breast cancer, HER2 High gastric cancer, other HER2 High cancers, as well as cancers with lower levels of HER2 expression, including breast cancer.

Other Product Candidates

We maintain ongoing discovery efforts to identify and test new target combinations, product candidates and platform technologies that have the potential to address unmet clinical needs. We have developed multiple undisclosed preclinical product candidates targeting a combination of known and novel tumor antigens based on our platform technologies. All of these candidates remain unpartnered. We will continue to focus on advancing multiple well-differentiated product candidates into clinical trials to build our pipeline portfolio as well as exploiting our protein engineering expertise to develop innovative therapeutic platforms.

Strategic Partnerships and Collaborations

Our Strategic Partnerships

Our novel therapeutic candidates, together with the unique combination of proprietary protein engineering capabilities and resulting therapeutic platform technologies have enabled us to enter into a number of strategic

partnerships, many of which were subsequently expanded in scope. In 2018, we entered into new or expanded licensing and collaboration agreements with Daiichi Sankyo, Celgene, LEO and BeiGene.

Our strategic partnerships provide us with the ability to accelerate clinical development of our therapeutic candidates in certain geographical regions and provide our strategic partners with access to components of our proprietary Azymetric and/or EFECT therapeutic platforms for their own therapeutics development. These strategic partnerships have provided us with non-dilutive funding as well as access to proprietary therapeutic assets, which increase our ability to rapidly advance our product candidates while maintaining commercial rights to our own therapeutic pipeline. To date, we have received $172.8 million in the form of non-refundable upfront payments and milestone payments and are additionally eligible to receive up to $2.4 billion in preclinical and development milestone payments and $5.2 billion in commercial milestone payments available under our existing collaboration agreements, as well as tiered royalties on potential future product sales. It is possible, however, that our strategic partners' programs will not advance as currently contemplated, which would negatively affect the amount of development and commercial milestone payments and royalties on potential future product sales we may receive. Importantly, these partnerships include predominantly non-target-exclusive licenses for any of our therapeutic platforms, so we maintain the ability to develop therapeutics directed to many high-value targets utilizing our platforms.

Research and License Agreement with Merck (2011)

We are collaborating with Merck to develop and commercialize three bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, we granted Merck a worldwide, royalty-bearing antibody sequence pair exclusive license to research, develop and commercialize certain licensed products. We are eligible to receive up to $190.75 million, including an upfront payment ($1.25 million received in 2011), research milestone payments totaling $3.5 million ($2.0 million and $1.5 million received in 2012 and 2013, respectively), payments for completion of Investigational New Drug ("IND")-enabling studies of up to $6.0 million, development milestone payments of up to $66.0 million and commercial milestone payments of up to $114.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. Merck is solely responsible for the further research, development, manufacturing and commercialization of the products.

Licensing and Collaboration Agreement with Lilly (2013)

We are collaborating with Lilly to research, develop and commercialize one bispecific antibody, with an option for a second antibody, generated through the use of the Azymetric platform. Under the terms of the agreement, we granted Lilly a worldwide, royalty-bearing antibody target pair-specific exclusive license to research, develop and commercialize certain licensed products. We are eligible to receive up to $103.0 million, including an upfront payment ($1.0 million received in 2013) and per product potential milestone payments, comprised of research milestone payments totaling $1.0 million (received in 2015), IND submission milestone payments of $2.0 million (received in 2018), development milestone payments of $8.0 million and commercial milestone payments of $40.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. Lilly is solely responsible for the further research, development, manufacturing, and commercialization of the products.

Second Licensing and Collaboration Agreement with Lilly (2014)

In a second agreement, we are collaborating with Lilly to research, develop and commercialize one bispecific antibody generated through the use of the Azymetric platform. This agreement did not alter or amend the initial 2013 agreement. Under the terms of this 2014 agreement, we granted Lilly a worldwide, royalty-bearing antibody sequence pair-specific license to research, develop and commercialize certain licensed products. In 2019 Lilly filed an IND for a bispecific candidate from this agreement for clinical development. We are currently eligible to receive up to $125.0 million, comprised of research milestone payments of up to $2.0 million

(received in 2016), IND submission milestone payments of up to $8.0 million (received in 2019), development milestone payments of up to $20.0 million and commercial milestone payments of up to $95.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. Lilly is solely responsible for the research, development, manufacturing and commercialization of the products.

Collaboration Agreement with Celgene (2014)

We are collaborating with Celgene to research, develop and commercialize bispecific antibodies generated through the use of the Azymetric platform. This agreement was expanded in 2018 to increase the number of programs from eight to ten and to extend Celgene's research period. Under the terms of the agreement, we granted Celgene a right to exercise options to worldwide, royalty-bearing, antibody sequence pair-specific exclusive licenses to research, develop and commercialize certain licensed products. We received an upfront payment ($8.0 million received in 2014) and an expansion fee of $4.0 million (received in 2018). Celgene has the right to exercise options on up to ten programs and if Celgene opts in on a program, we are eligible to receive up to $164.0 million per product candidate (up to $1.64 billion for all ten programs), comprised of a commercial license option payment of $7.5 million, development milestone payments of up to $101.5 million and commercial milestone payments of up to $55.0 million. No development or commercial milestone payments or royalties have been received to date. After conclusion of Celgene's research period, Celgene will be solely responsible for the research, development, manufacturing and commercialization of the products.

Licensing and Collaboration Agreement with GSK (2015)

We are collaborating with GSK to research, develop and commercialize up to ten Fc-engineered monoclonal and bispecific antibodies generated through the use of the EFECT and Azymetric platforms. Under the terms of the agreement, we granted GSK a worldwide, royalty-bearing antibody target-exclusive license to new intellectual property generated to the EFECT platform under this collaboration and a non-exclusive license to the Azymetric platform to research, develop and commercialize future licensed products. We are eligible to receive up to $1.1 billion, including research, development and commercial milestone payments of up to $110.0 million for each product. In addition, we are eligible to receive tiered royalties in the low single digits on net sales of products. No development or commercial milestone payments or royalties have been received to date. We retained the right to develop up to four products, free of royalties, using the new intellectual property generated in this collaboration, and after a period of time, to grant licenses to such intellectual property for development of additional products by third parties.

Under this agreement, we are sharing certain research and development responsibilities with GSK to generate new Fc-engineered antibodies. Each party will bear its own costs for the responsibilities assigned to it during the research period. After the conclusion of the research period, each party will be solely responsible for the further research, development, manufacturing and commercialization of its own respective products.

Licensing Agreement with GSK (2016)

In a second agreement, we are collaborating with GSK to research, develop and commercialize up to six bispecific antibodies generated through the use of the Azymetric platform. This may include bispecific antibodies incorporating new engineered Fc regions generated under the 2015 GSK agreement. Under the terms of this 2016 agreement, we granted GSK a worldwide, royalty-bearing antibody sequence pair-specific exclusive license to research, develop and commercialize licensed products. We are eligible to receive up to $908.0 million, including an upfront payment as a technology access fee ($6.0 million received in 2016), research milestone payments of up to $30.0 million, development milestone payments of up to $152.0 million and commercial milestone payments of up to $720.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. GSK bears all responsibility and costs associated with research, development and commercialization of products generated using the Azymetric platform.

Collaboration and Cross-License Agreement with Daiichi Sankyo (2016)

We are collaborating with Daiichi Sankyo to research, develop and commercialize one bispecific antibody generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, we granted Daiichi Sankyo a worldwide, royalty-bearing antibody sequence pair-specific exclusive license to research, develop and commercialize certain licensed products. We are eligible to receive up to $149.9 million, including an upfront payment as a technology access fee of $2.0 million (received in 2016), research ($1.0 million received in 2017) and development milestone payments and a commercial option payment totaling up to $67.9 million and commercial milestone payments of up to $80.0 million. In addition, we are eligible to receive tiered royalties ranging from the low single digits up to 10% on product sales. We also gained non-exclusive rights to develop and commercialize up to three products using Daiichi Sankyo's proprietary immune-oncology antibodies, with royalties in the low single digits to be paid to Daiichi Sankyo on sales of such products.-Daiichi Sankyo is solely responsible for the research, development, manufacturing and commercialization of the products. Under the non-exclusive immuno-oncology antibody license to Zymeworks, we are solely responsible for all research, development and commercialization of the resulting products.

License Agreement with Daiichi Sankyo (2018)

We are collaborating with Daiichi Sankyo to research, develop and commercialize two bispecific antibodies generated through the use of the Azymetric and EFECT platforms. This agreement did not alter or amend the initial 2016 agreement. Under the terms of this 2018 agreement, we granted Daiichi Sankyo a worldwide, royalty-bearing, antibody sequence pair-specific, exclusive license to research, develop and commercialize certain products. We are eligible to receive up to $484.7 million, including an upfront technology access fee payment of $18.0 million (received in June 2018), development milestone payments totaling up to $126.7 million and commercial milestone payments of up to $340.0 million. In addition, we are eligible to receive tiered royalties ranging from the low single digits up to 10% on product sales. Daiichi Sankyo is solely responsible for the research, development, manufacturing and commercialization of the products.

Janssen (2017)

We are collaborating with Janssen to research, develop and commercialize up to six bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, we granted Janssen a worldwide, royalty-bearing, antibody sequence pair-specific exclusive license to research, develop and commercialize certain products. We are eligible to receive up to $1.45 billion, including an upfront payment of $50.0 million (received in 2017), development milestone payments of up to $282.0 million and commercial milestone payments of up to $1.12 billion. In addition, we are eligible to receive tiered royalties in the mid-single digits on product sales. Janssen has the option to develop two additional bispecific antibodies under this agreement subject to a future option payment. Janssen is solely responsible for the research, development, manufacturing and commercialization of the products.

Research and License Agreement with LEO (2018)

In 2018, we entered into a collaboration agreement with LEO whereby we granted LEO a worldwide, royalty-bearing, antibody sequence pair-specific exclusive license to research, develop and commercialize two bispecific antibodies, generated through the use of the Azymetric and EFECT platforms, for dermatologic indications. Zymeworks will retain rights to develop antibodies resulting from this collaboration in all other therapeutic areas. Pursuant to this agreement, we received an upfront payment of $5.0 million in 2018. In addition, (i) for the first therapeutic candidate, we are eligible to receive preclinical and development milestone payments of up to $74.0 million and commercial milestone payments of up to $157.0 million together with tiered royalties on future sales of up to 20% in the United States and up to high single digits elsewhere, and (ii) for the second therapeutic candidate, we are eligible to receive preclinical and development milestone payments of up to $86.5 million and commercial milestone payments of up to $157.0 million together with tiered royalties on future sales of up to low

double digits globally. For products developed by Zymeworks outside of dermatology, LEO is eligible to receive commercial milestone payments and up to single-digit royalties on future sales. No development or commercial milestone payments or royalties have been received to date. Zymeworks and LEO are jointly responsible for certain research activities, with Zymeworks' cost to be fully reimbursed by LEO. Each party is solely responsible for the development, manufacturing, and commercialization of its own products.

Licensing and Collaboration Agreements with BeiGene (2018)

In 2018, we entered into agreements with BeiGene whereby we granted BeiGene royalty-bearing exclusive licenses for the research, development and commercialization of ZW25 and ZW49 in Asia (excluding Japan but including the People's Republic of China, South Korea and other countries), Australia and New Zealand. In addition, we also granted BeiGene a worldwide, royalty-bearing, antibody sequence pair-specific license to research, develop and commercialize globally three bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Zymeworks received an upfront payment of $60.0 million in 2018 for the totality of the rights described.

ZW25 & ZW49

For the research, development and commercialization licenses to ZW25 and ZW49, we received an upfront payment of $40.0 million in 2018. In aggregate for both ZW25 and ZW49, we are also eligible to receive development and commercial milestone payments of up to $390 million, together with tiered royalties from high single digits and up to 20% on future sales of the products. No development or commercial milestone payments or royalties have been received to date.

Under the agreement, Zymeworks and BeiGene are collaborating on certain global clinical studies and both Zymeworks and BeiGene will independently conduct other clinical studies in their own respective territories. Each of Zymeworks and BeiGene are responsible for all the development and commercialization costs in their own territories.

Azymetric & EFECT Platforms

For the development and commercialization licenses of up to three bispecific antibody therapeutics using the Azymetric and EFECT platforms, we received an upfront payment of $20.0 million in 2018. We are also eligible to receive development and commercial milestone payments of up to an aggregate of $702.0 million. In addition, we are eligible to receive tiered royalties in the mid-single digits on product sales. No development or commercial milestone payments or royalties have been received to date. BeiGene is solely responsible for the research, development, manufacturing, and commercialization of the products.

Intellectual Property

Our business success will depend significantly on our ability to:

- secure, maintain and enforce patent and other proprietary protection for our core technologies, inventions and know-how;
- obtain and maintain licenses to key third-party intellectual property owned by such third parties;
- preserve the confidentiality of our trade secrets; and
- operate without infringing upon valid, enforceable third-party patents and other rights.

We seek to secure and maintain patent protection for the composition of matter, manufacturing processes and methods of use for our drug candidates and for our underlying protein engineering capabilities and therapeutic platforms including Azymetric, EFECT, ZymeLink and ZymeCAD. We also utilize trade secrets, careful

monitoring and limited disclosure of our proprietary information where patent protection is not appropriate. We also protect our proprietary information by ensuring that our employees, consultants, contractors and other advisors execute agreements requiring non-disclosure and assignment of inventions prior to their engagement. We will continue to expand our intellectual property holdings by seeking patent protection for new compositions of matter, new features and applications of our core therapeutic platforms, and innovative new therapeutic platforms, in the United States and other jurisdictions. We will also supplement internal innovation through in-licensing of new technologies and compositions of matter as appropriate. We intend to take advantage of any available data exclusivity, market exclusivity, patent term adjustment and patent term extensions.

We routinely monitor the status of existing and emerging intellectual property disclosed by third parties that may impact our business, and to the extent we identify any such disclosures, by evaluating them and taking appropriate courses of action.

As of December 31, 2018, our patent portfolio consists of 54 active patent families. Of these, 16 families relate to our key product candidates and programs including ZW25, ZW49 and our therapeutic platform technology. The remaining 38 patent families relate to other earlier stage potential product candidates or platforms that we do not consider material to our business at this time. Three of our patent families are co-owned with VAR2 Pharmaceuticals ApS, and one patent family is co-owned with the National Research Council Canada. None of these co-owned patent families relate to our therapeutic platforms or our lead product candidates, ZW25 and ZW49, and they are not material to our business. We have 64 issued patents, 22 of which are U.S. patents, and all of which are owned by us.

Therapeutic Antibody Portfolio

Our therapeutic antibody patent portfolio is directed to specific compositions of matter and methods of treatment for our product candidates, including target-specific interactions and immunomodulatory mechanisms.

- ***ZW25 and ZW49:*** We own the ZW25 and ZW49 patent portfolio, including an international patent application filed under the Patent Cooperation Treaty (“PCT”) that is now in the national phase with applications pending in Australia, Brazil, Canada, China, Europe, India, Japan, Korea, Mexico, Russia and the United States. This application relates to the composition of matter, methods of making and uses of biparatopic anti-HER2 bispecific antibodies and ADCs, and if issued, is expected to expire in 2034, absent any adjustments or extensions. One U.S. patent has issued. An additional PCT application is directed to additional treatment methods using ZW25. We have filed three U.S. provisional applications covering ZW49 composition of matter and methods of making and using ZW49. Any patents that issue from applications claiming priority to these U.S. provisional applications are expected to expire in 2039, absent and adjustments or extensions.

ZW25 and ZW49 are also protected by our two patent families relating to the Azymetric Fc, as described below.

Therapeutic Platform Technology Portfolio

The therapeutic platform technology portfolio includes biological formats and variants thereof, including the Azymetric platform, the ZymeLink platform, the EFECT platform, and specific applications, manufacturing methods and assays related to the platform constructs and underlying computational chemistry.

- ***Azymetric:*** We own a portfolio of six patent families relating to the Azymetric platform for engineering Fc and Fab constructs for the development of bispecific antibodies.

  Azymetric Fc: Two of the patent families relate to engineered antibody Fc region polypeptides having amino acid substitutions that preferentially form heterodimers, with PCT national phase applications pending or issued in Australia, Brazil, Canada, China, Europe, India, Japan, Korea, Mexico, Russia and the United States. One U.S. patent has issued with 1,102 days of patent term adjustment and is

expected to expire on November 10, 2034. A second U.S. patent has issued with 372 days of patent term adjustment and is expected to expire on November 9, 2033. If issued, the remaining patents in these families are expected to expire between 2031 and 2032, absent any adjustments or extensions. An additional issued U.S. patent covers method of expressing antibodies containing heterodimeric Fc regions in cells.

Azymetric Fab: Four patent families (three in the PCT national phase in Australia, Brazil, Canada, China, Europe, India, Japan, Korea, Mexico, Russia and the United States, and one PCT application) relate to antibodies having amino acid substitutions in Fab-region heavy and light chains for making correctly paired bispecific antibodies. Two U.S. patents have issued. These patent families are directed to compositions, methods of producing and uses of heterodimeric antibodies. If issued, patents in these families are expected to expire between 2031 and 2038, absent any adjustments or extensions.

- ***ZymeLink:*** We own the ZymeLink patent portfolio relating to novel toxin molecules and novel linkers by means of which these toxins can be conjugated to antibodies and other protein scaffolds. Two PCT applications are in the national phase in key jurisdictions, including Australia, Brazil, Canada, China, Europe, India, Israel, Japan, Korea, Mexico, South Africa and the United States, and are directed to novel hemiasterlin toxin derivatives, novel linker compositions, hemiasterlin-linker compositions, and antibody-hemiasterlin conjugate compositions, one of which has issued in the United States. An additional PCT application is directed to novel auristatin derivatives, auristatin-linker compositions and antibody-auristatin conjugates and is in the national phase in Australia, Brazil, Canada, China, Europe, India, Israel, Japan, Korea, Mexico, Russia, Singapore and the United States. One U.S. patent has issued. Any patents that may issue from these families are expected to expire between 2034 and 2037, absent any adjustments or extensions.
- ***EFECT:*** The EFECT platform for engineering Fc constructs with modulated FCYR-binding and Fc effector function is protected by two PCT patent applications, which we own, both of which are in the national stage and are pending in key jurisdictions, including Australia, Brazil, Canada, China, Europe, India, Japan, Russia and the United States. One patent has issued in the United States. These patent families are directed to compositions of matter and methods of making Fc constructs with altered FCYR-binding and Fc effector function; if issued, they are expected to expire between 2031 and 2034, absent any adjustments or extensions.
- ***Computational Chemistry:*** We own a portfolio of 13 families of computational chemistry patents and patent applications which relate to the computational and algorithmic advances incorporated into the ZymeCAD suite of applications, including advances in general molecular modeling, conformational dynamics, docking, distal mutations, and molecular packing, as well as parallelization and graphical data analysis. Six of these patents have issued in the United States. Any patents that issue from these families are expected to expire between 2027 and 2035, absent any adjustments or extensions.

Technology Licensing and In-Licensed Intellectual Property

We identify and selectively enter into technology licensing agreements and intellectual property in-licensing agreements to support pipeline advancement. Selected agreements include:

- ***CDRD Ventures Inc. (CVI; 2016):*** We entered into an assignment agreement with CVI, as part of our 2016 acquisition of Kairos Therapeutics Inc. (“Kairos”) to have all of CVI’s interests in the Kairos patents and intellectual property assigned to Zymeworks. We may be required to make future payments to CVI for ZW49 or other product candidates upon the direct achievement of certain clinical development milestones for products incorporating certain Kairos intellectual property, as well as low single-digit royalty payments on the net sales of such products. For out-licensed products and technologies incorporating certain Kairos intellectual property, we may be required to pay CVI a mid-single-digit percentage of the future revenue as a result of a revenue sharing agreement.
- ***Innovative Targeting Solutions Inc. (ITS; 2016):*** We entered into a non-exclusive licensing agreement with ITS which grants us the right to use ITS’ HuTARG discovery platform for the

generation of therapeutic antibodies and other protein therapeutics. Pursuant to this agreement, ITS granted us a non-exclusive, worldwide, sub-licensable commercial license to its technology for the development of our internal therapeutic programs.

Manufacturing

We rely on third-party contract manufacturing organizations to provide manufacturing, linker-toxin conjugation, and fill-finish services in order to generate all of the therapeutic antibody supply required for our non-clinical and clinical studies. To retain focus on our expertise in developing new product candidates, we do not currently plan to develop or operate in-house manufacturing capacity. Our bispecific therapeutic antibody candidates require standard manufacturing and chemistry manufacturing and control ("CMC") processes typical of those required for monoclonal antibody manufacturing. We therefore expect to continue to be able to develop product candidates that can be manufactured in a cost-effective fashion by our network of well-validated third-party contract manufacturing organizations.

Through our contract manufacturing organizations, we currently have sufficient supply of our product candidates to carry out ongoing and planned preclinical studies. For ZW25, we also have sufficient current good manufacturing practices ("cGMP")-grade supply, together with planned additional manufacturing runs, to complete our Phase 1 clinical trial and to initiate planned Phase 2 clinical trials. For ZW49, we have sufficient cGMP-grade supply, together with planned additional manufacturing runs, to complete our Phase 1 clinical trial. We plan to identify redundant suppliers and manufacturing, toxin conjugation, and fill-finish services for all development product candidates prior to submission to the FDA.

Competition

The biopharmaceutical industry is characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary products. While we believe that our technology, knowledge, experience and scientific resources provide us with competitive advantages, we face potential competition from many different sources, including major pharmaceutical, specialty pharmaceutical and biotechnology companies, academic institutions and governmental agencies and public and private research institutions. Any product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future.

With respect to target discovery activities, competitors and other third parties, including academic and clinical researchers, may be able to access rare families and identify targets before we do.

Many of the companies against which we compete or against which we may compete in the future have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also prove to be significant competitors, particularly through collaboration arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites, recruiting patients for clinical trials, and by acquiring technologies complementary to, or necessary for, our programs.

The key competitive factors affecting the success of all of our product candidates, if approved, are likely to be their efficacy, safety, convenience and price, the effectiveness of alternative products, the level of competition and the availability of coverage and adequate reimbursement from government and other third-party payors.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products or therapies that are safer, more effective, have fewer or less severe side effects, are more convenient or

are less expensive than any products that we may develop. Our competitors also may obtain FDA, European Medicines Agency ("EMA") or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market. In addition, our ability to compete may be affected in many cases by insurers or other third-party payors seeking to encourage the use of generic products.

Our product candidates will compete with the therapies and currently marketed drugs discussed below.

- ***ZW25 and ZW49:*** ZW25 and ZW49 are intended to treat patients with solid tumors that express HER2, including patients with tumors expressing low to intermediate levels of HER2. Approved HER2-targeted therapies include Roche's Herceptin, Perjeta, and Kadcyla as well as Novartis' Tykerb and Puma Biotechnology's Nerlynx, although none of these drugs are effective in treating tumors expressing low to intermediate levels of HER2. Currently, these patients may receive hormone therapy or cytotoxic chemotherapy including combinations of anthracyclines, taxanes, capecitabine and cyclophosphamide. We believe ZW25 will be a more effective and better tolerated therapy. There are other non-HER2 targeting monoclonal antibodies on the market that may have activity on tumors expressing low to intermediate levels of HER2, including Merck's Keytruda, Bristol-Myer Squibb's Opdivo, Roche's Tecentriq, Merck KGaA's Bavencio and AstraZeneca's Imfinzi; however, none of these agents are currently approved in breast or ovarian cancer, and only Keytruda is approved in gastric cancer (albeit as third-line salvage therapy in patients that are PD-L1 positive). Since antibodies blocking PD-1/PD-L1 are relatively well-tolerated and have a different mechanism of action than ZW25, if approved in these indications, we believe PD-1/PD-L1 blockade could potentially be used in combination with ZW25 to achieve even higher response rates.

The FDA and corresponding regulatory authorities will ultimately review our clinical results and determine whether our product candidates are effective. No regulatory agency has made any such determination that any of our product candidates are effective for use by the general public for any indication.

Government Regulation

Government authorities in the United States, at the federal, state and local level, and in other countries extensively regulate, among other things, the research, development, testing, manufacturing, quality control, approval, labeling, packaging, storage, record-keeping, promotion, advertising, distribution, post-approval monitoring and reporting, marketing and export and import of products such as those we are developing. Our ADC product candidates are comprised of both a drug product and a biologic product, and will therefore be subject to regulation in the United States as combination products. If marketed individually, each component would be subject to different regulatory pathways and would require approval of independent marketing applications by the FDA. A combination product, however, is assigned to an FDA center that will have primary jurisdiction over its regulation based on a determination of the combination product's primary mode of action, which is the single mode of action that provides the most important therapeutic action. In the case of our ADCs, we believe that the primary mode of action is attributable to the biologic component of the product. Thus, we believe our product candidates will be regulated as therapeutic biologics, with the FDA's Center for Drug Evaluation and Research ("CDER") having primary jurisdiction over premarket development.

Biological products are subject to regulation under the Federal Food, Drug, and Cosmetic Act ("FD&C Act"), the Public Health Service Act ("PHS Act"), and other federal, state, local and foreign statutes and regulations. Our product candidates must be approved by the FDA before they may be legally marketed in the United States and by the appropriate foreign regulatory agency before they may be legally marketed in foreign countries.

U.S. Biological Products Development Process

The process required by the FDA before a biologic may be marketed in the United States generally involves the following:

- completion of extensive nonclinical, sometimes referred to as preclinical, laboratory tests and preclinical animal trials and applicable requirements for the humane use of laboratory animals and formulation studies in accordance with applicable regulations, including good laboratory practices ("GLPs");
- submission to the FDA of an IND application, which must become effective before human clinical trials may begin;
- performance of adequate and well-controlled human clinical trials according to the FDA's regulations commonly referred to as current good clinical practice ("cGCP") regulations and any additional requirements for the protection of human research subjects and their health information, to establish the safety and efficacy of the proposed biological product for its intended use. The FDA may also impose clinical holds on a biological product candidate at any time before or during clinical trials due to safety concerns or non-compliance. If the FDA imposes a clinical hold, trials may not recommence without FDA authorization and then only under terms authorized by the FDA.
- submission to the FDA of a Biologics License Application ("BLA") for marketing approval that includes substantive evidence of safety, purity, and potency from results of nonclinical testing and clinical trials;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities where the biological product is produced to assess compliance with cGMP requirements to assure that the facilities, methods and controls are adequate to preserve the biological product's identity, strength, quality and purity;
- potential FDA audit of the nonclinical and clinical study sites that generated the data in support of the BLA; and
- FDA review and approval, or licensure, of the BLA.

Human clinical trials are typically conducted in three sequential phases that may overlap or be combined:

- ***Phase 1.*** The biological product candidate is initially introduced into healthy human volunteers and tested for safety. In the case of some products for severe or life-threatening diseases, especially when the product may be too inherently toxic to ethically administer to healthy volunteers, the initial human testing is often conducted in patients.
- ***Phase 2.*** The biological product candidate is evaluated in a limited patient population to identify possible adverse effects and safety risks, to preliminarily evaluate the efficacy of the product for specific targeted diseases and to determine dosage tolerance, optimal dosage and dosing schedule.
- ***Phase 3.*** Clinical trials are undertaken to further evaluate dosage, clinical efficacy, potency, and safety in an expanded patient population at geographically dispersed clinical study sites. These clinical trials are intended to establish the overall risk/benefit ratio of the product and provide an adequate basis for product labelling.
- ***Phase 4.*** Post-approval clinical trials, sometimes referred to as Phase 4 clinical trials, may be conducted after initial marketing approval. These clinical trials are used to gain additional experience from the treatment of patients in the intended therapeutic indication, particularly for long-term safety follow-up.

During all phases of clinical development, regulatory agencies require extensive reporting, monitoring and auditing of all clinical activities, clinical data, and clinical study investigators.

A sponsor, an IRB, the FDA or other regulatory or monitoring authorities may suspend a clinical study at any time on various grounds, including a finding that the research subjects or patients are being exposed to an unacceptable health risk, failure to conduct the clinical trial in accordance with regulatory requirements or clinical protocols, failure to demonstrate a benefit from using the investigational drug, changes in government regulations or administrative actions.

Sponsors of clinical trials of FDA-regulated products, including biologics, are required to register and disclose certain clinical trial information, which is publicly available at www.clinicaltrials.gov. Information related to the product, patient population, phase of investigation, study sites and investigators, and other aspects of the clinical trial is then made public as part of the registration. Sponsors are also obligated to discuss the results of their clinical trials after completion. Disclosure of the results of these trials can be delayed until the new product or new indication being studied has been approved.

U.S. Review and Approval Processes

After the completion of clinical trials of a biological product candidate, FDA approval of a BLA must be obtained before commercial marketing of the biological product. When a BLA is submitted, the FDA conducts a preliminary review to determine whether the application is sufficiently complete to be accepted for filing. If it is not, the FDA may refuse to file the application and request additional information, in which case the application must be resubmitted with the supplemental information, and review of the application is delayed. Upon accepting the BLA for filing, the FDA will conduct an in-depth review the BLA and may hold a public hearing where an independent advisory committee of expert advisors considers key questions regarding the product candidate. This advisory committee makes a recommendation to the FDA, which is not binding on the FDA, but is generally followed.

Under the Pediatric Research Equity Act, certain applications for approval must include an assessment, generally based on clinical study data, of the safety and effectiveness of the subject drug in relevant pediatric populations. The FDA may waive or defer the requirement for a pediatric assessment, either at the company's request or by the FDA's initiative. The FDA may determine that a Risk Evaluation and Mitigation Strategy ("REMS") is necessary to ensure that the benefits of a new product outweigh its risks. A REMS may include various elements, ranging from a medication guide or patient package insert to limitations on who may prescribe or dispense the drug, depending on what the FDA considers necessary for the safe use of the drug.

Before approving a BLA, the FDA will inspect the facilities at which the product is manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. Additionally, before approving a BLA, the FDA will typically inspect one or more clinical sites to assure that the clinical trials were conducted in compliance with IND study requirements and cGCP requirements.

Notwithstanding the submission of relevant data and information, the FDA may ultimately decide that the BLA does not satisfy its regulatory criteria for approval and deny approval. Data obtained from clinical trials are not always conclusive and the FDA may interpret data differently than the applicant interprets the same data. If the FDA decides not to approve the BLA in its present form, the FDA will issue a complete response letter that usually describes all of the specific deficiencies in the BLA identified by the FDA. The deficiencies identified may be minor (for example, requiring labeling changes) or major (for example, requiring additional clinical trials). Additionally, the complete response letter may include recommended actions that the applicant might take to place the application in a condition for approval. If a complete response letter is issued, the applicant may either resubmit the BLA, addressing all of the deficiencies identified in the letter, or withdraw the application.

If a product receives regulatory approval, the approval may be significantly limited to specific diseases and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the

product. Further, the FDA may require that certain contraindications, warnings or precautions be included in the product labeling. The FDA may impose restrictions and conditions on product distribution, prescribing, or dispensing in the form of a REMS, or otherwise limit the scope of any approval. In addition, the FDA may require post-marketing clinical trials, sometimes referred to as Phase 4 clinical trials, designed to further assess a biological product's safety and effectiveness, and testing and surveillance programs to monitor the safety of approved products that have been commercialized.

Orphan Drug Designation

The Orphan Drug Act established incentives for the development of drugs intended to treat rare diseases or conditions, which generally are diseases or conditions affecting less than 200,000 individuals in the United States at the time of the request for orphan designation. If a sponsor demonstrates that a drug is intended to treat a rare disease or condition and meets other applicable requirements, the FDA grants Orphan Drug Designation to the product for that use. ZW25 has been granted Orphan Drug Designation for the treatment of both gastric and ovarian cancer by the FDA.

The benefits of Orphan Drug Designation include tax credits for clinical testing expenses and exemption from user fees. A drug candidate that is approved for the orphan drug designated use typically is granted seven years of orphan drug exclusivity. During that period, the FDA generally may not approve any other application for the same product for the same indication, although there are exceptions, most notably when the later product is shown to be clinically superior to the product with exclusivity. However, the FDA Reauthorization Act, which was enacted in August 2017, requires, among other things, that certain orphan drugs for cancer be tested for children. The government has also increased focus on the potential misuse of the orphan drug approval process to increase the price of orphan drugs.

Post-Approval Requirements

Even if regulatory approval is granted, a marketed product is subject to continuing comprehensive requirements under federal, state and foreign laws and regulations, including requirements and restrictions regarding adverse event reporting, recordkeeping, marketing, and compliance with cGMP. Adverse events reported after approval of a drug can result in additional restrictions on the use of a marketed product or requirements for additional post-marketing studies or clinical trials.

Maintaining substantial compliance with applicable federal, state and local statutes and regulations requires the expenditure of substantial time and financial resources. Rigorous and extensive FDA regulation of biological products continues after approval, particularly with respect to cGMP requirements. Biological product manufacturers and other entities involved in the manufacture and distribution of approved biological products are required to register their establishments with the FDA and certain state agencies, and are subject to periodic unannounced inspections by the FDA and certain state agencies for compliance with cGMP requirements and other laws. We will rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of any products that we may commercialize. Manufacturers of our products are required to comply with applicable requirements in the cGMP regulations, including quality control and quality assurance and maintenance of records and documentation. Other post-approval requirements applicable to biological products include record-keeping requirements, reporting of adverse effects and reporting updated safety and efficacy information.

Discovery of previously unknown problems or the failure to comply with the applicable regulatory requirements relating to the manufacturer or promotion of an approved product may result in restrictions on the marketing of a product or withdrawal of the product from the market as well as significant administrative, civil or criminal sanctions.

Biosimilars and Exclusivity

The Patient Protection and Affordable Care Act ("PPACA"), signed into law on March 23, 2010, includes a subtitle called the Biologics Price Competition and Innovation Act of 2009 ("BPCIA"), which created an abbreviated approval pathway for biological products that are biosimilar to or interchangeable with an FDA-licensed reference biological product.

Under the BPCIA, the approval of a biosimilar product may not be made effective by the FDA until 12 years from the date on which the reference product was first licensed. During this 12-year period of exclusivity, another company may still market a competing version of the reference product if the FDA approves a full BLA for the competing product containing the sponsor's own preclinical data and data from adequate and well-controlled clinical trials to demonstrate the safety, purity and potency of their product. The BPCIA also created certain exclusivity periods for biosimilars approved as interchangeable products. At this juncture, it is unclear whether products deemed "interchangeable" by the FDA will, in fact, be readily substituted by pharmacies, which are governed by state pharmacy law.

Canadian Review and Approval Process

In Canada, our biologic product candidates and our research and development activities are primarily regulated by the *Food and Drugs Act* and the rules and regulations thereunder, which are enforced by Health Canada (including its Biologics and Genetic Therapies Directorate). Health Canada regulates, among other things, the research, development, testing, manufacture, packaging, storage, recordkeeping, labeling, advertising, promotion, distribution, post-approval monitoring, marketing and import and export of pharmaceutical products. Drug approval laws require licensing of manufacturing facilities, carefully controlled research and testing of products, and government review and approval of experimental results prior to giving approval to sell drug products, including biologic drug products. Regulators also typically require that rigorous and specific standards such as cGMP, GLPand Practices cGCP are followed in the manufacture, testing and clinical development, respectively, of any drug product. The processes for obtaining regulatory approvals in Canada, along with subsequent compliance with applicable statutes and regulations, require the expenditure of substantial time and financial resources.

The principal steps required for drug approval in Canada is as follows:

Preclinical Toxicology Studies

Non-clinical studies are conducted *in vitro* and in animals to evaluate pharmacokinetics, metabolism and possible toxic effects to provide evidence of the safety of the drug candidate prior to its administration to humans in clinical studies and throughout development. Such studies are conducted in accordance with applicable laws and GLP.

Initiation of Human Testing

In Canada, the process of conducting clinical trials with a new drug cannot begin until we have submitted a Clinical Trial Application ("CTA") and the required number of days has lapsed without objection from Health Canada. Biological drugs carry additional risks, as compared to traditional small-molecule drugs, associated with complexity and variability in manufacturing that can contribute to increased lot-to-lot variation of the final product, and with the potential for adventitious agents. Therefore, the content requirements for the quality information for biological drugs to be used in clinical trials are different from those for standard small-molecule pharmaceutical drugs (for example, the inclusion of information on manufacturing facilities is required for biological drugs). In addition, it is necessary to have more stringent controls on the release of biologic drug lots used in authorized clinical trials.

Similar regulations apply in Canada to a CTA as to an IND in the United States. Once approved, two key factors influencing the rate of progression of clinical trials are the rate at which patients can be enrolled to participate in

the research program and whether effective treatments are currently available for the disease that the drug is intended to treat. Patient enrollment is largely dependent upon the incidence and severity of the disease, the treatments available and the potential side effects of the drug to be tested and any restrictions for enrollment that may be imposed by regulatory agencies.

Clinical Trials

Similar regulations apply in Canada regarding clinical trials as in the United States. In Canada, Research Ethics Boards ("REBs"), instead of IRBs, are used to review and approve clinical trial plans. Clinical trials involve the administration of an investigational new drug to human subjects under the supervision of qualified investigators in accordance with cGCP requirements, which include review and approval by REBs. Clinical trials are conducted under protocols detailing, among other things, the objectives of the trial, the trial procedures, the parameters to be used in monitoring safety and the efficacy criteria to be evaluated and a statistical analysis plan. Human clinical trials are typically conducted in three sequential phases, as discussed above in the context of government regulation in the United States.

The manufacture of investigational drugs for the conduct of human clinical trials is subject to cGMP requirements. Investigational drugs and active pharmaceutical ingredients imported into Canada are also subject to regulation by Health Canada relating to their labeling and distribution. Progress reports detailing the results of the clinical trials must generally be submitted at least annually to Health Canada and/or the applicable REBs, and more frequently if serious adverse events occur. Phase 1, Phase 2 and Phase 3 clinical trials may not be completed successfully within any specified period, or at all. Furthermore, in Canada, Health Canada or the sponsor may suspend or terminate a clinical trial at any time on various grounds, including a finding that the research subjects are being exposed to an unacceptable health risk. Similarly, an REB can suspend or terminate approval of a clinical trial at its institution if the clinical trial is not being conducted in accordance with the REB's requirements or if the drug has been associated with unexpected serious harm to subjects. Additionally, some clinical trials are overseen by an independent group of qualified experts organized by the clinical trial sponsor, known as a data safety monitoring board or committee. This group regularly reviews accumulated data and advises the study sponsor regarding the continuing safety of trial subjects, potential trial subjects and the continuing validity and scientific merit of the clinical trial. We may also suspend or terminate a clinical trial based on evolving business objectives or competitive climate.

New Drug Application

Upon successful completion of Phase 3 clinical trials, in Canada the company sponsoring a new drug then assembles all the preclinical and clinical data and other testing relating to the product's pharmacology, chemistry, manufacture, and controls, and submits it to Health Canada as part of a New Drug Submission ("NDS"). The NDS is then reviewed by Health Canada for approval to market the drug.

As part of the approval process, Health Canada will generally inspect the facility or the facilities at which the drug is manufactured. Health Canada will not approve the product unless compliance with cGMP is satisfactory and the NDS contains data that provide substantial evidence that the drug is safe and effective in the indication studied. In addition, before approving an NDS, Health Canada will typically inspect one or more clinical sites to assure compliance with cGCP.

The testing and approval process for an NDS requires substantial time, effort and financial resources, and may take several years to complete. Biologic drugs, such as our candidates, differ from standard small-molecule drugs in that applicants must include more detailed chemistry and manufacturing information. This is necessary to help ensure the purity and quality of the product, for example to help ensure that it is not contaminated by an undesired microorganism. Data obtained from preclinical and clinical testing are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. Health Canada may not grant approval of an NDS on a timely basis, or at all. In Canada, NDSs are subject to user fees and these fees are typically increased annually to reflect inflation.

Even if Health Canada approves a product candidate, the relevant authority may limit the approved indications for use of the product candidate, require that contraindications, warnings or precautions be included in the product labeling, including a black box warning, require that post-approval studies, including Phase 4 clinical trials, be conducted to further assess a drug's safety after approval, require testing and surveillance programs to monitor the product after commercialization, or impose other conditions, including distribution restrictions or other risk management mechanisms.

Biologic products in particular are monitored post-approval by being placed on a lot-release schedule tailored to their potential risk, manufacturing, testing and inspection history to date. With higher risk biologics, each lot is tested before being released for sale in Canada. Moderate risk biologics are periodically tested at the discretion of Health Canada while manufacturers of low-risk biologics usually only need to contact Health Canada regarding lots being sold or for providing certification of complete and satisfactory testing. Products are carefully scrutinized before they are placed in any level of the lot-release process, and at any time the testing regime for a biologic may be altered.

Health Canada may prevent or limit further marketing of a product based on the results of post-marketing studies or surveillance programs. After approval, some types of changes to the approved product, such as adding new indications, manufacturing changes, and additional labeling claims, are subject to further testing requirements, notification, and regulatory authority review and approval. Further, should new safety information arise, additional testing, product labeling or regulatory notification may be required.

Canadian Biosimilars and Exclusivity

The term biosimilar is used by Health Canada to describe a biologic drug that enters the market subsequent to a version previously authorized in Canada and with demonstrated similarity to a reference biologic drug. Accordingly, a biosimilar (previously known in Canada as a subsequent entry biologic or SEB) will in all instances be a subsequent entrant onto the Canadian market.

Based on Health Canada guidance documents, a biosimilar can rely in part on prior information regarding safety and efficacy that is deemed relevant due to the demonstration of similarity to the reference biologic drug and which influences the amount and type of original data required. Generic drugs are chemically derived products that are pharmaceutically equivalent to innovative drugs, whereas biosimilars are products of a biologic nature that are similar to innovative biologics. According to Health Canada, it is not currently possible to demonstrate that two biologic drugs are pharmaceutically equivalent, and therefore the regulatory approval process for generics and biosimilar is different: biosimilar are approved using the standard NDS pathway with some allowances made for reduced safety and efficacy information set out in guidance documents, while generic drugs are approved using an abbreviated new drug submission pathway set in guidance law. In part because it continues to be set out only in guidance and not law, the pathway for receiving biosimilar approval is somewhat in flux and subject to some uncertainty.

As discussed above, all biosimilars enter the market subsequent to a biologic drug product previously approved in Canada and to which the biosimilar is considered similar. As such, biosimilars are subject to existing laws and regulations outlined in the *Patented Medicines (Notice of Compliance) Regulations* and the *Food and Drug Regulations*, and related guidance documents.

Similar to the *Hatch-Waxman Act* in the United States, Canada has the *Patented Medicines (Notice of Compliance) Regulations* which require a company that files a drug submission that references a patented product to address any relevant patents listed on the Patent Register prior to being able to receive approval from Health Canada. The Canadian regime is similar to the U.S. regime, but a number of distinctions do exist.

Like the United States, Canada also has data protection in addition to patent protection, but again differences exist between the two jurisdictions. For example, Canada's data protection applies to "innovative drugs" (i.e., a

drug that contains a medicinal ingredient not previously approved in a drug by the Minister of Health and that is not a variation of a previously approved medicinal ingredient such as a salt, ester, enantiomer, solvate or polymorph) and, where it exists, lasts for eight years in most (but not all) circumstances. In general biologics can be considered innovative drugs but biosimilars are not.

The recently signed United States Mexico Canada Agreement ("USMCA") requires parties to the trade agreement to provide a "data protection" term for biologics of at least ten years from the date of first marketing approval, which in the case of Canada results in an additional two years of data protection specifically for biologics. If the USMCA is ratified, this additional data protection in Canada is expected to be implemented within five years of when the USMCA comes into force.

Additional Regulation

In addition to the foregoing, provincial, state and federal U.S. and Canadian laws regarding environmental protection and hazardous substances affect our business. These and other laws govern our use, handling and disposal of various biological, chemical and radioactive substances used in, and wastes generated by, our operations. If our operations result in contamination of the environment or expose individuals to hazardous substances, we could be liable for damages and governmental fines. We believe that we are in material compliance with applicable environmental laws and that continued compliance therewith will not have a material adverse effect on our business. We cannot predict, however, how changes in these laws may affect our future operations.

Government Regulation Outside of the United States

In addition to regulations in the United States, we will be subject to a variety of regulations in other jurisdictions governing, among other things, clinical studies and any commercial sales and distribution of our products.

Whether or not we obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical studies or marketing of the product in those countries. Certain countries outside of the United States have a similar process that requires the submission of a clinical study application much like the IND prior to the commencement of human clinical studies. In the European Union ("EU"), for example, a CTA must be submitted to each country's national health authority and an independent ethics committee, much like the FDA and the IRB, respectively. Once the CTA is approved in accordance with a country's requirements, clinical study development may proceed.

The requirements and process governing the conduct of clinical studies, product licensing, coverage, pricing and reimbursement vary from country to country. In all cases, the clinical studies are conducted in accordance with cGCP and the applicable regulatory requirements and the ethical principles that have their origin in the Declaration of Helsinki.

Pharmaceutical Coverage, Pricing and Reimbursement

Significant uncertainty exists as to the coverage and reimbursement status of any product candidates for which we may obtain regulatory approval. In the United States and markets in other countries, sales of any products for which we receive regulatory approval for commercial sale will depend, in part, on the availability of coverage and adequate reimbursement from third-party payors. These third-party payors may deny coverage or reimbursement for a product or therapy in whole or in part if they determine that the product or therapy was not medically appropriate or necessary. Third-party payors may attempt to control costs by limiting coverage to specific drug products on an approved list, or formulary, which might not include all of the FDA-approved drug products for a particular indication, requiring pre-approval of coverage for new or innovative drug therapies before they will reimburse healthcare providers who use such therapies, and by limiting the amount of reimbursement for particular procedures or drug treatments. Additionally, coverage and reimbursement for drug

products can differ significantly from payor to payor. The Medicare and Medicaid programs are often used as models by private payors and other governmental payors to develop their coverage and reimbursement policies for drugs and biologics. However, one third-party payor's decision to cover a particular drug product does not ensure that other payors will also provide coverage for the product, or will provide coverage at an adequate reimbursement rate.

The cost of pharmaceuticals continues to generate substantial governmental and third-party payor interest. We expect that the pharmaceutical industry will experience pricing pressures due to the trend toward managed healthcare, the increasing influence of managed care organizations and additional legislative proposals. Third-party payors are increasingly challenging the price and examining the medical necessity and cost-effectiveness of medical products and services, in addition to their safety and efficacy. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of our products to obtain third-party payor coverage, in addition to the costs required to obtain the FDA approvals. Our product candidates may not be considered medically necessary or cost effective. A payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development.

While we cannot predict whether any proposed cost-containment measures will be adopted or otherwise implemented in the future, these requirements or any announcement or adoption of such proposals could have a material adverse effect on our ability to obtain adequate prices for our product candidates and to operate profitably.

In international markets, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific products and therapies. There can be no assurance that our products will be considered medically reasonable and necessary for a specific indication, that our products will be considered cost effective by third-party payors, that coverage or an adequate level of reimbursement will be available or that third-party payors' reimbursement policies will not adversely affect our ability to sell our products profitably.

Healthcare Reform

The United States and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change the healthcare system in ways that could affect our ability to sell our future products profitably. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality or expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

We expect that the PPACA, as well as reform measures that may be adopted in the future, may result in more rigorous coverage criteria and lower reimbursement, and in additional downward pressure on the price that we receive for any approved product. Any reduction in reimbursement from Medicare or other government-funded programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability or commercialize our drugs, once regulatory approval is obtained.

Other Healthcare Laws and Compliance Requirements

In the United States, the research, manufacturing, distribution, sale and promotion of drug products are subject to regulation by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare & Medicaid Services, other divisions of the U.S. Department of Health and Human Services (e.g., the Office of Inspector General), the U.S. Department of Justice, state attorneys general, and other state and local government agencies.

If our operations are found to be in violation of any of the U.S. federal and state laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including criminal and significant civil monetary penalties, damages, fines, disgorgement, imprisonment, exclusion from participation in government healthcare programs, injunctions, recall or seizure of products, total or partial suspension of production, denial or withdrawal of pre-marketing product approvals, private *qui tam* actions brought by individual whistleblowers in the name of the government or refusal to allow us to enter into supply contracts, including government contracts, and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. We may also be subject to additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement with a governmental entity to resolve allegations that we have violated these laws. To the extent that any of our product candidates, once approved, are sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-approval requirements, including safety surveillance, anti-fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or transfers of value to healthcare professionals.

Sales and Marketing

As an early-stage biopharmaceutical company, we do not currently possess the commercial infrastructure required to launch and market our product candidates. For ZW25 and ZW49, we have entered into development and commercialization agreements with BeiGene whereby BeiGene is responsible for certain clinical development activities and all commercial activities in Asia (excluding Japan but including the People's Republic of China, South Korea and other countries), Australia and New Zealand. To date, we have not entered into any other agreements granting commercialization rights to ZW25, ZW49 or any of our other product candidates. To access the sales, marketing and distribution capacity required to market our drug candidates, we plan to selectively establish additional partnerships with biotechnology and pharmaceutical companies having established commercial capabilities in relevant indications. The timing and nature of such agreements will be determined by market size and complexity, access to pre-commercial and commercial infrastructure and our resource availability for developing a commercial organization. For product candidates targeting patient populations that can be serviced by a small, specialized commercial effort, we may seek out co-development and co-promotion agreements granting commercialization rights to an established commercial partner in some jurisdictions while allowing us to build these capabilities in other jurisdictions.

Employees

As of December 31, 2018, we had 183 employees, including 180 full-time employees, 117 of whom were primarily engaged in research and development activities and 54 of whom hold an M.D. or Ph.D. degree. 145 of our full-time employees are based in Vancouver, British Columbia and 35 in Seattle, Washington. None of our employees are represented by a labor organization or covered by a collective bargaining arrangement. We consider our relationship with our employees to be excellent.

Corporate Structure

We were incorporated on September 8, 2003 under the Canada Business Corporations Act ("CBCA") under the name "Zymeworks Inc." On October 22, 2003, we were registered as an extra-provincial company under the Company Act (British Columbia), the predecessor to the Business Corporations Act (British Columbia) ("BCBCA"). On May 2, 2017, we continued the Company to British Columbia under the BCBCA. We have one wholly owned subsidiary located in Seattle, Washington named Zymeworks Biopharmaceuticals Inc. Our principal and registered office is located at 1385 West 8th Avenue, Suite 540, Vancouver, British Columbia, Canada V6H 3V9, and our telephone number is (604) 678-1388.

Available Information

This Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to these reports are filed, or will be filed, as appropriate, with the SEC and the Canadian

Securities Administrators ("CSA"). These reports are available free of charge on our website, www.zymeworks.com, as soon as reasonably practicable after we electronically file such reports with or furnish such reports to the SEC and the Canadian regulatory authorities. Information contained on, or accessible through, our website is not a part of this Annual Report on Form 10-K, and the inclusion of our website address in this document is an inactive textual reference.

Additionally, our filings with the SEC may be accessed through the SEC's website at www.sec.gov and our filings with the CSA may be accessed through the CSA's System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Item 1A. Risk Factors

You should consider carefully the following risk factors, as well as the other information in this Annual Report on Form 10-K, including our consolidated financial statements and notes thereto. If any of the events described in the following risks actually occur, our business, financial conditions, results of operations and prospects could be materially adversely affected. This Annual Report on Form 10-K also contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of a number of factors, including the risks described below. See "Cautionary Note Regarding Forward-Looking Statements." The risks below are not the only risks facing our company. Risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, results of operations, and/or prospects.

Risks Related to Our Business and the Development and Commercialization of Our Product Candidates

We have a limited number of product candidates, all which are still in preclinical or early clinical development. If we do not obtain regulatory approval of one or more of our product candidates, or experience significant delays in doing so, our business will be materially adversely affected.

We currently have no products approved for sale or marketing in any country, and may never be able to obtain regulatory approval for any of our product candidates. As a result, we are not currently permitted to market any of our product candidates in the United States or in any other country until we obtain regulatory approval from the FDA or regulatory authorities outside the United States. Our product candidates are in early stages of development and we have not submitted an application, or received marketing approval, for any of our product candidates. Furthermore, the fact that our core competencies have been recognized through strategic partnerships does not improve our product candidates' outlook for regulatory approval. We have limited experience in conducting and managing the clinical trials necessary to obtain regulatory approvals, including approval by the FDA. Obtaining regulatory approval of our product candidates will depend on many factors, including, but not limited to, the following:

- successfully completing preclinical studies, including product chemistry, toxicity and formulation studies;
- completing clinical trials that demonstrate the efficacy and safety of our product candidates;
- preparation and submission to the appropriate regulatory authorities of an application for marketing approval that includes substantial evidence of safety, purity and potency from results of nonclinical testing and clincal trials;
- establishing commercial manufacturing capabilities;
- a potential pre-approval audit of the nonclinical and clinical trial sites that generated the data in support of the marketing application; and
- launching commercial sales, marketing and distribution operations.

Many of these factors are wholly or partially beyond our control, including clinical advancement, the regulatory submission process and changes in the competitive landscape. If we do not achieve one or more of these factors

in a timely manner, we could experience significant delays or an inability to develop our product candidates at all.

Clinical trials are very expensive, time consuming and difficult to design and implement and involve uncertain outcomes. Furthermore, the results of previous preclinical studies and clinical trials may not be predictive of future results, and the results of our current and planned clinical trials may not satisfy the requirements of the FDA or non-U.S. regulatory authorities.

Positive or timely results from preclinical or early-stage trials do not ensure positive or timely results in late-stage clinical trials or product approval by the FDA or comparable foreign regulatory authorities. We will be required to demonstrate with substantial evidence through well-controlled clinical trials that our product candidates are safe and effective for use in a diverse population before we can seek regulatory approvals for their commercial sale. Our planned clinical trials may produce negative or inconclusive results, and we or any of our current and future strategic partners may decide, or regulators may require us, to conduct additional clinical or preclinical testing. Success in preclinical studies or early-stage clinical trials does not mean that future clinical trials or registration clinical trials will be successful because product candidates in later-stage clinical trials may fail to demonstrate sufficient safety and efficacy to the satisfaction of the FDA and non-U.S. regulatory authorities, despite having progressed through preclinical studies and initial clinical trials. Product candidates that have shown promising results in early clinical trials may still suffer significant setbacks in subsequent clinical trials or registration clinical trials. For example, a number of companies in the pharmaceutical industry, including those with greater resources and experience than us, have suffered significant setbacks in advanced clinical trials, even after obtaining promising results in earlier clinical trials. Similarly, preclinical interim results of a clinical trial do not necessarily predict final results.

If clinical trials for our product candidates are prolonged, delayed or stopped, we may be unable to obtain regulatory approval and commercialize our product candidates on a timely basis, or at all, which would require us to incur additional costs and delay our receipt of any product revenue.

We are currently evaluating ZW25 and ZW49 in adaptive Phase 1 clinical trials in patients with recurrent or metastatic HER2-expressing solid tumors. We may experience delays in our ongoing or future preclinical studies or clinical trials, and we do not know whether future preclinical studies or clinical trials will begin on time, need to be redesigned, enroll an adequate number of patients on time or be completed on schedule, if at all. The commencement or completion of these planned clinical trials could be substantially delayed or prevented by many factors, including:

- further discussions with the FDA or other regulatory agencies regarding the scope or design of our clinical trials;
- the limited number of, and competition for, suitable sites to conduct our clinical trials, many of which may already be engaged in other clinical trial programs, including some that may be for the same indication as our product candidates;
- any delay or failure to obtain approval or agreement to commence a clinical trial in any of the countries where enrollment is planned;
- inability to obtain sufficient funds required for a clinical trial;
- clinical holds on, or other regulatory objections to, a new or ongoing clinical trial;
- delay or failure to manufacture sufficient supplies of the product candidate for our clinical trials;
- delay or failure to reach agreement on acceptable clinical trial agreement terms or clinical trial protocols with prospective sites or contract research organizations (“CROs”), the terms of which can be subject to extensive negotiation and may vary significantly among different sites or CROs;
- delay or failure to obtain institutional review board (“IRB”) approval to conduct a clinical trial at a prospective site;

- slower than expected rates of patient recruitment and enrollment;
- failure of patients to complete the clinical trial;
- the inability to enroll a sufficient number of patients in studies to ensure adequate statistical power to detect statistically significant treatment effects;
- unforeseen safety issues, including severe or unexpected drug-related adverse effects experienced by patients, including possible deaths;
- lack of efficacy during clinical trials;
- termination of our clinical trials by one or more clinical trial sites;
- inability or unwillingness of patients or clinical investigators to follow our clinical trial protocols;
- inability to monitor patients adequately during or after treatment by us or our CROs;
- our CROs or clinical study sites failing to comply with regulatory requirements or meet their contractual obligations to us in a timely manner, or at all, deviating from the protocol or dropping out of a study;
- the inability to address any noncompliance with regulatory requirements or safety concerns that arise during the course of a clinical trial;
- the need to repeat or terminate clinical trials as a result of inconclusive or negative results or unforeseen complications in testing; and
- our clinical trials may be suspended or terminated upon a breach or pursuant to the terms of any agreement with, or for any other reason by, current or future strategic partners that have responsibility for the clinical development of any of our product candidates.

Changes in regulatory requirements, policies and guidelines may also occur and we may need to significantly amend clinical trial protocols to reflect these changes with appropriate regulatory authorities. These changes may require us to renegotiate terms with CROs or resubmit clinical trial protocols to IRBs for re-examination, which may impact the costs, timing or successful completion of a clinical trial. Our clinical trials may be suspended or terminated at any time by the FDA, other regulatory authorities, the IRB overseeing the clinical trial at issue, any of our clinical trial sites with respect to that site, or us.

Any failure or significant delay in commencing or completing clinical trials for our product candidates would adversely affect our ability to obtain regulatory approval and our commercial prospects and ability to generate product revenue will be diminished.

If we, or any of our partners, are unable to enroll patients in clinical trials, we will be unable to complete these trials on a timely basis.

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population, the proximity of subjects to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, ability to obtain and maintain patient consents, risk that enrolled subjects will drop out before completion, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating. In particular, we are developing certain of our products for the treatment of rare diseases, which have limited pools of patients from which to draw for clinical testing. If we, or any of our strategic partners that clinical tests for our product candidates pursuant to the relevant partnership agreement, are unable to enroll a sufficient number of patients to complete clinical testing, we will be unable to gain marketing approval for such product candidates and our business will be harmed.

In addition, on May 30, 2018, the federal Right to Try Act was signed into law. The law, among other things, provides a federal framework for patients to access certain investigational new drug products that have completed a Phase 1 clinical trial. Under certain circumstances, eligible patients can seek treatment without enrolling in clinical trials and without obtaining FDA approval under the FDA expanded access program While there is no obligation to make product candidates available to eligible patients as a result of the Right to Try Act, new and emerging legislation regarding expanded access to unapproved drugs could negatively impact enrollment in our clinical trials and our business in the future.

The design or our execution of clinical trials may not support regulatory approval.

The design or execution of a clinical trial can determine whether its results will support regulatory approval and flaws in the design or execution of a clinical trial may not become apparent until the clinical trial is well advanced. In some instances, there can be significant variability in safety or efficacy results between different trials of the same product candidate due to numerous factors, including changes in trial protocols, differences in size and type of the patient populations, adherence to the dosing regimen and other trial protocols and the rate of dropout among clinical trial participants. We do not know whether any Phase 2, Phase 3 or other clinical trials we or any of our strategic partners may conduct will demonstrate consistent or adequate efficacy and safety to obtain regulatory approval to market our product candidates.

Further, the FDA and comparable foreign regulatory authorities have substantial discretion in the approval process and in determining when or whether regulatory approval will be obtained for any of our product candidates. Our product candidates may not be approved even if they achieve their primary endpoints in future Phase 3 clinical trials or registration trials. The FDA or other non-U.S. regulatory authorities may disagree with our trial design and our interpretation of data from preclinical studies and clinical trials. In addition, any of these regulatory authorities may change requirements for the approval of a product candidate even after reviewing and providing comments or advice on a protocol for a pivotal Phase 3 clinical trial that has the potential to result in FDA or other agencies' approval. In addition, any of these regulatory authorities may also approve a product candidate for fewer or more limited indications than we request or may grant approval contingent on the performance of costly post-marketing clinical trials. The FDA or other non-U.S. regulatory authorities may not approve the labeling claims that we believe would be necessary or desirable for the successful commercialization of our product candidates.

We have conducted, and may in the future conduct, clinical trials for existing or future product candidates in sites outside the United States and the FDA may not accept data from trials conducted in such locations.

We have conducted, and may in the future choose to conduct, clinical trials outside the United States. Although the FDA may accept data from clinical trials conducted outside the United States, acceptance of this data is subject to certain conditions imposed by the FDA. For example, the clinical trial must be well designed and conducted and performed by qualified investigators in accordance with ethical principles. The trial population must also adequately represent the U.S. population, and the data must be applicable to the U.S. population and U.S. medical practice in ways that the FDA deems clinically meaningful. Generally, the patient population for any clinical trials conducted outside of the United States must be representative of the population for whom we intend to label the product in the United States. In addition, while these clinical trials are subject to the applicable local laws, FDA acceptance of the data will be dependent upon its determination that the trials also complied with all applicable U.S. laws and regulations. There can be no assurance the FDA will accept data from trials conducted outside the United States. If the FDA does not accept the data from any clinical trials we may conduct outside the United States, it would likely result in the need for additional trials, which would be costly and time-consuming and delay or permanently halt our development of any future product candidates.

Successful development of our current and future product candidates is uncertain and we may discontinue or reprioritize the development of any of our product candidates at any time, at our discretion.

Before obtaining regulatory approval for the commercial distribution of our product candidates, we must conduct, at our own expense, extensive preclinical tests and clinical trials to demonstrate the safety and efficacy of our product candidates in humans. Preclinical and clinical testing is expensive, difficult to design and implement, can take many years to complete and is uncertain as to outcome. Additionally, the results from nonclinical testing or early clinical trials of a product candidate may not predict the results that will be obtained in subsequent subjects or in subsequent human clinical trials of that product candidate or any other product candidate. There is a high failure rate for drugs proceeding through clinical studies. A number of companies in the pharmaceutical and biotechnology industries have suffered significant setbacks in clinical development even after achieving promising results in earlier studies, and any such setbacks in any future clinical development could have a material adverse effect on our business and operating results. Alternatively, management may elect to discontinue development of certain product candidates to accommodate a shift in corporate strategy, despite positive clinical results. Based on our operating results and business strategy, among other factors, we may discontinue the development of any of our product candidates under development or reprioritize our focus on other product candidates at any time and at our discretion.

Our product candidates may have undesirable side effects that may delay or prevent marketing approval or, if approval is received, require them to be taken off the market, require them to include safety warnings or otherwise limit their sales; no regulatory agency has made any such determination that any of our product candidates are safe or effective for use by the general public for any indication.

All of our product candidates are still in preclinical or early clinical development. Additionally, all of our product candidates are required to undergo ongoing safety testing in humans as part of clinical trials. Consequently, not all adverse effects of drugs can be predicted or anticipated. Unforeseen side effects from any of our product candidates could arise either during clinical development or, if approved by regulatory authorities, after the approved product has been marketed. We believe ZW25 has been well tolerated in human clinical trials and ZW25 and ZW49 have demonstrated favorable safety profiles in animals; however, ZW25 and ZW49 continue to be evaluated in clinical trials. The results of these and future clinical trials may show that ZW25, ZW49 or our other product candidates cause undesirable or unacceptable side effects, which could interrupt, delay or halt clinical trials, and result in delay of, or failure to obtain, marketing approval from the FDA and other regulatory authorities, or result in marketing approval from the FDA and other regulatory authorities with restrictive label warnings, limited patient populations or potential product liability claims. Even if we believe that our Phase 1 clinical trial and preclinical studies demonstrate the safety and efficacy of our product candidates, only the FDA and other comparable regulatory agencies may ultimately make such determination. No regulatory agency has made any such determination that any of our product candidates are safe or effective for use by the general public for any indication.

If any of our product candidates receive marketing approval and we or others later identify undesirable or unacceptable side effects caused by such products:

- regulatory authorities may require us to take our approved product off the market;
- regulatory authorities may require the addition of labeling statements, specific warnings, a contraindication or field alerts to physicians and pharmacies, or impose a risk evaluation and mitigation strategy that includes restrictions and conditions on product distribution, prescribing and/or dispensing;
- we may be required to change the way the product is administered, conduct additional clinical trials or change the labeling of the product;
- we may be subject to limitations on how we may promote the product;
- sales of the product may decrease significantly;

- we may be subject to litigation or product liability claims; and
- our reputation may suffer.

Any of these events could prevent us or our current or future strategic partners from achieving or maintaining market acceptance of the affected product or could substantially increase commercialization costs and expenses, which in turn could delay or prevent us from generating revenue from the sale of any future products.

We face significant competition and if our competitors develop and market products that are more effective, safer or less expensive than our product candidates, our commercial opportunities will be negatively impacted.

The life sciences industry is highly competitive and subject to rapid and significant technological change. We are currently developing biotherapeutics that will compete with other drugs and therapies that currently exist or are being developed. Products we may develop in the future are also likely to face competition from other drugs and therapies, some of which we may not currently be aware. We have competitors both in the United States and internationally, including major multinational pharmaceutical companies, established biotechnology companies, specialty pharmaceutical companies, universities and other research institutions. Many of our competitors have significantly greater financial, manufacturing, marketing, drug development, technical and human resources than we do. Large pharmaceutical companies, in particular, have extensive experience in clinical testing, obtaining regulatory approvals, recruiting patients and in manufacturing pharmaceutical products. These companies also have significantly greater research and marketing capabilities than we do and may also have products that have been approved or are in late stages of development and collaborative arrangements in our target markets with leading companies and research institutions. Established pharmaceutical companies may also invest heavily to accelerate discovery and development of novel compounds or to in-license novel compounds that could make the product candidates that we develop obsolete. As a result of all of these factors, our competitors may succeed in obtaining patent protection or FDA approval or discovering, developing and commercializing products in our field before we do.

Specifically, there are a large number of companies developing or marketing treatments for cancer and autoimmune disorders, including many major pharmaceutical and biotechnology companies. These treatments consist both of small-molecule drug products, as well as biologics that work by using next-generation antibody therapeutic platforms to address specific cancer targets or develop bispecific antibodies. These companies include Macrogenics, Inc., Xencor, Inc., Daiichi Sankyo and F. Hoffmann-La Roche AG.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer or less severe effects, are more convenient or are less expensive than any products that we may develop. Our competitors also may obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for our product candidates, which could result in our competitors establishing a strong market position before we are able to enter the market.

Smaller and other early-stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies. These third parties compete with us in recruiting and retaining qualified scientific and management personnel, establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs. In addition, the biopharmaceutical industry is characterized by rapid technological change. If we fail to stay at the forefront of technological change, we may be unable to compete effectively. Technological advances or products developed by our competitors may render our technologies or product candidates obsolete, less competitive or not economical.

Our product candidates, for which we intend to seek approval, may face competition sooner than anticipated.

Our ability to compete may be affected in many cases by insurers or other third-party payors seeking to encourage the use of biosimilar products. Biosimilar products are expected to become available over the coming

years. Even if our product candidates achieve marketing approval, they may be priced at a significant premium over competitive biosimilar products, if any have been approved by then. The Biologics Price Competition and Innovation Act of 2009, which is included in PPACA, authorized the FDA to approve similar versions of innovative biologics, commonly known as biosimilars. Under the PPACA, a manufacturer may submit an application for licensure of a biologic product that is "biosimilar to" or "interchangeable with" a previously approved biological product or "reference product." Manufacturers may not submit an application for a biosimilar to the FDA until four years following approval of the reference product, and the FDA may not approve a biosimilar product until 12 years from the date on which the reference product was approved. Even if our product candidates, if approved, are deemed to be reference products eligible for exclusivity, another company could market a competing version of that product if the FDA approves a full BLA for such product containing the sponsor's own preclinical data and data from adequate and well-controlled clinical trials to demonstrate the safety, purity and potency of their product. Additionally, from time to time, there are proposals to repeal or modify the PPACA, including proposals that could significantly shorten the exclusivity period for biologics.

If any of our product candidates receive regulatory approval, the approved products may not achieve broad market acceptance among physicians, patients, the medical community and third-party payors, in which case revenue generated from their sales would be limited.

The commercial success of our product candidates will depend upon their acceptance among physicians, patients and the medical community. The degree of market acceptance of our product candidates will depend on a number of factors, including:

- limitations or warnings contained in the approved labeling for a product candidate;
- changes in the standard of care for the targeted indications for any of our product candidates;
- limitations in the approved clinical indications for our product candidates;
- demonstrated clinical safety and efficacy compared to other products;
- sales, marketing and distribution support;
- availability of coverage and extent of reimbursement from managed care plans and other third-party payors;
- timing of market introduction and perceived effectiveness of competitive products;
- the degree of cost-effectiveness of our product candidates;
- availability of alternative therapies at similar or lower cost, including generic and over-the-counter products;
- the extent to which the product candidate is approved for inclusion on formularies of hospitals and managed care organizations;
- whether the product is designated under physician treatment guidelines as a first-line therapy or as a second or third-line therapy for particular diseases;
- whether the product can be used effectively with other therapies to achieve higher response rates;
- adverse publicity about our product candidates or favorable publicity about competitive products;
- convenience and ease of administration of our products; and
- potential product liability claims.

If any of our product candidates are approved, but do not achieve an adequate level of acceptance by physicians, patients and the medical community, we may not generate sufficient revenue from these products, and we may not become or remain profitable. In addition, efforts to educate the medical community and third-party payors on the benefits of our product candidates may require significant resources and may never be successful.

We may be unable to obtain orphan drug exclusivity in specific indications for ZW25 or in future product candidates that we may develop. If our competitors are able to obtain orphan product exclusivity for their products in specific indications, we may not be able to have competing products approved in those indications by the applicable regulatory authority for a significant period of time.

Regulatory authorities in some jurisdictions, including the United States and Europe, may designate drugs for relatively small patient populations as orphan drugs. Under the Orphan Drug Act, the FDA may designate a product candidate as an orphan drug if it is a drug intended to treat a rare disease or condition, which is generally defined as a patient population of fewer than 200,000 individuals annually in the United States. The FDA has granted Orphan Drug Designation to ZW25 for the treatment of gastric and ovarian cancer and we may seek Orphan Drug Designation for additional indications in the future. Orphan Drug Designation neither shortens the development time or regulatory review time of a drug nor gives the drug any advantage in the regulatory review or approval process.

Generally, if a product candidate with an Orphan Drug Designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of marketing exclusivity, which precludes the EMA or the FDA from approving another marketing application for the same drug for the same indication for that time period. The applicable period is seven years in the United States and ten years in Europe. The European exclusivity period can be reduced to six years if a product no longer meets the criteria for Orphan Drug Designation or if the product is sufficiently profitable so that market exclusivity is no longer justified. Orphan drug exclusivity may be lost if the FDA or EMA determines that the request for designation was materially defective or if the manufacturer is unable to assure sufficient quantity of the product to meet the needs of patients with the rare disease or condition. The loss of Orphan Drug Designation could have a negative effect on our ability to successfully commercialize our product candidates, earn revenues and achieve profitability.

Even if we obtain orphan drug exclusivity for ZW25, or for any other product candidates that receive an Orphan Drug Designation in the future, that exclusivity may not effectively protect the product from competition because different drugs with different active moieties can be approved for the same condition. Further, in the United States, even after an orphan drug is approved, the FDA can subsequently approve the same drug for the same condition submitted by a competitor if the FDA concludes that the later drug is clinically superior in that it is shown to be safer, more effective or makes a major contribution to patient care.

Even if we obtain FDA approval of any of our product candidates, we may never obtain approval or commercialize such products outside of the United States, which would limit our ability to realize their full market potential.

In order to market any products outside of the United States, we must establish and comply with numerous and varying regulatory requirements of other countries regarding safety and efficacy. Clinical trials conducted in one country may not be accepted by regulatory authorities in other countries, and regulatory approval in one country does not mean that regulatory approval will be obtained in any other country. Approval procedures vary among countries and can involve additional product testing and validation and additional administrative review periods. Seeking foreign regulatory approvals could result in significant delays, difficulties and costs for us and may require additional preclinical studies or clinical trials which would be costly and time consuming. Regulatory requirements can vary widely from country to country and region to region and could delay or prevent the introduction of our products in those countries. Satisfying these and other regulatory requirements is costly, time consuming, uncertain and subject to unanticipated delays. In addition, our failure to obtain regulatory approval in any country may delay or have negative effects on the process for regulatory approval in other countries. We do not have any product candidates approved for sale in any jurisdiction, including international markets, and we do not have experience in obtaining regulatory approval in international markets. If we fail to comply with regulatory requirements in international markets or to obtain and maintain required approvals, our target market will be reduced and our ability to realize the full market potential of our products will be harmed.

Reimbursement decisions by third-party payors may have an adverse effect on pricing and market acceptance. If there is not sufficient reimbursement for our products, it is less likely that our products will be widely used.

Even if our product candidates are approved for sale by the appropriate regulatory authorities, market acceptance and sales of these products will depend on reimbursement policies and may be affected by future healthcare reform measures. Government authorities and third-party payors, such as private health insurers and health maintenance organizations, decide which drugs they will reimburse and establish payment levels. We cannot be certain that reimbursement will be available for any products that we develop. If reimbursement is not available or is available on a limited basis, we may not be able to successfully commercialize any of our approved products.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, also called the Medicare Modernization Act ("MMA"), changed the way Medicare covers and pays for pharmaceutical products. The legislation established Medicare Part D, which expanded Medicare coverage for outpatient prescription drug purchases by the elderly but provided authority for limiting the number of drugs that will be covered in any therapeutic class. The MMA also introduced a new reimbursement methodology based on average sales prices for physician-administered drugs. We expect to experience pricing pressures in connection with the sale of any products that we develop, due to the trend toward managed healthcare, the increasing influence of health maintenance organizations and additional legislative proposals.

There may be significant delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA, EMA or other regulatory authorities. Moreover, eligibility for coverage and reimbursement does not imply that a drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sale and distribution expenses. Interim reimbursement levels for new drugs, if applicable, may also be insufficient to cover our and any collaborator's costs and may not be made permanent. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used, may be based on reimbursement levels already set for lower cost drugs and may be incorporated into existing payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Our or any collaborator's inability to promptly obtain coverage and profitable payment rates from both government-funded and private payors for any approved products that we or our strategic partners develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize product candidates and our overall financial condition.

If the market opportunities for any product that we or our strategic partners develop are smaller than we believe they are, our revenue may be adversely affected and our business may suffer.

We intend to initially focus our independent product candidate development on treatments for oncology. Our projections of addressable patient populations that have the potential to benefit from treatment with our product candidates are based on estimates. If our projections are inaccurate, the market opportunities for any of our product candidates could be significantly diminished and have an adverse material impact on our business.

We may expend our limited resources to pursue a particular product candidate or indication and fail to capitalize on product candidates or indications that may be more profitable or for which there is a greater likelihood of success.

Because we have limited financial and managerial resources, we focus on research programs, therapeutic platforms and product candidates that we identify for specific indications. As a result, we may forego or delay pursuit of opportunities with other therapeutic platforms or product candidates or for other indications that later prove to have greater commercial potential. Our resource allocation decisions may cause us to fail to capitalize on viable commercial products or profitable market opportunities. Our spending on current and future research

and development programs, therapeutic platforms and product candidates for specific indications may not yield any commercially viable products. If we do not accurately evaluate the commercial potential or target market for a particular product candidate, we may relinquish valuable rights to that product candidate through collaboration, licensing or other royalty arrangements in cases in which it would have been more advantageous for us to retain sole development and commercialization rights.

We may not be successful in our efforts to use and expand our therapeutic platforms to build a pipeline of product candidates.

A key element of our strategy is to use and expand our therapeutic platforms to build a pipeline of product candidates and progress these product candidates through clinical development for the treatment of a variety of diseases. Although our research and development efforts to date have resulted in a pipeline of product candidates directed at various cancers, we may not be able to develop product candidates that are safe and effective. In addition, although we expect that our therapeutic platforms will allow us to develop a steady stream of product candidates, they may not prove to be successful at doing so. Even if we are successful in continuing to build our pipeline, the potential product candidates that we identify may not be suitable for clinical development, including as a result of being shown to have harmful side effects or other characteristics that indicate that they are unlikely to be products that will receive marketing approval and achieve market acceptance. If we do not continue to successfully develop and begin to commercialize product candidates, we will face difficulty in obtaining product revenue in future periods, which could result in significant harm to our financial position and adversely affect our share price.

Even if we receive regulatory approval to commercialize any of the product candidates that we develop, we will be subject to ongoing regulatory obligations and continued regulatory review, which may result in significant additional expense.

Any regulatory approvals that we receive for our product candidates may be subject to limitations on the approved indicated uses for which the product may be marketed or subject to certain conditions of approval, and may contain requirements for potentially costly post-approval trials, including Phase 4 clinical trials, and surveillance to monitor the safety and efficacy of the marketed product.

For any approved product, we will be subject to ongoing regulatory obligations and extensive oversight by regulatory authorities, including with respect to manufacturing processes, labeling, packaging, distribution, adverse event reporting, storage, advertising, promotion and recordkeeping for the product. These requirements include submissions of safety and other post-approval information and reports, as well as continued compliance with cGMP and cGCP, for any clinical trials that we or our strategic partners conduct after approval. Later discovery of previously unknown problems with a product, including adverse events of unanticipated severity or frequency, or with third-party manufacturers or manufacturing processes, or failure to comply with regulatory requirements, may result in, among other things:

- restrictions on the marketing or manufacturing of the product;
- withdrawal of the product from the market or voluntary or mandatory product recalls;
- fines, warning letters or holds on clinical trials;
- refusal by the FDA, EMA or another applicable regulatory authority to approve pending applications or supplements to approved applications filed by us or our strategic partners, or suspension or revocation of product license approvals;
- product seizure or detention, or refusal to permit the import or export of products; and
- injunctions or the imposition of civil or criminal penalties.

Occurrence of any of the foregoing could have a material and adverse effect on our business and results of operations. Further, the FDA’s or other ex-U.S. regulators’ policies may change and additional government

regulations may be enacted that could prevent, limit or delay regulatory approval of our product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained, which would adversely affect our business, prospects and ability to achieve or sustain profitability.

If any product liability lawsuits are successfully brought against us or any of our strategic partners, we may incur substantial liabilities and may be required to limit commercialization of our product candidates.

We face an inherent risk of product liability lawsuits related to the testing of our product candidates in seriously ill patients, and will face an even greater risk if product candidates are approved by regulatory authorities and introduced commercially. Product liability claims may be brought against us or our strategic partners by participants enrolled in our clinical trials, patients, health care providers or others using, administering or selling any of our future approved products. If we cannot successfully defend ourselves against any such claims, we may incur substantial liabilities. Regardless of their merit or eventual outcome, liability claims may result in:

- decreased demand for any future approved products;
- injury to our reputation;
- withdrawal of clinical trial participants;
- termination of clinical trial sites or entire trial programs;
- increased regulatory scrutiny;
- significant litigation costs;
- substantial monetary awards to, or costly settlement with, patients or other claimants;
- product recalls or a change in the indications for which they may be used;
- loss of revenue;
- diversion of management and scientific resources from our business operations; and
- the inability to commercialize our product candidates.

If any of our product candidates are approved for commercial sale, we will be highly dependent upon consumer perceptions of us and the safety and quality of our products. We could be adversely affected if we are subject to negative publicity. We could also be adversely affected if any of our products or any similar products distributed by other companies prove to be, or are asserted to be, harmful to patients. Because of our dependence upon consumer perceptions, any adverse publicity associated with illness or other adverse effects resulting from patients' use or misuse of our products or any similar products distributed by other companies could have a material adverse impact on our financial condition or results of operations.

We may need to have in place increased product liability coverage when we begin the commercialization of our product candidates. Insurance coverage is becoming increasingly expensive. As a result, we may be unable to maintain or obtain sufficient insurance at a reasonable cost to protect us against losses that could have a material adverse effect on our business. A successful product liability claim or series of claims brought against us, particularly if judgments exceed any insurance coverage we may have, could decrease our cash resources and adversely affect our business, financial condition and results of operation.

Changes in methods of product candidate manufacturing or formulation may result in additional costs or delay.

As product candidates are developed through preclinical to late-stage clinical trials towards approval and commercialization, it is common that various aspects of the development program, such as manufacturing

methods and formulation, are altered along the way in an effort to optimize processes and results. Such changes carry the risk that they will not achieve these intended objectives. Any of these changes could cause our product candidates to perform differently and affect the results of planned clinical trials or other future clinical trials conducted with the altered materials. This could delay completion of clinical trials, require the conduct of bridging clinical trials or the repetition of one or more clinical trials, increase clinical trial costs, delay approval of our product candidates and jeopardize our ability, or our strategic partners' ability, to commence product sales and generate revenue.

Acquisitions or joint ventures could disrupt our business, cause dilution to our shareholders and otherwise harm our business.

We actively evaluate various strategic transactions on an ongoing basis. We may acquire other businesses, products or technologies as well as pursue strategic alliances, joint ventures or investments in complementary businesses. Any of these transactions could be material to our financial condition and operating results and expose us to many risks, including:

- disruption in our relationships with existing strategic partners or suppliers as a result of such a transaction;
- unanticipated liabilities related to acquired companies;
- difficulties integrating acquired personnel, technologies and operations into our existing business;
- retention of key employees;
- diversion of management time and focus from operating our business to management of strategic alliances or joint ventures or acquisition integration challenges;
- increases in our expenses and reductions in our cash available for operations and other uses; and
- possible write-offs or impairment charges relating to acquired businesses.

Foreign acquisitions involve unique risks in addition to those mentioned above, including those related to integration of operations across different cultures and languages, currency risks and the particular economic, political and regulatory risks associated with specific countries.

Also, the anticipated benefit of any strategic alliance, joint venture or acquisition may not materialize or such strategic alliance, joint venture or acquisition may be prohibited. Additionally, future acquisitions or dispositions could result in potentially dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities or amortization expenses or write-offs of goodwill, any of which could harm our financial condition. We cannot predict the number, timing or size of future joint ventures or acquisitions, or the effect that any such transactions might have on our operating results.

Foreign governments tend to impose strict price controls, which may adversely affect our future profitability.

In most foreign countries, particularly in those in the EU, prescription drug pricing and reimbursement is subject to governmental control. In those countries that impose price controls, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we or our strategic partners may be required to conduct a clinical trial that compares the cost-effectiveness of our product candidates to other available therapies.

Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we or our strategic partners might obtain marketing approval for a product

candidate in a particular country, but then be subject to price regulations that delay commercial launch of the product candidate, possibly for lengthy time periods, and negatively impact the revenue that is generated from the sale of the product in that country. If reimbursement of such product candidates is unavailable or limited in scope or amount, or if pricing is set at unsatisfactory levels, or if there is competition from lower priced cross-border sales, our profitability will be negatively affected.

Security breaches, loss of data and other disruptions could compromise sensitive information related to our business or protected health information or prevent us from accessing critical information and expose us to liability, which could adversely affect our business and our reputation.

In the ordinary course of our business, we collect and store petabytes of sensitive data, including legally protected health information, personally identifiable information, intellectual property and proprietary business information owned or controlled by ourselves or our strategic partners. We manage and maintain our applications and data by utilizing a combination of on-site systems, managed data center systems and cloud-based data center systems. These applications and data encompass a wide variety of business-critical information, including research and development information, commercial information and business and financial information. We face four primary risks relative to protecting this critical information, including loss of access risk, inappropriate disclosure risk, inappropriate modification risk and the risk of being unable to adequately monitor our controls over the first three risks.

The secure processing, storage, maintenance and transmission of this critical information are vital to our operations and business strategy, and we devote significant resources to protecting such information. Although we take measures to protect sensitive information from unauthorized access or disclosure, our information technology and infrastructure and that of any third-party billing and collections provider we may utilize, may be vulnerable to attacks by hackers or viruses or breached due to employee error, malfeasance or other disruptions. Any such breach or interruption could compromise our networks and the information stored there could be accessed by unauthorized parties, publicly disclosed, lost or stolen. Any such access, disclosure or other loss of information could result in legal claims or proceedings, liability under laws that protect the privacy of personal information, such as HIPAA, and regulatory penalties. Although we have implemented security measures and a formal enterprise security program to prevent unauthorized access to patient data, there is no guarantee that we can continue to protect our systems from breach. Unauthorized access, loss or dissemination could also disrupt our operations (including our ability to conduct our analyses, provide test results, bill payors or providers, process claims and appeals, conduct research and development activities, collect, process and prepare company financial information, provide information about any future products, and manage the administrative aspects of our business) and damage our reputation, any of which could adversely affect our business.

HIPAA, as amended by HITECH, and its implementing regulations, impose certain requirements relating to the privacy, security, transmission and breach reporting of individually identifiable health information upon entities subject to the law, such as health plans, healthcare clearinghouses and healthcare providers and their respective business associates that perform services for them that involve individually identifiable health information. Mandatory penalties for HIPAA violations can be significant. A single breach incident can result in violations of multiple standards. If a person knowingly or intentionally obtains or discloses personal health information in violation of HIPAA requirements, criminal penalties may also be imposed. HITECH also created new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys general new authority to file civil actions for damages or injunctions in U.S. federal courts to enforce the federal HIPAA laws and seek attorneys' fees and costs associated with pursuing federal civil actions.

Furthermore, in the event of a breach as defined by HIPAA, HIPAA regulations impose specific reporting requirements to regulators, individuals impacted by the breach and the media. Issuing such notifications can be costly, time and resource intensive, and can generate significant negative publicity. Breaches of HIPAA may also constitute contractual violations that could lead to contractual damages or terminations.

In addition, the interpretation and application of consumer, health-related and data protection laws in the United States, the EU, and elsewhere are often uncertain, contradictory and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our practices. If so, this could result in government-imposed fines or orders requiring that we change our practices, which could adversely affect our business. In addition, these privacy regulations vary between states, may differ from country to country, and may vary based on whether testing is performed in the United States or in the local country. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices and compliance procedures in a manner adverse to our business.

Furthermore, the loss of clinical trial data from completed or future clinical trials could result in delays in our regulatory approval efforts and significantly increase our costs to recover or reproduce the data. Likewise, we rely on other third parties for the manufacture of our product candidates and to conduct clinical trials, and similar events relating to their computer systems could also have a material adverse effect on our business.

Current and future legislation may increase the difficulty and cost for us to commercialize any products that we or our strategic partners develop and affect the prices we may obtain.

The United States and some foreign jurisdictions are considering or have enacted a number of legislative and regulatory proposals to change healthcare systems in ways that could affect our ability to sell any of our product candidates profitably, if such product candidates are approved for sale. Among policy makers and payors in the United States and elsewhere, there is significant interest in promoting changes in healthcare systems with the stated goals of containing healthcare costs, improving quality and expanding access. In the United States, the pharmaceutical industry has been a particular focus of these efforts and has been significantly affected by major legislative initiatives.

In March 2010, the PPACA became law in the United States. The PPACA may affect the operational results of companies in the pharmaceutical industry, including us, by imposing on them additional costs. For example, effective January 1, 2010, PPACA increased the minimum Medicaid drug rebates for pharmaceutical companies and imposed an annual fee on certain branded prescription drugs and biologics. There have been judicial, Congressional and executive branch challenges to certain aspects of the PPACA and we expect there will be additional challenges and amendments to the PPACA in the future. While Congress has not passed comprehensive repeal legislation, it has enacted laws that modify certain provisions of the PPACA such as removing or delaying penalties, starting January 1, 2019, for not complying with the PPACA's individual mandate to carry health insurance, delaying the implementation of certain PPACA-mandated fees, and increasing the point-of-sale discount that is owed by pharmaceutical manufacturers who participate in Medicare Part D.

In addition, other legislative changes have been proposed and adopted since the PPACA was enacted. For example, the Bipartisan Budget Act of 2018, among other things, amends the PPACA, effective January 1, 2019, to close the coverage gap in most Medicare drug plans. The Budget Control Act of 2011, which began in 2013 and will remain in effect through 2027 unless additional Congressional action is taken, calls for aggregate reductions to Medicare payments to providers of up to 2% per fiscal year. The American Taxpayer Relief Act of 2012, among other things, further reduced Medicare payments to several providers, including hospitals and cancer treatment centers, and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These laws may result in additional reductions in Medicare and other healthcare funding, which could have a material adverse effect on potential customers for our product candidates, if approved, and, accordingly, our future financial operations. We are unable to predict the future course of federal or state health care legislation or foreign regulations relating to the marketing, pricing and reimbursement of pharmaceutical products.

Also, there has been heightened governmental scrutiny recently over the manner in which drug manufacturers set prices for their marketed products, which have resulted in several Congressional inquiries and proposed bills designed to, among other things, bring more transparency to product pricing, review the relationship between

pricing and manufacturer patient programs, and reform government program reimbursement methodologies for drug products.

In the EU similar political, economic and regulatory developments may affect our ability to profitably commercialize our current or any future products. In addition to continuing pressure on prices and cost containment measures, legislative developments at the EU or member state level may result in significant additional requirements or obstacles that may increase our operating costs. In international markets, reimbursement and healthcare payment systems vary significantly by country, and many countries have instituted price ceilings on specific products and therapies. Our future products, if any, might not be considered medically reasonable and necessary for a specific indication or cost-effective by third-party payors, an adequate level of reimbursement might not be available for such products, and third-party payors' reimbursement policies might adversely affect our or our strategic partners' ability to sell any future products profitably.

Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether the FDA regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of our product candidates, if any, may be. In addition, increased scrutiny by the U.S. Congress of the FDA's approval process may significantly delay or prevent marketing approval, as well as subject us to more stringent product labeling and post-approval testing and other requirements.

We cannot predict the likelihood, nature or extent of government regulation that may arise from future legislation or administrative action, either in the United States or abroad. If we or our strategic partners are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we or our strategic partners are not able to maintain regulatory compliance, our product candidates may lose any marketing approval that may have been obtained and we may not achieve or sustain profitability, which would adversely affect our business.

Our business may become subject to economic, political, regulatory and other risks associated with international operations.

Our business is subject to risks associated with conducting business internationally. Some of our suppliers and collaborative and clinical trial relationships are located outside the United States. Accordingly, our future results could be harmed by a variety of factors, including:

- economic weakness, including inflation, or political instability in particular foreign economies and markets;
- differing regulatory requirements for drug approvals in foreign countries;
- potentially reduced protection for intellectual property rights;
- difficulties in compliance with non-U.S. laws and regulations;
- changes in non-U.S. regulations and customs, tariffs and trade barriers;
- changes in non-U.S. currency exchange rates and currency controls;
- changes in a specific country's or region's political or economic environment;
- trade protection measures, import or export licensing requirements or other restrictive actions by U.S. or non-U.S. governments;
- differing reimbursement regimes, including price controls;
- negative consequences from changes in tax laws;

- compliance with tax, employment, immigration and labor laws for employees living or traveling abroad;
- workforce uncertainty in countries where labor unrest is more common than in the United States;
- difficulties associated with staffing and managing foreign operations, including differing labor relations;
- production shortages resulting from any events affecting raw material supply or manufacturing capabilities abroad; and
- business interruptions resulting from geo-political actions, including war and terrorism, or natural disasters including earthquakes, typhoons, floods and fires.

Our business and current and future relationships with customers and third-party payors in the United States and elsewhere will be subject, directly or indirectly, to applicable federal and state anti-kickback, fraud and abuse, false claims, transparency, health information privacy and security and other healthcare laws and regulations, which could expose us to criminal sanctions, civil penalties, contractual damages, reputational harm, administrative burdens, and diminished profits and future earnings.

Healthcare providers, physicians and third-party payors in the United States and elsewhere play a primary role in the recommendation and prescription of any product candidates for which we obtain marketing approval.

Our current and future arrangements with healthcare professionals, principal investigators, consultants, customers, and third-party payors and other entities may expose us to broadly applicable fraud and abuse and other healthcare laws and regulations, including, without limitation, the federal Anti-Kickback Statute and the federal False Claims Act, that may constrain the business or financial arrangements and relationships through which we conduct clinical research on product candidates and market, sell and distribute any products for which we obtain marketing approval. In addition, we may be subject to transparency laws and patient privacy regulation by the federal government and by the U.S. states and foreign jurisdictions in which we conduct our business. The applicable federal, state and foreign healthcare laws and regulations that may affect our ability to operate include, but are not limited to, the following:

- the federal Anti-Kickback Statute, which prohibits, among other things, persons from knowingly and willfully soliciting, offering, receiving or providing remuneration (including any kickback, bribe or rebate), directly or indirectly, in cash or in kind, to induce or reward either the referral of an individual for, or the purchase, order or recommendation of, any good or service for which payment may be made under federal and state healthcare programs such as Medicare and Medicaid;
- federal civil and criminal false claims laws and civil monetary penalty laws, including the federal False Claims Act, impose criminal or civil penalties, as applicable, against individuals or entities for knowingly presenting, or causing to be presented, to the federal government (including the Medicare and Medicaid programs) or other third-party payor claims for payment that are false or fraudulent or making a false statement to avoid, decrease or conceal an obligation to pay money to the federal government;
- HIPAA, which among other things, imposes criminal liability for knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g. public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of or payment for healthcare benefits, items or services relating to healthcare matters;
- HIPAA, as amended by HITECH, and its implementing regulations, which imposes certain obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and

transmission of individually identifiable health information without the appropriate authorization by entities subject to the law, such as health plans, healthcare clearinghouses and healthcare providers and their respective business associates;

- the federal Open Payments program under the Physician Payments Sunshine Act, created under Section 6002 of the PPACA and its implementing regulations, requires certain manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to HHS information related to "payments or other transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and applicable manufacturers and applicable group purchasing organizations to report annually to HHS ownership and investment interests held by physicians (as defined above) and their immediate family members; and
- analogous state and foreign laws and regulations, including: state anti-kickback and false claims laws which may apply to our business practices (including, but not limited to, research, distribution, sales and marketing arrangements and claims involving healthcare items or services reimbursed by state governmental and non-governmental third-party payors, including private insurers); state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government; state laws that require drug manufacturers to track gifts and other remuneration and items of value provided to healthcare professionals and entities and file reports relating to pricing and marketing information; and state and foreign laws that govern the privacy and security of health information in specified circumstances, many of which differ from each other in significant ways and often are not pre-empted by HIPAA, thus complicating compliance efforts.

Because of the breadth of these laws and the narrowness of any available statutory exceptions and safe harbors, it is possible that some of our current and future business activities could be subject to challenge under one or more of such laws.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations may involve substantial costs. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to significant civil, criminal and administrative penalties, including, without limitation, damages, fines, imprisonment, exclusion from participation in government healthcare programs, such as Medicare and Medicaid, additional reporting requirements and oversight if we become subject to a corporate integrity agreement or similar agreement to resolve allegations of non-compliance with these laws and the curtailment or restructuring of our operations, which could have a material adverse effect on our business. If any of the physicians or other providers or entities with whom we expect to do business, including our strategic partners, is found not to be in compliance with applicable laws, it may be subject to criminal, civil or administrative sanctions, including exclusions from participation in government healthcare programs, which could also materially affect our business.

We are subject to U.S. and certain foreign export and import controls, sanctions, embargoes, anti-corruption laws, and anti-money laundering laws and regulations. Compliance with these legal standards could impair our ability to compete in domestic and international markets. We can face criminal liability and other serious consequences for violations which can harm our business.

We are subject to export control and import laws and regulations, including the U.S. Export Administration Regulations, U.S. Customs regulations, various economic and trade sanctions regulations administered by the U.S. Treasury Department's Office of Foreign Assets Controls, the U.S. Foreign Corrupt Practices Act of 1977, as amended, the U.S. domestic bribery statute contained in 18 U.S.C. § 201, the U.S. Travel Act, the USA PATRIOT Act, the United Kingdom Bribery Act 2010, the Proceeds of Crime Act 2002, and other state and

national anti-bribery and anti-money laundering laws in the countries in which we conduct activities. Anti-corruption laws are interpreted broadly and prohibit companies and their employees, agents, contractors, and other partners from authorizing, promising, offering, or providing, directly or indirectly, improper payments or anything else of value to recipients in the public or private sector. We currently engage third parties for clinical trials outside of the United States and we may in the future engage third parties to sell our products abroad once we enter a commercialization phase, or to obtain necessary permits, licenses, patent registrations, and other regulatory approvals. We may have direct or indirect interactions with officials and employees of government agencies or government-affiliated hospitals, universities, and other organizations. We can be held liable for the corrupt or other illegal activities of our employees, agents, contractors, and other partners, even if we do not explicitly authorize or have actual knowledge of such activities. Any violation of the laws and regulations described above may result in substantial civil and criminal fines and penalties, imprisonment, the loss of export or import privileges, debarment, tax reassessments, breach of contract and fraud litigation, reputational harm, and other consequences.

Risks Related to Our Financial Position and Need for Additional Capital

We have incurred significant losses since inception and anticipate that we will continue to incur losses for the foreseeable future. We have no products approved for commercial sale, and to date we have not generated any revenue or profit from product sales. We may never achieve or sustain profitability.

We are a clinical-stage biopharmaceutical company. We have incurred significant losses since our inception. Our net loss for the years ended December 31, 2016, 2017 and 2018 was $33.8 million, $10.4 million and $36.6 million, respectively. As of December 31, 2018, our accumulated deficit was approximately $145.3 million. We expect to continue to incur losses for the foreseeable future, and we expect these losses to increase as we continue our research and development of, and seek regulatory approvals for, our product candidates, prepare for and begin to commercialize any approved product candidates and add infrastructure and personnel to support our product development efforts and operations as a public company. The net losses and negative cash flows incurred to date, together with expected future losses, have had, and likely will continue to have, an adverse effect on our shareholders' deficit and working capital. The amount of future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenue.

Because of the numerous risks and uncertainties associated with pharmaceutical product development, we are unable to accurately predict the timing or amount of increased expenses or when, or if, we will be able to achieve profitability. For example, our expenses could increase if we are required by the FDA to perform trials in addition to those that we currently expect to perform, or if there are any delays in completing our currently planned clinical trials or in the development of any of our product candidates.

To become and remain profitable, we must succeed in developing and commercializing product candidates with significant market potential. This will require us to be successful in a range of challenging activities for which we are only in the preliminary stages, including developing product candidates, obtaining regulatory approval for such product candidates, and manufacturing, marketing and selling those product candidates for which we may obtain regulatory approval. We may never succeed in these activities and may never generate revenue from product sales that is significant enough to achieve profitability. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods. Our failure to become or remain profitable would depress our market value and could impair our ability to raise capital, expand our business, develop other product candidates, or continue our operations. A decline in the value of our company could also cause our shareholders to lose all or part of their investment.

Biopharmaceutical product development is a highly speculative undertaking and involves a substantial degree of uncertainty. We have never generated any revenue from product sales and may never be profitable.

We have devoted substantially all of our financial resources and efforts to developing our proprietary therapeutic platforms, identifying potential product candidates and conducting preclinical studies and clinical trials. We and

our partners are still in the early stages of developing our product candidates, and we have not completed development of any products. Our revenue to date has been primarily revenue from the license of our proprietary therapeutic platforms for the development of product candidates by others or revenue from our strategic partners. Our ability to generate revenue and achieve profitability depends in large part on our ability, alone or with our strategic partners, to achieve milestones and to successfully complete the development of, obtain the necessary regulatory approvals for, and commercialize, product candidates. We do not anticipate generating revenue from sales of products for the foreseeable future.

We will require substantial additional funding, which may not be available to us on acceptable terms, or at all, and, if not available, may require us to delay, scale back, or cease our product development programs or operations.

We are currently advancing two of our product candidates through clinical development as well as other potential product candidates through discovery and preclinical development. Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. In order to obtain such regulatory approval, we will be required to conduct clinical trials for each indication for each of our product candidates. We will continue to require additional funding to complete the development and commercialization of our product candidates and to continue to advance the development of our other product candidates, and such funding may not be available on acceptable terms or at all. Furthermore, in August 2016 we entered into a license agreement with Innovative Targeting Solutions Inc. (“ITS”), which requires licensing payments to ITS totaling $12.0 million over the following five-year period.

Although it is difficult to predict our liquidity requirements, based upon our current operating plan, we believe that our existing cash and cash equivalents and short-term investments and projected revenue from our existing strategic partnerships and licensing agreements will enable us to fund our operating expenses and capital expenditure requirement into 2021. We may also be eligible to receive certain research, development and commercial milestone payments in the future, as described under “Business—Strategic Partnerships and Collaborations.” However, because successful development of our product candidates and the achievement of milestones by our strategic partners is uncertain, we are unable to estimate the actual funds we will require to complete research and development and to commercialize our product candidates.

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

- the number and characteristics of other product candidates that we pursue;
- the scope, progress, timing, cost and results of research, preclinical development, and clinical trials;
- the costs, timing and outcome of seeking and obtaining FDA and non-U.S. regulatory approvals;
- the costs associated with manufacturing our product candidates and establishing sales, marketing and distribution capabilities;
- our ability to maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make in connection with the licensing, filing, defense and enforcement of any patents or other intellectual property rights;
- our need and ability to hire additional management, scientific and medical personnel;
- the effect of competing products that may limit market penetration of our product candidates;
- our need to implement additional internal systems and infrastructure, including financial and reporting systems; and
- the economic and other terms, timing of and success of our existing strategic partnerships, and any collaboration, licensing, or other arrangements into which we may enter in the future, including the timing of receipt of any milestone or royalty payments under these agreements.

Until we can generate a sufficient amount of product revenue to finance our cash requirements, which we may never do, we expect to finance future cash needs primarily through a combination of public and private equity offerings, debt financings, strategic partnerships and grant funding.

If sufficient funds on acceptable terms are not available when needed, or at all, we could be forced to significantly reduce operating expenses and delay, scale back or eliminate one or more of our development programs or our business operations.

Raising additional capital may cause dilution to our shareholders, restrict our operations or require us to relinquish substantial rights.

To the extent that we raise additional capital through the sale of equity or convertible debt securities, our shareholders' ownership interest will be diluted, and the terms of these new securities may include liquidation or other preferences that adversely affect our shareholders' rights as common shareholders. Debt financing, if available at all, may involve agreements that include covenants limiting or restricting our ability to take specific actions such as incurring additional debt, making capital expenditures, or declaring dividends. If we raise additional funds through partnerships, collaborations, strategic alliances, or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies, product candidates, or future revenue streams, or grant licenses on terms that are not favorable to us. We cannot assure that we will be able to obtain additional funding if and when necessary. If we are unable to obtain adequate financing on a timely basis, we could be required to delay, scale back or eliminate one or more of our development programs or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Unstable market and economic conditions may have serious adverse consequences on our business and financial condition.

Global credit and financial markets experienced extreme disruptions at various points over the last decade, characterized by diminished liquidity and credit availability, declines in consumer confidence, declines in economic growth, increases in unemployment rates and uncertainty about economic stability. If another such disruption in credit and financial markets and deterioration of confidence in economic conditions occurs, our business may be adversely affected. If the equity and credit markets were to deteriorate significantly in the future, it may make any necessary debt or equity financing more difficult to complete, costlier, and more dilutive. Failure to secure any necessary financing in a timely manner and on favorable terms could have a material adverse effect on our growth strategy, financial performance and share price and could require us to delay or abandon development or commercialization plans. In addition, there is a risk that one or more of our current strategic partners, service providers, manufacturers and other partners would not survive or be able to meet their commitments to us under such circumstances, which could directly affect our ability to attain our operating goals on schedule and on budget.

We are subject to risks associated with currency fluctuations, and changes in foreign currency exchange rates could impact our results of operations.

Management assesses its functional currency to be the U.S. dollar based on management's analysis of the primary economic environment in which we operate.

As of December 31, 2018, approximately 2.9% of our cash and cash equivalents and short-term investments was denominated in Canadian dollars. Fluctuations in U.S. dollar and Canadian dollar exchange rates could result in a material increase in reported expenses relative to revenue, and therefore could cause our operating income (expense) to appear to decline materially. Fluctuations in foreign currency exchange rates also impact the reporting of our receivables and payables in non-Canadian currencies. As a result of such foreign currency fluctuations, it could be more difficult to detect underlying trends in our business and results of operations. In addition, to the extent that fluctuations in currency exchange rates cause our results of operations to differ from

our expectations or the expectations of our investors, the trading price of our common shares could be adversely affected.

From time to time, we may engage in exchange rate hedging activities in an effort to mitigate the impact of exchange rate fluctuations. For example, we maintain a natural currency hedge against fluctuations in the U.S./Canadian foreign exchange rate by matching the amount of U.S. dollar and Canadian dollar investments to the expected amount of future U.S. dollar and Canadian dollar obligations, respectively. Any hedging technique we implement may fail to be effective. If our hedging activities are not effective, changes in currency exchange rates may have a more significant impact on the trading price of our common shares.

Risks Related to Our Dependence on Third Parties

Our existing strategic partnerships are important to our business, and future strategic partnerships will likely also be important to us. If we are unable to maintain our strategic partnerships, or if these strategic partnerships are not successful, our business could be adversely affected.

We have limited capabilities for drug development and do not yet have any capability for sales, marketing or distribution. Accordingly, we have entered into strategic partnerships with other companies that we believe can provide such capabilities, including our collaboration and license agreements with Merck, Lilly, Celgene, GSK, Daiichi Sankyo, Janssen, LEO and BeiGene. These relationships also have provided us with non-dilutive funding for our wholly owned pipeline and therapeutic platforms and we expect to receive additional funding under these strategic partnerships in the future. Our existing strategic partnerships, and any future strategic partnerships we enter into, may pose a number of risks, including the following:

- strategic partners have significant discretion in determining the efforts and resources that they will apply to these partnerships;
- strategic partners may not perform their obligations as expected;
- strategic partners may not pursue development and commercialization of any product candidates that achieve regulatory approval or may elect not to continue or renew development or commercialization programs based on clinical trial results, changes in the partners' strategic focus or available funding, or external factors, such as an acquisition, that divert resources or create competing priorities;
- strategic partners may delay clinical trials, provide insufficient funding for a clinical trial program, stop a clinical trial or abandon a product candidate, repeat or conduct new clinical trials or require a new formulation of a product candidate for clinical testing;
- strategic partners could independently develop, or develop with third parties, products that compete directly or indirectly with our product candidates if the strategic partners believe that competitive products are more likely to be successfully developed or can be commercialized under terms that are more economically attractive than our product candidates;
- product candidates discovered in collaboration with us may be viewed by our strategic partners as competitive with their own product candidates or products, which may cause strategic partners to cease to devote resources to the commercialization of our product candidates;
- a strategic partner with marketing and distribution rights to one or more of our product candidates that achieve regulatory approval may not commit sufficient resources to the marketing and distribution of such product candidates;
- disagreements with strategic partners, including disagreements over proprietary rights, contract interpretation or the preferred course of development, might cause delays or termination of the research, development or commercialization of product candidates, might lead to additional responsibilities for us with respect to product candidates, or might result in litigation or arbitration, any of which would be time-consuming and expensive;

- strategic partners may not properly maintain or defend our intellectual property rights or may use our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our intellectual property or proprietary information or expose us to potential litigation;
- strategic partners may infringe the intellectual property rights of third parties, which may expose us to litigation and potential liability;
- strategic partnerships may be terminated for the convenience of the partner and, if terminated, we could be required to raise additional capital to pursue further development or commercialization of the applicable product candidates. For example, each of our collaboration and license agreements with Merck, Lilly, Celgene, GSK, Daiichi Sankyo, Janssen, LEO and BeiGene may be terminated for convenience upon the completion of a specified notice period; and
- we may elect to enter into additional licensing or collaboration agreements to partner our product candidates in territories we currently retain, and in the event we grant exclusive rights to such partners, we would be precluded from potential commercialization of our product candidates within the territories in which we have a partner.

We may not realize the anticipated benefits of our strategic partnerships.

If our strategic partnerships do not result in the successful development and commercialization of product candidates or if one of our partners terminates its agreement with us, we may not receive any future research funding or milestone or royalty payments under the collaboration. Moreover, our estimates of the potential revenue we are eligible to receive under our strategic partnerships may include potential payments in respect of therapeutic programs for which our partners have discontinued development or may discontinue development in the future. Furthermore, our strategic partners may not keep us informed as to the status of their in-house research activities and they may fail to exercise options embedded within certain agreements. Any discontinuation of product development by our strategic partners could reduce the amounts receivable under our strategic partnerships below the stated amounts we are eligible to receive under those agreements. If we do not receive the funding we expect under these agreements, our development of our therapeutic platforms and product candidates could be delayed and we may need additional resources to develop product candidates and our therapeutic platforms. All of the risks relating to product development, regulatory approval and commercialization described in this Annual Report on Form 10-K also apply to the activities of our program strategic partners.

Additionally, subject to its contractual obligations to us, if one of our strategic partners is involved in a business combination, the partner might deemphasize or terminate the development or commercialization of any product candidate licensed to it by us. If one of our strategic partners terminates its agreement with us, we may find it more difficult to attract new partners.

We face significant competition in seeking new strategic partners.

For some of our product candidates, we may in the future determine to collaborate with additional pharmaceutical and biotechnology companies for development and potential commercialization of therapeutic products. Our ability to reach a definitive agreement for a collaboration will depend, among other things, upon our assessment of the strategic partner’s resources and expertise, the terms and conditions of the proposed collaboration and the proposed strategic partner’s evaluation of a number of factors. These factors may include the design or results of clinical trials, the likelihood of approval by the FDA or similar regulatory authorities outside the United States, the potential market for the subject product candidate, the costs and complexities of manufacturing and delivering such product candidate to patients, the potential of competing products, the existence of uncertainty with respect to our ownership of technology, which can exist if there is a challenge to such ownership without regard to the merits of the challenge and industry and market conditions generally. The strategic partner may also consider alternative product candidates or technologies for similar indications that may be available to collaborate on and whether such a collaboration could be more attractive than the one with us for our product candidate.

Strategic partnerships are complex and time-consuming to negotiate and document. In addition, there have been a significant number of recent business combinations among large pharmaceutical companies that have resulted in a reduced number of potential future strategic partners. If we are unable to reach agreements with suitable strategic partners on a timely basis, on acceptable terms, or at all, we may have to curtail the development of a product candidate, reduce or delay one or more of our other development programs, delay its potential commercialization or reduce the scope of any sales or marketing activities, or increase our expenditures and undertake development or commercialization activities at our own expense. If we elect to fund and undertake development or commercialization activities on our own, we may need to obtain additional expertise and additional capital, which may not be available to us on acceptable terms or at all. If we fail to enter into strategic partnerships and do not have sufficient funds or expertise to undertake the necessary development and commercialization activities, we may not be able to further develop our product candidates or bring them to market or continue to develop our therapeutic platforms and our business may be materially and adversely affected.

We rely on third-party manufacturers to produce our clinical product candidates and on other third parties to store, monitor and transport bulk drug substance and drug product. Any failure by a third-party with respect to these activities may delay or impair our ability to initiate or complete our clinical trials or commercialize approved products.

We do not currently own or operate any manufacturing facilities nor do we have any in-house manufacturing experience or personnel. We rely on our strategic partners to manufacture product candidates licensed to them or work with multiple third-party contract manufacturers to produce sufficient quantities of materials required for the manufacture of our product candidates for preclinical testing and clinical trials, in compliance with applicable regulatory and quality standards, and intend to do so for the commercial manufacture of our products. If we are unable to arrange for such third-party manufacturing sources, or fail to do so on commercially reasonable terms, we may not be able to successfully produce sufficient supply of product candidate or we may be delayed in doing so. Such failure or substantial delay could materially harm our business.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates ourselves, including reliance on the third party for regulatory compliance and quality control and assurance, volume production, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control (including a failure to synthesize and manufacture our product candidates in accordance with our product specifications) and the possibility of termination or nonrenewal of the agreement by the third party at a time that is costly or damaging to us. In addition, the FDA, EMA and other regulatory authorities require that our product candidates be manufactured according to cGMP and similar foreign standards. Pharmaceutical manufacturers and their subcontractors are required to register their facilities or products manufactured at the time of submission of the marketing application and then annually thereafter with the FDA and certain state and foreign agencies. They are also subject to periodic unannounced inspections by the FDA, state and other foreign authorities. Any subsequent discovery of problems with a product, or a manufacturing or laboratory facility used by us or our strategic partners, may result in restrictions on the product or on the manufacturing or laboratory facility, including marketed product recall, suspension of manufacturing, product seizure, or a voluntary withdrawal of the drug from the market. We may have little to no control regarding the occurrence of third-party manufacturer incidents. Any failure by our third-party manufacturers to comply with cGMP or failure to scale up manufacturing processes, including any failure to deliver sufficient quantities of product candidates in a timely manner, could lead to a delay in, or failure to obtain, regulatory approval of any of our product candidates.

In addition to third-party manufacturers, we rely on other third parties to store, monitor and transport bulk drug substance and drug product. If we are unable to arrange for such third-party sources, or fail to do so on commercially reasonable terms, we may not be able to successfully supply sufficient product candidate or we may be delayed in doing so. Such failure or substantial delay could materially harm our business.

The manufacture of our product candidates is complex. We and our third-party manufacturers may encounter difficulties in production. If we encounter any such difficulties, our ability to supply our product candidates for clinical trials or, if approved, for commercial sale could be delayed or halted entirely.

The manufacture of biopharmaceutical products is complex and requires significant expertise and capital investment, including the development of advanced manufacturing techniques and process controls. The process of manufacturing our product candidates is extremely susceptible to product loss due to contamination, equipment failure or improper installation or operation of equipment, vendor or operator error, contamination and inconsistency in yields, variability in product characteristics and difficulties in scaling the production process. Even minor deviations from normal manufacturing processes could result in reduced production yields, product defects and other supply disruptions. If microbial, viral or other contaminations are discovered in our product candidates or in the manufacturing facilities in which our product candidates are made, such manufacturing facilities may need to be closed for an extended period of time to investigate and remedy the contamination. All of our engineered antibodies are manufactured by starting cells that are stored in a cell bank. We have one master cell bank for each antibody manufactured in accordance with cGMP. While we believe we would have adequate back up should any cell bank be lost in a catastrophic event, it is possible that we could lose multiple cell banks and have our manufacturing severely impacted by the need to replace the cell banks. Any adverse developments affecting manufacturing operations for our product candidates, if any are approved, may result in shipment delays, inventory shortages, lot failures, product withdrawals or recalls, or other interruptions in the supply of our products. We may also have to take inventory write-offs and incur other charges and expenses for products that fail to meet specifications, undertake costly remediation efforts or seek more costly manufacturing alternatives.

We rely on third parties to monitor, support, conduct and oversee clinical trials of the product candidates that we are developing and, in some cases, to maintain regulatory files for those product candidates. We may not be able to obtain regulatory approval for our product candidates or commercialize any products that may result from our development efforts, if we are not able to maintain or secure agreements with such third parties on acceptable terms, if these third parties do not perform their services as required, or if these third parties fail to timely transfer any regulatory information held by them to us.

We rely on entities outside of our control, which may include academic institutions, CROs, hospitals, clinics and other third-party strategic partners, to monitor, support, conduct and oversee preclinical studies and clinical trials of our current and future product candidates. We also rely on third parties to perform clinical trials on our current and future product candidates when they reach that stage. As a result, we have less control over the timing and cost of these studies and the ability to recruit trial subjects than if we conducted these trials with our own personnel.

If we are unable to maintain or enter into agreements with these third parties on acceptable terms, or if any such engagement is terminated prematurely, we may be unable to enroll patients on a timely basis or otherwise conduct our trials in the manner we anticipate. In addition, there is no guarantee that these third parties will devote adequate time and resources to our studies or perform as required by our contract or in accordance with regulatory requirements, including maintenance of clinical trial information regarding our product candidates. If these third parties fail to meet expected deadlines, fail to transfer to us any regulatory information in a timely manner, fail to adhere to protocols or fail to act in accordance with regulatory requirements or our agreements with them, or if they otherwise perform in a substandard manner or in a way that compromises the quality or accuracy of their activities or the data they obtain, then clinical trials of our product candidates may be extended or delayed with additional costs incurred, or our data may be rejected by the FDA, EMA or other regulatory agencies.

Ultimately, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the applicable protocol, legal, regulatory and scientific standards, and our reliance on third parties does not relieve us of our regulatory responsibilities.

We and our CROs are required to comply with cGCP regulations and guidelines enforced by the FDA, the competent authorities of the member states of the EU and comparable foreign regulatory authorities for products in clinical development. Regulatory authorities enforce these cGCP regulations through periodic inspections of clinical trial sponsors, principal investigators and clinical trial sites. If we or any of our CROs fail to comply with applicable cGCP regulations, the clinical data generated in our clinical trials may be deemed unreliable and our submission of marketing applications may be delayed or the FDA may require us to perform additional clinical trials before approving our marketing applications. Upon inspection, the FDA could determine that any of our clinical trials fail or have failed to comply with applicable cGCP regulations. In addition, our clinical trials must be conducted with product produced under the cGMP regulations enforced by the FDA, and our clinical trials may require a large number of test subjects. Our failure to comply with these regulations may require us to repeat clinical trials, which would delay the regulatory approval process and increase our costs. Moreover, our business may be implicated if any of our CROs violates federal or state fraud and abuse or false claims laws and regulations or healthcare privacy and security laws.

If any of our clinical trial sites terminate for any reason, we may experience the loss of follow-up information on patients enrolled in our ongoing clinical trials unless we are able to transfer the care of those patients to another qualified clinical trial site. Further, if our relationship with any of our CROs is terminated, we may be unable to enter into arrangements with alternative CROs on commercially reasonable terms, or at all.

Switching or adding CROs or other suppliers can involve substantial cost and require extensive management time and focus. In addition, there is a natural transition period when a new CRO or supplier commences work. As a result, delays may occur, which can materially impact our ability to meet our desired clinical development timelines. If we are required to seek alternative supply arrangements, the resulting delays and potential inability to find a suitable replacement could materially and adversely impact our business.

We rely on third parties for various operational and administrative aspects of our business, including for certain cloud-based software platforms, which impact our financial, operational and research activities. If any of these third parties fail to provide timely, accurate and ongoing service or if the cloud-based platforms suffer outages that we are unable to mitigate, our business may be adversely affected.

We currently rely upon third-party consultants and contractors to provide certain operational and administrative services, including but not limited to external financial, legal, clinical and research consultation. The failure of any of these third parties to provide accurate and timely service may adversely impact our business operations. In addition, if such third-party service providers were to cease operations, temporarily or permanently, face financial distress or other business disruption, or increase their fees, or if our relationships with these providers deteriorate, we could suffer increased costs until an equivalent provider could be found, if at all, or we could develop internal capabilities, if ever.

In addition, if we are unsuccessful in choosing or finding high-quality partners, if we fail to negotiate cost-effective relationships with them, or if we ineffectively manage these relationships, it could have an adverse impact on our business and financial performance.

Further, our operations depend on the continuing and efficient operation of our information technology and communications systems and infrastructure, and specifically on “cloud-based” platforms. These platforms are vulnerable to damage or interruption from earthquakes, vandalism, sabotage, terrorist attacks, floods, fires, power outages, telecommunications failures, and computer viruses or other deliberate attempts to harm the systems. The occurrence of a natural or intentional disaster, any decision to close a facility we are using without adequate notice, or particularly an unanticipated problem at our cloud-based virtual server facility, could result in harmful interruptions in our service, resulting in adverse effects to our business.

Risks Related to Our Intellectual Property

Our commercial success depends significantly on our ability to operate without infringing the patents and other proprietary rights of third parties.

Our success will depend in part on our ability to operate without infringing the proprietary rights of third parties. Other entities may have or obtain patents or proprietary rights that could limit our ability to make, use, sell, offer for sale or import our future approved products or impair our competitive position. For example, certain patents and patent applications held by third parties cover Fab and Fc region engineering methods for bispecific antibodies, and antibodies having mutations in Fab heavy and light chain regions and Fc regions to generate correctly paired bispecific antibodies. If our products or our strategic partners' products incorporate any Fab or Fc region mutations covered by any claims of these patents or patents that may issue from these applications and we are unable to invalidate those patents, or if licenses for them are not available on commercially reasonable terms or at all, our business could be materially harmed.

We are also aware of third-party patents and patent applications containing claims directed to compositions and methods for treating various forms of cancer with antibodies targeting HER2, alone or in combination with other anti-cancer agents, which patents and applications could potentially be construed to cover our product candidates and the use thereof to treat cancer. If our products or our strategic partners' products were to be found to infringe any such patents, and we were unable to invalidate those patents, or if licenses for them are not available on commercially reasonable terms, or at all, our business could be materially harmed. These patents may not expire before we receive marketing authorization for our product candidates, and could delay the commercial launch or one or more future products. There is also no assurance that there are not third-party patents or patent applications of which we are aware, but which we do not believe are relevant to our business, which may, nonetheless, ultimately be found to limit our ability to make, use, sell, offer for sale or import our future approved products or impair our competitive position.

Patents that we may ultimately be found to infringe could be issued to third parties. Third parties may have or obtain valid and enforceable patents or proprietary rights that could block us from developing product candidates using our technology. Our failure to obtain a license to any technology that we require may materially harm our business, financial condition and results of operations. Moreover, our failure to maintain a license to any technology that we require may also materially harm our business, financial condition and results of operations. Furthermore, we would be exposed to a threat of litigation.

In the pharmaceutical industry, significant litigation and other proceedings regarding patents, patent applications, trademarks and other intellectual property rights have become commonplace. The types of situations in which we may become a party to such litigation or proceedings include:

- we or our strategic partners may initiate litigation or other proceedings against third parties seeking to invalidate the patents held by those third parties, to obtain a judgment that our products or processes do not infringe those third parties' patents or to obtain a judgement that those parties' patents are unenforceable;
- if our competitors file patent applications that claim technology also claimed by us or our licensors, we or our licensors may be required to participate in interference, derivation or opposition proceedings to determine the priority of invention, which could jeopardize our patent rights and potentially provide a third party with a dominant patent position;
- if third parties initiate litigation claiming that our processes or products infringe their patent or other intellectual property rights or initiating other proceedings, including post-grant proceedings and *inter partes* reviews, we and our strategic partners will need to defend against such proceedings; and
- if a license to necessary technology is terminated, the licensor may initiate litigation claiming that our processes or products infringe or misappropriate their patent or other intellectual property rights and/or that we breached our obligations under the license agreement, and we and our strategic partners would need to defend against such proceedings.

These lawsuits would be costly and could affect our results of operations and divert the attention of our management and scientific personnel. Some of our competitors may be able to sustain the cost of such litigation and proceedings more effectively than we can because of their substantially greater resources. There is a risk that a court would decide that we or our strategic partners are infringing the third party's patents and would order us or our strategic partners to stop the activities covered by the patents. In that event, we or our strategic partners may not have a viable alternative to the technology protected by the patent and may need to halt work on the affected product candidate or cease commercialization of an approved product. In addition, there is a risk that a court will order us or our strategic partners to pay third-party damages or some other monetary award, depending upon the jurisdiction. An adverse outcome in any litigation or other proceeding could subject us to significant liabilities to third parties, potentially including treble damages and attorneys' fees if we are found to have willfully infringed, and we may be required to cease using the technology that is at issue or to license the technology from third parties. We may not be able to obtain any required licenses on commercially acceptable terms or at all. Any of these outcomes could have a material adverse effect on our business.

If we are unable to obtain, maintain and enforce patent and trade secret protection for our product candidates and related technology, our business could be materially harmed.

Our strategy depends on our ability to identify and seek patent protection for our discoveries. This process is expensive and time consuming, and we may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner or in all jurisdictions where protection may be commercially advantageous. It is also possible that we will fail to identify patentable aspects of our research and development output before it is too late to obtain patent protection. Moreover, in some circumstances, we may not have the right to control the preparation, filing and prosecution of patent applications, or to maintain the patents, covering technology that we have licensed from third parties. Therefore, our owned or in-licensed patents and patent applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. Our patent applications cannot be enforced against third parties practicing the technology claimed in such applications unless, and until, patents issue from such applications, and then only to the extent the issued claims cover the technology. The patent applications that we own or in-license may fail to result in issued patents with claims that cover our current and future product candidates in the United States or in other foreign countries.

Moreover, the patent position of biopharmaceutical companies generally is highly uncertain, involves complex legal and factual questions and has in recent years been the subject of much litigation. The issuance of a patent does not ensure that it is valid or enforceable. Third parties may challenge the validity, enforceability or scope of our issued patents, and such patents may be narrowed, invalidated, circumvented, or deemed unenforceable. In addition, changes in law may introduce uncertainty in the enforceability or scope of patents owned by biotechnology companies. If our patents are narrowed, invalidated or held unenforceable, third parties may be able to commercialize our technology or products and compete directly with us without payment to us. There is no assurance that all potentially relevant prior art relating to our patents and patent applications has been found, and such prior art could potentially invalidate one or more of our patents or prevent a patent from issuing from one or more of our pending patent applications. There is also no assurance that there is not prior art of which we are aware, but which we do not believe affects the validity or enforceability of a claim in our patents and patent applications, which may, nonetheless, ultimately be found to affect the validity or enforceability of a claim. Furthermore, even if our patents are unchallenged, they may not adequately protect our intellectual property, provide exclusivity for our product candidates, prevent others from designing around our claims or provide us with a competitive advantage. The legal systems of certain countries do not favor the aggressive enforcement of patents, and the laws of foreign countries may not allow us to protect our inventions with patents to the same extent as the laws of the United States. Because patent applications in the United States and many foreign jurisdictions are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in scientific literature lag behind actual discoveries, we cannot be certain that we were the first to make the inventions claimed in our issued patents or pending patent applications, or that we were the first to file for protection of the inventions set forth in our patents or patent applications. As a result, we may not

be able to obtain or maintain protection for certain inventions. Therefore, the issuance, validity, enforceability, scope and commercial value of our patents in the United States and in foreign countries cannot be predicted with certainty and, as a result, any patents that we own or license may not provide sufficient protection against competitors. We may not be able to obtain or maintain patent protection from our pending patent applications, from those we may file in the future, or from those we may license from third parties. Moreover, even if we are able to obtain patent protection, such patent protection may be of insufficient scope to achieve our business objectives. In addition, the issuance of a patent does not give us the right to practice the patented invention. Third parties may have blocking patents that could prevent us from marketing our own patented product and practicing our own patented technology.

Our patents covering one or more of our products or product candidates could be found invalid or unenforceable if challenged.

Any of our intellectual property rights could be challenged or invalidated despite measures we take to obtain patent and other intellectual property protection with respect to our product candidates and proprietary technology. For example, if we were to initiate legal proceedings against a third party to enforce a patent covering one of our product candidates, the defendant could counterclaim that our patent is invalid and/or unenforceable. In patent litigation in the United States and in some other jurisdictions, defendant counterclaims alleging invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, for example, lack of novelty, obviousness or non-enablement. Grounds for an unenforceability assertion could be an allegation that someone connected with prosecution of the patent withheld material information from the U.S. Patent and Trademark Office ("USPTO") or the applicable foreign counterpart, or made a misleading statement, during prosecution. A litigant or the USPTO itself could challenge our patents on this basis even if we believe that we have conducted our patent prosecution in accordance with the duty of candor and in good faith. The outcome following such a challenge is unpredictable.

With respect to challenges to the validity of our patents, for example, there might be invalidating prior art, of which we and the patent examiner were unaware during prosecution. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability, we would lose at least part, and perhaps all, of the patent protection on a product candidate. Even if a defendant does not prevail on a legal assertion of invalidity and/or unenforceability, our patent claims may be construed in a manner that would limit our ability to enforce such claims against the defendant and others. The cost of defending such a challenge, particularly in a foreign jurisdiction, and any resulting loss of patent protection could have a material adverse impact on one or more of our product candidates and our business.

Enforcing our intellectual property rights against third parties may also cause such third parties to file other counterclaims against us, which could be costly to defend, particularly in a foreign jurisdiction, and could require us to pay substantial damages, cease the sale of certain products or enter into a license agreement and pay royalties (which may not be possible on commercially reasonable terms or at all). Any efforts to enforce our intellectual property rights are also likely to be costly and may divert the efforts of our scientific and management personnel.

Our intellectual property rights will not necessarily provide us with competitive advantages.

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

- others may be able to make compounds that are similar to our product candidates but that are not covered by the claims of the patents that we or our strategic partners own or have exclusively licensed;
- others may independently develop similar or alternative technologies without infringing our intellectual property rights;

- issued patents that we own or have exclusively licensed may not provide us with any competitive advantages, or may be held invalid or unenforceable, as a result of legal challenges by our competitors;
- we may obtain patents for certain compounds many years before we obtain marketing approval for products containing such compounds, and because patents have a limited life, which may begin to run prior to the commercial sale of the related product, the commercial value of our patents may be limited;
- our competitors might conduct research and development activities in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets;
- we may fail to develop additional proprietary technologies that are patentable;
- the laws of certain foreign countries may not protect our intellectual property rights to the same extent as the laws of the United States, or we may fail to apply for or obtain adequate intellectual property protection in all the jurisdictions in which we operate; and
- the patents of others may have an adverse effect on our business, for example by preventing us from marketing one or more of our product candidates for one or more indications.

Any of the aforementioned threats to our competitive advantage could have a material adverse effect on our business.

We may become involved in lawsuits to protect or enforce our patents and trade secrets, which could be expensive, time consuming and unsuccessful.

Third parties may seek to market biosimilar versions of any approved products. Alternatively, third parties may seek approval to market their own products similar to or otherwise competitive with our product candidates. In these circumstances, we may need to defend or assert our patents, including by filing lawsuits alleging patent infringement. The outcome following legal assertions of invalidity and unenforceability is unpredictable. In any of these types of proceedings, a court or agency with jurisdiction may find our patents invalid or unenforceable. Even if we have valid and enforceable patents, these patents still may not provide protection against competing products or processes sufficient to achieve our business objectives.

Even after they have issued, our patents and any patents that we license may be challenged, narrowed, invalidated or circumvented. If our patents are invalidated or otherwise limited or will expire prior to the commercialization of our product candidates, other companies may be better able to develop products that compete with ours, which could adversely affect our competitive business position, business prospects and financial condition. In addition, if the breadth or strength of protection provided by our patents and patent applications is threatened, it could dissuade companies from collaborating with us to license, develop or commercialize current or future product candidates.

The following are examples of litigation and other adversarial proceedings or disputes that we could become a party to involving our patents or patents licensed to us:

- we or our strategic partners may initiate litigation or other proceedings against third parties to enforce our patent and trade secret rights;
- third parties may initiate litigation or other proceedings seeking to invalidate patents owned by or licensed to us or to obtain a declaratory judgment that their product or technology does not infringe our patents or patents licensed to us;
- third parties may initiate opposition or reexamination proceedings challenging the validity or scope of our patent rights, requiring us or our strategic partners and/or licensors to participate in such proceedings to defend the validity and scope of our patents;

- there may be a challenge or dispute regarding inventorship or ownership of patents or trade secrets currently identified as being owned by or licensed to us;
- the USPTO may initiate an interference between patents or patent applications owned by or licensed to us and those of our competitors, requiring us or our strategic partners and/or licensors to participate in an interference proceeding to determine the priority of invention, which could jeopardize our patent rights; or
- third parties may seek approval to market biosimilar versions of our future approved products prior to expiration of relevant patents owned by or licensed to us, requiring us to defend our patents, including by filing lawsuits alleging patent infringement.

These lawsuits and proceedings would be costly and could affect our results of operations and divert the attention of our managerial and scientific personnel. Adversaries in these proceedings may have the ability to dedicate substantially greater resources to prosecuting these legal actions than we or our licensors can. There is a risk that a court or administrative body would decide that our patents are invalid or not infringed or trade secrets not misappropriated by a third party's activities, or that the scope of certain issued claims must be further limited. An adverse outcome in a litigation or proceeding involving our own patents or trade secrets could limit our ability to assert our patents or trade secrets against these or other competitors, affect our ability to receive royalties or other licensing consideration from our licensees, and may curtail or preclude our ability to exclude third parties from making, using and selling similar or competitive products. Any of these occurrences could adversely affect our competitive business position, business prospects and financial condition.

We may not be able to prevent, alone or with our licensors, infringement or misappropriation of our intellectual property rights, particularly in countries where the laws may not protect those rights as fully as in the United States. Any litigation or other proceedings to enforce our intellectual property rights may fail, and even if successful, may result in substantial costs and distract our management and other employees.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation. There could also be public announcements of the results of hearings, motions or other interim proceedings or developments. If securities analysts or investors perceive these results to be negative, it could have an adverse effect on the price of our common shares.

The degree of future protection for our proprietary rights is uncertain because legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- others may be able to develop a platform that is similar to, or better than, ours in a way that is not covered by the claims of our patents;
- others may be able to make compounds that are similar to our product candidates but that are not covered by the claims of our patents;
- we might not have been the first to make the inventions covered by patents or pending patent applications;
- we might not have been the first to file patent applications for these inventions;
- any patents that we obtain may not provide us with any competitive advantages or may ultimately be found invalid or unenforceable; or
- we may not develop additional proprietary technologies that are patentable or that afford meaningful trade secret protection.

Patent terms may be inadequate to protect our competitive position on our product candidates for an adequate amount of time.

Patents have a limited lifespan. In the United States, if all maintenance fees are timely paid, the natural expiration of a patent is generally 20 years from its earliest U.S. non-provisional filing date. Various extensions may be available, but the life of a patent, and the protection it affords, is limited. Even if patents covering our product candidates are obtained, once the patent life has expired, we may be open to competition from competitive products, including biosimilars. Given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours.

If we do not obtain protection under the Hatch-Waxman amendments and similar foreign legislation for extending the term of patents covering each of our product candidates, our business may be materially harmed.

Depending upon the timing, duration and conditions of FDA marketing approval of our product candidates, one or more of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Amendments. The Hatch-Waxman Amendments permit a patent term extension of up to five years for a patent covering an approved product as compensation for effective patent term lost during product development and the FDA regulatory review process. However, we may not receive an extension if we fail to apply within applicable deadlines, fail to apply prior to expiration of relevant patents or otherwise fail to satisfy applicable requirements. Moreover, the length of the extension could be less than we request. If we are unable to obtain patent term extension or the term of any such extension is less than we request, the period during which we can enforce our patent rights for that product will be shortened and our competitors may obtain approval to market competing products sooner. As a result, our revenue from applicable products could be reduced, possibly materially. Further, if this occurs, our competitors may take advantage of our investment in development and trials by referencing our clinical and preclinical data and launch their product earlier than might otherwise be the case.

If we are unable to protect the confidentiality of our proprietary information, the value of our technology and products could be adversely affected.

In addition to patent protection, we also rely on other proprietary rights, including protection of trade secrets, and other proprietary information. For example, we treat our proprietary computational technologies, including unpatented know-how and other proprietary information, as trade secrets. To maintain the confidentiality of trade secrets and proprietary information, we enter into confidentiality agreements with our employees, consultants, strategic partners and others upon the commencement of their relationships with us. These agreements require that all confidential information developed by the individual or made known to the individual by us during the course of the individual's relationship with us be kept confidential and not disclosed to third parties. Our agreements with employees and our personnel policies also provide that any inventions conceived by the individual in the course of rendering services to us shall be our exclusive property. However, we may not obtain these agreements in all circumstances, and individuals with whom we have these agreements may not comply with their terms. Thus, despite such agreement, such inventions may become assigned to third parties. In the event of unauthorized use or disclosure of our trade secrets or proprietary information, these agreements, even if obtained, may not provide meaningful protection, particularly for our trade secrets or other confidential information. To the extent that our employees, consultants or contractors use technology or know-how owned by third parties in their work for us, disputes may arise between us and those third parties as to the rights in related inventions. To the extent that an individual who is not obligated to assign rights in intellectual property to us is rightfully an inventor of intellectual property, we may need to obtain an assignment or a license to that intellectual property from that individual, or a third party or from that individual's assignee. Such assignment or license may not be available on commercially reasonable terms or at all.

Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is difficult, expensive and time-consuming and the outcome is unpredictable. The disclosure of our trade secrets would impair our competitive position and may materially harm our business, financial condition and results of operations. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to maintain trade secret protection could adversely affect our competitive business position. In addition, if any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent such third party, or those to whom they communicate such technology or information, from using that technology or information to compete with us. If any of our trade secrets were to be disclosed to or independently developed by a competitor, or if we otherwise lose protection for our trade secrets or proprietary know-how, the value of this information may be greatly reduced and our business and competitive position could be harmed. Adequate remedies may not exist in the event of unauthorized use or disclosure of our proprietary information.

As is common in the biotechnology and pharmaceutical industries, we employ individuals who were previously or concurrently employed at research institutions and/or other biotechnology or pharmaceutical companies, including our competitors or potential competitors. We may be subject to claims that these employees, or we, have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of their former employers, or that patents and applications we have filed to protect inventions of these employees, even those related to one or more of our product candidates, are rightfully owned by their former or concurrent employer. Litigation may be necessary to defend against these claims. Such trade secrets or other proprietary information could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our technology or products. Such license may not be available on commercially reasonable terms or at all. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management.

Obtaining and maintaining our patent protection depends on compliance with various procedural, documentary, fee payment and other requirements imposed by regulations and governmental patent agencies, and our patent protection could be reduced or eliminated for noncompliance with these requirements.

Periodic maintenance fees, renewal fees, annuity fees and various other governmental fees on patents or applications will be due to the USPTO and various foreign patent offices at various points over the lifetime of our patents or applications. We have systems in place to remind us to pay these fees, and we rely on our outside patent annuity service to pay these fees when due. Additionally, the USPTO and various foreign patent offices require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. We employ reputable law firms and other professionals to help us comply, and in many cases an inadvertent lapse can be cured by payment of a late fee or by other means in accordance with rules applicable to the particular jurisdiction. However, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. If such an event were to occur, it could have a material adverse effect on our business.

We may be subject to claims challenging the inventorship of our patents and other intellectual property.

Although we are not currently experiencing any claims challenging the inventorship or ownership of our patents, we may in the future be subject to claims that former employees, strategic partners or other third parties have an interest in our patents or other intellectual property as an inventor or co-inventor. While it is our policy to require our employees and contractors who may be involved in the conception or development of intellectual property to execute agreements assigning such intellectual property to us, we may be unsuccessful in executing such an agreement with each party who, in fact, conceives or develops intellectual property that we regard as our own. For example, the assignment of intellectual property rights may not be self-executing or the assignment agreements may be breached, or we may have inventorship disputes arise from conflicting obligations of consultants or others who are involved in developing our product candidates. Litigation may be necessary to defend against these and other claims challenging inventorship. If we fail in defending any such claims, in

addition to paying monetary damages, we may lose valuable intellectual property rights, such as exclusive ownership of, or right to use, valuable intellectual property. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management and other employees.

Patent protection and patent prosecution for some of our product candidates may be dependent on, and the ability to assert patents and defend them against claims of invalidity may be maintained by, third parties.

There may be times in the future when certain patents that relate to our product candidates or any approved products are controlled by our licensees or licensors. Although we may, under such arrangements, have rights to consult with our strategic partners on actions taken as well as back-up rights of prosecution and enforcement, we have in the past and may in the future relinquish rights to prosecute and maintain patents and patent applications within our portfolio as well as the ability to assert such patents against infringers.

If any current or future licensee or licensor with rights to prosecute, assert or defend patents related to our product candidates fails to appropriately prosecute and maintain patent protection for patents covering any of our product candidates, or if patents covering any of our product candidates are asserted against infringers or defended against claims of invalidity or unenforceability in a manner which adversely affects such coverage, our ability to develop and commercialize any such product candidate may be adversely affected and we may not be able to prevent competitors from making, using and selling competing products.

Changes in patent laws or patent jurisprudence could diminish the value of patents in general, thereby impairing our ability to protect our products.

The patent positions of pharmaceutical and biotechnology companies can be highly uncertain and involve complex legal and factual questions for which important legal principles remain unresolved. Changes in either the patent laws or in the interpretations of patent laws in the United States and other countries may diminish the value of our intellectual property. We cannot predict the breadth of claims that may be allowed or found to be enforceable in our patents, in our strategic partners' patents or in third-party patents. The United States has enacted and is currently implementing wide-ranging patent reform legislation. Further, recent U.S. Supreme Court rulings have either narrowed the scope of patent protection available in certain circumstances or weakened the rights of patent owners in certain situations. In addition to increasing uncertainty with regard to our ability to obtain patents in the future, this combination of events has created uncertainty with respect to the validity, scope and value of patents, once obtained.

For our U.S. patent applications containing a priority claim after March 16, 2013, there is a greater level of uncertainty in the patent law. In September 2011, the Leahy-Smith America Invents Act, also known as the America Invents Act ("AIA"), was signed into law. The AIA includes a number of significant changes to U.S. patent law, including provisions that affect the way patent applications will be prosecuted and may also affect patent litigation.

The AIA and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have an adverse effect on our business. An important change introduced by the AIA is that, as of March 16, 2013, the United States transitioned to a "first-to-file" system for deciding which party should be granted a patent when two or more patent applications are filed by different parties disclosing or claiming the same invention. A third party that has filed, or files a patent application in the USPTO after March 16, 2013 but before us, could be awarded a patent covering a given invention, even if we had made the invention before it was made by the third party. This requires us to be cognizant going forward of the time from invention to filing of a patent application.

Among some of the other changes introduced by the AIA are changes that limit where a patentee may file a patent infringement suit and providing opportunities for third parties to challenge any issued patent in the USPTO. This applies to all of our U.S. patents, even those issued before March 16, 2013. Because of a lower

evidentiary standard in USPTO proceedings compared to the evidentiary standard in U.S. federal court necessary to invalidate a patent claim, a third party could potentially provide evidence in a USPTO proceeding sufficient for the USPTO to hold a claim invalid even though the same evidence would be insufficient to invalidate the claim if first presented in a district court action. Accordingly, a third party may attempt to use the USPTO procedures to invalidate our patent claims that would not have been invalidated if first challenged by the third party as a defendant in a district court action.

Depending on decisions by the U.S. Congress, the U.S. federal courts, the USPTO or similar authorities in foreign jurisdictions, the laws and regulations governing patents could change in unpredictable ways that may weaken our and our licensors' ability to obtain new patents or to enforce existing patents we and our licensors or partners may obtain in the future.

We may not be able to protect our intellectual property rights throughout the world.

Filing, prosecuting and defending patents on product candidates in all countries throughout the world would be prohibitively expensive, and our intellectual property rights in some countries outside the United States can be less extensive than those in the United States. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and further, may export otherwise infringing products to territories where we have patent protection, but enforcement is not as strong as that in the United States. These products may compete with our current or future products, if any, and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing. Recent U.S. Supreme Court cases have narrowed the scope of what is considered patentable subject matter, for example, in the areas of software and diagnostic methods involving the association between treatment outcome and biomarkers. This could impact our ability to patent certain aspects of our technology in the United States.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents, trade secrets and other intellectual property protection, particularly those relating to biotechnology products, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial costs and divert our efforts and attention from other aspects of our business, could put our patents at risk of being invalidated or interpreted narrowly and our patent applications at risk of not issuing and could provoke third parties to assert claims against us. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful. Accordingly, our efforts to enforce our intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we develop or license.

Additionally, the requirements for patentability may differ in certain countries, particularly developing countries. For example, unlike other countries, China has a heightened requirement for patentability, and specifically requires a detailed description of medical uses of a claimed drug. In India, unlike the United States, there is no link between regulatory approval of a drug and its patent status. In addition to India, certain countries in Europe and developing countries, including China, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In those countries, we and our licensors may have limited remedies if patents are infringed or if we or our licensors are compelled to grant a license to a third party, which could materially diminish the value of those patents. This could limit our potential revenue opportunities. Accordingly, our efforts to enforce intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we own or license.

We will need to obtain FDA approval for any proposed product candidate names, and any failure or delay associated with such approval may adversely affect our business.

Any proprietary name or trademark we intend to use for our product candidates will require approval from the FDA regardless of whether we have secured a formal trademark registration from the USPTO. The FDA typically conducts a review of proposed product candidate names, including an evaluation of the potential for confusion with other product names. The FDA may also object to a product name if it believes the name inappropriately implies certain medical claims or contributes to an overstatement of efficacy. If the FDA objects to any product candidate names we propose, we may be required to adopt an alternative name for our product candidates. If we adopt an alternative name, we would lose the benefit of any existing trademark applications for such product candidate and may be required to expend significant additional resources in an effort to identify a suitable product name that would qualify under applicable trademark laws, not infringe the existing rights of third parties and be acceptable to the FDA. We may be unable to build a successful brand identity for a new trademark in a timely manner or at all, which would limit our ability to commercialize our product candidates.

Risks Related to Additional Legal and Compliance Matters

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements and insider trading.

We are exposed to the risk of employee fraud or other misconduct. Misconduct by employees could include intentional failures to comply with FDA regulations, to provide accurate information to the FDA, to comply with federal and state health care fraud and abuse laws and regulations, to report financial information or data accurately or to disclose unauthorized activities to us. In particular, sales, marketing and business arrangements in the health care industry are subject to extensive laws and regulations intended to prevent fraud, misconduct, kickbacks, self-dealing and other abusive practices. These laws and regulations may restrict or prohibit a wide range of pricing, discounting, marketing and promotion, sales commission, customer incentive programs and other business arrangements. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We have adopted a Code of Conduct and Business Ethics, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to comply with these laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, including the imposition of significant fines or other sanctions.

If we market products in a manner that violates healthcare fraud and abuse laws, or if we violate government price reporting laws, we may be subject to civil or criminal penalties.

In addition to FDA restrictions on the marketing of pharmaceutical products, federal and state healthcare laws restrict certain business practices in the biopharmaceutical industry. Although we currently do not have any products on the market, we may be subject, and once our product candidates are approved and we begin commercialization will be subject, to additional healthcare laws and regulations enforced by the federal government and by authorities in the states and foreign jurisdictions in which we conduct our business. These state and federal healthcare laws, commonly referred to as “fraud and abuse” laws, have been applied in recent years to restrict certain marketing practices in the pharmaceutical industry, and include, but are not limited to, anti-kickback, false claims, data privacy and security and transparency statutes and regulations.

Federal false claims laws prohibit any person from knowingly presenting, or causing to be presented, a false claim for payment to the federal government or knowingly making, or causing to be made, a false statement to get a false claim paid. The federal healthcare program anti-kickback statute prohibits, among other things, knowingly and willfully offering, paying, soliciting or receiving remuneration to induce, or in return for, purchasing, leasing, ordering or arranging for the purchase, lease or order of any healthcare item or service

reimbursable under Medicare, Medicaid or other federally financed healthcare programs. This statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on the one hand and prescribers, purchasers and formulary managers on the other. Although there are several statutory exemptions and regulatory safe harbors protecting certain common activities from prosecution, the exemptions and safe harbors are drawn narrowly, and practices that involve remuneration intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exemption or safe harbor. Most states also have statutes or regulations similar to the federal anti-kickback law and federal false claims laws, which may apply to items such as pharmaceutical products and services reimbursed by private insurers. Administrative, civil and criminal sanctions may be imposed under these federal and state laws.

Over the past few years, a number of pharmaceutical and other healthcare companies have been prosecuted under these laws for a variety of promotional and marketing activities, such as:

- providing free trips, free goods, sham consulting fees and grants and other monetary benefits to prescribers;
- reporting to pricing services inflated average wholesale prices that were then used by federal programs to set reimbursement rates;
- engaging in off-label promotion; and
- submitting inflated best price information to the Medicaid Rebate Program to reduce liability for Medicaid rebates.

The civil monetary penalties statute imposes penalties against any person or entity who, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or should know is for an item or service that was not provided as claimed or is false or fraudulent.

HIPAA created new federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud or obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, including private third-party payors, and knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of, or payment for, healthcare benefits, items or services.

In addition, we may be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by HITECH, and its implementing regulations, imposes certain requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's security standards directly applicable to business associates —independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also created four new tiers of civil monetary penalties, and newly empowered state attorneys general with the authority to enforce HIPAA. In January 2013, the Office for Civil Rights of the U.S. Department of Health and Human Services issued the Final Omnibus Rule under HIPAA pursuant to HITECH that makes significant changes to the privacy, security and breach notification requirements and penalties. The Final Omnibus Rule generally took effect in September 2013 and enhances certain privacy and security protections, and strengthens the government's ability to enforce HIPAA. The Final Omnibus Rule also enhanced requirements for both covered entities and business associates regarding notification of breaches of unsecured protected health information. In addition, state laws govern the privacy and security of health information in certain circumstances, many of which differ from each other in significant ways. These state laws may not have the same effect and often are not pre-empted by HIPAA, thus complicating compliance efforts.

Additionally, the PPACA also included the federal Physician Payments Sunshine Act, which requires certain manufacturers of drugs, devices, biologicals and medical supplies for which payment is available under

Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually information related to certain payments or other transfers of value made or distributed to physicians and teaching hospitals, or to entities or individuals at the request of, or designated on behalf of, the physicians and teaching hospitals and to report annually certain ownership and investment interests held by physicians and their immediate family members. Failure to comply with required reporting requirements could subject applicable manufacturers and others to substantial civil money penalties.

Also, many states have similar healthcare statutes or regulations that apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor. Certain states require pharmaceutical companies to implement a comprehensive compliance program that includes a limit or outright ban on expenditures for, or payments to, individual medical or health professionals and/or require pharmaceutical companies to track and report gifts and other payments made to physicians and other healthcare providers.

If our operations are found to be in violation of any of the healthcare laws or regulations described above or any other laws that apply to us, we may be subject to penalties, including potentially significant criminal, civil or administrative penalties, damages, fines, disgorgement, individual imprisonment, exclusion of products from reimbursement under government programs, contractual damages, reputational harm, administrative burdens, diminished profits and future earnings or the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. To the extent that any of our products will be sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, applicable post-marketing requirements, including safety surveillance, fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or transfers of value to healthcare professionals.

If we do not comply with laws regulating the protection of the environment and health and human safety, our business could be adversely affected.

Our research and development involves, and may in the future involve, the use of potentially hazardous materials and chemicals. Our operations may produce hazardous waste products. Although we believe that our safety procedures for handling and disposing of these materials comply with the standards mandated by local, state and federal laws and regulations, the risk of accidental contamination or injury from these materials cannot be eliminated. If an accident occurs, we could be held liable for resulting damages, which could be substantial. We are also subject to numerous environmental, health and workplace safety laws and regulations and fire and building codes, including those governing laboratory procedures, exposure to blood-borne pathogens, use and storage of flammable agents and the handling of biohazardous materials. Although we maintain workers' compensation insurance as prescribed by the Washington State and the Province of British Columbia to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of these materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us. Additional federal, state and local laws and regulations affecting our operations may be adopted in the future. We may incur substantial costs to comply with, and substantial fines or penalties if we violate, any of these laws or regulations.

The change from foreign private issuer to U.S. domestic issuer status may result in additional costs and expenses to us.

As of June 30, 2018, we determined that we no longer qualify as a "foreign private issuer," as such term is defined in Rule 405 under the U.S. Securities Act of 1933, as amended (the "Securities Act"). As a result, as of January 1, 2019, we are no longer eligible to use the rules and forms designated for foreign private issuers and we are considered a U.S. domestic issuer. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly more than the costs incurred as a foreign private issuer. While we voluntarily chose to file periodic reports on U.S. domestic issuer forms starting with our Annual Report on Form

10-K for our fiscal year ended December 31, 2017, as a U.S. domestic issuer we are now required to file periodic and current reports and registration statements on U.S. domestic issuer forms with the SEC, which are generally more detailed and extensive than the forms available to a foreign private issuer. In addition, we are required to comply with U.S. proxy requirements and Regulation FD (Fair Disclosure) and our officers, directors and principal shareholders are subject to the beneficial ownership reporting and short-swing profit recovery requirements in Section 16 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We are also no longer eligible to rely upon exemptions from corporate governance requirements that are available to foreign private issuers or to benefit from other accommodations for foreign private issuers under the rules of the SEC or NYSE, which may involve additional costs.

Risks Related to Employee Matters and Managing Growth

Our future success depends on our ability to retain key executives and to attract, retain and motivate qualified personnel.

We are highly dependent on the research and development, clinical and business expertise of Dr. Ali Tehrani, Ph.D., our President and Chief Executive Officer, Mr. Neil Klompas, our Chief Financial Officer, and other members of our senior management, scientific and clinical team. Although we have entered into employment agreements with our executive officers, each of them may terminate their employment with us at any time. We currently maintain "key person" insurance coverage for Dr. Tehrani (C$5.0 million) and Mr. Neil Klompas (C$2.0 million). The loss of the services of our executive officers or other key employees could impede the achievement of our research, development and commercialization objectives and seriously harm our ability to successfully implement our business strategy.

Recruiting and retaining qualified scientific, clinical, manufacturing and sales and marketing personnel will also be critical to our success. In addition, we will need to expand and effectively manage our managerial, operational, financial, development and other resources in order to successfully pursue our research, development and commercialization efforts for our existing and future product candidates. Furthermore, replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited talent pool in our industry due to the breadth of skills and experience required to successfully develop, gain regulatory approval of and commercialize products. Intense competition for attracting key skill-sets may limit our ability to retain and motivate these key personnel on acceptable terms. We also experience competition for the hiring of scientific and clinical personnel from universities and research institutions. In addition, we rely on consultants and advisors, including scientific and clinical advisors, to assist us in formulating our research and development and commercialization strategy. Our consultants and advisors may be employed by employers other than us and may have commitments under consulting or advisory contracts with other entities that may limit their availability. If we are unable to continue to attract and retain high quality personnel, our ability to pursue our growth strategy will be limited.

We will need to grow our organization, and we may experience difficulty in managing this growth, which could disrupt our operations.

As of December 31, 2018, we had 180 full-time employees. As our development and commercialization plans and strategies develop, we expect to expand our employee base for managerial, operational, financial and other resources. Additionally, as our product candidates enter and advance through preclinical studies and any clinical trials, we will need to expand our development, manufacturing, regulatory sales and marketing capabilities or contract with other organizations to provide these capabilities for us. Future growth would impose significant added responsibilities on members of management, including the need to identify, recruit, maintain, motivate and integrate additional employees. Also, our management may need to divert a disproportionate amount of their attention away from our day-to-day activities and devote a substantial amount of time to managing these growth activities. We may not be able to effectively manage the expansion of our operations, which may result in weaknesses in our infrastructure, give rise to operational errors, loss of business opportunities, loss of employees

and reduced productivity amongst remaining employees. Our expected growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of existing and additional product candidates. If our management is unable to effectively manage our expected growth, our expenses may increase more than expected, our ability to generate or grow revenue could be reduced and we may not be able to implement our business strategy. Our future financial performance and our ability to commercialize our product candidates and compete effectively with others in our industry will depend on our ability to effectively manage any future growth.

Risks Related to Our Common Shares

Our share price is likely to be volatile and the market price of our common shares may drop below the price paid by shareholders.

Investors should consider an investment in our common shares as risky and invest only if they can withstand a significant loss and wide fluctuations in the market value of their investment. In addition, the stock market has recently experienced significant volatility, particularly with respect to pharmaceutical, biotechnology and other life sciences company stocks. The volatility of pharmaceutical, biotechnology and other life sciences company stocks often does not relate to the operating performance of the companies represented by the stock. Some of the factors that may cause the market price of our common shares to fluctuate or decrease include:

- results and timing of our clinical trials and clinical trials of our competitors' products;
- failure or discontinuation of any of our development programs;
- issues in manufacturing our product candidates or future approved products;
- regulatory developments or enforcement in the United States and foreign countries with respect to our product candidates or our competitors' products;
- competition from existing products or new products that may emerge;
- developments or disputes concerning patents or other proprietary rights;
- introduction of technological innovations or new commercial products by us or our competitors;
- announcements by us, our strategic partners or our competitors of significant acquisitions, strategic partnerships, joint ventures, or capital commitments;
- changes in estimates or recommendations by securities analysts that cover our common shares;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- public concern over our product candidates or any future approved products;
- litigation;
- future sales of our common shares;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- additions or departures of key personnel;
- changes in the structure of health care payment systems in the United States or overseas;
- failure of any of our product candidates, if approved, to achieve commercial success;
- economic and other external factors or other disasters or crises;
- period-to-period fluctuations in our financial condition and results of operations, including the timing of receipt of any milestone or other payments under commercialization or licensing agreements;
- general market conditions and market conditions for biopharmaceutical stocks;

- overall fluctuations in U.S. equity markets; and
- other factors that may be unanticipated or out of our control.

In addition, in the past, when the market price of a stock has been volatile, holders of that stock have instituted securities class action litigation against the company that issued the stock. If any of our shareholders brought a lawsuit against us, we could incur substantial costs defending the lawsuit and divert the time and attention of our management, which could seriously harm our business.

An active trading market for our common shares may not be sustained.

An active trading market for our shares may not be sustained. If an active market for our common shares does not continue, it may be difficult for our shareholders to sell their shares without depressing the market price for the shares or sell their shares at or above the prices at which they acquired their shares or sell their shares at the time they would like to sell. Any inactive trading market for our common shares may also impair our ability to raise capital to continue to fund our operations by selling shares and may impair our ability to acquire other companies or technologies by using our shares as consideration.

Substantial future sales of our common shares, or the perception that these sales could occur, may cause the price of our common shares to drop significantly, even if our business is performing well.

A large volume of sales of our common shares could decrease the prevailing market price of our common shares and could impair our ability to raise additional capital through the sale of equity securities in the future. Even if a substantial number of sales of our common shares does not occur, the mere perception of the possibility of these sales could depress the market price of our common shares and have a negative effect on our ability to raise capital in the future.

We incur significant costs as a result of operating as a public company, and our management is required to devote substantial time to corporate governance standards.

As a public company, we incur significant legal, accounting and other expenses. In addition, our administrative staff are required to perform additional tasks not required for a private company. For example, as a public company, we have adopted additional internal controls and disclosure controls and procedures, retained a transfer agent and adopted an insider trading policy. As a public company, we bear all of the internal and external costs of preparing and distributing periodic public reports in compliance with our obligations under the securities laws.

In addition, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act and the related rules and regulations implemented by the SEC, the applicable Canadian securities regulators, the New York Stock Exchange (the “NYSE”) and the Toronto Stock Exchange (the “TSX”), have legal and financial compliance costs and make some compliance activities time consuming. We intend to invest resources to comply with evolving laws, regulations and standards, and such investment will result in increased general and administrative expenses and may divert management’s time and attention from our other business activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed. Additionally, as a public company, we maintain our directors’ and officers’ liability insurance coverage, which results in higher insurance costs. In the future, it may be more expensive or more difficult for us to obtain director and officer liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

Under the corporate governance standards of the NYSE, a majority of our board of directors and each member of our audit committee must be an independent director. The policies of the TSX require our board of directors to

consist of at least two independent directors and Canadian securities laws require each member of the audit committee to be independent within the meaning of Canadian securities laws. As of the date of this Annual Report on Form 10-K, we meet these requirements, but we may in the future encounter difficulty in attracting and retaining qualified persons to serve on our board of directors and the audit committee, and our board of directors and management may be required to divert significant time and attention and resources away from our business to identify qualified directors. If we fail to attract and retain the required number of independent directors, we may be subject to the delisting of our common shares from the NYSE and TSX.

As a foreign private issuer, we were subject to different U.S. securities laws and rules than a U.S. domestic issuer, in particular, certain disclosure requirements, which may have limited the information publicly available to our shareholders.

As of June 30, 2018, we determined that we no longer qualify as a "foreign private issuer," as such term is defined in Rule 405 under the Securities Act. However, we remained eligible to use the rules and forms designated for foreign private issuers until January 1, 2019, at which time we were considered a U.S. domestic issuer. As a foreign private issuer, we were not required to comply with all of the periodic disclosure and current reporting requirements of the Exchange Act that apply to U.S. domestic issuers and, as such, there may be less publicly available information about us than if we had been a U.S. domestic issuer prior to January 1, 2019.

We are an emerging growth company and a smaller reporting company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to such companies could make our common shares less attractive to investors.

We are an "emerging growth company," as defined in the Jumpstart Our Business Startups Act (the "JOBS Act"), and a "smaller reporting company," as defined under the Exchange Act, in accordance with the amendments to such definition that became effective September 10, 2018. For as long as we continue to be an emerging growth company or a smaller reporting company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies that are not emerging growth companies or smaller reporting companies, including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements to hold a nonbinding advisory vote on executive compensation and obtain shareholder approval of any golden parachute payments not previously approved. In addition, as a smaller reporting company, we are only required to include two years of audited financial statements in our annual reports and, as an emerging growth company, we are not required to have our independent registered public accounting firm audit our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act. Investors could find our common shares less attractive if we choose to rely on these exemptions. If some investors find our common shares less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common shares and our share price may be more volatile.

We could be an emerging growth company for up to five years following the completion of our IPO on May 3, 2017, but if we have more than $1.07 billion in annual revenue, if the market value of our common shares held by non-affiliates exceeds $700 million as of June 30 of any year, or if we issue more than $1.0 billion of non-convertible debt over a three-year period before the end of that five-year period, we would cease to be an emerging growth company as of the following December 31. We will remain a "smaller reporting company" for so long as (i) the market value of our common shares held by non-affiliates is less than $250 million as of June 30 of any year; or (ii)(a) our annual revenues are less than $100 million and (b) the market value of our common shares held by non-affiliates is less than $700 million as of June 30 of any year.

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

Effective internal control over financial reporting is necessary for us to provide reliable financial reports and, together with adequate disclosure controls and procedures, are designed to prevent fraud. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could cause us to fail to meet our reporting obligations.

Pursuant to Section 404 of the Sarbanes-Oxley Act, or Section 404, and related rules adopted by the SEC and the U.S. Public Company Accounting Oversight Board (the "PCAOB"), our management is required to disclose changes made in our internal control over financial reporting on a quarterly basis and assess the effectiveness of our disclosure controls and procedures annually. We have elected to take advantage of certain exceptions from reporting requirements that are available to emerging growth companies under the JOBS Act and therefore we are not required to deliver an auditor's attestation report on the effectiveness of our internal control over financial reporting pursuant to Section 404 until after the date we are no longer an emerging growth company. We could be an emerging growth company for up to five years from our IPO, although circumstances could cause us to lose that status earlier, including if the market value of our shares held by non-affiliates exceeds $700 million as of June 30 of any year before that time, in which case we would no longer be an emerging growth company as of the following December 31. An independent assessment of the effectiveness of our internal control could detect problems that our management's assessment might not. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could have a negative effect on the trading price of our common shares.

As of December 31, 2018, our management performed an evaluation of the design and operating effectiveness of our internal control over financial reporting based on the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, or 2013 COSO Framework. However, no independent assessment of the design and operating effectiveness of our internal controls was performed by our independent registered public accounting firm as of December 31, 2018 pursuant to certain exceptions under the JOBS Act, as described above. Had our independent registered public accounting firm performed such an evaluation, control deficiencies may have been identified by our independent registered public accounting firm and those control deficiencies could have also represented one or more material weaknesses. Undetected material weaknesses in our internal controls could lead to financial statement restatements and require us to incur the expense of remediation.

We are at risk of securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology companies have experienced significant stock price volatility in recent years. If we face such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could materially harm our business.

We do not anticipate paying cash dividends, and accordingly, shareholders must rely on share appreciation for any return on their investment.

We have never paid any dividends on our common shares. We currently intend to retain our future earnings, if any, to fund the development and growth of our business and do not anticipate that we will declare or pay any cash dividends on our common shares in the foreseeable future. As a result, capital appreciation, if any, of our common shares will be the sole source of gain on investment in our common shares for the foreseeable future. Investors seeking cash dividends should not invest in our common shares.

The NYSE or TSX may delist our securities from its exchange, which could limit investors' ability to make transactions in our securities and subject us to additional trading restrictions.

Our securities may fail to meet the continued listing requirements to be listed on the NYSE or TSX. If the NYSE or TSX delists our common shares from trading on its exchange, we could face significant material adverse consequences, including:

- a limited availability of market quotations for our securities;
- a determination that our common shares is a "penny stock" which will require brokers trading in our common shares to adhere to more stringent rules and possibly result in a reduced level of trading activity in the secondary trading market for our common shares;
- a limited amount of news and analyst coverage for our company; and
- a decreased ability to issue additional securities or obtain additional financing in the future.

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

We are governed by the BCBCA and other relevant laws, which may affect the rights of shareholders differently than those of a company governed by the laws of a U.S. jurisdiction, and may, together with our charter documents, have the effect of delaying, deferring or discouraging another party from acquiring control of our company by means of a tender offer, a proxy contest or otherwise, or may affect the price an acquiring party would be willing to offer in such an instance. The material differences between the BCBCA and Delaware General Corporation Law ("DGCL") that may have the greatest such effect include, but are not limited to, the following: (i) for certain corporate transactions (such as mergers and amalgamations or amendments to our articles) the BCBCA generally requires the voting threshold to be a special resolution approved by 66 $^{2}/_{3}$% of shareholders, or as set out in the articles, as applicable, whereas DGCL generally only requires a majority vote; and (ii) under the BCBCA a holder of 5% or more of our common shares can requisition a special meeting of shareholders, whereas such right does not exist under the DGCL. We cannot predict whether investors will find our company and our common shares less attractive because we are governed by foreign laws.

U.S. civil liabilities may not be enforceable against us, our directors, our officers or certain experts named in this Annual Report on Form 10-K.

We are governed by the BCBCA and our principal place of business is in Canada. Certain of our directors and officers, as well as certain experts named herein, reside outside of the United States, and all or a substantial portion of their assets as well as all or a substantial portion of our assets are located outside the United States. As a result, it may be difficult for investors to effect service of process within the United States upon us and such directors, officers and experts or to enforce judgments obtained against us or such persons, in U.S. courts, in any action, including actions predicated upon the civil liability provisions of U.S. federal securities laws or any other laws of the United States. Additionally, rights predicated solely upon civil liability provisions of U.S. federal securities laws or any other laws of the United States may not be enforceable in original actions, or actions to enforce judgments obtained in U.S. courts, brought in Canadian courts, including courts in the Province of British Columbia. Furthermore, provisions in our articles provide that, unless we consent in writing to the selection of an alternative forum, the Supreme Court of British Columbia and the appellate courts therefrom, to the fullest extent permitted by law, will be the sole and exclusive forum for certain actions or proceedings brought against us, our directors and/or our officers. These provisions may limit our shareholders' ability to bring a claim against us in a judicial forum that our shareholders consider favorable or convenient for such disputes and may discourage lawsuits with respect to such claims.

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

The trading market for our common shares will depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. We cannot assure that analysts will cover us or provide accurate or favorable coverage. If one or more of the analysts who cover us downgrade our stock or change their opinion of our common shares negatively, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline. Moreover, the research and reports that analysts publish may suggest a price for our common shares that does not fully or accurately reflect the true value of our company. Furthermore, even if such analyst publications are favorable, these reports could have negative consequences for us.

U.S. holders of the company's shares may suffer adverse tax consequences if we are characterized as a passive foreign investment company.

We believe that we were not classified as a passive foreign investment company ("PFIC") for the taxable year ending December 31, 2018. However, the determination as to whether we are a PFIC for any taxable year is based on the application of complex U.S. federal income tax rules that are subject to differing interpretations. If we are a PFIC for any taxable year during which a U.S. Holder (as defined under Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities—Certain U.S. Income Tax Considerations For U.S. Holders") holds the common shares, it would likely result in adverse U.S. federal income tax consequences for such U.S. Holder. U.S. Holders should carefully read Item 5, "Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities—Certain U.S. Income Tax Considerations For U.S. Holders" for more information and consult their own tax advisors regarding the likelihood and consequences if we are treated as a PFIC for U.S. federal income tax purposes, including the advisability of making a "qualified electing fund" election (including a protective election), which may mitigate certain possible adverse U.S. federal income tax consequences but may result in an inclusion in gross income without receipt of such income.

Insiders have substantial control over us which could delay or prevent a change in corporate control or result in the entrenchment of management or the board of directors.

Our directors, named executive officers and principal shareholders, together with their affiliates and related persons, beneficially own, in the aggregate, approximately 38% of our outstanding common shares as of February 28, 2019. See Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters." As a result, these shareholders, if acting together, may have the ability to determine the outcome of matters submitted to our shareholders for approval, including the election and removal of directors and any merger, or sale of all or substantially all of our assets. In addition, these persons, acting together, may have the ability to control the management and affairs of our company. Accordingly, this concentration of ownership may harm the market price of our common shares by:

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

Provisions in our corporate charter documents and Canadian law could make an acquisition of us, which may be beneficial to our shareholders, more difficult and may prevent attempts by our shareholders to replace or remove our current management and/or limit the market price of our common shares.

Provisions in our notice of articles and articles, as well as certain provisions under the BCBCA, and applicable Canadian securities laws, may discourage, delay or prevent a merger, acquisition or other change in control of us that shareholders may consider favorable, including transactions in which they might otherwise receive a premium for their common shares. These provisions include the establishment of a staggered board of directors, which divides the board into three groups, with directors in each group serving a three-year term. The existence of a staggered board can make it more difficult for shareholders to replace or remove incumbent members of our board of directors. As such, these provisions could also limit the price that investors might be willing to pay in the future for our common shares, thereby depressing the market price of our common shares. In addition, because our board of directors is responsible for appointing the members of our management team, these provisions may frustrate or prevent any attempts by our shareholders to replace or remove our current management by making it more difficult for shareholders to replace members of our board of directors. Among other things, these provisions include the following:

- shareholders cannot amend our articles unless such amendment is approved by shareholders holding at least a majority of the shares entitled to vote on such approval;
- our board of directors may, without shareholder approval, issue preferred shares having any terms, conditions, rights, preferences and privileges as the board of directors may determine; and
- shareholders must give advance notice to nominate directors or to submit proposals for consideration at shareholders' meetings.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our headquarters are located in Vancouver, British Columbia, where we occupy 27,068 square feet of office and 11,784 square feet of laboratory space. We lease both our office and laboratory space and the term of each lease expires in August 2021.

Our U.S. office is located in Seattle, Washington, where we occupy approximately 10,922 square feet. We lease this office space and the term of the lease expires in February 2022.

We believe that our existing facilities are adequate to meet our current business requirements, but we anticipate that we will need additional space in both Vancouver and Seattle. We entered into a lease on January 25, 2019 for approximately 57,180 square feet of office and laboratory space and approximately 2,780 square feet of storage space in Vancouver to serve as our new headquarters. The commencement date of this lease will be no later than September 21, 2021 and has an initial term of ten years, with two five-year extension options. Effective February 25, 2019, we entered into a lease for approximately 42,286 square feet of office space in Seattle. The commencement date of this lease with respect to 27,954 square feet will be no later than September 1, 2019 and the commencement date with respect to the remaining 14,332 square feet will be no later than April 1, 2020. The expiration date of the lease is April 30, 2025.

Item 3. Legal Proceedings

From time to time, we may become involved in legal proceedings or be subject to claims arising in the ordinary course of our business. As of December 31, 2018, we are not a party to any legal proceedings that, in the opinion of our management, would reasonably be expected to have a material adverse effect on our business, financial

condition, operating results or cash flows if determined adversely to us. Regardless of the outcome, litigation can have an adverse impact on us because of defense and settlement costs, diversion of management resources and other factors.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common shares have been traded on the NYSE and TSX since April 28, 2017 under the symbol "ZYME." Prior to such time, there was no public market for our common shares. The following table sets forth the high and low sales prices per common share as reported on the NYSE and TSX for the periods indicated.

	NYSE		TSX	
	High	Low	High	Low
Quarter Ended	US$		C$	
31-Dec-18	15.73	10.72	20.52	14.34
30-Sep-18	16.88	12.15	21.69	15.84
30-Jun-18	29.00	10.37	30.36	13.37
31-Mar-18	14.00	7.69	17.31	9.62
31-Dec-17	9.33	6.87	11.60	9.00
30-Sep-17	9.12	6.25	11.48	8.05
April 28, 2017 to June 30, 2017	14.25	7.24	19.55	10.50

On March 5, 2019, the last reported sale price of our common shares on the NYSE was $14.70 per share, and on the TSX was C$19.79 per share.

Holders

As at February 28, 2019, we had 44 shareholders of record holding our common shares of which seven were U.S. shareholders. A substantially greater number of holders of Zymeworks' common stock are "street name" or beneficial holders whose shares of record are held by banks, brokers, and other financial institutions.

Dividends

We have never paid any dividends on our common shares or any of our other securities. We currently intend to retain any future earnings to finance the growth and development of our business, and we do not anticipate that we will declare or pay any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will be dependent upon our financial condition, results of operations, capital requirements, restrictions under any future indebtedness and other factors the board of directors deems relevant.

Certain Canadian Income Tax Considerations

Dividends

Residents of Canada

Unless stated otherwise, dividends paid by the Company to Canadian residents are "eligible dividends" as defined in the Income Tax Act (Canada).

Non-residents of Canada

Dividends paid or credited to non-residents of Canada are subject to a 25% withholding tax unless reduced by an applicable tax treaty. Under the Canada-U.S. Tax Convention (1980), or the Convention, U.S. residents who are entitled to all of the benefits of the Convention are generally subject to a 15% withholding tax.

The Canada Revenue Agency allows residents of any country with which Canada has a tax treaty to certify that they reside in that country so they are eligible to have Canadian non-resident tax withheld on the payment of dividends at the reduced tax treaty rate. Registered shareholders should complete the Declaration of Eligibility for Benefits (Reduced Tax) under a Tax Treaty for a Non-Resident Person and return it to our transfer agent, Computershare Investor Services Inc.

Certain U.S. Income Tax Considerations For U.S. Holders

The following discussion summarizes the anticipated material U.S. federal income tax consequences of the ownership and disposition of our common shares. It applies only to U.S. Holders (as defined below) that acquire and hold our common shares as capital assets (generally, property held for investment purposes) and is of a general nature. This summary should not be construed to constitute legal or tax advice to any particular U.S. Holder.

This section does not apply to U.S. Holders subject to special rules, including, without limitation, brokers, dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting for securities holdings, tax-exempt organizations, insurance companies, banks, thrifts and other financial institutions, persons liable for alternative minimum tax, persons that hold an interest in an entity that holds the common shares, persons that will own, or will have owned, directly, indirectly or constructively 10% or more (by vote or value) of the Company's equity, persons that hold the common shares as part of a hedging, integration, conversion or constructive sale transaction or a straddle, or persons whose functional currency is not the U.S. dollar.

This discussion does not purport to be a complete analysis of all of the potential U.S. federal income tax considerations that may be relevant to U.S. Holders in light of their particular circumstances. Further, it does not address any aspect of foreign, state, local or estate or gift taxation or the 3.8% surtax imposed on certain net investment income. **Each prospective investor in our common shares should consult its own tax advisor as to the U.S. federal, state, local, foreign and any other tax consequences of the ownership and disposition of the common shares.**

This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, U.S. Treasury Regulations, IRS rulings, published court decisions, and the Canada-U.S. Tax Convention, or the Convention, all as in effect as of the date hereof, and any of which may be repealed, revoked or modified (possibly with retroactive effect) so as to result in U.S. federal income tax consequences different from those discussed below. This summary is applicable to U.S. Holders who are residents of the United States for purposes of the Convention and who qualify for the full benefits of the Convention.

A "U.S. Holder" is a beneficial owner of the common shares who, for U.S. federal income tax purposes, is a citizen or individual resident of the United States, a corporation (or other entity that is classified as a corporation for U.S. federal income tax purposes) that is created or organized in or under the laws of the United States or any State thereof or the District of Columbia, an estate whose income is subject to U.S. federal income tax regardless of its source, or a trust (i) if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons are authorized to control all substantial decisions of the trust, or (ii) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes.

If a partnership or other pass-through entity holds the common shares of the Company, the U.S. federal income tax treatment of a partner, beneficiary, or other stakeholder will generally depend on the status of that person and

the tax treatment of the pass-through entity. A partner, beneficiary, or other stakeholder in a pass-through entity holding the common shares should consult its own tax advisor with regard to the U.S. federal income tax treatment of its investment in the common shares.

Distributions on the Common Shares

Subject to the PFIC rules discussed below, the gross amount of any distribution received by a U.S. Holder with respect to the common shares (including any amounts withheld to pay Canadian withholding taxes) will be included in the gross income of the U.S. Holder as a dividend to the extent attributable to the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. The Company does not intend to calculate its earnings and profits under U.S. federal income tax rules. Accordingly, U.S. Holders should expect that a distribution generally will be treated as a dividend for U.S. federal income tax purposes. Unless the Company is treated as a PFIC for the taxable year in which it pays a distribution or in the prior taxable year (see "Passive Foreign Investment Company Rules" below), the Company believes that it may qualify as a "qualified foreign corporation," in which case distributions treated as dividends and received by non-corporate U.S. Holders may be eligible for a preferential tax rate. Distributions on the common shares generally will not be eligible for the dividends received deduction available to U.S. Holders that are corporations.

The amount of any dividend paid in Canadian dollars (including any amounts withheld to pay Canadian withholding taxes) will equal the U.S. dollar value of the Canadian dollars calculated by reference to the exchange rate in effect on the date the dividend is received by the U.S. Holder, regardless of whether the Canadian dollars are converted into U.S. dollars. A U.S. Holder will have a tax basis in the Canadian dollars equal to their U.S. dollar value on the date of receipt. If the Canadian dollars received are converted into U.S. dollars on the date of receipt, the U.S. Holder should generally not be required to recognize foreign currency gain or loss in respect of the distribution. If the Canadian dollars received are not converted into U.S. dollars on the date of receipt, a U.S. Holder may recognize foreign currency gain or loss on a subsequent conversion or other disposition of the Canadian dollars. Such gain or loss will be treated as U.S. source ordinary income or loss.

A U.S. Holder may be entitled to deduct or credit Canadian withholding tax imposed on dividends paid to a U.S. Holder, subject to applicable limitations in the Code. For purposes of calculating a U.S. Holder's foreign tax credit, dividends received by such U.S. Holder with respect to the common shares of a foreign corporation generally constitute foreign source income. However, and subject to certain exceptions, a portion of the dividends paid by a foreign corporation will be treated as U.S. source income for U.S. foreign tax credit purposes, in proportion to its U.S. source earnings and profits, if U.S. persons collectively own, directly or indirectly, 50% or more of the voting power or value of the foreign corporation's common shares. If a portion of any dividends paid with respect to the common shares are treated as U.S. source income under these rules, it may limit the ability of a U.S. Holder to claim a foreign tax credit for any Canadian withholding taxes imposed in respect of such dividend. Dividends distributed by the Company will generally constitute "passive category" income for U.S. foreign tax credit purposes. The rules governing the foreign tax credit are complex. U.S. Holders are urged to consult their own tax advisors regarding the availability of the foreign tax credit under their particular circumstances, including the impact of, and any exception available to, the special income sourcing rule described in this paragraph.

Sale, Exchange or Other Taxable Disposition of the Common Shares

Subject to the PFIC rules discussed below, a U.S. Holder will recognize a capital gain or loss on the sale, exchange or other taxable disposition of our common shares in an amount equal to the difference between the amount realized for the common shares and the U.S. Holder's adjusted tax basis in the common shares. Capital gains of non-corporate U.S. Holders derived with respect to capital assets held for more than one year are eligible for reduced rates of taxation. The deductibility of capital losses is subject to limitations. Any capital gain or loss recognized by a U.S. Holder generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes.

Passive Foreign Investment Company Rules

A foreign corporation will be considered a PFIC for any taxable year in which (1) 75% or more of its gross income is "passive income" under the PFIC rules or (2) 50% or more of the average quarterly value of its assets produce (or are held for the production of) "passive income." For this purpose, "passive income" generally includes interest, dividends, certain rents and royalties, and certain gains. Royalties derived in the active conduct of a trade or business by a corporation in the licensing of property developed or created through its own officers or staff of employees is generally excluded from passive income, and interest, dividends, rents and royalties received from a related person (within the meaning of the PFIC rules) are excluded from passive income to the extent such payments are properly allocable to the active income of such related person. Moreover, for purposes of determining if the foreign corporation is a PFIC, if the foreign corporation owns, directly or indirectly, at least 25%, by value, of the shares of another corporation, it will be treated as if it holds directly its proportionate share of the assets and receives directly its proportionate share of the income of such other corporation. If a corporation is treated as a PFIC with respect to a U.S. Holder for any taxable year, the corporation will continue to be treated as a PFIC with respect to that U.S. Holder in all succeeding taxable years, regardless of whether the corporation continues to meet the PFIC requirements in such years, unless certain elections are made.

The determination as to whether a foreign corporation is a PFIC is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, and the determination will depend on the composition of the income, expenses and assets of the foreign corporation from time to time and the nature of the activities performed by its officers and employees. The Company believes that it was not classified as a PFIC for the taxable year ending December 31, 2018. However, the Company cannot provide any assurance regarding its PFIC status for the future taxable years given that the determination of PFIC status is fact-intensive and made on an annual basis. Neither the Company's U.S. counsel nor U.S. tax advisor expresses any opinion with respect to the Company's PFIC status or with respect to the Company's expectations regarding its PFIC status.

If the Company is classified as a PFIC, a U.S. Holder that does not make any of the elections described below would be required to report any gain on the disposition of our common shares as ordinary income, rather than as capital gain, and to compute the tax liability on the gain and any "Excess Distribution" (as defined below) received in respect of common shares as if such items had been earned ratably over each day in the U.S. Holder's holding period (or a portion thereof) for the common shares. The amounts allocated to the taxable year during which the gain is realized or distribution is made, and to any taxable years in such U.S. Holder's holding period that are before the first taxable year in which the Company is treated as a PFIC with respect to the U.S. Holder, would be included in the U.S. Holder's gross income as ordinary income for the taxable year of the gain or distribution. The amount allocated to each other taxable year would be taxed as ordinary income in the taxable year during which the gain is realized or distribution is made at the highest tax rate in effect for the U.S. Holder in that other taxable year and would be subject to an interest charge as if the income tax liabilities had been due with respect to each such prior year. For purposes of these rules, gifts, exchanges pursuant to corporate reorganizations and use of common shares as security for a loan may be treated as a taxable disposition of the common shares. An "Excess Distribution" is the amount by which distributions during a taxable year in respect of a common share exceed 125% of the average amount of distributions in respect thereof during the three preceding taxable years (or, if shorter, the U.S. Holder's holding period for the common shares).

Certain additional adverse tax rules will apply to a U.S. Holder for any taxable year in which the Company is treated as a PFIC with respect to such U.S. Holder and any of the Company's subsidiaries is also treated as a PFIC (a "Subsidiary PFIC"). In such a case, the U.S. Holder will generally be deemed to own its proportionate interest (by value) in any Subsidiary PFIC and be subject to the PFIC rules described above with respect to the Subsidiary PFIC regardless of such U.S. Holder's percentage ownership in the Company.

The adverse tax consequences described above may be mitigated if a U.S. Holder makes a timely "qualified electing fund" election (a "QEF election") with respect to its interest in the PFIC. Consequently, if the Company is classified as a PFIC, it would likely be advantageous for a U.S. Holder to elect to treat the Company as a

"qualified electing fund" (a "QEF") with respect to such U.S. Holder in the first year in which it holds our common shares. If a U.S. Holder makes a timely QEF election with respect to the Company, the electing U.S. Holder would be required in each taxable year that the Company is considered a PFIC to include in gross income (i) as ordinary income, the U.S. Holder's pro rata share of the ordinary earnings of the Company and (ii) as capital gain, the U.S. Holder's pro rata share of the net capital gain (if any) of the Company, whether or not the ordinary earnings or net capital gain are distributed. An electing U.S. Holder's basis in common shares will be increased to reflect the amount of any taxed but undistributed income. Distributions of income that had previously been taxed will result in a corresponding reduction of basis in the common shares and will not be taxed again as distributions to the U.S. Holder.

A QEF election made with respect to the Company will not apply to any Subsidiary PFIC; a QEF election must be made separately for each Subsidiary PFIC (in which case the treatment described above would apply to such Subsidiary PFIC). If a U.S. Holder makes a timely QEF election with respect to a Subsidiary PFIC, it would be required in each taxable year to include in gross income its pro rata share of the ordinary earnings and net capital gain of such Subsidiary PFIC, but may not receive a distribution of such income. Such a U.S. Holder may, subject to certain limitations, elect to defer payment of current U.S. federal income tax on such amounts, subject to an interest charge (which would not be deductible for U.S. federal income tax purposes if the U.S. Holder were an individual).

If the Company determines that it, and any subsidiary in which the Company owns, directly or indirectly, more than 50% of such subsidiary's total aggregate voting power, is likely a PFIC in any taxable year, the Company intends to make available to U.S. Holders, upon request and in accordance with applicable procedures, a "PFIC Annual Information Statement" with respect to the Company and any such subsidiary for such taxable year. The "PFIC Annual Information Statement" may be used by U.S. Holders for purposes of complying with the reporting requirements applicable to a QEF election with respect to the Company and any Subsidiary PFIC. The U.S. federal income tax on any gain from the disposition of common shares or from the receipt of Excess Distributions may be greater than the tax if a timely QEF election is made.

Alternatively, if the Company were to be classified as a PFIC, a U.S. Holder could also avoid certain of the rules described above by making a mark-to-market election (instead of a QEF election), provided the common shares are treated as regularly traded on a qualified exchange or other market within the meaning of the applicable U.S. Treasury Regulations. However, a U.S. Holder will not be permitted to make a mark-to-market election with respect to a Subsidiary PFIC. U.S. Holders should consult their own tax advisers regarding the potential availability and consequences of a mark-to-market election, as well as the advisability of making a protective QEF election in case the Company is classified as a PFIC in any taxable year.

During any taxable year in which the Company or any Subsidiary PFIC is treated as a PFIC with respect to a U.S. Holder, that U.S. Holder must generally file IRS Form 8621. U.S. Holders should consult their own tax advisors concerning annual filing requirements.

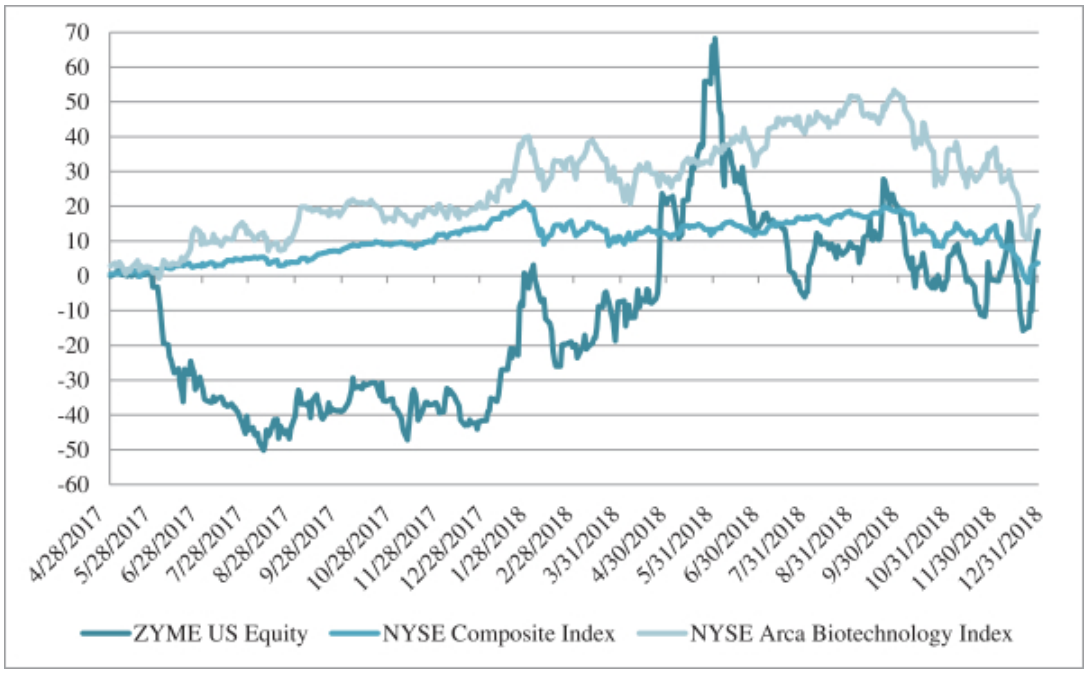
Required Disclosure with Respect to Foreign Financial Assets

Certain U.S. Holders are required to report information relating to an interest in our common shares, subject to certain exceptions (including an exception for common shares held in accounts maintained by certain financial institutions), by attaching a completed IRS Form 8938, Statement of Specified Foreign Financial Assets, with their tax return for each year in which they hold an interest in the common shares. **U.S. Holders are urged to consult their own tax advisors regarding information reporting requirements relating to their ownership of the common shares**.

Performance Graph

This performance graph shall not be deemed "filed" for purposes of Section 18 of the Exchange Act or incorporated by reference into any of our filings under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The following stock performance graph illustrates a comparison of the total cumulative shareholder return on our common shares from April 28, 2017, which is the date our common shares commenced trading on the NYSE, through December 31, 2018, to two indices: the NYSE Composite Index and the NYSE Arca Biotechnology Index. The graph assumes an initial investment of $100 on April 28, 2017, and, where applicable, includes the reinvestment of dividends.



The comparisons in the graph above are not intended to forecast or be indicative of possible future performance of our common shares.

Recent Sales of Unregistered Securities

During the fiscal year ended December 31, 2018, we (i) granted our Canadian employees, consultants and advisors options to purchase an aggregate of 761,260 common shares under our equity compensation plans at exercise prices ranging from C$15.59 to C$21.04 and $11.84 to $17.20 per share and (ii) made an aggregate of 13,859 common shares available to eligible Canadian employees for purchase under our employee stock purchase plan at purchase prices ranging from C$8.23 to C$16.54 per share. Such options and shares were issued and sold in offshore transactions pursuant to Regulation S under the Securities Act.

Issuer Repurchases of Equity Securities

None.

Item 6. Selected Financial Data

The following selected financial data is derived from our audited consolidated financial statements and should be read in conjunction with, and is qualified in its entirety by, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 8, "Financial Statements and Supplementary Data" contained elsewhere in this Annual Report on Form 10-K. The selected Consolidated Statement of Operations

Data for the years ended December 31, 2018, 2017 and 2016 and Consolidated Balance Sheet Data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements appearing elsewhere in this Annual Report on Form 10-K. The selected Consolidated Statement of Operations Data for the year ended December 31, 2014 and 2015 and Consolidated Balance Sheet Data as of December 31, 2015 and 2016 have been derived from our audited financial statements that are not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of future results. Our audited annual consolidated financial statements have been prepared in U.S. dollars and in accordance with U.S. Generally Accepted Accounting Principles.

	Year Ended December 31,				
	2018	2017	2016	2015	2014
	(dollars in thousands except share and per share amounts)				
Consolidated Statement of Operations Data					
Revenue	$ 53,019	$ 51,762	$ 11,009	$ 9,660	$ 1,670
Operating Expenses:					
Research and development	56,684	41,749	36,816	24,654	12,622
Government grants and credits	5	(1,075)	(1,265)	(251)	(2,149)
	56,689	40,674	35,551	24,403	10,473
General and administrative	29,457	18,550	12,554	5,217	3,945
Impairment on acquired IPR&D	—	1,536	768	—	—
Total operating expenses	86,146	60,760	48,873	29,620	14,418
Loss from Operations	(33,127)	(8,998)	(37,864)	(19,960)	(12,748)
Change in fair value of warrant liabilities	(3,565)	2,450	(808)	—	—
Other income (expense)	2,307	(3,414)	(212)	824	(194)
Loss before income taxes	(34,385)	(9,962)	(38,884)	(19,136)	(12,942)
Income tax expense	(2,188)	(429)	(430)	(34)	—
Deferred income tax (expense) recovery	17	(15)	5,505	—	—
Net loss	$ (36,556)	$ (10,406)	$ (33,809)	$ (19,170)	$ (12,942)
Net loss per common share (basic) (1)	(1.26)	(0.51)	(2.65)	(1.70)	(1.77)
Net loss per common share (diluted) (1)	(1.26)	(0.64)	(2.65)	(1.70)	(1.77)
Weighted-average number of common shares (basic) (1)	29,089,896	21,249,414	12,736,567	11,266,451	7,323,985
Weighted-average number of commons shares (diluted) (1)	29,089,896	21,321,209	12,736,567	11,266,451	7,323,985

(1) See “Notes to the Consolidated Financial Statements—Summary of Significant Accounting Policies—Net Income (Loss) Per Share” for an explanation of the method used to calculate basic and diluted net income (loss) per common share and the weighted-average number of common shares used in computation of the per common share amounts.

	Year Ended December 31,			
	2018	2017	2016	2015
			(dollars in thousands)	
Consolidated Balance Sheet Data				
Cash and cash equivalents	$ 42,205	$ 35,946	$16,437	$11,519
Short-term investments	157,959	51,851	23,824	3,641
Working capital	174,383	77,674	29,928	12,828
Long-term obligations	33,887	866	9,577	59
Total assets	244,363	131,955	93,995	23,149
Total liabilities	63,873	15,527	26,133	4,910
Redeemable convertible preferred shares	—	—	58,860	—
Total shareholders' equity	180,490	116,428	9,002	18,239

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The following discussion should be read in conjunction with the attached financial statements and notes thereto. This Annual Report on Form 10-K, including the following sections, contains forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that could cause actual results and events to differ materially from those expressed or implied by such forward-looking statements. For a detailed discussion of these risks and uncertainties, see Item 1A, "Risk Factors" of this Annual Report on Form 10-K. We caution the reader not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date of this Annual Report on Form 10-K. We undertake no obligation to update forward-looking statements which reflect events or circumstances occurring after the date of this Annual Report on Form 10-K. Throughout this discussion, unless the context specifies or implies otherwise, the terms "Zymeworks," "we," "us," and "our" refer to Zymeworks Inc. and its subsidiary.

Overview

Zymeworks is a clinical-stage biopharmaceutical company dedicated to the development of next-generation multifunctional biotherapeutics. Our suite of complementary therapeutic platforms and our fully integrated drug development engine provide the flexibility and compatibility to precisely engineer and develop highly differentiated product candidates. These capabilities have resulted in multiple product candidates with the potential to drive positive outcomes in large underserved and unaddressed patient populations.

Initial Public Offering

On May 3, 2017, we closed our initial public offering (the "IPO") pursuant to which the we sold 4,894,467 common shares (including the sale of 394,467 common shares to the underwriters upon their partial exercise of their over-allotment option to purchase additional common shares on May 31, 2017). The public offering price of the common shares sold in the IPO was $13.00 per share. We received net proceeds of approximately $54.2 million, after underwriting discounts, commissions and offering expenses. The common shares are listed for trading on the NYSE and the TSX under the symbol "ZYME".

Subsequent Public Offering

On June 11, 2018, we closed an underwritten public offering pursuant to which we sold 6,210,000 common shares (including the sale of 810,000 common shares to the underwriters upon their full exercise of their over-allotment option to purchase additional common shares). The public offering price of the common shares sold in this offering was $15.75 per share. We received net proceeds of approximately $90.8 million, after underwriting discounts, commissions and offering expenses.

Description of Business and Products

Our lead product candidate, ZW25, is a novel bispecific (dual-targeting) antibody which targets two distinct domains of HER2. In our adaptive Phase 1 clinical trial, ZW25 has been well tolerated with promising single-agent anti-tumor activity in patients with heavily pretreated HER2-expressing cancers that have progressed after standard of care, including multiple HER2-targeted regimens. Its unique design may enable ZW25 to address patient populations with all levels of HER2 expression, including those with low to intermediate HER2-expressing tumors, who are otherwise limited to chemotherapy or hormone therapy. Our second product candidate, ZW49, capitalizes on the unique design of ZW25 and is a bispecific ADC based on the same antibody framework as ZW25 but armed with our proprietary ZymeLink-cytotoxic (potent cancer cell-killing) payload. We designed ZW49 to be a best-in-class HER2-targeting ADC for several indications characterized by HER2 expression. An IND application for ZW49 was accepted by the FDA in the fourth quarter of 2018. We are also advancing a deep pipeline of preclinical product candidates and discovery-stage programs in I-O and other therapeutic areas. In addition to our robust pipeline, our Azymetric™ and EFECT™ therapeutic platforms have been further leveraged through multiple revenue-generating strategic partnerships with the following global pharmaceutical companies: Merck, Lilly, Celgene, GSK, Daiichi Sankyo, Janssen, LEO, and BeiGene.

Our proprietary capabilities and technologies include several modular, complementary therapeutic platforms that can be used in combination with each other and with existing approaches. This ability to layer technologies without compromising manufacturability enables us to engineer next-generation biotherapeutics with synergistic activity, which we believe will result in positive patient outcomes. Our protein engineering expertise and proprietary structure-guided molecular modeling capabilities enable these therapeutic platforms. Together with our internal antibody discovery and generation technologies, we have established a fully integrated drug development engine and toolkit capable of rapidly delivering a steady pipeline of next-generation product candidates in oncology and other therapeutic areas.

We commenced active operations in 2003 and have since devoted substantially all of our resources to research and development activities including developing our therapeutic platforms, identifying and developing potential product candidates and undertaking preclinical studies and clinical trials. Additionally, we have supported our research and development activities with general and administrative support, as well as by raising capital, conducting business planning and protecting our intellectual property. We have not generated any revenue from product sales to date and do not expect to do so until such time as we obtain regulatory approval and commercialize one or more of our product candidates. We cannot be certain of the timing or success of approval of our product candidates. We have financed our operations primarily through private equity placements, an issuance of convertible debentures, payments received under license and collaboration agreements, government grants and Scientific Research and Experimental Development (“SR&ED”) tax credits and a credit facility as well as our IPO in 2017 and subsequent public offering in 2018. From inception through December 31, 2018, we received approximately $297.1 million, net of share issue costs, from private equity placements, the issuance of convertible debt, which subsequently converted into equity securities, our IPO and subsequent public offering. Payments received from our license and collaboration agreements include upfront fees and milestone payments as well as research support and reimbursement payments through our strategic partnerships and government grants. Although it is difficult to predict our funding requirements, based upon our current operating plan, we anticipate that our existing cash and cash equivalents and short-term investments as of December 31, 2018, combined with the collaboration payments we anticipate receiving, will enable us to fund the clinical and preclinical development of our lead product candidates into 2021.

Through December 31, 2018, we had an accumulated deficit of $145.3 million. We reported a net loss of $36.6 million for the year ended December 31, 2018. We expect that over the next several years we will increase our research and development expenditures in connection with the ongoing development of our product candidates and other clinical, preclinical and regulatory activities.

Strategic Partnerships and Collaborations

Our novel therapeutic candidates, together with the unique combination of proprietary protein engineering capabilities and resulting therapeutic platform technologies have enabled us to enter into a number of strategic partnerships, many of which were subsequently expanded in scope. In 2018, we entered into new or expanded licensing and collaboration agreements with Daiichi Sankyo, Celgene, LEO and BeiGene. Our strategic partnerships provide us with the ability to accelerate clinical development of our therapeutic candidates in certain geographical regions and provide our strategic partners with access to components of our proprietary Azymetric and/or EFECT therapeutic platforms for their own therapeutics development. These strategic partnerships have provided us with non-dilutive funding as well as access to proprietary therapeutic assets, which increase our ability to rapidly advance our product candidates while maintaining commercial rights to our own therapeutic pipeline. To date, we have received $172.8 million in the form of non-refundable upfront payments and milestone payments and are additionally eligible to receive up to $2.4 billion in preclinical and development milestone payments and $5.2 billion in commercial milestone payments available under our existing collaboration agreements, as well as tiered royalties on potential future product sales. It is possible, however, that our strategic partners' programs will not advance as currently contemplated, which would negatively affect the amount of development and commercial milestone payments and royalties on potential future product sales we may receive. Importantly, these partnerships include predominantly non-target-exclusive licenses for any of our therapeutic platforms, so we maintain the ability to develop therapeutics directed to many high-value targets utilizing our platforms. Our strategic partnerships include the following:

Research and License Agreement with Merck

In August 2011, we entered into a research and license agreement with Merck, which was amended and restated in December 2014, to develop and commercialize three bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, we granted Merck a worldwide, royalty-bearing antibody sequence pair exclusive license to research, develop and commercialize certain licensed products. We are eligible to receive up to $190.75 million, including an upfront payment ($1.25 million received in 2011), research milestone payments totaling $3.5 million ($2.0 million and $1.5 million received in 2012 and 2013, respectively), payments for completion of IND-enabling studies of up to $6.0 million, development milestone payments of up to $66.0 million and commercial milestone payments of up to $114.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. Merck is solely responsible for the further research, development, manufacturing and commercialization of the products.

Licensing and Collaboration Agreement with Lilly

In December 2013, we entered into a licensing and collaboration agreement with Lilly to research, develop and commercialize one bispecific antibody, with an option for a second antibody, generated through the use of the Azymetric platform. Under the terms of the agreement, we granted Lilly a worldwide, royalty-bearing antibody target pair-specific exclusive license to research, develop and commercialize certain licensed products. We are eligible to receive up to $103.0 million, including an upfront payment ($1.0 million received in 2013) and per product potential milestone payments, comprised of research milestone payments totaling $1.0 million (received in 2015), IND submission milestone payments of $2.0 million (received in 2018), development milestone payments of $8.0 million and commercial milestone payments of $40.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. Lilly is solely responsible for the further research, development, manufacturing, and commercialization of the products.

Second Licensing and Collaboration Agreement with Lilly

In October 2014, we entered into a second licensing and collaboration agreement with Lilly to research, develop and commercialize one bispecific antibody generated through the use of the Azymetric platform. This agreement did not alter or amend the initial 2013 agreement. Under the terms of this 2014 agreement, we granted Lilly a

worldwide, royalty-bearing antibody sequence pair-specific license to research, develop and commercialize certain licensed products. In 2019 Lilly filed an IND for a bispecific candidate from this agreement for clinical development. We are currently eligible to receive up to $125.0 million, comprised of research milestone payments of up to $2.0 million (received in 2016), IND submission milestone payments of up to $8.0 million (received in 2019), development milestone payments of up to $20.0 million and commercial milestone payments of up to $95.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. Lilly is solely responsible for the research, development, manufacturing and commercialization of the products.

Licensing and Collaboration Agreement with Celgene

In December 2014, we entered into a collaboration agreement with Celgene to research, develop and commercialize bispecific antibodies generated through the use of the Azymetric platform. This agreement was expanded in 2018 to increase the number of programs from eight to ten and to extend Celgene's research period. Under the terms of the agreement, we granted Celgene a right to exercise options to worldwide, royalty-bearing, antibody sequence pair-specific exclusive licenses to research, develop and commercialize certain licensed products. We received an upfront payment ($8.0 million received in 2014) and an expansion fee of $4.0 million (received in 2018). Celgene has the right to exercise options on up to ten programs and if Celgene opts in on a program, we are eligible to receive up to $164.0 million per product candidate (up to $1.64 billion for all ten programs), comprised of a commercial license option payment of $7.5 million, development milestone payments of up to $101.5 million and commercial milestone payments of up to $55.0 million. No development or commercial milestone payments or royalties have been received to date. After conclusion of Celgene's research period, Celgene will be solely responsible for the research, development, manufacturing and commercialization of the products.

Licensing and Collaboration Agreement with GSK

In December 2015, we entered into a collaboration and license agreement with GSK to research, develop and commercialize up to ten Fc-engineered monoclonal and bispecific antibodies generated through the use of the EFECT and Azymetric platforms. Under the terms of the agreement, we granted GSK a worldwide, royalty-bearing antibody target-exclusive license to new intellectual property generated to the EFECT platform under this collaboration and a non-exclusive license to the Azymetric platform to research, develop and commercialize future licensed products. We are eligible to receive up to $1.1 billion, including research, development and commercial milestone payments of up to $110.0 million for each product. In addition, we are eligible to receive tiered royalties in the low single digits on net sales of products. No development or commercial milestone payments or royalties have been received to date. We retained the right to develop up to four products, free of royalties, using the new intellectual property generated in this collaboration, and after a period of time, to grant licenses to such intellectual property for development of additional products by third parties.

Under this agreement, we are sharing certain research and development responsibilities with GSK to generate new Fc-engineered antibodies. Each party will bear its own costs for the responsibilities assigned to it during the research period. After the conclusion of the research period, each party will be solely responsible for the further research, development, manufacturing and commercialization of its own respective products.

Second Licensing and Collaboration Agreement with GSK

In April 2016, we entered into a licensing agreement with GSK to research, develop and commercialize up to six bispecific antibodies generated through the use of the Azymetric platform. This may include bispecific antibodies incorporating new engineered Fc regions generated under the 2015 GSK agreement. Under the terms of this 2016 agreement, we granted GSK a worldwide, royalty-bearing antibody sequence pair-specific exclusive license to research, develop and commercialize licensed products. We are eligible to receive up to $908.0 million, including an upfront payment as a technology access fee ($6.0 million received in 2016), research milestone

payments of up to $30.0 million, development milestone payments of up to $152.0 million and commercial milestone payments of up to $720.0 million. In addition, we are eligible to receive tiered royalties in the low to mid-single digits on product sales. GSK bears all responsibility and costs associated with research, development and commercialization of products generated using the Azymetric platform.

Collaboration and Cross-License Agreement with Daiichi Sankyo

In September 2016, we entered into a collaboration and cross-license agreement with Daiichi Sankyo to research, develop and commercialize one bispecific antibody generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, we granted Daiichi Sankyo a worldwide, royalty-bearing antibody sequence pair-specific exclusive license to research, develop and commercialize certain licensed products. We are eligible to receive up to $149.9 million, including an upfront payment as a technology access fee of $2.0 million (received in 2016), research ($1.0 million received in 2017) and development milestone payments and a commercial option payment totaling up to $67.9 million and commercial milestone payments of up to $80.0 million. In addition, we are eligible to receive tiered royalties ranging from the low single digits up to 10% on product sales. We also gained non-exclusive rights to develop and commercialize up to three products using Daiichi Sankyo's proprietary immune-oncology antibodies, with royalties in the low single digits to be paid to Daiichi Sankyo on sales of such products. Daiichi Sankyo is solely responsible for the research, development, manufacturing and commercialization of the products. Under the non-exclusive immuno-oncology antibody license to Zymeworks, we are solely responsible for all research, development and commercialization of the resulting products.

Second Licensing Agreement with Daiichi Sankyo

In May 2018, we entered into a new license agreement with Daiichi Sankyo to research, develop and commercialize two bispecific antibodies generated through the use of the Azymetric and EFECT platforms. This agreement did not alter or amend the initial 2016 agreement. Under the terms of this 2018 agreement, we granted Daiichi Sankyo a worldwide, royalty-bearing, antibody sequence pair-specific, exclusive license to research, develop and commercialize certain products. We are eligible to receive up to $484.7 million, including an upfront technology access fee payment of $18.0 million (received in June 2018), development milestone payments totaling up to $126.7 million and commercial milestone payments of up to $340.0 million. In addition, we are eligible to receive tiered royalties ranging from the low single digits up to 10% on product sales. Daiichi Sankyo is solely responsible for the research, development, manufacturing and commercialization of the products.

Licensing and Collaboration Agreement with Janssen

In November 2017, we entered into a collaboration agreement with Janssen to research, develop and commercialize up to six bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, we granted Janssen a worldwide, royalty-bearing, antibody sequence pair-specific exclusive license to research, develop and commercialize certain products. We are eligible to receive up to $1.45 billion, including an upfront payment of $50.0 million (received in 2017), development milestone payments of up to $282.0 million and commercial milestone payments of up to $1.12 billion. In addition, we are eligible to receive tiered royalties in the mid-single digits on product sales. Janssen has the option to develop two additional bispecific antibodies under this agreement subject to a future option payment. Janssen is solely responsible for the research, development, manufacturing and commercialization of the products.

Research and License Agreement with LEO

In October 2018, we entered into a collaboration agreement with LEO whereby we granted LEO a worldwide, royalty-bearing, antibody sequence pair-specific exclusive license to research, develop and commercialize two bispecific antibodies, generated through the use of the Azymetric and EFECT platforms, for dermatologic

indications. Zymeworks will retain rights to develop antibodies resulting from this collaboration in all other therapeutic areas. Pursuant to this agreement, we received an upfront payment of $5.0 million in 2018. In addition, (i) for the first therapeutic candidate, we are eligible to receive preclinical and development milestone payments of up to $74.0 million and commercial milestone payments of up to $157.0 million together with tiered royalties on future sales of up to 20% in the United States and up to high single digits elsewhere, and (ii) for the second therapeutic candidate, we are eligible to receive preclinical and development milestone payments of up to $86.5 million and commercial milestone payments of up to $157.0 million together with tiered royalties on future sales of up to low double digits globally. For products developed by Zymeworks outside of dermatology, LEO is eligible to receive commercial milestone payments and up to single-digit royalties on future sales. No development or commercial milestone payments or royalties have been received to date. Zymeworks and LEO are jointly responsible for certain research activities, with Zymeworks' cost to be fully reimbursed by LEO. Each party is solely responsible for the development, manufacturing, and commercialization of its own products.

Licensing and Collaboration Agreements with BeiGene

In November 2018, we entered into agreements with BeiGene whereby we granted BeiGene royalty-bearing exclusive licenses for the research, development and commercialization of ZW25 and ZW49 in Asia (excluding Japan but including the People's Republic of China, South Korea and other countries), Australia and New Zealand. In addition, we also granted BeiGene a worldwide, royalty-bearing, antibody sequence pair-specific license to research, develop and commercialize globally three bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Zymeworks received an upfront payment of $60.0 million in 2018 for the totality of the rights described.

ZW25 & ZW49

For the research, development and commercialization licenses to ZW25 and ZW49, we received an upfront payment of $40.0 million in 2018. In aggregate for both ZW25 and ZW49, we are also eligible to receive development and commercial milestone payments of $390 million, together with tiered royalties from high single digits and up to 20% on future sales of the products. No development or commercial milestone payments or royalties have been received to date.

Under the agreement, Zymeworks and BeiGene are collaborating on certain global clinical studies and both Zymeworks and BeiGene will independently conduct other clinical studies in their own respective territories. Each of Zymeworks and BeiGene are responsible for all the development and commercialization costs in their own territories.

Azymetric & EFECT Platforms

For the development and commercialization licenses of up to three bispecific antibody therapeutics using the Azymetric and EFECT platforms, we received an upfront payment of $20.0 million in 2018. We are also eligible to receive development and commercial milestone payments of up to an aggregate of $702.0 million. In addition, we are eligible to receive tiered royalties in the mid-single digits on product sales. No development or commercial milestone payments or royalties have been received to date. BeiGene is solely responsible for the research, development, manufacturing, and commercialization of the products.

Financial Operations Overview

Revenue

Our revenue consists of collaboration revenue, including amounts recognized relating to upfront non-refundable payments for licenses or options to obtain future licenses, research and development funding and milestone payments earned under collaboration and license agreements. We expect these and other strategic partnerships, as well as the amortization of deferred revenue from prior collaboration arrangements to be our primary sources of revenue for the foreseeable future.

Research and Development Expense

Research and development expenses consist of expenses incurred in performing research and development activities. These expenses include conducting preclinical research studies, clinical trials, and other indirect expenses in support of advancing our product candidates and therapeutic platforms. The following items are included in research and development expenses:

- employee-related expenses such as salaries and benefits;
- employee-related overhead expenses such as facilities and other allocated items;
- share-based compensation expense related to employees and consultants engaged in research and development activities;
- depreciation of laboratory equipment, computers and leasehold improvements;
- fees paid to third-party manufacturers to produce our clinical product candidate supplies and on other third parties to store, monitor and transport bulk drug substance and drug product
- fees paid to consultants, subcontractors, CROs, and other third-party vendors for work performed under our clinical trials and preclinical studies, including but not limited to laboratory work and analysis, database management, statistical analysis, and other items; and
- Amounts paid to vendors and suppliers for laboratory supplies.

The following table shows a summary of our research and development expenses for the years ended December 31, 2018, 2017 and 2016.

	Year Ended December 31,		
	2018	2017	2016
	(dollars in millions)		
Research and development expense			
ZW25	$25.1	$15.0	$ 6.1
ZW49	6.4	3.4	—
Therapeutic platforms	6.7	6.8	7.6
Other research activities	18.5	16.5	23.1
Total research and development expense	$56.7	$41.7	$36.8
Less: Government credits	—	1.1	1.3
	$56.7	$40.6	$35.5

It is difficult to determine with certainty the duration and completion costs of our current or future clinical trials and preclinical programs of our product candidates, or if, when or to what extent we will generate revenue from the commercialization and sale of any of our product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates. The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors, including the uncertainties of clinical trials and preclinical studies, uncertainties in clinical trial enrollment rates and significant and changing government regulation. In addition, the probability of success for each product candidate will depend on numerous factors, including competition, manufacturing capability and commercial viability. We will determine which programs to pursue and how much to fund each program in response to the scientific and clinical success of each product candidate, as well as an assessment of each product candidate's commercial potential.

For the year ended December 31, 2018, our research and development expenditures increased by $15.0 million, compared to the prior year. This was primarily due to an increase in activities related to the progression and expansion of ZW25 clinical studies and the associated manufacturing costs, as well as development activities for

ZW49 in 2018, and an increase in other research and development, which includes an increase in salaries and benefits expense as a result of an increase in headcount and non-cash stock-based compensation expense compared to the same period in 2017.

General and Administrative Expense

General and administrative expenses consist of salaries and related benefit costs for employees in our executive, finance, intellectual property, business development, human resources and other support functions, as well as legal and professional fees, travel and other general office expenses. We expect to incur additional expenses related to supporting our ongoing research and development activities, operating as a public company and other administrative expenses.

Other Income (Expense)

Other income (expense) primarily consists of interest and accretion expenses, interest income, change in fair value of warrant liabilities, foreign exchange gain (loss) and loss on debt extinguishment.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of financial conditions and results of operations is based on our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these consolidated financial statements requires us to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and the reported amount of the revenue and expenses recorded during the reporting periods. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. We review and evaluate these estimates on an ongoing basis. These assumptions and estimates form the basis for making judgments about the carrying values of assets and liabilities and amounts that have been recorded as revenue and expenses. Actual results and experiences may differ from these estimates. The results of any material revisions would be reflected in the consolidated financial statements prospectively from the date of the change in estimate.

While a summary of significant accounting policies has been included in note 2 of our consolidated financial statements, we believe that the following accounting policies are the most critical to assist you in fully understanding and evaluating our financial results and any effect of the estimates and judgments we used in preparing our consolidated financial statements. There have been no material changes to our critical accounting policies during the year ended December 31, 2018.

Business Combination and Goodwill

Acquisitions of businesses are accounted for using the acquisition method. The consideration for a business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by us to the former owners of the acquiree in exchange for control of the acquiree. Acquisition related costs incurred for the business combination are expensed. The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair value at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration issued for the acquisition over our interest in the fair value of the net identifiable assets, liabilities and contingent liabilities acquired. If our interest in the fair value of the acquiree's net identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized in earnings or loss immediately. Goodwill is evaluated for impairment on an annual basis or more frequently if an indicator of impairment is present. Goodwill is subject to a two-step impairment test. The first step compares the fair value of

the reporting unit to its carrying amount, which includes the goodwill. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired, and the second step of the impairment test is unnecessary. If the carrying amount exceeds the implied fair value of the reporting unit, the second step measures the amount of the impairment loss. If the carrying amount exceeds the fair value of the goodwill, an impairment loss is recognized equal to that excess.

Acquired In-Process Research and Development

The in-process research and development intangible asset ("IPR&D") is classified as indefinite-lived and is not amortized. IPR&D becomes definite-lived upon the completion or abandonment of the associated research and development efforts. Intangible assets with finite useful lives are amortized on a straight-line basis over their estimated useful lives, which are the respective patent terms. Amortization begins when intangible assets with finite lives are put into use. Indefinite-lived intangible assets will be evaluated for impairment on an annual basis or more frequently if an indicator of impairment is present. For definite-lived intangibles, if there is a major event indicating that the carrying value of intangible assets may be impaired, then management will perform an impairment test. When an impairment test is performed, if the carrying value exceeds the recoverable value, based on discounted future cash flows, then such assets are written down to their fair values. All research and development costs incurred subsequent to the acquisition are immediately expensed as incurred.

Revenue Recognition

In accordance with ASC 606, the Company recognizes revenue when the Company's customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expects to receive in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when or as the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration that it is entitled to in exchange for the goods and services transferred to the customer. At contract inception, the Company assesses the goods or services promised within each contract that falls under the scope of Topic 606, to identify distinct performance obligations. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied. For a collaborative arrangement that falls within the scope of ASC 808, Collaborative Arrangements ("ASC 808"), the Company applies the revenue recognition model under ASC 606 to part or all of the arrangement, when deemed appropriate.

As of December 31, 2018, the Company has entered into a number of license and collaboration agreements that fall within the scope of ASC 606. Promised deliverables within these agreements may include: (i) grants of licenses, or options to obtain licenses, to our intellectual property, (ii) research and development services, and (iii) participation on joint research and/or development committees. The terms of these agreements typically include one or more of the following types of payments to the Company:

Licenses of intellectual property including platform technology access: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, upfront fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are not distinct from other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, upfront fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the related revenue recognition accordingly.

Milestone payments: At the inception of each arrangement that includes research, development or regulatory milestone payments, the Company evaluates whether the milestones are considered probable of being reached and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect license, collaboration and other revenues and earnings in the period of adjustment. The process of successfully achieving the criteria for the milestone payments is highly uncertain. Consequently, there is a significant risk that the Company may not earn all of the milestone payments from each of its strategic partners.

Research and development milestones in the Company's collaboration agreements may include some, but not necessarily all, of the following types of events:

- completion of preclinical research and development work leading to selection of product candidates;
- initiation of Phase 1, Phase 2 and Phase 3 clinical trials; and
- achievement of certain other technical, scientific or development criteria.

Regulatory milestone payments may include the following types of events:

- filing of regulatory applications for marketing approval in the United States, Europe or Japan, including Investigational New Drug ("IND") applications and Biologics License Application ("BLA"); and
- marketing approval in major markets, such as the United States, Europe or Japan.

Royalties and commercial milestones: For arrangements that include sales-based royalties, including commercial milestone payments based on pre-specified level of sales, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). Achievement of these royalties and commercial milestones may solely depend upon performance of the licensee. Since inception to date, the Company has not recognized any royalty revenue or commercial milestone from any of its out-licensing arrangements.

Research support payments: Payments by the licensees in exchange for research activities performed by the Company on behalf of the licensee are recognized upon performance of such activities at rates consistent with prevailing market rates.

If the expectation at contract inception is such that the period between payment by the licensee and the completion of related performance obligations will be one year or less, the Company assumes that the contract does not have a significant financing component.

Research and Development Expense and Related Accrued Expenses

Research and development expenses include costs that we incur for our own and for our strategic partners' research and development activities. Research and development expenditures are expensed as incurred. These costs primarily consist of employee-related expenses, including salaries and benefits, expenses incurred under agreements with contract research organizations on our behalf, costs associated with investigative sites and consultants that conduct our clinical trials, the cost of acquiring and manufacturing clinical trial materials and other allocated expenses, share-based compensation expense, and costs associated with nonclinical activities and regulatory approvals.

Liability Classified Awards

Awards accounted for under ASC 718 "Compensation—Stock Options" ("ASC 718") with an exercise price which is not denominated in: (a) the currency of a market in which a substantial portion of our equity securities trades, (b) the currency in which the individual's pay is denominated, or (c) our functional currency, are required to be classified as liabilities. For awards accounted for under ASC 815 "Derivatives and Hedging" ("ASC 815"), any warrant or option that provides for an exercise price which is not denominated in our functional currency is required to be classified as a liability.

Liability classified awards are subsequently measured at fair value at each balance sheet date until exercised or cancelled, with changes in fair value recognized as compensation cost or additional paid-in capital (ASC 718 awards) or other income and expenses (ASC 815 awards) for the period. Under ASC 718, when an award is reclassified from equity to liability, if at the reclassification date the original vesting conditions are expected to be satisfied, then the minimum amount of compensation cost to be recognized is based on the grant date fair value of the original award. Fair value changes below this minimum amount are recorded in additional paid-in capital. Fair value is calculated using the Black-Scholes option pricing model. The Black-Scholes option pricing model uses various inputs to measure fair value, including estimated fair value of our underlying common shares at the grant date, expected term, estimated volatility, risk-free interest rate and expected dividend yields of our common shares.

Share-Based Compensation

We recognize share-based compensation expense on share awards granted to employees and members of the board of directors based on their estimated grant date fair value using the Black-Scholes option pricing model. This Black-Scholes option pricing model uses various inputs to measure fair value, including estimated fair value of our underlying common shares at the grant date, expected term, estimated volatility, risk-free interest rate and expected dividend yields of our common shares. We recognize share-based compensation expense, net of estimated forfeitures, in the consolidated statements of loss and comprehensive loss on a straight-line basis over the requisite service period. We apply an estimated forfeiture rate derived from historical employee termination behavior. If the actual number of forfeitures differs from those estimated by management, adjustments to compensation expense may be required in future periods.

Share-based compensation expense related to stock options granted to individual service providers who are not employees is measured on the date of performance using the Black-Scholes option-pricing model and the awards are periodically remeasured as the underlying options vest. The fair value of the share-based awards is amortized over the vesting period.

Recent Accounting Pronouncements

A summary of recent accounting pronouncements is presented in Note 3 of our Annual Consolidated Financial Statements for the year ended December 31, 2018 within this Annual Report on Form 10-K.

Results of Operations for the Years Ended December 31, 2018 and 2017

Research and Development Revenue

The following represents a comparison of our research and development revenue for the years ended December 31, 2018 and 2017:

	Year Ended December 31,		Increase/(Decrease)	
	2018	2017		
	(dollars in millions)			
Revenue from research and development collaborations	$53.0	$51.8	$ 1.2	2%

Our revenue for each period presented is primarily comprised of non-recurring upfront fees, expansion payments or milestone payments from our licensing and collaboration agreements. Revenue for the year 2018 includes recognition of $23.5 million of upfront fee from BeiGene in relation to the Company granting BeiGene a license to its Azymetric and EFECT platforms to develop and commercialize up to three bispecific antibodies globally as well as granting licenses for development of ZW25; a $18.0 million upfront fee in relation to the second licensing agreement with Daiichi Sankyo; a $5.0 million upfront fee in relation to the licensing agreement with LEO; a $4.0 million research program expansion fee from Celgene; a $2.0 million development milestone payment triggered upon Lilly's submission of an IND application under the first licensing agreement with Lilly and $0.5 million in research support payments from various collaborations. Our revenue for 2017 includes a $50.0 million upfront fee received from Janssen and a $1.0 million milestone payment from Daiichi Sankyo, as well as $0.8 million in research support payments.

Research and Development Expense

The following represents a comparison of our research and development expense for the years ended December 31, 2018 and 2017:

	Year Ended December 31,			
	2018	2017	Increase/(Decrease)	
	(dollars in millions)			
Research and development expense				
ZW25	$25.1	$15.0	$ 10.1	67%
ZW49	6.4	3.4	3.0	88%
Therapeutic platforms	6.7	6.8	(0.1)	(1)%
Other research activities	18.5	16.5	2.0	12%
Total research and development expense	$56.7	$41.7	$ 15.0	36%

During the year ended December 31, 2018, our research and development expenditures increased by $15.0 million compared to 2017. This was primarily due to an increase in activities related to the progression and expansion of ZW25 clinical studies and the associated manufacturing costs, as well as development activities for ZW49 in 2018, and an increase in other research and development activities, which include an increase in salaries and benefits expense as a result of an increase in headcount and non-cash stock-based compensation expense compared to the same period in 2017. Research and development expense included non-cash stock-based compensation expense of $2.2 million from equity classified equity awards (2017—$0.9 million) and $2.0 million expense related to the non-cash mark-to-market revaluation of certain historical liability classified equity awards (2017—$0.5 million).

General and Administrative Expense

The following represents a comparison of our general and administrative expense for the years ended December 31, 2018 and 2017:

	Year Ended December 31,			
	2018	2017	Increase/(Decrease)	
	(dollars in millions)			
General and administrative expense	$29.5	$18.6	$ 10.9	59%

General and administrative expense increased for the year ended December 31, 2018 by $10.9 million compared to 2017, primarily due to an increase in fair value of non-cash liability classified equity adjustments and stock-based compensation, as well as other increases in compensation and professional fees associated with year-on-year corporate growth. General and administrative expense include non-cash stock-based compensation expense of

$3.7 million from equity classified equity awards (2017 – $1.9 million) and $5.4 million expense related to the non-cash mark-to-market revaluation of certain historical liability classified equity awards (2017 — $0.5 million).

Other Income (Expense)

	Year Ended December 31,			
	2018	2017	Increase/(Decrease)	
	(dollars in millions)			
Other (expense) income, net	$(1.3)	$(1.0)	$ 0.3	30%

Net other expense for the year ended December 31, 2018 increased by approximately $0.3 million compared to 2017. Net other expense for 2018 primarily included a $3.6 million loss due to an increase in fair value of warrant liabilities, $0.2 million expense in change in fair value of contingent consideration and $0.2 million in interest expenses, which was partially offset by $2.6 million of interest income and a $0.1 million net foreign exchange gain. Net other expense for the same period in 2017 primarily consisted of a $3.1 million loss on debt extinguishment, $0.7 million in interest and accretion expenses and $0.5 million expense in change in fair value of contingent consideration, which were partially offset by $2.5 million in income due to a decrease in fair value of warrant liabilities, $0.7 million in interest income and a $0.1 million net foreign exchange gain.

Results of Operations for the Years Ended December 31, 2017 and 2016

Research and Development Revenue

The following represents a comparison of our research and development revenue for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Revenue from research and development collaborations	$51.8	$11.0	$ 40.8	371%

Our revenue for each period presented is primarily comprised of non-recurring payments from our licensing and collaboration agreements. Revenue for the year 2017 includes a $50.0 million upfront fee received from Janssen and a $1.0 million milestone payment from Daiichi Sankyo, as well as $0.8 million in research support payments. Our revenue for 2016 includes a $6.0 million upfront technology access fee received from Daiichi Sankyo; a $2.0 million upfront technology access fee received from GSK; and a $2.0 million milestone payment received from Lilly, as well as $0.8 million in research support payments from Merck.

Research and Development Expense

The following represents a comparison of our research and development expense for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Research and development expense				
ZW25	$15.0	$ 6.1	$ 8.9	146%
ZW49	3.4	—	3.4	100%
Therapeutic platforms	6.8	7.6	(0.8)	(11)%
Other research activities	16.5	23.1	(6.6)	(29)%
Total research and development expense	$41.7	$36.8	$ 4.9	13%

During the year ended December 31, 2017, our research and development expenditures increased by $4.9 million compared to 2016. This was primarily due to an increase in activities related to the progression and expansion of ZW25 clinical studies and the associated manufacturing costs, as well as development activities for ZW49 in 2017, which were partially offset by a decrease in other research and development expense compared to the same period in 2016. Research and development expense included non-cash stock-based compensation expense of $0.9 million from equity classified equity awards (2016—$2.3 million) and $0.5 million expense related to the non-cash mark-to-market revaluation of certain historical liability classified equity awards (2016—$0.3 million).

General and Administrative Expense

The following represents a comparison of our general and administrative expense for the years ended December 31, 2017 and 2016:

	Year Ended December 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
General and administrative expense	$18.6	$12.6	$ 6.0	48%

General and administrative expense increased for the year ended December 31, 2017 by $6.0 million compared to 2016, primarily due to an increase in compensation costs, professional fees, recruitment costs and depreciation expenses as well as new and expanded software subscription expenses. General and administrative expense include non-cash stock-based compensation expense of $1.9 million from equity classified equity awards (2016 – $0.8 million) and $0.5 million expense related to the non-cash mark-to-market revaluation of certain historical liability classified equity awards (2016 – $0.9 million). The increase in professional fees over the same period in 2016 was primarily associated with IPO-related expenses as well as services with respect to intellectual property.

Other Income (Expenses)

	Year Ended December 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Other (expense) income, net	$(0.9)	$(1.0)	$ (0.1)	(10)%

Net other expense for the year ended December 31, 2017 decreased by approximately $0.1 million compared to 2016, primarily due to a $3.3 million increase in gain from valuation of warrant liabilities, a $0.9 million decrease in interest and accretion expenses and a $0.4 million increase in interest income. These were partially offset by a $3.1 million loss on debt extinguishment, an $0.8 million decrease in foreign exchange gain, a $0.5 million increase in fair value of contingent consideration and a decrease of $0.1 million in gain from the previously held equity investment in Kairos in 2017.

Liquidity and Capital Resources

Sources of Liquidity

Until the completion of our IPO in Q2 2017, we had financed our operations primarily through private equity placements of our common shares, an issuance of convertible debentures which subsequently converted into equity securities, a private placement of preferred shares and a credit facility. On June 2, 2016, we entered into a credit agreement (the “Credit Agreement”) with Perceptive Credit Opportunities Fund L.P. and PCOF Phoenix II Fund L.P. Pursuant to the Credit Agreement, we were able to borrow up to an aggregate of $15.0 million, consisting of Tranche A and Tranche B term loans for $7.5 million each, with the Tranche A term amount of $7.5 million being made available to us immediately upon the close of the transaction. Following the completion

of our IPO, we exercised our option of repayment under the terms of the Credit Agreement and paid $7.8 million, which consisted of the outstanding Tranche A principal balance ($7.5 million) and an early repayment premium ($0.3 million).

We closed our IPO on May 3, 2017, pursuant to which we sold 4,894,467 common shares (including the sale of 394,467 common shares to the underwriters upon their partial exercise of their over-allotment option to purchase additional shares on May 31, 2017) for gross proceeds of $63.6 million. We received net proceeds of approximately $54.2 million, after underwriting discounts, commissions and offering expenses.

We completed a subsequent public offering on June 11, 2018, pursuant to which we sold 6,210,000 common shares (including the sale of 810,000 common shares to the underwriters upon their full exercise of their over-allotment option) for gross proceeds of $97.8 million. We received net proceeds of approximately $90.8 million, after underwriting discounts, commissions and offering expenses.

In addition, our operations have been funded through upfront fees, milestone payments, research support payments from our strategic partners, government grants and SR&ED credits. As of December 31, 2018, we had $200.2 million in cash and cash equivalents and short-term investments.

In addition to our existing cash and cash equivalents, we expect to continue to receive additional milestone payments and research support payments from our existing and future research collaborations. However, our ability to receive future milestone payments is dependent upon the successful completion of specified research and development activities by Zymeworks and its collaborators and therefore is uncertain at this time.

Cash Flows

The following table represents a summary of our cash flows for the years ended December 31, 2018, 2017 and 2016:

	Year Ended December 31,		
	2018	2017	2016
	(dollars in millions)		
Net cash provided by (used in):			
Operating activities	$ 24.2	$ 0.2	$(35.2)
Investing activities	(109.0)	(30.9)	(25.5)
Financing activities	91.4	50.0	64.8
Effect of exchange rate changes on cash and cash equivalents	(0.3)	0.2	0.8
Net increase in cash and cash equivalents	$ 6.3	$ 19.5	$ 4.9

Operating Activities

During the year ended December 31, 2018, cash from operating activities was $24.2 million, which consisted of a net loss of $36.6 million, adjusted by non-cash charges of $20.8 million and a net increase of $39.9 million in our net operating assets. The non-cash charges primarily consisted of $13.4 million in stock-based compensation, $3.6 million in depreciation and amortization, a $3.6 million loss from valuation of warrant liabilities, and a $0.2 million increase in fair value of the contingent consideration liability. The change in our net operating assets and liabilities was primarily attributable to an increase in a deferred revenue of $36.5 million, accounts payable and accrued liabilities of $3.8 million, and a $1.0 million net decrease in SR&ED and accounts receivable, offset by an increase in prepaids and other current assets of $1.3 million.

During the year ended December 31, 2017, cash from operating activities was $0.2 million, which consisted of a net loss of $10.4 million as a result of $51.8 million in revenue offsetting our research and development, general

and administrative and other expenses. The net loss was adjusted by non-cash charges of $8.8 million and a net increase of $1.8 million in our net operating assets. The non-cash charges primarily consisted of $3.4 million in stock-based compensation, $2.7 million in depreciation and amortization, $3.1 million in loss on debt extinguishment, $1.5 million in impairment on acquired IPR&D and $0.5 million in increase in fair value of contingent consideration liability, which were partially offset by a $2.4 million gain from valuation of warrant liabilities. The change in our net operating assets and liabilities was primarily attributable to a net decrease in our SR&ED and accounts receivable of $2.2 million, which was partially offset by a decrease in our accounts payable and accrued liabilities of $0.4 million.

During the year ended December 31, 2016, cash used in operating activities was $35.2 million, which consisted of a net loss of $33.8 million, adjusted by non-cash charges of $0.9 million and a net decrease of $2.4 million in our net operating assets. The non-cash charges primarily consisted of $4.3 million in stock-based compensation, $1.0 million in depreciation and amortization, $0.8 million in impairment on acquired IPR&D, $0.8 million in loss from valuation of warrant liabilities, and $0.6 million in accretion expenses, which were partially offset by a $5.5 million gain from deferred income tax recovery. The change in our net operating assets and liabilities was primarily attributable to a net increase in our SR&ED and accounts receivable of $1.4 million and an increase in our prepaid assets of $3.1 million, which were partially offset by an increase in our accounts payable and accrued liabilities of $2.1 million.

Investing Activities

Net cash used in investing activities in 2018 is primarily related to a $105.6 million increase in short-term investments, $0.8 million in purchases of laboratory equipment, computer hardware and office equipment, as well as increases in leaseholds and $2.6 million in research licenses and software. Net cash used in investing activities in 2017 is primarily related to a $27.8 million increase in short-term investments, $2.0 million in purchases of laboratory equipment and computer hardware as well as increases in leaseholds and $1.1 million in research licenses and software. Net cash used in investing activities in 2016 is primarily related to $20.0 million in short-term investments and $4.5 million in purchases of laboratory equipment, computer hardware, and increases in leaseholds.

Financing Activities

Net cash provided by financing activities for the year ended December 31, 2018 primarily included $90.8 million net proceeds from a public offering of equity securities, as well as $0.9 million from exercises of stock options and shares issued under the Company’s employee share purchase plan. Net cash provided by financing activities for the year ended December 31, 2017 included $55.8 million of net proceeds from the IPO and $2.0 million from exercises of warrants and stock options, offset by $7.8 million in debt repayment. Net cash provided by financing activities for the year ended December 31, 2016 included $58.9 million from a private placement and $7.0 million of net proceeds from debt financing.

Funding Requirements

We have historically generated revenue from our strategic collaborations, licensing agreements and research support payments and we have not generated any revenue from product sales to date and do not expect to do so until such time as we obtain regulatory approval and commercialize one or more of our product candidates. As we are currently in clinical and preclinical stages of development, it will be some time before we expect to achieve this, and it is uncertain that we ever will. We expect that we will continue to increase our operating expenses in connection with ongoing clinical trials and preclinical activities and the development of product candidates in our pipeline. We expect to continue our strategic partnerships and will look for additional collaborations as well as expanded collaboration opportunities. Although it is difficult to predict our funding requirements, based on our current operating plan, we anticipate that our existing cash and cash equivalents and short-term investments as of December 31, 2018, combined with certain anticipated milestone payments from

our collaborations, will enable us to fund our operating expenses and capital expenditure requirements into 2021. We have based these estimates on assumptions and plans which may change and which could impact the magnitude and/or timing of operating expenses, capital expenditures and our cash runway. These estimates include future milestone payments which are dependent upon the successful completion of specified research and development activities by Zymeworks and our collaborators and therefore are uncertain at this time. The successful development of our product candidates and the achievement of milestones by our strategic partners is uncertain, therefore we are unable to estimate the actual funds we will require to complete the research, development and commercialization of product candidates. See Item 1A, "Risk Factors—Risks Related to Our Dependence on Third Parties—We may not realize the anticipated benefits of our strategic partnerships".

Contractual Obligations and Contingent Liabilities

Lease Commitments

We lease office premises in Vancouver, British Columbia and Seattle, Washington pursuant to leases that expire in August 2021 and February 2022, respectively. We also lease laboratory space in Vancouver, British Columbia pursuant to a lease that will expire in August 2021. The leases contain rent escalation clauses. We also lease office equipment under capital lease agreements. Future minimum lease payments under the non-cancellable operating leases and capital leases at December 31, 2018 are as follows:

	Payments due by period					
	Less Than 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	5 Years	Total
	(dollars in thousands)					
Capital lease obligations	$ 21	$ 27	$ 12	$ 2	$—	$ 62
Operating lease obligations	1,860	1,871	1,429	87	—	5,247
Total contractual obligations	$ 1,881	$1,898	$1,441	$ 89	$—	$5,309

Other Commitments

We have entered into research collaboration agreements with strategic partners, in the ordinary course of operations, that may include contractual milestone payments related to the achievement of pre-specified research, development, regulatory and commercialization events and indemnification provisions, which are common in such agreements. Pursuant to the agreements, we are obligated to make research and development and regulatory milestone payments upon the occurrence of certain events and royalty payments based on net sales. The maximum amount of potential future indemnification is unlimited; however, we currently hold commercial and product liability insurance. This insurance limits our liability and may enable us to recover a portion of any future amounts paid. Historically, we have not made any indemnification payments under such agreements and we believe that the fair value of these indemnification obligations is minimal. Accordingly, we have not recognized any liabilities relating to these obligations for any period presented.

In August 2016, we entered into a license agreement with ITS to use ITS' protein engineering technology for the development and commercialization of antibody and protein therapeutics. Pursuant to the agreement, we agreed to pay an aggregate of $12.0 million in annual licensing fees to ITS over a five-year period of which $4.5 million was paid for the period up to December 31, 2018. Licensing fees paid have been recorded in intangible assets and are being amortized over a twelve-month period. We may also be required to make payments to ITS upon the achievement of certain development and commercial milestones, as well as royalty payments on net sales.

In connection with our acquisition of Kairos, we may be required to make future payments to CVI upon the direct achievement of certain development milestones for products incorporating certain Kairos intellectual property, as well as royalty payments on the net sales of such products. For out-licensed products and technologies incorporating certain Kairos intellectual property, we may be required to pay CVI a mid-single-digit

percentage of the future revenue as a result of a revenue sharing agreement. As of December 31, 2018, the development milestone payments had an estimated fair value of approximately $707 thousand, which has been recorded as contingent consideration within Other long-term liabilities (December 31, 2017: $470 thousand). The contingent consideration was calculated using a probability weighted assessment of the likelihood the milestones would be met, a probability adjusted discount rate that reflects the stage of the development and time to complete the development. Contingent consideration is a financial liability and measured at its fair value at each reporting period, with any changes in fair value from the previous reporting period recorded in the statement of operations and comprehensive loss.

Contingencies

From time to time, we may be subject to various legal proceedings and claims related to matters arising in the ordinary course of business. We do not believe we are currently subject to any material matters where there is at least a reasonable possibility that a material loss may be incurred.

Off-Balance Sheet Arrangements

We have no material undisclosed off-balance sheet arrangements that have, or are reasonably likely to have, a current or future effect on our results of operations or financial condition.

Segment Reporting

We view our operations and manage our business in one segment, which is the discovery, development and commercialization of next-generation biotherapeutics.

Outstanding Share Data

As of February 28, 2019, our authorized share capital consisted of an unlimited number of common shares, each without par value, of which 32,025,299 were issued and outstanding, and an unlimited number of preferred shares, each without par value, none of which were issued and outstanding. As of February 28, 2019, we had 1,901,913 common shares issuable pursuant to 1,901,913 exercisable outstanding stock options, 2,680,847 common shares issuable pursuant to 2,680,847 outstanding options that were not exercisable at that date, and we had approximately 44 holders of record of our common shares.

JOBS Act

In April 2012, the JOBS Act was enacted. Section 107 of the JOBS Act provides that an “emerging growth company” can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. Thus, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. We have irrevocably elected not to avail ourselves of this extended transition period and, as a result, we will adopt new or revised accounting standards on the relevant dates on which adoption of such standards is required for other public companies.

We continue the process of evaluating the benefits of relying on other exemptions and reduced reporting requirements under the JOBS Act. Subject to certain conditions, as an emerging growth company, we may rely on certain of these exemptions. As of the date of this Annual Report, we have elected to rely on exemptions for (i) providing an auditor’s attestation report on our system of internal controls over financial reporting pursuant to Section 404(b) of the Sarbanes-Oxley Act and (ii) complying with any requirement that may be adopted by the Public Company Accounting Oversight Board regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements, known as the auditor discussion and analysis. We will remain an emerging growth company until the earlier of (i) the last day

of the fiscal year in which we have total annual gross revenue of $1.07 billion or more; (ii) the last day of the fiscal year following the fifth anniversary of the date of the completion of our IPO; (iii) the date on which we have issued more than $1.0 billion in nonconvertible debt during the previous three years; or (iv) the date on which we are deemed to be a large accelerated filer under the rules of the SEC.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to market risks in the ordinary course of our business. The market risk inherent in our financial instruments and in our financial position represents the potential loss arising from adverse changes in interest rates and exchange rates.

Interest Rate Risk

We had cash, cash equivalents and short-term investments of $200.2 million and $87.8 million at December 31, 2018 and December 31, 2017, respectively, consisting primarily of funds in cash and guaranteed investment certificates. The primary objective of our investment activities is to preserve principal and liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio, and accordingly we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

Foreign Currency Exchange Risk

We undertake certain transactions in Canadian dollars and as such are subject to risk due to fluctuations in exchange rates. Canadian dollar denominated payables are paid at the converted rate as due. We do not use derivative instruments to hedge exposure to foreign exchange rate risk due to the low volume of transactions denominated in foreign currencies. At December 31, 2018, our net monetary assets denominated in Canadian dollars was $3.5 million (C$4.8 million).

Our operating results and financial position are reported in U.S. dollars in our financial statements. The fluctuation of the Canadian dollar in relation to the U.S. dollar will consequently have an impact upon our loss and may also affect the value of our assets and the amount of shareholders equity. A hypothetical 10% increase (decrease) in the value of the Canadian dollar would result in a foreign exchange gain (loss) of $0.4 million being recorded in the Consolidated Statements of Loss and Comprehensive Loss on the translation of our Canadian dollar net monetary assets into our U.S. dollar functional currency.

Inflation Risk

Inflation generally affects us by increasing our cost of labor and clinical trial expenses. We do not believe that inflation and changing prices had a significant impact on our results of operations for any periods presented herein.

Item 8. Financial Statements and Supplementary Data

Zymeworks Inc.

Index to Consolidated Financial Statements

Year ended December 31, 2018

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors Zymeworks Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Zymeworks Inc. (the Company) as of December 31, 2018 and 2017, the related consolidated statements of loss and comprehensive loss, changes in redeemable convertible preferred shares and shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 3 to the consolidated financial statements, the Company has changed its accounting policies for revenue recognition as of January 1, 2018 due to the adoption of ASC 606 — *Revenue from Contracts with Customers*.

Basis for Opinion

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

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

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

/s/ KPMG LLP
Chartered Professional Accountants

We have served as the Company's auditor since 2015

Vancouver, Canada

March 6, 2019

ZYMEWORKS INC.
Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars except share data)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 42,205	$ 35,946
Short-term investments (note 4)	157,959	51,851
SR&ED receivables (note 11)	997	2,092
Accounts receivable	358	238
Prepaid expenses and other current assets	2,850	2,208
Total current assets	204,369	92,335
Deferred financing fees	265	—
Acquired in-process research and development (note 5)	18,396	18,396
Goodwill (note 5)	12,016	12,016
Long-term prepaid assets	1,135	1,215
Property and equipment, net (note 6)	6,484	7,178
Intangible assets, net (note 7)	1,614	748
Deferred tax assets (note 14)	84	67
Total assets	$ 244,363	$ 131,955
Liabilities, redeemable convertible preferred shares, and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 8)	$ 13,403	$ 9,053
Warrant liabilities (note 9b)	—	1,348
Fair value of liability classified options (note 2)	12,603	3,945
Deferred revenue (note 12)	3,530	—
Other current liabilities (note 8)	450	315
Total current liabilities	29,986	14,661
Long-term portion of deferred revenue (note 12)	32,941	—
Other long-term liabilities (note 8)	946	866
Total liabilities	63,873	15,527
Shareholders' equity:		
Common shares, no par value; unlimited authorized shares at December 31, 2018 and 2017; 31,977,668 and 25,444,006 shares issued and outstanding at December 31, 2018 and 2017, respectively (note 10a)	320,074	222,991
Additional paid-in capital	12,347	8,812
Accumulated other comprehensive loss	(6,659)	(6,659)
Accumulated deficit	(145,272)	(108,716)
Total shareholders' equity	180,490	116,428
Total liabilities, redeemable convertible preferred shares and shareholders' equity	$ 244,363	$ 131,955

Research collaboration and licensing agreements (note 12)
Commitments and contingencies (note 15)
Subsequent events (note 16)

The accompanying notes are an integral part of these financial statements

ZYMEWORKS INC.
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in thousands of U.S. dollars except share and per share data)

	Year Ended December 31,		
	2018	2017	2016
Revenue:			
Research and development collaborations (note 12)	$ 53,019	$ 51,762	$ 11,009
Operating expenses:			
Research and development	56,684	41,749	36,816
Government grants and credits (note 11)	5	(1,075)	(1,265)
	56,689	40,674	35,551
General and administrative	29,457	18,550	12,554
Impairment on acquired IPR&D (note 5)	—	1,536	768
Total operating expenses	86,146	60,760	48,873
Loss from operations	(33,127)	(8,998)	(37,864)
Other income (expense):			
Interest and other expense	(166)	(422)	(950)
Change in fair value of warrant liabilities (note 9b)	(3,565)	2,450	(808)
Accretion expense	—	(248)	(576)
Gain on equity investment, net	—	—	79
Interest and other income	2,638	743	308
Foreign exchange gain	72	97	927
Loss on debt extinguishment (note 9a)	—	(3,114)	—
Change in contingent consideration (note 15)	(237)	(470)	—
Total other income (expense), net	(1,258)	(964)	(1,020)
Loss before income taxes	(34,385)	(9,962)	(38,884)
Current income tax (expense) (note 14)	(2,188)	(429)	(430)
Deferred income tax recovery (expense) (note 14)	17	(15)	5,505
Net loss and comprehensive loss	$ (36,556)	$ (10,406)	$ (33,809)
Net loss per common share (note 2):			
Basic	$ (1.26)	$ (0.51)	$ (2.65)
Diluted	$ (1.26)	$ (0.64)	$ (2.65)
Weighted-average common shares outstanding (note 2):			
Basic	29,089,896	21,249,414	12,736,567
Diluted	29,089,896	21,321,209	12,736,567

The accompanying notes are an integral part of these financial statements

ZYMEWORKS INC.
Consolidated Statements of Changes in Redeemable Convertible Preferred Shares and Shareholders' Equity
(Expressed in thousands of U.S. dollars except share data)

	Redeemable Convertible Class A Preferred shares		Common shares				Accumulated other comprehensive income (loss)	Additional paid-in capital	Total shareholders' equity
	Shares	Amount	Shares	Amount	Warrants	Accumulated deficit			
Balance at December 31, 2015	—	—	11,299,051	$ 83,605	$ 333	$ (63,922)	$ (6,659)	$ 4,882	$ 18,239
Issuance of redeemable convertible preferred shares, net of share issuance costs of $2,658	5,260,404	58,860	—	—	—	—	—	—	—
Issuance of common shares for Kairos Acquisition	—	—	1,822,657	22,973	—	—	—	—	22,973
Issuance of common shares on exercise of options	—	—	4,540	17	—	—	—	—	17
Fair value adjustments upon reclassification of options to liabilities	—	—	—	—	—	(124)	—	(823)	(947)
Share-based compensation	—	—	—	—	—	—	—	2,797	2,797
Fair value adjustment upon reclassification of warrants to liabilities	—	—	—	—	(333)	65	—	—	(268)
Net loss	—	—	—	—	—	(33,809)	—	—	(33,809)
Balance at December 31, 2016	5,260,404	$58,860	13,126,248	$106,595	$ —	$ (97,790)	$ (6,659)	$ 6,856	$ 9,002
Issuance of common shares on exercise of options	—	—	207,777	1,777	—	—	—	(512)	1,265
Issuance of common shares on exercise of warrants	—	—	117,320	1,563	—	—	—	—	1,563
Fair value adjustments upon reclassification of options to liabilities	—	—	—	—	—	—	—	(2,879)	(2,879)
Share-based compensation	—	—	—	—	—	—	—	4,827	4,827
Beneficial conversion feature recognized on the conversion of redeemable convertible class A preferred shares (note 10c)	—	—	—	—	—	(520)	—	520	—

	Redeemable Convertible Class A Preferred shares		Common shares						
	Shares	Amount	Shares	Amount	Warrants	Accumulated deficit	Accumulated other comprehensive income (loss)	Additional paid-in capital	Total shareholders' equity
Conversion of redeemable convertible class A preferred shares to common shares in connection with initial public offering (note 10c)	(5,260,404)	(58,860)	7,098,194	58,860	—	—	—	—	58,860
Issuance of common shares in connection with initial public offering, net of offering costs of $9,392	—	—	4,894,467	54,196	—	—	—	—	54,196
Net loss	—	—	—	—	—	(10,406)	—	—	(10,406)
Balance at December 31, 2017	—	$ —	25,444,006	$222,991	$ —	$ (108,716)	$ (6,659)	$ 8,812	$ 116,428
Issuance of common shares on exercise of options (note 10e)	—	—	94,812	1,166	—	—	—	(341)	825
Issuance of common shares through employee share purchase plan (note 10f)	—	—	22,489	252	—	—	—	—	252
Share-based compensation	—	—	—	—	—	—	—	3,876	3,876
Issuance of common shares on exercise of warrants (note 9b)	—	—	206,361	4,913	—	—	—	—	4,913
Issuance of common shares in connection with public offering, net of offering costs of $7,056 (note 1)	—	—	6,210,000	90,752	—	—	—	—	90,752
Net loss	—	—	—	—	—	(36,556)	—	—	(36,556)
Balance at December 31, 2018	—	$ —	31,977,668	$320,074	$ —	$ (145,272)	$ (6,659)	$ 12,347	$ 180,490

The accompanying notes are an integral part of these financial statements

ZYMEWORKS INC.
Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Loss for the year	$(36,556)	$(10,406)	$(33,809)
Items not involving cash:			
Depreciation of property and equipment	1,880	1,681	541
Amortization of intangible assets	1,750	1,058	484
Equity loss on investment	—	—	98
Gain on fair value of equity investment	—	—	(177)
Accretion on long-term debt	—	248	576
Loss on debt extinguishment	—	3,114	—
Share-based compensation (note 10e)	13,441	3,429	4,291
Deferred income tax (recovery) expense	(17)	15	(5,505)
Impairment on acquired IPR&D	—	1,536	768
Change in fair value of warrant liabilities (note 9b)	3,565	(2,450)	808
Change in fair value of contingent consideration (note 15)	237	470	—
Unrealized foreign exchange gain	(48)	(254)	(954)
Changes in non-cash operating working capital:			
Accounts receivable	(119)	2,409	(592)
SR&ED receivables	1,093	(175)	(780)
Prepaid expenses and other current assets	(1,344)	(27)	(3,141)
Accounts payable and accrued liabilities	3,684	(358)	1,934
Deferred revenue	36,471	—	—
Income taxes payable	140	(71)	212
Net cash generated from (used in) operating activities	$ 24,177	$ 219	$(35,246)
Cash flows from financing activities:			
Proceeds from initial public offering, net of issuance costs (note 1)	—	55,791	—
Proceeds from subsequent public offering, net of issuance costs (note 1)	90,752	—	—
Issuance of preferred shares from private placement, net of issuance costs	—	—	58,860
Issuance of common shares on exercise of options (note 10e)	682	965	17
Issuance of common shares on exercise of warrants (note 9b)	—	1,018	—
Issuance of common shares through employee share purchase plan (note 10f)	233	—	—
Debt financing (note 9a)	—	—	6,953
Repayment of debt (note 9a)	—	(7,814)	—
Deferred financing fees	(225)	—	(1,046)
Capital lease payments	(11)	(9)	(7)
Net cash provided by financing activities	$ 91,431	$ 49,951	$ 64,777

	Year Ended December 31,		
	2018	2017	2016
Cash flows from investing activities:			
Short-term investments	(105,626)	(27,767)	(20,067)
Acquisition of property and equipment	(803)	(2,015)	(4,425)
Acquisition of intangible assets	(2,617)	(1,106)	(1,039)
Cash acquired from Kairos, net of cash consideration	—	—	78
Net cash used in investing activities	$(109,046)	$(30,888)	$(25,453)
Effect of exchange rate changes on cash and cash equivalents	(303)	227	840
Net change in cash and cash equivalents	6,259	19,509	4,918
Cash and cash equivalents, beginning of year	35,946	16,437	11,519
Cash and cash equivalents, end of year	$ 42,205	$ 35,946	$ 16,437
Supplemental disclosure of non-cash investing and finance items:			
Share issue costs and deferred financing fees in accounts payable and accrued liabilities	$ 40	$ —	$ 910
Acquisition of property and equipment in accounts payable and accrued liabilities	382	123	2,055
Cashless exercise of warrants (note 9b)	4,913	—	—
Class A Preferred Shares Warrant issued in connection with debt	—	—	3,266
Common Shares issued in connection with the Kairos acquisition	—	—	22,973

The accompanying notes are an integral part of these financial statements

ZYMEWORKS INC.
Notes to the Consolidated Financial Statements

1. Nature of Operations

Zymeworks Inc. (the "Company" or "Zymeworks") was incorporated on September 8, 2003 under the laws of the Canada Business Corporations Act. On October 22, 2003, the Company was registered as an extra-provincial company under the Company Act (British Columbia). On May 2, 2017, the Company continued under the Business Corporations Act (British Columbia). Zymeworks is a clinical-stage biopharmaceutical company dedicated to the development of next-generation multifunctional biotherapeutics.

Since its inception, the Company has devoted substantially all of its resources to research and development activities, including developing its therapeutic platforms, identifying and developing potential product candidates by undertaking preclinical studies and clinical trials. The Company supports these activities through general and administrative support, as well as by raising capital, conducting business planning and protecting its intellectual property.

Share Consolidation

On April 13, 2017, the Company effected a 1 for 2.3866 share consolidation (reverse share split) of the Company's issued and outstanding common shares and redeemable convertible preferred shares. Accordingly, (i) every 2.3866 common shares were combined into one common share, (ii) every 2.3866 redeemable convertible preferred shares were combined into one redeemable convertible preferred share, (iii) the number of common shares into which each outstanding option and warrant to purchase common shares and the number of preferred shares into which each outstanding warrant to purchase preferred shares is exercisable were proportionately decreased on a 1 for 2.3866 basis, and (iv) the exercise price for each such outstanding option and warrant to purchase common shares or preferred shares were proportionately increased on a 1 for 2.3866 basis. All of the share numbers, share prices, and exercise prices in these financial statements have been adjusted, on a retroactive basis, to reflect this 1 for 2.3866 reverse share split.

Initial Public Offering

On April 27, 2017, the Company's registration statement on Form F-1 (File No. 333-217100) relating to its initial public offering ("IPO") of its common shares was declared effective by the U.S. Securities and Exchange Commission ("SEC") and a final base PREP prospectus was filed with the securities commissions or similar securities regulatory authorities in each of the provinces and territories of Canada. A supplemented PREP prospectus containing pricing information and other important information relating to the common shares was also filed with the securities commissions or similar securities regulatory authorities in each of the provinces and territories of Canada. The Company's common shares began trading on the New York Stock Exchange ("NYSE") and Toronto Stock Exchange ("TSX") on April 28, 2017 under the symbol "ZYME". The public offering price of the shares sold in the IPO was $13.00 per share. The IPO closed on May 3, 2017, pursuant to which the Company sold 4,894,467 shares of common shares including the sale of 394,467 shares of common shares to the underwriters upon their partial exercise of their over-allotment option to purchase additional shares on May 31, 2017. The Company received net proceeds of approximately $54.2 million, after underwriting discounts, commissions and offering expenses. Immediately prior to the consummation of the IPO, all outstanding shares of redeemable convertible preferred stock were converted into 7,098,194 common shares (note 10c) and the Redeemable Convertible Class A Preferred Shares Warrants were converted into common share warrants to purchase up to 398,076 common shares of the Company at an exercise price of $8.67 per share (note 9).

Subsequent Public Offering

On May 24, 2018, the Company's U.S. shelf registration statement on Form F-10 (File No. 333-224623) was declared effective by the SEC and a final base shelf prospectus was filed with the securities commissions or

similar securities regulatory authorities in each of the provinces and territories of Canada. The U.S. shelf registration statement and Canadian base shelf prospectus allow Zymeworks to issue securities with a total aggregate offering price of up to $250 million pursuant to prospectus supplements.

On June 6, 2018, the Company filed with the SEC, as well as with the securities commissions or similar securities regulatory authorities in each of the provinces and territories of Canada, a preliminary prospectus supplement to complete an underwritten public offering of $85.0 million of its common shares plus an over-allotment option for the underwriters to purchase up to an additional $12.8 million of its common shares (the "Offering"). On June 7, 2018, the Company filed a final prospectus supplement relating to the Offering with the SEC, as well as with the securities commissions or similar securities regulatory authorities in each of the provinces and territories of Canada, setting forth an offering price of $15.75 per share.

The Offering closed on June 11, 2018 pursuant to which the Company sold 6,210,000 shares of common shares including the sale of 810,000 shares of common shares to the underwriters upon their full exercise of their over-allotment option. The Company received net proceeds of approximately $90.8 million, after underwriting discounts, commissions and offering expenses.

2. Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

The consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements include the accounts of Zymeworks Inc. and its wholly owned subsidiaries, Zymeworks Biopharmaceuticals Inc., which was incorporated in the State of Washington on December 5, 2014, and Zymeworks Biochemistry Inc. (formerly Kairos Therapeutics Inc. ("Kairos")), which was acquired on March 18, 2016. Kairos' financial statements have been consolidated within the Company's consolidated financial statements from the date of acquisition until December 31, 2016 as the Company completed an amalgamation with Zymeworks Biochemistry Inc. on January 1, 2017. All inter-company accounts and transactions have been eliminated in consolidation.

All amounts expressed in the consolidated financial statements of the Company and the accompanying notes thereto are expressed in thousands of U.S. dollars, except for per share data and where otherwise indicated. References to "$" are to U.S. dollars and references to "C$" are to Canadian dollars. Certain prior year amounts have been reclassified for consistency with the current year presentation. These reclassifications had no effect on the reported results of operations.

Use of Estimates

The preparation of the financial statements in accordance with U.S. GAAP requires the Company to make estimates and judgments in certain circumstances that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. In preparing these consolidated financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. On an ongoing basis, the Company evaluates its estimates, some of which are those related to revenue recognition including estimated timing of completion of performance obligations required to meet revenue recognition criteria, Scientific Research and Experimental Development ("SR&ED") Program, share-based compensation, warrants, accrual of expenses, preclinical study accruals, valuation allowance for deferred taxes, other contingencies and valuation of assets acquired in a business combination. Management bases its estimates on historical experience or on various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from these estimates.

Foreign Currency Translation and Functional Currency Conversion

Prior to January 1, 2016, the Company's functional currency was the Canadian dollar.

The Company reassessed its functional currency and determined as at January 1, 2016, its functional currency changed from the Canadian dollar to the U.S. dollar based on management's analysis of the changes in the primary economic environment in which the Company operates. The change in functional currency is accounted for prospectively from January 1, 2016 and prior year financial statements have not been restated for the change in functional currency.

For periods prior to January 1, 2016, the effects of exchange rate fluctuations on translating foreign currency monetary assets and liabilities into Canadian dollars were included in the statement of loss and comprehensive loss as foreign exchange gain/loss. Revenue and expense transactions were translated into the U.S. dollar reporting currency at the average exchange rate during the period, and assets and liabilities were translated at end of period exchange rates, except for equity transactions, which were translated at historical exchange rates. Translation gains and losses from the application of the U.S. dollar as the reporting currency while the Canadian dollar was the functional currency are included as part of the cumulative foreign currency translation adjustment, which is reported as a component of shareholders' equity under accumulated other comprehensive loss.

For periods commencing January 1, 2016, monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars using exchange rates in effect at the balance sheet date. Opening balances related to non-monetary assets and liabilities are based on prior period translated amounts, and non-monetary assets and non-monetary liabilities incurred after January 1, 2016 are translated at the approximate exchange rate prevailing at the date of the transaction. Revenue and expense transactions are translated at the approximate exchange rate in effect at the time of the transaction. Foreign exchange gains and losses are included in the statement of loss and comprehensive loss as foreign exchange gain (loss).

The functional currency of Zymeworks Biopharmaceuticals Inc. and Zymeworks Biochemistry Inc. is also the U.S. dollar.

Liability Classified Awards

Awards accounted for under Accounting Standards Codification ("ASC") 718 "Compensation—Stock Options" ("ASC 718"), with an exercise price which is not denominated in: (a) the currency of a market in which a substantial portion of the Company's equity securities trades, (b) the currency in which the individual's pay is denominated, or (c) the Company's functional currency, are required to be classified as liabilities. For awards accounted for under ASC 815 "Derivatives and Hedging" ("ASC 815"), any warrant or option that provides for an exercise price which is not denominated in the Company's functional currency are required to be classified as liabilities.

Upon the change of the functional currency from Canadian dollars to U.S. dollars effective January 1, 2016, certain options previously classified as equity awards with total fair value of $251 and common share warrants previously classified as equity awards with a total fair value of $268 have been reclassified as liability awards. Under ASC 815, upon the change in classification, the change in fair value of the options and common share warrants while they were classified as equity is recorded as an adjustment to the accumulated deficit. Additionally, upon the change of the compensation currency for certain directors from Canadian dollars to U.S. dollars effective November 9, 2016, options held by such directors which were previously classified as equity awards with total fair value of $1,341 have been classified as liability awards.

Upon the change of the compensation currency for certain executives from Canadian dollars to U.S. dollars effective January 1, 2017, options held by such executives which were previously classified as equity awards with a total fair value of $7,371 on January 1, 2017 have been reclassified as liability awards of which $2,879 was reclassified from additional paid-in capital and the remaining $4,492 was recorded to the statement of loss on January 1, 2017 as under ASC 718, upon the change in classification, the change in fair value of the options while they were classified as equity is recorded as an adjustment to the statement of loss.

Liability classified awards are subsequently measured at fair value at each balance sheet date until exercised or cancelled, with changes in fair value recognized as compensation cost or additional paid-in capital (ASC 718 awards) or other income and expenses (ASC 815 awards) for the period. Under ASC 718, when an award is reclassified from equity to liability, if at the reclassification date the original vesting conditions are expected to be satisfied, then the minimum amount of compensation cost to be recognized is based on the grant date fair value of the original award. Fair value changes below this minimum amount are recorded in additional paid-in capital. Fair value is calculated using the Black-Scholes option pricing model. The Black-Scholes option pricing model uses various inputs to measure fair value, including fair value of the Company's underlying common shares at the grant date, expected term, estimated volatility, risk-free interest rate and expected dividend yields of the Company's common shares.

Revenue Recognition

Effective January 1, 2018, the Company adopted on a modified retrospective basis Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* ("ASC 606" or "Topic 606"). This standard applies to all contracts with customers, except for contracts that are within the scope of other standards, such as leases, insurance, collaboration arrangements and financial instruments. In accordance with ASC 606, the Company recognizes revenue when the Company's customer obtains control of promised goods or services, in an amount that reflects the consideration which the Company expect to receives in exchange for those goods or services. To determine revenue recognition for arrangements that the Company determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when or as the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the Company will collect the consideration that it is entitled to in exchange for the goods and services transferred to the customer. At contract inception, the Company assesses the goods or services promised within each contract that falls under the scope of Topic 606, to identify distinct performance obligations. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when or as the performance obligation is satisfied. For collaborative arrangements that fall within the scope of ASC 808, Collaborative Arrangements ("ASC 808"), the Company applies the revenue recognition model under ASC 606 to part or all of the arrangement, when deemed appropriate.

As of December 31, 2018, the Company has entered into a number of license and collaboration agreements that fall within the scope of ASC 606. Promised deliverables within these agreements may include: (i) grants of licenses, or options to obtain licenses, to our intellectual property, (ii) research and development services, and (iii) participation on joint research and/or development committees. The terms of these agreements typically include one or more of the following types of payments to the Company:

Licenses of intellectual property including platform technology access: If the license to the Company's intellectual property is determined to be distinct from the other performance obligations identified in the arrangement, the Company recognizes revenues from non-refundable, upfront fees allocated to the license when the license is transferred to the licensee and the licensee is able to use and benefit from the license. For licenses that are not distinct from other promises, the Company utilizes judgment to assess the nature of the combined performance obligation to determine whether the combined performance obligation is satisfied over time or at a point in time and, if over time, the appropriate method of measuring progress for purposes of recognizing revenue from non-refundable, upfront fees. The Company evaluates the measure of progress each reporting period and, if necessary, adjusts the related revenue recognition accordingly.

Milestone payments: At the inception of each arrangement that includes research, development or regulatory milestone payments, the Company evaluates whether the milestones are considered probable of being reached

and estimates the amount to be included in the transaction price using the most likely amount method. If it is probable that a significant revenue reversal would not occur, the associated milestone value is included in the transaction price. Milestone payments that are not within the control of the Company or the licensee, such as regulatory approvals, are not considered probable of being achieved until those approvals are received. The transaction price is then allocated to each performance obligation on a relative stand-alone selling price basis, for which the Company recognizes revenue as or when the performance obligations under the contract are satisfied. At the end of each subsequent reporting period, the Company re-evaluates the probability of achievement of such development milestones and any related constraint, and if necessary, adjusts its estimate of the overall transaction price. Any such adjustments are recorded on a cumulative catch-up basis, which would affect license, collaboration and other revenues and earnings in the period of adjustment. The process of successfully achieving the criteria for the milestone payments is highly uncertain. Consequently, there is a significant risk that the Company may not earn all of the milestone payments from each of its strategic partners.

Research and development milestones in the Company's collaboration agreements may include some, but not necessarily all, of the following types of events:

- completion of preclinical research and development work leading to selection of product candidates;
- initiation of Phase 1, Phase 2 and Phase 3 clinical trials; and
- achievement of certain other technical, scientific or development criteria.

Regulatory milestone payments may include the following types of events:

- filing of regulatory applications for marketing approval in the United States, Europe or Japan, including Investigational New Drug ("IND") applications and Biologics License Application ("BLA"); and
- marketing approval in major markets, such as the United States, Europe or Japan.

Royalties and commercial milestones: For arrangements that include sales-based royalties, including commercial milestone payments based on pre-specified level of sales, the Company recognizes revenue at the later of (i) when the related sales occur, or (ii) when the performance obligation to which some or all of the royalty has been allocated has been satisfied (or partially satisfied). Achievement of these royalties and commercial milestones may solely depend upon performance of the licensee. Since inception to date, the Company has not recognized any royalty revenue or commercial milestone from any of its out-licensing arrangements.

Research support payments: Payments by the licensees in exchange for research activities performed by the Company on behalf of the licensee are recognized upon performance of such activities at rates consistent with prevailing market rates.

If the expectation at contract inception is such that the period between payment by the licensee and the completion of related performance obligations will be one year or less, the Company assumes that the contract does not have a significant financing component.

Prior to ASC 606 Adoption

The Company recognized revenue when all of the following criteria were met: persuasive evidence of an arrangement existed, the fee was fixed or determinable, delivery or performance was substantially completed and collectability was reasonably assured.

The Company analyzed agreements with more than one element, or deliverable, based on the guidance in ASC 605-25, Revenue Recognition—Multiple Element Arrangements ("ASC605-25"). Each required deliverable was evaluated to determine whether it qualified as a separate unit of accounting. A delivered item or items were

considered a separate unit of accounting if they had value to the collaborator or licensee on a stand-alone basis and, if the agreement included a general right of return, the delivery or performance of undelivered items was considered probable and within the control of the Company.

In assessing whether an item or items have stand-alone value, the Company considered if the deliverable or deliverables were sold separately on a stand-alone basis. Additional factors considered included research capabilities of the strategic partner or licensee, the availability of the associated expertise in the general market place, whether the delivered item or items could be used for their intended purpose without receipt of the remaining item(s), whether the value of the delivered item(s) was dependent on the undelivered item(s) and whether there were other vendors that could provide the undelivered item(s).

Arrangement consideration that was fixed or determinable was allocated at the inception of the agreement to all identified units of accounting based on the relative estimated selling prices in accordance with the selling price hierarchy. The selling price of each deliverable was determined using vendor specific objective evidence of selling prices, if it existed; otherwise, third-party evidence of selling prices. If neither vendor specific objective evidence nor third-party evidence existed, the Company used its best estimate of the selling price for each deliverable. Management exercised considerable judgment in estimating the selling prices of identified units of accounting under its agreements. The arrangement consideration otherwise allocable to delivered units was limited to the amount that was not contingent on the delivery of additional items or fulfillment of other performance conditions.

When the Company determined that a license and the related therapeutic platform had stand-alone value to the licensee, these items were considered a unit of accounting and arrangement consideration allocated to this unit of accounting was recognized upon delivery of the therapeutic platform. When research services related to the transfer of the technical information were required, then the license, the applicable research services, and therapeutic platform were considered a unit of accounting and the Company had to determine the period over which the performance obligations were performed, which generally related to the period the research services would be performed, and over which revenue would be recognized. If the Company could not reasonably estimate the timing and the level of effort to complete its performance obligations under the arrangement, then revenue under the arrangement was recognized on a straight-line basis over the period the Company was expected to complete its performance obligations.

The Company recognized other research support payments as revenue upon the performance of activities which were eligible for research support payments from its strategic partners, in accordance with the respective licensing and collaboration agreements.

The Company analyzed milestones based on the guidance in ASC 605-28, Revenue Recognition—Milestone Method (“ASC 605-28”). The Company evaluated milestone payments on an individual basis and recognizes revenue from non-refundable milestone payments when the earnings process was complete and the payment was reasonably assured. Non-refundable milestone payments related to arrangements under which the Company had continuing performance obligations were recognized as revenue upon achievement of the associated milestone, provided that the milestone event was substantive and its achievability was not reasonably assured at the inception of the agreement. A milestone event was considered substantive if (i) the milestone was commensurate with either (a) the Company’s performance to achieve the milestone or (b) the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the Company’s performance to achieve the milestone; (ii) it related solely to past performance and (iii) it was reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement. If any portion of the milestone payment did not relate to the Company’s performance, did not relate solely to past performance or was refundable or adjustable based on future performance, the milestone was not considered to be substantive. Certain milestones in the agreements did not meet the ASC 605-28 definition of a milestone because achievement of the milestone solely depended on the performance of the licensee. Any revenue from these contingent payments was subject to an allocation of arrangement consideration and was recognized over the

remaining period of performance obligations, if any, relating to the arrangement. If there were no remaining performance obligations under the arrangement at the time the contingent payment was triggered, the contingent payment was recognized as revenue in full upon the triggering event occurring.

Options for future deliverables were considered substantive if, at the inception of the arrangement, the Company was at risk as to whether the licensee would choose to exercise the option. Factors that the Company considered in evaluating whether an option was substantive included the overall objective of the arrangement, the benefit the licensee might obtain from the arrangement without exercising the option, the cost to exercise the option and the likelihood that the option would be exercised. For arrangements under which an option was considered substantive, the Company did not consider the item underlying the option to be a deliverable at the inception of the arrangement and the associated option fees were not included in the initial consideration, assuming the option was not priced at a significant and incremental discount. Conversely, for arrangements under which an option was not considered substantive or if an option was priced at a significant and incremental discount, the Company would consider the item underlying the option to be a deliverable at the inception of the arrangement and a corresponding amount would be included in the initial consideration.

Since inception, the Company did not have any royalty income.

Contract assets and liabilities

Contract assets are mainly comprised of trade receivables net of allowance for doubtful debts, which includes amounts billed and currently due from customers.

Contract liabilities are mainly comprised of deferred revenues. Amounts received prior to satisfying all revenue recognition criteria are recorded as deferred revenue in the Company's consolidated financial statements. Amounts not expected to be recognized as revenue within the next twelve months of the consolidated balance sheet date are classified as long-term deferred revenue.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with original maturities of 90 days or less at the date of acquisition to be cash equivalents. Cash and cash equivalents consist primarily of money market funds and are recorded at cost, which approximates fair value.

Short-Term Investments

The Company's short-term investments consist of guaranteed investment certificates with original maturities exceeding three months and less than one year. The carrying value of these investments are recorded at cost plus accrued interest, which approximates their fair value.

Accounts Receivable

Accounts receivable are reported in the consolidated balance sheets at outstanding amounts, net of any provisions for uncollectible amounts. At all periods presented, the Company has no allowance for doubtful accounts.

The Company evaluates the collectability of accounts receivable on a regular basis based upon various factors including the financial condition and payment history of customers, an overall review of collections experience on other accounts and economic factors or events expected to affect future collections experience.

Deferred Financing Costs

Deferred financing costs consist of incremental fees charged by underwriters, attorneys, accountants and printers that are directly attributable to future financing transactions. These costs are deferred and subsequently charged against the gross proceeds of the related financing transaction.

Segment Information

The Company operates and manages its business in one segment, which is the discovery, development and commercialization of next-generation multifunctional biotherapeutics. Operating segments are defined as components of an enterprise about which separate discrete information is available for the chief operating decision maker, or decision making group, in deciding how to allocate resources and assessing performance.

Property and Equipment

Property and equipment are recorded at cost net of accumulated depreciation. Upon retirement or sale, the cost of assets disposed of and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to operations. Repairs and maintenance costs are expensed as incurred.

The Company records depreciation using the straight-line method over the estimated useful lives of the capital assets as follows:

Asset Class	Rate
Computer hardware	3 years
Office equipment	3 years
Furniture and fixtures	5 years
Laboratory equipment	7 years
Leasehold improvements	Shorter of the initial lease term or useful life

Property and equipment, acquired or disposed of during the year, are depreciated proportionately for the period they are in use.

Patents and Intellectual Property Costs

The costs of acquiring patents and of prosecuting and maintaining intellectual property rights are expensed as incurred to general and administrative due to the uncertainty surrounding the drug development process and the uncertainty of future benefits. Patents and intellectual property acquired from third parties are capitalized and amortized over the remaining life of the patent, if for approved products or if there are alternative future uses. No patent or intellectual property costs have been capitalized to date.

Impairment of Long-Lived Assets

The Company assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset or assets. If carrying value exceeds the sum of undiscounted cash flows, the Company then determines the fair value of the underlying asset. Any impairment to be recognized is measured by the amount by which the carrying amount of the asset group exceeds the estimated fair value of the asset group. Assets classified as held for sale are reported at the lower of the carrying amount or fair value, less costs to sell. As of December 31, 2018 and 2017, the Company determined that there were no impaired assets and no assets held-for-sale.

Government Grants and Credits

Government grants are recognized where there is reasonable assurance that the grant will be received and all associated conditions will be complied with. Reimbursements of eligible research and development expenditures pursuant to government assistance programs are recorded as a reduction of research and development costs when the related costs have been incurred and there is reasonable assurance regarding collection of the claim.

Grant claims not settled by the balance sheet date are recorded as receivables, provided their receipt is reasonably assured. The determination of the amount of the claim, and hence the receivable amount, requires management to make calculations based on its interpretation of eligible expenditures in accordance with the terms of the programs. The reimbursement claims submitted by the Company are subject to review by the relevant government agencies. Although the Company has used its best judgment and understanding of the related program agreements in determining the receivable amount, it is possible that the amounts could increase or decrease by a material amount in the near-term dependent on the review and audit by the government agency.

The Company participates in SR&ED Program, a federal tax incentive program that encourages Canadian businesses to conduct research and development in Canada. The benefits of investment tax credits for scientific research and development expenditures are recognized in the year the qualifying expenditure is made provided there is reasonable assurance of recoverability. This investment tax credit reduces the carrying cost of research and development expenditures.

Research and Development Costs

Research and development expenses include costs that the Company incurs for its own and for the Company's strategic partners' research and development activities. Research and development expenditures are expensed as incurred. These costs primarily consist of employee related expenses, including salaries and benefits, expenses incurred under agreements with contract research organizations on the Company's behalf, investigative sites and consultants that conduct the Company's clinical trials, the cost of acquiring and manufacturing clinical trial materials and other allocated expenses, share-based compensation expense, and costs associated with nonclinical activities and regulatory approvals.

Income Taxes

The Company accounts for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. In estimating future tax consequences, the Company generally considers all expected future events other than enactments of and changes in the tax law or rates. The measurement of deferred tax assets is reduced, if necessary, by the extent of the valuation allowance. The Company uses a two-step approach to determine whether an uncertain tax position should be recorded, consisting of a "more-likely-than-not" recognition criteria, and a measurement attribute that measures a given tax position as the largest amount of tax benefits that are more than 50% likely of being realized upon ultimate settlement.

Interest and tax penalties are expensed as incurred and nil has been incurred to date.

Stock-Based Compensation

The Company recognizes stock-based compensation expense on share awards granted to employees and members of the board of directors based on their estimated grant date fair value using the Black-Scholes option pricing model. The Black-Scholes option pricing model uses various inputs to measure fair value, including estimated fair value of the Company's underlying common share at the grant date, expected term, estimated volatility, risk-free interest rate and expected dividend yields of the Company's common shares. The Company recognizes stock-based compensation expense, net of estimated forfeitures, in the consolidated statements of loss and comprehensive loss on a straight-line basis over the requisite service period wherein the cumulative amount of compensation cost recognized at any point in time at least equals the portion of grant date fair value of the options that vested on that date. The Company applies an estimated forfeiture rate derived from historical employee termination behavior. If the actual number of forfeitures differs from those estimated by management, adjustments to compensation expense may be required in future periods.

Stock options granted to individual service providers who are not employees are measured on the date of performance using the Black-Scholes option-pricing model and the awards are periodically remeasured as the underlying options vest. The fair value of the stock-based awards is amortized over the vesting period.

The Company has an employee stock purchase plan which is considered compensatory. Accordingly, the Company recognizes compensation expense on these awards based on their estimated grant date fair value using the Black-Scholes option pricing model. The Company recognizes compensation expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the requisite service period.

Business Combination and Goodwill

Acquisitions of businesses are accounted for using the acquisition method. The consideration for a business combination is measured, at the date of the exchange, as the aggregate of the fair value of assets given, liabilities incurred or assumed and equity instruments issued by the Company to the former owners of the acquiree in exchange for control of the acquiree. Acquisition related costs incurred for the business combination are expensed as incurred. The acquiree's net identifiable assets are generally recognized at their fair value at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of the consideration transferred for the acquisition over the Company's interest in the fair value of the net identifiable assets acquired. If the Company's interest in the fair value of the acquiree's net identifiable assets exceeds the cost of the acquisition, the excess is recognized in earnings or loss immediately. Goodwill is evaluated for impairment on an annual basis or more frequently if an indicator of impairment is present.

Effective December 31, 2018, the Company early adopted ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. This standard simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test, which required an entity to determine the fair value of its assets and liabilities at the impairment testing date. As amended, the goodwill impairment test consists of one step that requires comparing the fair value of a reporting unit to its carrying amount, which includes goodwill. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired. If the carrying amount exceeds the fair value of the reporting unit, an entity should recognize a goodwill impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value.

Acquired In-Process Research and Development and Definite-lived Intangible Assets

The in-process research and development intangible asset ("IPR&D") arose from the acquisition of Kairos on March 18, 2016 (note 5). IPR&D is classified as indefinite-lived and is not amortized. IPR&D becomes definite-lived upon the completion or abandonment of the associated research and development efforts. Intangible assets with finite useful lives are amortized on a basis which reflect the pattern in which the economic benefits are consumed. Amortization begins when intangible assets with finite lives are put into use. Indefinite-lived intangible assets will be evaluated for impairment on an annual basis or more frequently if an indicator of impairment is present. For definite-lived intangibles, if there is a event indicating that the carrying value of intangible assets may be impaired, then management will perform an impairment test. When an impairment test is performed, if the carrying value exceeds the recoverable value, based on the sum of undiscounted future cash flows, then such assets are written down to their fair values. All research and development costs incurred subsequent to the acquisition of IPR&D are immediately expensed as incurred.

Fair Value Measurements

The Company measures certain financial instruments and other items at fair value.

To determine the fair value, the Company uses the fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs market participants would use to value an asset or liability and are developed based on market data obtained from independent sources.

Unobservable inputs are inputs based on assumptions about the factors market participants would use to value an asset or liability. The three levels of inputs that may be used to measure fair value are as follows:

- Level 1 inputs are quoted market prices for identical instruments available in active markets.
- Level 2 inputs are inputs other than Level 1 prices, such as prices for similar asset or liability that are observable either directly or indirectly. If the asset or liability has a contractual term, the input must be observable for substantially the full term. An example includes quoted market prices for similar assets or liabilities in active markets.
- Level 3 inputs are unobservable inputs for the asset or liability and will reflect management's assumptions about market assumptions that would be used to price the asset or liability.

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

The Company's financial instruments consist of cash and cash equivalents, short-term investments, amounts receivable, accounts payable and accrued liabilities, warrants, capital lease obligations, liability classified options and other long-term liabilities.

The carrying values of cash and cash equivalents, short-term investments, amounts receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. Based on the borrowing rates available to the Company for debt with similar terms and consideration of default and credit risk using Level 2 inputs, the carrying value of the Company's capital lease obligations as of December 31, 2018 approximates its fair value. As quoted prices for the warrants and liability classified stock options are not readily available, the Company has used a Black-Scholes pricing model to estimate fair value, which utilizes level 3 inputs as defined above. Other long-term liabilities for contingent consideration related to business acquisitions are recorded at fair value on the acquisition date and adjusted quarterly to fair value. Changes in the fair value of contingent consideration liabilities can result from changes in anticipated milestone payments and changes in assumed discount periods and rates. These inputs are unobservable in the market and therefore categorized as level 3 inputs as defined above.

The following tables present information about the Company's liabilities that are measured at fair value on a recurring basis, and indicates the fair value hierarchy of the valuation techniques used to determine such fair value:

	December 31, 2018	Level 1	Level 2	Level 3
Liabilities				
Liability classified stock options	$ 12,603	$ —	$ —	$12,603
Warrant liabilities	—	—	—	—
Liability for contingent consideration	707	—	—	707
Total	$ 13,310	$ —	$ —	$13,310

	December 31, 2017	Level 1	Level 2	Level 3
Liabilities				
Liability classified stock options	$ 3,945	$ —	$ —	$3,945
Warrant liabilities	1,348	—	—	1,348
Liability for contingent consideration	470	—	—	470
Total	$ 5,763	$ —	$ —	$5,763

The following table presents the changes in fair value of the Company's liability for contingent consideration:

	Liability at the beginning of the period	Increase (decrease) in fair value of liability for contingent consideration	Liability at end of the period
Year ended December 31, 2018	$ 470	$ 237	$ 707
Year ended December 31, 2017	$ —	$ 470	$ 470

The following table presents the changes in fair value of the Company's warrant liabilities:

	Liability at the beginning of the period	Warrants issued	Reclassification to liability from equity	Increase (decrease) in fair value of warrant liabilities	Exercise of warrants	Liability at end of the period
Year ended December 31, 2018	$ 1,348	$ —	$ —	$ 3,565	$(4,913)	$ —
Year ended December 31, 2017	$ 4,342	$ —	$ —	$ (2,450)	$ (544)	$ 1,348

The following table presents the changes in fair value of the liability classified stock options:

	Liability at beginning of the period	Reclassification to liabilities from equity	Increase (decrease) in fair value of liability classified stock options	Exercise of options	Unrealized foreign currency loss (gain)	Liability at end of the period
Year ended December 31, 2018	$ 3,945	$ —	$ 9,451	$ (142)	$ (651)	$ 12,603
Year ended December 31, 2017	$ 2,458	$ 2,879	$ (1,413)	$ (300)	$ 321	$ 3,945

The change in fair value of liability classified stock options for the period is presented within research and development expenses and general and administrative expenses.

Net Loss Per Share

The Company follows the two-class method when computing net loss per common share as the Company issued redeemable convertible Class A preferred shares in January 2016 that meet the definition of participating securities. The two-class method determines net loss per share for each class of common and participating securities according to dividends declared or accumulated and participation rights in undistributed earnings. The two-class method requires income available to common shareholders for the year to be allocated between common and participating securities based upon their respective rights to receive dividends as if all income for the period had been distributed. The Company's redeemable convertible Class A preferred shares were non-cumulative, contractually entitle the holders of such shares to participate in dividends, but do not contractually require the holders of such shares to participate in losses of the Company. Accordingly, in periods in which the Company reports a net loss or a net loss attributable to common shareholders resulting from preferred share dividends, net losses are not allocated to participating securities. The Company reported a net loss attributable to common shareholders for all periods presented. The redeemable convertible Class A preferred shares were converted into common share in conjunction with the Company's IPO.

Basic net loss per share attributable to common shareholders is computed by dividing the net loss attributable to common shareholders by the weighted average number of common shares outstanding for the year. Diluted net loss per share attributable to common shareholders is computed by adjusting net loss attributable to common shareholders to reallocate undistributed earnings based on the potential impact of dilutive securities, including outstanding redeemable convertible Class A preferred shares, stock options and warrants. Diluted net loss per share attributable to common shareholders is computed by dividing the diluted net loss attributable to common shareholders by the weighted-average number of common shares outstanding for the year, including potential

dilutive common shares assuming the dilutive effect of outstanding instruments. The if-converted method is used to determine the dilutive effect of the Company's redeemable convertible Class A preferred shares. The treasury stock method is used to determine the dilutive effect of the Company's stock option grants and warrants. ASC 260 "Earnings Per Share" requires an adjustment to the numerator for any income or loss related to ASC 815 liability classified warrants and stock options, if dilutive, if they are presumed to be share settled. The redeemable convertible Class A preferred shares and stock options outstanding were all excluded from the calculation of diluted loss per share because their inclusion would have been anti-dilutive.

	Year Ended December 31,		
	2018	2017	2016
Numerator:			
Net loss attributable to common shareholders:	$ (36,556)	$ (10,406)	$ (33,809)
Deemed dividend due to beneficial conversion feature	—	(520)	—
Basic	$ (36,556)	$ (10,926)	$ (33,809)
Adjustment for change in fair value of ASC 815 liability classified stock options and warrant	—	(2,757)	—
Diluted	$ (36,556)	$ (13,683)	$ (33,809)
Denominator:			
Weighted-average common shares outstanding:			
Basic	29,089,896	21,249,414	12,736,567
Adjustment for dilutive effect of liability classified stock options and warrants	—	71,795	—
Diluted	29,089,896	21,321,209	12,736,567
Net loss per common share—basic	$ (1.26)	$ (0.51)	$ (2.65)
Net loss per common share—diluted	$ (1.26)	$ (0.64)	$ (2.65)

3. Recent Accounting Pronouncements

Initial adoption of new accounting pronouncements

In May 2014, the Financial Accounting Standards Board, or FASB, issued ASU 2014–09, Revenue from Contracts with Customers (Topic 606). The standard, as subsequently amended, is intended to clarify the principles for recognizing revenue for U.S. GAAP by creating a new Topic 606, Revenue from Contracts with Customers and it supersedes the revenue recognition requirements in ASC 605, Revenue Recognition, and supersedes some cost guidance included in Subtopic 605–35, Revenue Recognition—Construction-Type and Production-Type Contracts. For a complete discussion see Note 2 "Revenue" and Note 9, "Research, Collaboration and Licensing Agreements". The Company adopted the new standard effective January 1, 2018, as required, using the modified retrospective approach under which previously presented financial statements are not restated and the cumulative effect of adopting ASC 606 is recognized by adjusting retained earnings at the effective date. The adoption of ASU 2014–09 did not have a material impact on the Company's consolidated financial position, results of operations, equity or cash flows as of the adoption date or for the year ended December 31, 2018.

In January 2017, the FASB issued ASU 2017–04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU 2017–04 simplifies the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test, which required an entity to determine the fair value of its assets and

liabilities at the impairment testing date. ASU 2017–04 is effective for public companies' annual periods, including interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The Company early adopted the new standard effective December 31, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements. Refer to Note 2 "Business Combination and Goodwill".

In November 2018, the FASB issued ASU 2018–18, Collaborative Arrangements (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606. This ASU provides guidance that clarifies when certain transactions between participants in a collaborative arrangement should be accounted for under ASC 606 when the counterparty is a customer, and amends ASC 808 to refer to the unit-of-account guidance in ASC 606. The guidance specifically precludes an entity from presenting consideration from a transaction in a collaborative arrangement as revenue from contracts with customers if the counterparty is not a customer for that transaction. This ASU is effective for public business entities in fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted for entities that have adopted ASC 606. The Company early adopted the new standard effective December 31, 2018. The adoption of this standard did not have a material impact on the Company's consolidated financial statements as majority of the Company's existing strategic partnership agreements are not collaboration agreements.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016–02, Leases (Topic 842) and subsequent amendments to the initial guidance: ASU 2017–13, ASU 2018–10 and ASU 2018–11 (collectively, Topic 842). Topic 842 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous U.S. GAAP. The new guidance retains a distinction between finance leases and operating leases, with cash payments from operating leases classified within operating activities in the statement of cash flows. It also requires lessees to recognize all leases, including operating leases, with a term greater than 12 months on the balance sheet, for the obligations created by those leases and an offsetting right of use asset. The accounting for lessors will remain largely unchanged from the existing accounting standards. Topic 842 will be effective for fiscal years and interim periods within those years, beginning after December 15, 2018. The Company has arrangements currently classified as operating leases which will be recorded as a right of use asset and corresponding liability on the balance sheet and is currently evaluating the impact these changes will have on the consolidated financial statements.

In May 2017, the FASB issued ASU 2017–09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting. ASU 2017–09 provides clarification on when modification accounting should be used for changes to the terms or conditions of a share-based payment award. This ASU does not change the accounting for modifications but clarifies that modification accounting guidance should only be applied if there is a change to the value, vesting conditions, or award classification and would not be required if the changes are considered non-substantive. The new guidance is effective for fiscal years beginning after December 15, 2018. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

In July 2017, the FASB issued ASU 2017–11, Earnings Per Share (Topic 260); Distinguishing Liabilities from Equity (Topic 480); Derivatives and Hedging (Topic 815): (Part I) Accounting for Certain Financial Instruments with Down Round Features, (Part II) Replacement of the Indefinite Deferral for Mandatorily Redeemable Financial Instruments of Certain Nonpublic Entities and Certain Mandatorily Redeemable Non-controlling Interests with a Scope Exception. The ASU was issued to address the complexity associated with applying U.S. GAAP for certain financial instruments with characteristics of liabilities and equity. The ASU, among other things, eliminates the need to consider the effects of down round features when analyzing convertible debt, warrants and other financing instruments. As a result, a freestanding equity-linked financial instrument (or embedded conversion option) no longer would be accounted for as a derivative liability at fair value as a result of the existence of a down round feature. The amendments are effective for fiscal years beginning after

December 15, 2018, and should be applied retrospectively. Early adoption is permitted, including adoption in an interim period. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated financial statements.

In June 2018, the FASB issued ASU 2018–07, Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. The amendments in this ASU expand the scope of Topic 718 to include share-based payment transactions for acquiring goods and services from nonemployees. This new guidance is effective for the Company in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018–13, Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this ASU eliminate, add and modify certain disclosure requirements for fair value measurements as part of its disclosure framework project. The standard is effective for the Company in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact the adoption of the standard will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018–15, Intangibles—Goodwill and Other – Internal Use Software (Subtopic 350–40). This ASU addresses customer's accounting for implementation costs incurred in a cloud computing arrangement that is a service contract and also adds certain disclosure requirements related to implementation costs incurred for internal-use software and cloud computing arrangements. The amendment aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This ASU is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The amendments in this ASU can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's consolidated financial statements.

In October 2018, the FASB issued ASU 2018–16—Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. This ASU provides guidance that adds the overnight index swap rate based on the Secured Overnight Financing Rate to the list of U.S. benchmark interest rates in ASC 815 that are eligible to be hedged. As a result, entities may designate changes in this rate as the hedged risk in hedges of interest rate risk for fixed-rate financial instruments. This ASU is effective when an entity adopts the new hedging guidance in ASU 2017–12. For entities that have not adopted ASU 2017–12, the amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption, including adoption in an interim period, is permitted, as long as the entity has adopted ASU 2017–12. The Company is evaluating the effect of adopting this new accounting guidance, but does not expect adoption will have a material impact on the Company's consolidated financial statements.

The Company has reviewed other recent accounting pronouncements and concluded that they are either not applicable to the business, or that no material effect is expected on the consolidated financial statements as a result of future adoption.

4. Short-term Investments

Short-term investments consist of guaranteed investment certificates ("GICs") and term deposits held at financial institutions in accordance with the Company's treasury policy. These GICs and term deposits bear interest rates

of 2%-3% per annum with a maturity up to 12 months. The Company may redeem GIC investments 30 days after deposit without penalty.

5. Acquisition of Kairos

Description of the Transaction

On March 18, 2016, the Company completed the acquisition of all remaining issued and outstanding shares of Kairos Therapeutics Inc. ("Kairos"), for $24,778 (C$32,257). This consideration was comprised of $23,043 (C$30,000) in common shares of the Company, and $1,733 (C$2,257) in cash, pursuant to a net working capital adjustment determined at closing. Prior to this acquisition the Company had a 19.99% equity interest in Kairos. The Company recognized IPR&D and Goodwill as part of the purchase price allocation.

Impairment Evaluation for Intangible Assets and Goodwill

All IPR&D acquired in the Kairos business combination is classified as indefinite-lived and is not currently being amortized. IPR&D becomes definite-lived upon the completion of the associated research and development efforts, and will be amortized from that time over an estimated useful life based on respective patent terms. The Company evaluates the recoverable amount of intangible assets on an annual basis and performs an annual evaluation of goodwill as of December 31 each year, unless there is an event or change in the business that could indicate impairment, in which case earlier testing is performed.

For the year ended December 31, 2016, the Company recorded an impairment charge of $768 for the discontinuance of the Co-Development program with Oxford BioTherapeutics ("OBT Co-Development"). Furthermore, for the three months ended March 31, 2017, the Company recorded an impairment charge of $1,536 related to the fair value of IPR&D recognized in relation to the Research Collaboration Agreement with OBT ("OBT Technology Swap Agreement") as the Company chose not to advance the associated research and development projects within the research term which expired on February 11, 2017.

The Company performed its annual impairment test for IPR&D as of December 31, 2018 and concluded that there were no impairment indicators related to IPR&D for the twelve months ended December 31, 2018. The following table summarizes the carrying value of IPR&D, net of impairment:

	Acquired IPR&D	Accumulated Impairment	Net
Balance at December 31, 2016	$20,700	$ (768)	$19,932
Change during the year	—	(1,536)	(1,536)
Balance at December 31, 2017	$20,700	$ (2,304)	$18,396
Change during the period	—	—	—
Balance at December 31, 2018	$20,700	$ (2,304)	$18,396

The Company also performed its annual impairment test for goodwill as of December 31, 2018. As part of the evaluation of the recoverability of goodwill, the Company identified only one reporting unit to which the total carrying amount of goodwill has been assigned. As at December 31, 2018, the Company performed a qualitative assessment for impairment of goodwill, considering factors including industry and market conditions, macro-economic conditions, and the excess of market capitalization over the carrying value of the net assets at December 31, 2018, and concluded that it was not more likely than not that the fair value of the reporting unit was less than its carrying value. Consequently, the step 1 quantitative test was not required.

6. Property and Equipment

Property and equipment consists of the following:

	December 31, 2018	December 31, 2017
Computer hardware	$ 1,439	$ 1,575
Furniture and fixtures	747	552
Office equipment	535	484
Laboratory equipment	5,270	4,895
Leasehold improvements	3,377	3,022
Construction in progress	221	196
Property and equipment	$11,589	$10,724
Less accumulated depreciation	(5,105)	(3,546)
Property and equipment, net	$ 6,484	$ 7,178

During the year ended December 31, 2018, the Company entered into a new capital lease for office equipment of $10 (2017—$10). Total assets under capital lease were $72 and $78 at December 31, 2018 and 2017, respectively; accumulated depreciation for these assets were $56 and $47 at December 31, 2018 and 2017, respectively. As of December 31, 2018, the total future minimum lease payments for the capital leases are $62 (2017—$73).

Depreciation expense on property and equipment for the years ended December 31, 2018, 2017 and 2016 was $1,880, $1,681 and $541, respectively.

7. Intangible Assets

Intangible assets consist of the following:

	December 31, 2018	December 31, 2017
Computer software and licenses	$ 5,429	$ 2,812
Less accumulated amortization	(3,815)	(2,064)
Intangible assets, net	$ 1,614	$ 748

Amortization expense on intangible assets for the years ended December 31, 2018, 2017 and 2016 was $1,750, $1,058 and $484, respectively.

8. Liabilities

Accounts payable and accrued liabilities consist of the following:

	December 31, 2018	December 31, 2017
Trade payables	$ 2,599	$1,664
Accrued research expenses	6,633	4,708
Employee compensation and vacation accruals	2,926	1,981
Accrued legal and professional fees	556	308
Payable to CDRD Ventures Inc. (“CVI”) for Kairos SR&ED receivable (note 5)	—	165
Other	689	227
Total	$13,403	$9,053

Other current liabilities consisted of the following:

	December 31,	
	2018	2017
Current income tax liability	$299	$158
Current portion of lease inducements	136	147
Current portion of capital lease liability	15	10
Total	$450	$315

Other long term liabilities consisted of the following:

	December 31,	
	2018	2017
Liability for contingent consideration (note 15)	$707	$470
Lease inducements	197	344
Capital lease liability	42	52
Total	$946	$866

9. Warrant liabilities and long-term debt

a. Perceptive Debt

Description of transaction:

On June 2, 2016, the Company entered into a Credit Agreement (the "Perceptive Debt") with Perceptive Credit Opportunities Fund L.P. and PCOF Phoenix II Fund L.P. (collectively, "Perceptive"). The total credit facility was for $15.0 million consisting of Tranche A and Tranche B term loans for $7.5 million each. The Tranche A term loan was made available to the Company on June 2, 2016, with total net proceeds received of $6,953, after deducting commissions, legal and other administrative costs. The interest rate on the Tranche A term loan was LIBOR plus an applicable margin of 10% per annum with LIBOR to be a minimum of 1% with monthly interest payments. $225 monthly principal payments were originally scheduled to commence on June 2, 2018, with the remaining outstanding principal balance to be paid on June 2, 2020. Under the Credit Agreement, the Company had the option to settle the loan earlier, subject to certain early payment premiums. On June 6, 2017, the Company exercised its option to repay the total outstanding debt ahead of the maturity date.

On June 2, 2016, pursuant to the terms of the Perceptive Debt, the Company also issued Warrant Certificates which entitled Perceptive Credit Opportunities Fund, L.P. to purchase up to 295,009 Redeemable Convertible Class A Preferred Shares of the Company at an exercise price of $11.69 per share, with an expiry term of five years (the "Perceptive Warrants"). These warrants were classified as liabilities and were recorded at their estimated fair value as they contained a down-round provision and because the shares underlying the warrants could have obligated the Company to transfer assets to the holders at a future date under certain circumstances, such as a deemed liquidation event. Changes in fair value are recorded in the consolidated statements of loss and comprehensive loss.

The warrants were initially recorded at their fair value at issuance of $3,266 and the residual balance of the original principal, $4,234, has been recorded as long-term debt. The long-term debt was being accreted to its face value of $7,500 over the four-year term of the Perceptive Debt. On August 3, 2016, the Warrant Certificates were assigned to Perceptive Credit Holdings, LP, an affiliate of Perceptive.

Immediately prior to the consummation of the IPO, in conjunction with the conversion of the Company's Redeemable Convertible Class A Preferred Shares into common shares (note 10c), the Redeemable Convertible

Class A Preferred Share Warrants were converted on a 1.349367-for-1 basis into common share warrants to purchase up to 398,076 common shares of the Company at an exercise price of $8.67 per share. These common share warrants were classified as liabilities as they contained a down-round provision and because of the understanding that in compliance with applicable securities laws, the warrants required the issuance of registered securities upon exercise and did not sufficiently preclude an implied right to net cash settlement.

Early Repayment of the Perceptive Debt:

On June 6, 2017 (the "Repayment Date"), the Company exercised its option to repay the total outstanding debt ahead of the maturity date, pursuant to the terms of the Credit Agreement. On the Repayment Date, the Company paid $7,814 which consisted of the $7,500 outstanding principal balance, a $300 early repayment premium as well as $14 in legal fees. At the time of repayment, all liabilities and obligations of the Company and Perceptive terminated automatically. The repayment did not affect Perceptive's rights, in connection with the Perceptive Warrants which remained outstanding until exercised.

From January 1, 2017 to June 6, 2017, the Company recorded $360 in interest expense, $248 in accretion expense and $35 in amortization of debt issue costs.

	Year ended December 31, 2017
Long term debt at January 1, 2017	$ 4,810
Less: unamortized debt issue costs at January 1, 2017	(393)
Long term debt at January 1, 2017, net of deferred charges	$ 4,417
Accretion during the period up to the Repayment Date	248
Amortization of debt issue costs during the period up to the Repayment Date	35
Carrying value of long term debt on the Repayment Date, net of deferred charges	$ 4,700
Repayment, including repayment premium and expenses	(7,814)
Loss on debt extinguishment	$ (3,114)

b. Warrant Liabilities

Warrant liabilities from Perceptive warrants (note 9a) were $nil and $1,348 as of December 31, 2018 and December 31, 2017, respectively.

On May 10, 2018, Perceptive exercised a portion of its warrants to purchase 178,076 common shares of the Company on a cashless basis, resulting in a net issuance of 79,481 common shares to Perceptive.

On June 4, 2018, Perceptive exercised the remaining warrants to purchase 220,000 common shares of the Company on a cashless basis, resulting in a net issuance of 126,880 common shares to Perceptive.

The fair value of the Perceptive warrants increased $3,565 during the period from January 1, 2018 leading up to the exercise of these warrants.

As of December 31, 2017, the estimated fair value of the Perceptive warrants was determined using the Black-Scholes option pricing model with the following assumptions:

	December 31, 2017
Dividend yield	0%
Expected volatility	66.7%
Risk-free interest rate	2.09%
Expected term	3.42 years

10. Redeemable Convertible Class A Preferred Shares and Shareholders' Equity

The number of shares and per share amounts are presented in actual amounts.

a. Authorized

On May 2, 2017, the Company's new Articles of Incorporation were issued under which the Company has an unlimited number of voting Common Shares and Preferred Shares without par value.

Under the Company's former Articles of Incorporation dated December 21, 2015, the Company had 6,413,265 authorized Redeemable Convertible Class A Preferred Shares.

b. Redeemable Convertible Class A Preferred Shares

As of December 31, 2018 and 2017, no Redeemable Convertible Preferred Shares were outstanding. The rights and preferences of the historical Redeemable Convertible Class A Preferred Shares were as follows:

The Class A preferred shares accrued dividends at 8% per annum non-cumulative, payable only as, when and if, declared by the Board of Directors of the Company (the "Board"). In addition, holders of the Class A preferred shares would have been entitled to receive, when and as declared by the Board, dividends in an amount equal to any dividend per common share declared by the Board on the common shares multiplied by the number of common shares that would be issued in exchange for the Class A preferred shares upon conversion.

Optional conversion: Each Class A preferred share was convertible at any time at the option of the holders into common shares, which is determined by dividing the Class A original issue price of $11.69 per share by the Class A conversion price in effect at the time of the conversion.

Mandatory conversion: Upon either a) the closing of the sale of common shares to the public at a price of at least 1.4 times the Class A original issue price of $11.69 per share in a firm-commitment underwritten public offering resulting in at least $50 million of gross proceeds, or b) the date and time, or the occurrence of an event, specified by vote or written consent of the holders of at least a majority of the then outstanding Class A Preferred Share, all outstanding Class A preferred shares would have been automatically converted into common shares at the effective conversion rate. However, in the event the common share public issuance price is less than 1.5 times the Class A original issue price of $11.69 per share, then immediately prior to, and contingent upon such conversion, the Class A conversion price would be automatically adjusted to equal the lesser of (a) the quotient obtained by dividing the per share price in such public offering by 1.5 and (b) the Class A conversion price in effect as of immediately prior to such public offering.

Upon the liquidation, dissolution, reorganization or winding-up of the Company, holders of Class A preferred shares were entitled to receive, before any distribution or payment on the common shares, an amount equal to the greater of:

(i) (a) if such event occurred prior to January 7, 2017, 1.25 times the Class A original issue price of $11.69 per share,

(b) if such event occurred after January 7, 2017, 1.5 times the Class A original issue price of $11.69 per share, under both cases plus any dividends declared but unpaid.

(ii) amount per share payable had all Class A preferred shares been converted into common shares in accordance with the conversion mechanism.

The preferences over common shareholders ceased to exist upon conversion of preferred shares into common shares.

Each preferred shareholder was previously entitled to the number of votes that such shareholder would be entitled to if such preferred shares were converted to common shares.

The Company assessed the issued Class A preferred shares for any beneficial conversion features or embedded derivatives, including the conversion option, that would require bifurcation from the applicable series of preferred shares and receive separate accounting treatment. On the date of the issuance of preferred shares, the fair value of the common shares into which the Class A preferred shares were convertible was less than the effective conversion price of such shares and, as such, there was no intrinsic value of the conversion option on the commitment date. There was a contingent beneficial conversion feature that would have become applicable if an initial public offering was completed at an issue price in excess of the conversion price within one year of the date the preferred shares were issued.

Prior to the IPO, the Company classified its preferred shares outside of permanent equity as the redemption of such shares was not solely under the control of the Company.

c. Conversion of Redeemable Convertible Class A Preferred Shares to Common Shares

Immediately prior to the consummation of the IPO, all outstanding Redeemable Convertible Class A Preferred Shares were converted into 7,098,194 common shares on a 1-for-1.349367 basis. No Redeemable Convertible Class A Preferred Shares were outstanding as of December 31, 2017 or 2018.

The IPO was completed at $13.00 per share issued which resulted in an adjustment to the conversion price and a beneficial conversion feature related to the Class A preferred shares as the fair value of the common shares at the commitment date exceeded the effective conversion price at the IPO date. This beneficial conversion feature of $520 was recorded as an increase to additional paid-in capital and the resulting deemed dividend was reflected as an increase in accumulated deficit.

d. Preferred Shares

As of December 31, 2018, no preferred shares were issued or outstanding, respectively.

The rights and preferences of the unissued Preferred Shares are as follows:

Holders of Preferred Shares will be entitled to preference with respect to payment of dividends over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to payment of dividends.

In the event of the liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary, or any other distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, the holders of the Preferred Shares will be entitled to preference over the Common Shares and any other shares ranking junior to the Preferred Shares with respect to the repayment of capital paid up on and the payment of unpaid dividends accrued on the Preferred Shares.

The Preferred Shares may also be given such other preferences over the Common Shares and any other shares ranking junior to the Preferred Shares as may be fixed by directors' resolution as to the respective series authorized to be issued.

e. Stock-Based Compensation

Original Stock Option Plan:

On July 14, 2006, the shareholders approved an employee stock option plan (the "Original Plan"). The Original Plan provides for the granting of options to directors, officers, employees and consultants. Options to purchase common shares may be granted at an exercise price of each option equal to the last private issuance of common shares immediately preceding the date of the grant. The total number of options outstanding is not to exceed 20% of the issued common shares of the Company.

Options granted under the Original Plan are exercisable at various dates over their ten-year life. New common shares are issued when options are exercised.

For options issued to employees, the shares available for issuance under the Original Plan vest over 4 years. Shares available for issuance under the Original Plan issued to directors vest over 3 years, and shares available for issuance under the Original Plan issued to consultants and members of the Scientific Advisory Board vest immediately upon issuance.

The exercise prices of the Company's stock options are denominated in Canadian dollars. The U.S. dollar amounts have been translated using the period end rate or the average rate for the period, as applicable, and have been provided for information purposes.

New Stock Option Plan:

On April 10, 2017, the Company's shareholders approved a new stock option plan, which became effective immediately prior to the consummation of the IPO. This plan allowed for the grant of options to directors, officers, employees and consultants in U.S. or Canadian dollars, and also permitted the Company to grant incentive stock options ("ISOs"), within the meaning of Section 422 of the Code, to its employees. On June 7, 2018, the Company's shareholders approved an amendment and restatement of this plan (this plan, as amended and restated, the "New Plan"), which includes an article that allows the Company to grant restricted shares, restricted share units ("RSU") and other share-based awards, in addition to options. All restricted share, RSU or other share-based award terms and conditions will be specified in future grant agreements. To date, no restricted shares, RSUs or other share-based awards have been granted.

The maximum number of common shares reserved for issuance under the New Plan is 5,686,097, which includes 3,985,768 shares issuable upon exercise of options outstanding as of December 31, 2018. Beginning in 2019 and ending in 2028, this maximum number may be increased on the first day of each calendar year by up to 4.0% of the number of outstanding shares on the last day of the immediately preceding calendar year. ISOs may be granted with respect to a maximum fixed amount equal to 20% of the shares reserved for issuance under the New Plan as of June 7, 2018.

All options granted under the New Plan will have an exercise price determined and approved by the Board on the date of the grant, which shall not be less than the market price of the common shares at such time. For the purposes of the New Plan, the market price of a common share shall be the closing sale price of a share on the grant date reported by the stock exchange with the greatest trading volume or, if such day is not a trading day, the closing sale price reported for the immediately preceding trading day. The Company may convert a market price denominated in Canadian currency into United States currency and vice versa and such converted amount shall be the market price.

An option shall be exercisable during a period established by the Board which shall commence on the date of the grant and shall terminate not later than ten years after the date of the granting of the option. The New Plan provides that the exercise period shall automatically be extended if the date on which it is scheduled to terminate shall fall during a black-out period. In such cases, the extended exercise period shall terminate on the tenth business day after the last day of the black-out period, provided that the exercise period shall in no case be extended beyond the tenth anniversary of the date the option was granted. All options shall vest in accordance with the terms of their grant agreements.

The following table summarizes the Company's stock options granted in Canadian dollars under the Original Plan and the New Plan:

	Number of Options	Weighted-Average Exercise Price (C$)	Weighted-Average Exercise Price ($)	Weighted-Average Contractual Term (years)	Aggregate intrinsic value (C$)	Aggregate intrinsic value ($)
Outstanding, December 31, 2016	1,910,521	11.67	8.69	7.36	20,958	15,609
Granted	731,528	18.91	14.56			
Expired	(80,254)	12.75	9.82			
Exercised	(207,777)	6.02	4.64			
Forfeited	(90,306)	18.23	14.04			
Outstanding, December 31, 2017	2,263,712	14.24	11.35	7.53	1,455	1,160
Granted	326,975	16.51	12.74			
Expired	(7,908)	16.22	12.52			
Exercised	(94,812)	8.81	6.80			
Forfeited	(41,977)	18.09	13.96			
Outstanding, December 31, 2018	2,445,990	14.66	10.74	6.99	14,421	10,571
December 31, 2018						
Exercisable	1,546,911	13.41	9.83	6.15	11,209	8,217
Vested and expected to vest	2,397,824	14.61	10.71	6.95	14,410	10,563

The following table summarizes the Company's stock options granted in U.S. dollars under the New Plan:

	Number of Options	Weighted-Average Exercise Price ($)	Weighted-Average Contractual Term (years)	Aggregate intrinsic value ($)
Outstanding, December 31, 2016	—	—	—	—
Granted	650,480	9.70		
Expired	—	—		
Exercised	—	—		
Forfeited	(13,885)	9.82		
Outstanding, December 31, 2017	636,595	9.70	9.46	15
Granted	910,783	13.03		
Expired	—	—		
Exercised	—	—		
Forfeited	(7,600)	9.82		
Outstanding, December 31, 2018	1,539,778	11.67	9.02	4,876
December 31, 2018:				
Exercisable	285,350	10.04	8.52	1,704
Vested and expected to vest	1,472,436	11.65	9.01	4,876

The Company received cash proceeds of $682 (C$883) (2017: $965 (C$1,250), 2016: $17 (C$22)) from stock options exercised.

The following table summarizes information pertaining to the Company's stock options granted in Canadian dollars under the Original Plan and the New Plan and outstanding at December 31, 2018 and December 31, 2017:

	As of December 31, 2018						
	Options outstanding				Options exercisable		
Exercise price (C$)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price (C$)	Weighted-average exercise price (US$)	Number of options exercisable	Weighted-average exercise price (C$)	Weighted-average exercise price (US$)
3.58—5.37	219,369	1.84	4.90	3.59	219,369	4.90	3.59
7.26—9.94	141,608	5.87	8.29	6.08	102,087	7.64	5.60
11.60—13.20	877,492	7.11	12.25	8.98	621,958	12.12	8.89
14.44—17.09	531,295	7.74	15.14	11.10	254,080	14.44	10.58
18.33—20.74	214,514	7.98	20.58	15.08	113,802	20.74	15.20
21.05—22.65	461,712	8.20	22.48	16.48	235,615	22.60	16.57
3.58 to 22.65	2,445,990	6.99	14.66	10.74	1,546,911	13.41	9.83

	As of December 31, 2017						
	Options outstanding				Options exercisable		
Exercise price (C$)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price (C$)	Weighted-average exercise price (US$)	Number of options exercisable	Weighted-average exercise price (C$)	Weighted-average exercise price (US$)
3.58—5.37	268,965	2.74	4.88	3.89	268,965	4.88	3.89
7.26—9.94	148,498	6.95	8.32	6.64	89,498	7.26	5.79
11.60—12.10	717,826	7.78	12.02	9.58	410,968	11.96	9.53
13.21—14.44	468,116	7.98	13.98	11.14	247,268	14.44	11.51
20.74—22.65	660,307	9.02	21.98	17.52	119,280	21.58	17.20
3.58 to 22.65	2,263,712	7.53	14.24	11.35	1,135,979	11.46	9.14

The following table summarizes information pertaining to the Company's stock options granted in U.S. dollars under the New Plan and outstanding at December 31, 2018 and December 31, 2017:

	As of December 31, 2018				
	Options outstanding			Options exercisable	
Exercise price (US$)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price (US$)	Number of options exercisable	Weighted-average exercise price (US$)
6.80—7.76	27,855	8.74	7.11	14,308	6.69
9.81—11.84	1,166,640	8.82	10.79	253,140	9.81
12.77—14.51	113,000	9.77	13.51	—	—
15.01—15.92	159,858	9.78	15.22	17,902	15.78
16.42—17.21	72,425	9.41	16.76	—	—
6.80 to 17.21	1,539,778	9.02	11.67	285,350	10.04

	As of December 31, 2017				
	Options outstanding			Options exercisable	
Exercise price (US$)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price (US$)	Number of options exercisable	Weighted-average exercise price (US$)
6.80	18,855	9.62	6.80	1,396	6.80
7.75	9,000	9.98	7.75	—	—
9.82	608,740	9.45	9.82	—	—
6.80 to 9.82	636,595	9.46	9.70	1,396	6.80

The stock options expire at various dates from February 5, 2019 to December 16, 2028.

A summary of the non-vested stock option activity and related information of the Company's stock options granted in Canadian dollars is as follows:

	Number of options	Weighted-average fair value price (C$)	Aggregate Fair value (C$)	Weighted-average fair value price (US$)
Non-vested, December 31, 2017	1,127,733	9.64	10,876	7.69
Options granted	326,975	9.96	3,259	7.69
Options vested	(513,652)	10.14	(5,210)	7.83
Options forfeited and cancelled	(41,977)	10.83	(455)	8.36
Non-vested, December 31, 2018	899,079	10.25	8,470	7.51

A summary of the non-vested stock option activity and related information of the Company's stock options granted in U.S. dollars is as follows:

	Number of options	Weighted-average fair value price (US$)	Aggregate Fair value (US$)
Non-vested, December 31, 2017	635,199	3.58	2,276
Options granted	910,783	7.99	7,277
Options vested	(283,954)	5.69	(1,615)
Options forfeited and cancelled	(7,600)	5.64	(43)
Non-vested, December 31, 2018	1,254,428	7.31	7,895

The estimated fair value of options granted to officers, directors, employees and consultants is amortized over the vesting period. Stock-based compensation expense for equity classified instruments, as well as the financial statement impact of the periodic revaluation of liability classified equity instruments (note 2), is recorded in research and development expenses, general and administration expenses and finance expense (income) as follows:

	Year Ended December 31,		
	2018	2017	2016
Research and development expenses:			
Stock-based compensation for equity classified instruments	$2,203	$ 913	$2,335
Change in fair value of liability classified equity instruments	2,032	492	280
	$4,235	$1,405	$2,615
General and administrative expenses:			
Stock-based compensation for equity classified instruments	$3,693	$1,852	$ 786
Change in fair value of liability classified equity instruments	5,362	486	889
	$9,055	$2,338	$1,675
Finance expense (income):			
Stock-based compensation for equity classified instruments	$ 1	$ —	$ —
Change in fair value of liability classified equity instruments	150	(314)	1
	$ 151	$ (314)	$ 1

For the year ended December 31, 2018, $3,876 of share-based compensation expense was recorded in additional paid-in capital and the remaining balance was recorded in the liability classified stock options and ESPP liability accounts (2017: $4,827 in additional paid-in capital and the remaining balance in liability classified stock options and ESPP liability accounts, 2016: $2,797 in additional paid-in capital and the remaining balance in liability classified stock options account).

The estimated fair value of stock options granted in Canadian dollars under the Original Plan and the New Plan was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year ended December 31,		
	2018	2017	2016
Dividend yield	0%	0%	0%
Expected volatility	66.52%	66.25%	70.52%
Risk-free interest rate	2.18%	1.44%	1.08%
Expected average life of options	5.91 years	5.90 years	5.91 years

The estimated fair value of stock options granted in U.S. dollars under the New Plan was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year ended December 31,		
	2018	2017	2016
Dividend yield	0%	0%	—
Expected volatility	66.78%	65.89%	—
Risk-free interest rate	2.69%	1.84%	—
Expected average life of options	5.88 years	5.89 years	—

Expected Volatility—Volatility is a measure of the amount by which a financial variable such as a share price has fluctuated (historical volatility) or is expected to fluctuate (expected volatility) during a period. As the Company does not yet have sufficient history of its own volatility, the Company has identified several public entities of similar complexity and stage of development and calculates historical volatility using the volatility of these companies.

Risk-Free Interest Rate—This rate is from the Government of Canada and U.S. Federal Reserve marketable bonds for the month prior to each option grant during the year, having a term that most closely resembles the expected life of the option.

Expected Term—This is the period of time that the options granted are expected to remain unexercised. Options granted have a maximum term of ten years. The Company uses the simplified method to calculate the average expected term, which represents the average of the vesting period and the contractual term.

Share Fair Value—Options granted after the Company's IPO, are issued at the fair market value of the Company's stock at the date the grant is approved by the Board. Before the IPO, the Company granted stock options at exercise prices not less than the fair value of its common shares as determined by the Board, with input from management. Management estimated the fair value of its common shares based on a number of objective and subjective factors, including the most recently available valuation of common shares prepared by independent valuation specialists, external market considerations affecting the biotechnology industry and the historic prices at which the Company sold common shares.

The weighted-average Black-Scholes option pricing assumptions for liability classified stock options outstanding at December 31, 2018 and 2017 are as follows:

	December 31, 2018	December 31, 2017
Dividend yield	0%	0%
Expected volatility	72.27%	66.46%
Risk-free interest rate	1.94%	1.55%
Expected average option term	3.59 years	5.89 years
Number of liability classified share options outstanding	1,437,163	1,475,485

The total intrinsic value of options exercised during the year ended December 31, 2018, 2017 and 2016 was $2,388 (C$3,094) (2017: $1,550 (C$2,013), 2016: $38 (C$51)), respectively. At December 31, 2018, the unamortized compensation expense related to unvested options was $8,395 (C$11,452). The remaining unamortized compensation expense as of December 31, 2018 will be recognized over a weighted-average period of 2.0 years.

f. Employee Stock Purchase Plan:

On April 10, 2017, the employee stock purchase plan, ("ESPP"), was approved by the shareholders of the Company and became effective immediately prior to the consummation of the IPO. On June 7, 2018, certain

amendments to the ESPP were approved by shareholders. Prior to these amendments, the ESPP allowed eligible employees to acquire common shares at a discounted purchase price of 85% of the market value of the Company's common shares on the purchase date. The ESPP, as amended, allows eligible employees to acquire common shares at a discounted purchase price of the lesser of (i) 85% of the market price of a common share on the first day of the applicable purchase period and (ii) 85% of the market price of a common share on the purchase date. The ESPP qualifies as an "employee stock purchase plan" within the meaning of Section 423 of the Code for employees who are United States taxpayers.

The ESPP is implemented through a series of offerings under which eligible employees are granted rights to purchase the Company's common shares at the end of specified purchase periods at a discounted purchase price. The Company currently holds offerings consisting of a single six-month purchase period commencing on January 1 and July 1 of each calendar year, with a single purchase date at the end of the purchase period on June 30 and December 31 of each calendar year. The first six-month purchase period commenced on July 1, 2017.

Eligible employees are able to contribute up to 15% of their gross base earnings for purchases under the ESPP through regular payroll deductions. Purchases of shares under the ESPP are limited for each employee at $25 worth of the Company's common shares (determined using the lesser of (i) the market price of a common share on the first day of the applicable purchase period and (ii) the market price of a common share on the purchase date) for each year such purchase right is outstanding.

Common shares purchased under the ESPP will be issued from treasury at a purchase price equal to 85% of the applicable market price of a common share, all in accordance with applicable laws and the terms and conditions of the ESPP. For the purposes of the ESPP, the market price of a common share is defined as the closing sale price of a share on such date reported by the stock exchange with the greatest trading volume or, if such day is not a trading day, the closing sale price reported for the immediately preceding trading day.

The number of common shares reserved for issuance under the ESPP shall not exceed 272,350 common shares, plus the number of common shares that are automatically added on January 1st of each year, commencing on (and including) January 1, 2018 and ending on (and including) January 1, 2027, in an amount equal to the lesser of (i) 1% of the total number of common shares issued and outstanding on December 31st of the preceding calendar year, and (ii) 419,000 common shares. As this plan is considered compensatory, a charge of $114 has been recorded to research and development expense and general and administrative expense accounts. As of December 31, 2018, total amount contributed by the ESPP participants is $359.

Accordingly, the Company recognizes compensation expense on these awards based on their estimated grant date fair value using the Black-Scholes option pricing model. The Company recognizes compensation expense in the consolidated statements of loss and comprehensive loss on a straight-line basis over the requisite service period.

11. Government Grants and Credits

	Year Ended December 31,		
	2018	2017	2016
SR&ED credits (expense), net	$ (5)	$ 857	$1,265
IRAP credits	—	218	—
Total	$ (5)	$1,075	$1,265

The Company accrued refundable investment tax credits receivable for the year ended December 31, 2018 of $106 as well as a true-up adjustment of $(111) for year 2016 resulting a net expense of $5 for the year ended December 31, 2018. The SR&ED receivable of $997 as of December 31, 2018, includes $229 and $662 relating to the investment tax credits for 2017 and 2016, respectively that were not collected yet. Although the Company

has used its best judgment and understanding of the related income tax legislation in determining its claims, it is possible the amounts could increase or decrease materially in the future, as the Canada Revenue Agency reserves the right to review and audit the investment tax credit claims.

During the current year, the Company did not recognize any amounts under IRAP. Research grants were recorded as a reduction in research and development expenses in the statement of loss and comprehensive loss. The IRAP funding agreement contains contingency clauses which could require repayment of funding if certain conditions are not met. The Company is in compliance with these conditions.

12. Research Collaboration and Licensing Agreements

The Company has entered into a number of collaboration and licensing agreements. Promised deliverables within these agreements may include: (i) grants of licenses, or options to obtain licenses, to our intellectual property, (ii) research and development services, (iii) drug product manufacturing, and (iv) participation on joint research and/or development committees. The terms of these agreements typically include one or more of the following types of payments to the Company:

- non-refundable, upfront license and platform technology access fees;
- research, development and regulatory milestone payments;
- commercial milestone payments; and
- royalties on net sales of licensed products.

The following table presents summarized revenue recognized from the Company's strategic partnerships.

	Year ended December 31,		
	2018	2017	2016
Janssen:			
Recognition of upfront fee	$ —	$50,000	$ —
Merck:			
Research support payments	—	1	832
Lilly:			
Milestone revenue	2,000	—	2,000
Research support payments	—	15	46
Celgene:			
Option payment	4,000	—	—
GSK:			
Technology access fee	—	—	6,000
Daiichi Sankyo:			
Technology access fee	18,000	—	2,000
Milestone revenue	—	1,000	—
Research support payments	—	700	131
LEO:			
Recognition of upfront fee	5,000	$ —	$ —
Research support payments	116	—	—
BeiGene:			
Recognition of upfront fee	23,530	$ —	$ —
Other	373	46	—
	$53,019	$51,762	$11,009

As at January 1, 2018 and December 31, 2018, contract assets from research, collaboration and licensing agreements were $nil. Contract liabilities are comprised of $36,471 deferred revenue from BeiGene as of December 31, 2018 (December 31, 2017: nil) as disclosed below.

Research and License Agreement with Merck Sharp & Dohme Research Ltd. ("Merck")

On August 22, 2011, the Company entered into a Research and License Agreement with Merck providing Merck a worldwide license to develop and commercialize novel bispecific antibodies generated through use of the Company's Azymetric platform toward certain exclusive therapeutic targets. Both companies will collaborate to advance the therapeutic platforms, with Merck working to progress the bispecific therapeutic antibody candidates through clinical development and commercialization. No joint development activities to advance the therapeutic platforms have occurred since inception and Merck no longer has a right to such joint activities. In 2013, Merck was also provided with a limited, non-exclusive license to EFECT, to be used together with the Azymetric platform for developing products.

On December 3, 2014, the Company and Merck jointly amended the agreement, including amending certain terms and exclusivities contained therein. Under the terms of the amended agreement, the Company receives funding for certain internal and external research costs incurred in the project. Additionally, the amendment removed a $2.0 million research milestone from the total milestones the Company would be eligible to receive over the life of the agreement. The new research funding terms were priced at market rate, and the Company concluded that the original agreement was not materially modified. Accordingly, the amendments did not impact the determination of units of accounting or the allocation of the arrangement consideration.

Upon the execution of the agreement, the Company received a one-time, non-refundable upfront payment of $1.25 million. Over the life of the agreement, the Company is eligible to receive payments up to $190.75 million, comprised of the $1.25 million upfront payment, $3.5 million for research phase successes, up to $6.0 million for completion of IND-enabling studies, up to $66.0 million for development milestones and up to $114.0 million for commercial milestones. In addition, the Company is eligible to receive tiered royalty payments on sales of products. Merck will have exclusive worldwide commercialization rights to products derived from the agreement. The events and conditions resulting in payments for research, development and commercial milestones solely depend on Merck's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Merck, is a customer. The Company identified the following promised goods and services at the inception of the Merck agreement: (1) the research license, (2) the commercial license, (3) the transfer of the Company's platform technology (Azymetric) (4) research services and technical assistance in connection with the transfer of platform technology to Merck, and (5) research activities to be performed on behalf of Merck. The Company concluded that the licenses and platform technologies together are distinct. Accordingly, the deliverables (1) through (4) were considered as a single performance obligation and the upfront payment of $1.25 million has been allocated to this performance obligation. The upfront payment was recorded as deferred revenue and recognized into revenue on a straight-line basis from October 1, 2011 through June 30, 2012, the period over which the Company performed the procedures for transferring the Company's know-how and technology and related technical assistance during the transfer process. The research activities to be performed on behalf of Merck after the transfer of the technology are also determined to have stand-alone value as Merck or another third party could provide these services without the Company's assistance. The revenue from this deliverable is recognized upon performance of such activities at rates consistent with prevailing market rates.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements. The best estimate of selling price for the other deliverables was estimated using internal estimates of cost to perform the specific services plus a normal profit margin for providing the services.

At execution, the transaction price included only the $1.25 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were

fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Merck and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

The consideration otherwise allocable to delivered units is limited to the amount that is not contingent on the delivery of additional items or fulfillment of other performance conditions. Consequently, the arrangement consideration related to the research activities to be performed on behalf of Merck after the transfer of the technology was excluded from the allocation arrangement consideration because the consideration and performance are contingent upon Merck requesting performance of the services and these services are priced at an estimated fair value.

The Company received and recorded non-refundable milestone payments from Merck in the amounts of $2.0 million and $1.5 million on September 20, 2012 and April 22, 2013, respectively. These milestone payments were received upon the achievement of certain development activities during the course of the research program and were recorded as revenue upon achievement of the milestone as the Company had no remaining performance obligations under the arrangement. No additional milestone payments or royalties have been received to date.

During the year ended December 31, 2018, the Company recorded $nil (2017: $1 and 2016: $832) in research support payments from Merck, under the terms of the amended agreement.

Licensing and Collaboration Agreement with Eli Lilly and Company ("Lilly")

On December 17, 2013, the Company entered into a Licensing and Collaboration Agreement with Lilly to develop novel bispecific antibody therapeutics using the Company's proprietary Azymetric platform. The Company will apply its Azymetric platform in combination with Lilly's proprietary targets to create novel bispecific antibodies which Lilly will have the right to develop and commercialize worldwide.

Upon the execution of the agreement, the Company received a one-time, non-refundable upfront payment of $1.0 million. Over the life of the agreement, the Company will receive funding for internal and external research costs incurred on behalf of Lilly on the project, and is eligible to receive potential milestone payments for each product, comprised of $1.0 million for research phase success, $2.0 million for IND submission, $8.0 million for development milestones and up to $40.0 million for commercial milestones. In addition, the Company is eligible to receive tiered royalty payments on the sale of products. Lilly will have exclusive worldwide commercialization rights to products derived from the collaboration. The Company determined that other than the research milestone, the events and conditions resulting in payments for development and commercial milestones solely depend on Lilly's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Lilly, is a customer. The Company identified the following promised goods and services at the inception of the Lilly agreement: (1) the research license, (2) the commercial license, (3) the transfer of the Company's platform technology (Azymetric), (4) the research services and technical assistance to be provided by the Company in connection with the transfer of intellectual property to Lilly, and (5) research activities to be performed on behalf of Lilly. The Company concluded that the licenses and platform technology together are distinct. Accordingly, the deliverables (1) through (4) were considered as a single performance obligation and the upfront payment of $1.0 million has been allocated to this performance obligation. The payment was recorded as deferred revenue and recognized into revenue on a straight-line basis from December 31, 2013 to June 30, 2014, the period over which the Company performed the procedures for transferring the Company's know-how and technology and related technical assistance during the transfer process. The research activities to be performed on

behalf of Lilly after the transfer of the technology are also determined to be distinct as Lilly or another third party could provide these services without the Company's assistance. The revenue from this deliverable is recognized upon performance of such activities at rates consistent with prevailing market rates.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements. The best estimate of selling price for the other deliverables was estimated using internal estimates of cost to perform the specific services plus a normal profit margin for providing the services.

At execution, the transaction price included only the $1.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Lilly and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

The consideration otherwise allocable to delivered units is limited to the amount that is not contingent on the delivery of additional items or fulfillment of other performance conditions. Consequently, the arrangement consideration related to the research activities to be performed on behalf of Lilly after the transfer of the technology was excluded from the allocation arrangement consideration because the consideration and performance are contingent upon Lilly requesting performance of the services and these services are priced at an estimated fair value.

On December 11, 2015, the Company recorded non-refundable substantive research milestone revenue from Lilly in the amount of $1.0 million upon the achievement of certain research activities during the course of the research program. Subsequently, on August 31, 2018, the Company recorded a non-refundable fee of $2.0 million which was received upon Lilly's filing of IND application to the FDA for a bispecific antibody enabled by the Azymetric platform.

During the year ended December 31, 2018, the Company recorded $nil (2017: $15 and 2016: $46) in research support revenue from Lilly which was a related party during 2018. Lilly is not considered a related party as of December 31, 2018.

Licensing and Collaboration Agreement with Lilly

On October 22, 2014, the Company entered into a second Licensing and Collaboration Agreement with Lilly to develop novel bispecific antibody therapeutics using the Company's proprietary Azymetric platform. This agreement did not alter or amend the initial agreement entered into on December 17, 2013. Under the terms of this agreement, the Company will apply its Azymetric platform in combination with Lilly's proprietary targets to create novel bispecific antibodies which Lilly will develop and commercialize. In 2017 Lilly nominated a bispecific antibody from this agreement for preclinical development and discontinued the research of two other bispecific antibodies due to strategic portfolio realignment in those particular disease areas. Each of the two agreements with Lilly were negotiated independently and the deliverables covered by the respective contracts are unrelated to one another as they cover different product candidates. Accordingly, the second Licensing and Collaboration Agreement with Lilly has been accounted for as a new arrangement.

The Company is eligible to receive potential milestone payments totaling up to $125.0 million, comprised of up to $2.0 million for research success milestone, up to $8.0 million for IND submission milestones, up to $20.0 million for development milestones and up to $95.0 million for commercial milestones. In addition, the Company is eligible to receive tiered royalty payments on the sale of products. Lilly will have exclusive worldwide commercialization rights to products derived from the collaboration. No license, research, development and commercial milestones or royalty payments have been received to date. The Company determined that other than the research milestone, the events and conditions resulting in payments for development and commercial milestones solely depend on Lilly's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Lilly, is a customer. At execution, there was no upfront fee received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Lilly and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

On December 1, 2016, the Company recorded a non-refundable fee of $2.0 million which was received upon achievement of a critical success criteria point milestone under the research plan.

No other research, development or commercial milestone payments or royalties have been received to date.

Licensing and Collaboration Agreement with Celgene Corporation & Celgene Alpine Investment Co. LLC ("Celgene")

On December 23, 2014, the Company entered into an agreement with Celgene to develop novel bispecific antibody therapeutics using the Company's proprietary Azymetric platform. The Company will apply its Azymetric platform in combination with Celgene's proprietary targets to create novel bispecific antibodies for which Celgene has an option to develop and commercialize a certain number of products ("Commercial License Option").

Upon the execution of the Agreement, the Company received a one-time, non-refundable payment of $8.0 million. Over the life of the agreement, the Company is eligible to receive potential milestone payments totaling up to $164.0 million per each therapeutic candidate, comprised of a payment of $7.5 million upon Celgene exercising a Commercial License Option, up to $101.5 million for development milestones and up to $55.0 million for commercial milestones. In addition, the Company is eligible to receive tiered royalties calculated upon the global net sales of the resulting products. Celgene will have exclusive worldwide commercialization rights to products derived from the agreement if Celgene elects to exercise a Commercial License Option for each product. The Company determined that, the events and conditions resulting in payments for research, development and commercial milestones solely depend on Celgene's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Celgene, is a customer. The Company identified the following promised goods and services at the inception of the Celgene agreement: (1) the non-exclusive research license, (2) the transfer of the Company's platform technology (Azymetric) and relevant know-how, and (3) technical assistance if required by Celgene in connection with the transfer of technology. The Company concluded that the license and platform technology together are distinct. Accordingly, all the deliverables are considered a single performance obligation and the upfront payment of $8.0 million has been allocated to this performance obligation. The upfront payment was recognized as revenue ratably over the six-month period ended June 30, 2015, the period during which the Company transferred its technical know-how and technology to Celgene.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements.

At execution, the transaction price included only the $8.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Celgene and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur. The Company concluded that, at the inception of the agreement, Celgene's option to obtain a Commercial License did not represent a deliverable because it is a substantive option and does not contain a significant or incremental discount.

On April 22, 2018, Celgene exercised its right to increase the number of potential products it can develop and commercialize from eight to ten and extended the research program term by 24 months until April 2020, for which the Company received an expansion fee of $4.0 million and is eligible to receive up to $164.0 million per additional product in development and commercial milestones plus royalties on worldwide sales in accordance with the terms of the licensing and collaboration agreement. The research period extension commenced on April 22, 2018.

No development or commercial milestone payments or royalties have been received to date.

Collaboration and License Agreement with GlaxoSmithKline Intellectual Property Development Ltd. ("GSK")

On December 1, 2015, the Company entered into a Collaboration and License Agreement with GSK for the research, development, and commercialization of novel Fc-engineered monoclonal and bispecific antibody therapeutics, which have been optimized for specific therapeutic effects. The Company and GSK will collaborate to further develop the Company's Effector Function Enhancement and Control Technology (EFECT) platform through the design, engineering, and testing of novel engineered Fc domains tailored to induce specific antibody-mediated immune responses.

At the conclusion of the research collaboration, both GSK and the Company will have the right to develop and commercialize monoclonal and bispecific antibody candidates that incorporate the Company's optimized immune-modulating Fc domains.

Under the terms of the agreement, GSK will have the right to develop a minimum of four products across multiple disease areas, and the Company will be eligible to receive research, development, and commercial milestones of up to $110.0 million for each product. In addition, the Company is eligible to receive tiered sales royalties. Under the terms of the agreement, each party is liable for their own internal and external research costs incurred in the project. Furthermore, the Company will have the right to develop up to four products with the intellectual property arising from the collaboration without any royalty or milestone payment to GSK. The Company determined that, the events and conditions resulting in payments for research, development and commercial milestones solely depend on GSK's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, GSK, is a customer. At execution, there was no upfront fee received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully

constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to GSK and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

No development or commercial milestone payments or royalties have been received to date.

Platform Technology Transfer and License Agreement with GSK

On April 21, 2016, the Company entered into a Platform Technology Transfer and License Agreement with GSK for the research, development, and commercialization of novel bispecific antibodies enabled using the Company's Azymetric platform. Each of the two agreements with GSK were negotiated independently and the deliverables covered by the respective contracts utilize different therapeutic platforms and are unrelated to one another. Accordingly, the Platform Technology and License Agreement with GSK has been accounted for as a new arrangement.

Upon execution of the agreement, the Company received a technology access fee of $6.0 million on May 3, 2016. The Company is also eligible to receive up to $30.0 million in research milestone payments; up to $152.0 million in development milestone payments; and up to $720.0 million in commercial sales milestone payments. In addition, the Company is entitled to receive tiered royalties on potential sales. The Company determined that, the events and conditions resulting in payments for research, development and commercial milestones solely depend on GSK's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, GSK, is a customer. The Company identified the following promised goods and services at the inception of the GSK agreement: (1) the non-exclusive research license, (2) commercial license (3) transfer of the Company's platform technology (Azymetric) and relevant know-how, (4) technical assistance if required by GSK in connection with the transfer of technology, and (5) the obligation to provide future technology improvement and updates, when and if available. The Company concluded that the licenses and platform technologies together are distinct. Accordingly, deliverables (1) through (4) were considered as a single performance obligation and the technology access fee of $6.0 million has been allocated to this performance obligation and has been recognized as revenue upon completion of the transfer of the Company's technology and technical know-how to GSK.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements. The Company concluded that the best estimate of selling price for the obligation to deliver future technology improvements and updates was a nominal amount, as the Company has no intention of performing and has made no commitment to perform or provide additional update work on the applicable technology platform. Accordingly, no arrangement consideration was allocated to this deliverable.

At execution, the transaction price included only the $6.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be

recognized when the related sales occur as they were determined to relate predominantly to the license granted to GSK and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

No research, development or commercial milestone payments or royalties have been received to date.

Collaboration and Cross License Agreement with Daiichi Sankyo, Co., Ltd. ("Daiichi Sankyo")

On September 26, 2016, the Company entered into a Collaboration and Cross License Agreement with Daiichi Sankyo for the research, development, and commercialization of novel bispecific antibodies enabled using the Company's Azymetric and EFECT platforms. Additionally, the Company will license immuno-oncology antibodies from Daiichi Sankyo, with the right to research, develop and commercialize multiple products globally in exchange for royalties on product sales. Under the agreement, Daiichi Sankyo will have the option to develop and commercialize a single bispecific immuno-oncology therapeutic.

Upon execution of the agreement, the Company received a technology access fee of $2.0 million. The Company is also eligible to receive up to $66.9 million in research and development milestone payments and commercial license option; and up to $80.0 million in commercial sales milestone payments. In addition, the Company is eligible to receive tiered royalties on potential product sales. The Company determined that other than a research milestone for $1.0 million, the events and conditions resulting in payments for research, development and commercial milestones solely depend on Daiichi Sankyo's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Daiichi Sankyo, is a customer. The Company identified the following promised goods and services at the inception of the Daiichi Sankyo agreement: (1) the research license, (2) the transfer of the Company's platform technologies (Azymetric and EFECT) and relevant know-how, and (3) research activities to be performed on behalf of Daiichi Sankyo. The Company concluded that the licenses and platform technologies together are distinct and the licenses are functional intellectual property because the Company's platform technologies are not expected to substantively change during the licensing period. Accordingly, the deliverables (1) and (2) were considered as a single performance obligation and the technology access fee of $2.0 million was allocated to this performance obligation and was recognized as revenue at a point in time upon delivery of the licenses and transfer of the relevant technology. The research activities to be performed on behalf of Daiichi Sankyo after the transfer of the technology are also determined to be distinct as Daiichi Sankyo or another third party could provide these services without the Company's assistance. The revenue to be received from Daiichi Sankyo from delivery of these services is recognized upon performance of such activities at rates consistent with prevailing market rates. The Company concluded that, at the inception of the agreement, Daiichi Sankyo's option to obtain a Commercial License did not represent a deliverable because it is a substantive option and did not contain a significant or incremental discount.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements. The best estimate of selling price for the other deliverables was estimated using internal estimates of cost to perform the specific services plus a normal profit margin for providing the services.

At execution, the transaction price included only the $2.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical

trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Daiichi Sankyo and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

The consideration otherwise allocable to delivered units is limited to the amount that is not contingent on the delivery of additional items or fulfillment of other performance conditions. Consequently, the arrangement consideration related to the research activities to be performed on behalf of Daiichi Sankyo after the transfer of the technology was excluded from the allocation arrangement consideration because the consideration and performance are contingent upon Daiichi Sankyo requesting performance of the services and these services are priced at an estimated fair value.

On June 26, 2017, the Company recorded non-refundable milestone revenue from Daiichi Sankyo in the amount of $1.0 million upon the achievement of a research milestone.

During the year ended December 31, 2018, the Company recorded $nil in research support revenue from Daiichi Sankyo (2017: $700 and 2016: $131).

Second License Agreement with Daiichi Sankyo

In May 2018, the Company entered into a second license agreement with Daiichi Sankyo to research, develop and commercialize two bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, the Company granted Daiichi Sankyo a worldwide, royalty-bearing, antibody sequence pair-specific, exclusive license to research, develop and commercialize certain products. Under the agreement, Daiichi Sankyo will be solely responsible for the research, development, manufacturing and commercialization of the products.

Upon execution of the agreement, the Company received a non-refundable upfront technology access fee of $18.0 million. The Company is also eligible to receive up to $126.7 million in development milestone payments and up to $340.0 million in commercial milestone payments. In addition, the Company is eligible to receive tiered royalties ranging from the low single digits up to 10% on product sales, with the royalty term being, on a product-by-product and country-by-country basis, either (i) for as long as there is Zymeworks platform patent coverage on products, or (ii) for 10 years beginning from the first commercial sale, whichever period is longer. If there is no Zymeworks patent coverage on products, royalty rates may be reduced.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Daiichi Sankyo, is a customer. The Company identified the following promised goods and services at the inception of the Daiichi agreement: (1) the research and commercial license, (2) the transfer of the Company's platform technologies (Azymetric and EFECT) and relevant know-how. The Company concluded that the licenses and platform technologies together are distinct. Accordingly, the deliverables (1) and (2) were considered as a single performance obligation and the upfront fee of $18.0 million was allocated to this performance obligation and was recognized as revenue upon delivery of the licenses and transfer of the relevant technology.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements.

At execution, the transaction price included only the $18.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were

fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to Daiichi Sanyo and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

No development or commercial milestone payments or royalties have been received to date.

Collaboration and License Agreement with Janssen Biotech, Inc. ("Janssen")

On November 13, 2017, the Company entered into a Collaboration and License Agreement with Janssen to research, develop and commercialize up to six bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Under the terms of the agreement, the Company granted Janssen a worldwide, royalty-bearing, antibody sequence pair-specific exclusive license to research, develop and commercialize certain products. Janssen also has the option to develop two additional bispecific antibodies under this agreement subject to a future option payment. Under the agreement, Janssen will be solely responsible for the research, development, manufacturing and commercialization of the products.

Upon execution of the agreement, the Company received a non-refundable upfront fee of $50.0 million. The Company is also eligible to receive up to $282.0 million in development milestone payments and up to $1,119.0 million in commercial milestone payments. In addition, Company is eligible to receive tiered royalties in the mid-single digits on product sales, with the royalty term being, on a product-by-product and country-by-country basis, either (i) for as long as there is Zymeworks platform patent coverage on products, or (ii) for 10 years, beginning from the first commercial sale, whichever period is longer. If there is no Zymeworks patent coverage on products, royalty rates may be potentially reduced. Janssen has the right, prior to the first dosing of a patient in a Phase 3 clinical trial for a product, to buy down the royalty relating to such product by one percentage point with a payment of $10.0 million. The Company determined that, the events and conditions resulting in payments for research, development and commercial milestones solely depend on Janssen's performance.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, Janssen, is a customer. The Company identified the following promised goods and services at the inception of the Janssen agreement: (1) the research and commercial license, (2) the transfer of the Company's platform technologies (Azymetric and EFECT) and relevant know-how. The Company concluded that the licenses and platform technologies together are distinct. Accordingly, the deliverables (1) and (2) were considered as a single performance obligation and the upfront fee of $50.0 million was allocated to this performance obligation and was recognized as revenue upon delivery of the licenses and transfer of the relevant technology.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements.

At execution, the transaction price included only the $50.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be

recognized when the related sales occur as they were determined to relate predominantly to the license granted to Janssen and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

No research, development or commercial milestone payments or royalties have been received to date.

Research and License Agreement with LEO Pharma A/S ("LEO")

On October 23, 2018, the Company entered into a collaboration agreement with LEO. The Company granted LEO a worldwide, royalty-bearing, antibody sequence pair-specific exclusive license to research, develop and commercialize two bispecific antibodies, generated through the use of the Azymetric and EFECT platforms, for dermatologic indications. Zymeworks will retain rights to develop antibodies resulting from this collaboration in all other therapeutic areas. Zymeworks and LEO are jointly responsible for certain research activities, with Zymeworks' cost to be fully reimbursed by LEO. Each party is solely responsible for the development, manufacturing, and commercialization of their own products.

Pursuant to this agreement, the Company received an upfront payment of $5.0 million. In addition, (i) for the first therapeutic candidate, the Company is eligible to receive preclinical and development milestone payments of up to $74.0 million and commercial milestone payments of up to $157.0 million together with tiered royalties on future sales of up to 20% in the United States and up to high single digits elsewhere, and (ii) for the second therapeutic candidate, the Company is eligible to receive preclinical and development milestone payments of up to $86.5 million and commercial milestone payments of up to $157.0 million together with tiered royalties on future sales of up to low double digits globally. For products developed by Zymeworks outside of dermatology, LEO is eligible to receive commercial milestone payments and up to single-digit royalties on future sales. No development or commercial milestone payments or royalties have been received to date.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, LEO, is a customer. The Company identified the following promised goods and services at the inception of the LEO agreement: (1) the research and commercial license, (2) the transfer of the Company's platform technologies (Azymetric and EFECT) and relevant know-how (3) participation in the Joint Steering Committee ("JSC"), and (4) performance of research activities under the Research Program. The Company concluded that the licenses and platform technologies together are distinct while the Company's participation to the JSC is a protective right. Accordingly, the deliverables (1) and (2) were considered as a single performance obligation and the upfront fee of $5.0 million was allocated to this performance obligation and was recognized as revenue upon delivery of the licenses and transfer of the relevant technology. The research activities to be performed on behalf of LEO after the transfer of the technology are also determined to be distinct as LEO or another third party could provide these services without the Company's assistance. The revenue to be received from LEO from delivery of these services is recognized upon performance of such activities at rates consistent with prevailing market rates

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements.

At execution, the transaction price included only the $5.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be

recognized when the related sales occur as they were determined to relate predominantly to the license granted to LEO and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

The consideration otherwise allocable to delivered units is limited to the amount that is not contingent on the delivery of additional items or fulfillment of other performance conditions. Consequently, the arrangement consideration related to the research activities to be performed on behalf of LEO after the transfer of the technology was excluded from the allocation arrangement consideration because the consideration and performance are contingent upon LEO requesting performance of the services and these services are priced at an estimated fair value.

During the year ended December 31, 2018, the Company recorded $116 in research support revenue from LEO.

Collaboration and License Agreements with BeiGene, Ltd. ("BeiGene")

On November 26, 2018, the Company entered into three concurrent agreements with BeiGene whereby the Company granted BeiGene royalty-bearing exclusive licenses for the research, development and commercialization of its bispecific therapeutic candidates, ZW25 ("ZW25 Agreement") and ZW49 ("ZW49 Agreement") in Asia (excluding Japan but including the People's Republic of China, South Korea and other countries), Australia and New Zealand. In addition, the Company also granted BeiGene a worldwide, royalty-bearing, antibody sequence pair-specific license to research, develop and commercialize globally three bispecific antibodies generated through the use of the Azymetric and EFECT platforms. Pursuant to these agreements, Zymeworks received an upfront payment of $60.0 million in 2018 for the totality of the rights described. The Company considered the fair value of performance obligations based on the Company's best estimate of their relative stand-alone selling prices, and allocated $40.0 million of transaction price to the License and Collaboration Agreements for ZW25 and ZW49 while $20.0 million has been allocated to the Company's performance obligations under the Research and Licensing Agreement for Azymetric and EFECT Platforms.

License and Collaboration Agreements for ZW25 and ZW49

The Company is also eligible to receive development and commercial milestone payments of $390 million, together with tiered royalties from high single digits and up to 20% on future sales of the products. No development or commercial milestone payments or royalties have been received to date. Under the agreement, Zymeworks and BeiGene are collaborating on certain global clinical studies and both Zymeworks and BeiGene will be independently conducting other clinical studies in their own respective territories. Each of Zymeworks and BeiGene are responsible for all the development and commercialization costs in their own territories.

The Company assessed the ZW25 and ZW49 agreements in accordance with ASC 606 and ASC 808, as certain performance obligations for research and development activities of these agreements fall under ASC 808. ASC 808 does not address recognition or measurement matters. Pursuant to ASU 2018-18 which clarified the interaction between ASC 808 and ASC 606, the Company applied ASC 606 to recognize revenue from such collaboration activities as BeiGene meets the definition of a customer.

In relation to the ZW25 Agreement, the Company identified the following promised goods and services at the inception of the BeiGene agreement that are material: (1) development and commercial licenses, (2) initial transfer of the Company's technologies and relevant know-how, (3) continuing technology transfer (4) participation in the Joint Steering Committee ("JSC") and other sub-committees, (5) manufacturing technology transfer, (6) provision of development supply, (7) provision of commercial supply, and (8) transfer of future rights related to the development and commercial license. The Company concluded that the licenses and initial technology transfer are distinct together while the continuing technology transfer and the Company's participation to the JSC and other sub-committees' activities together are distinct. Manufacturing technology

transfer, provisions of development supply and commercial supply, and the transfer of future rights related to the development and commercial license were individually determined to be distinct. Accordingly, performance obligations from the ZW25 were determined as described below.

The Company determined that at the inception of the development and commercial license and upon completion of the initial transfer of the Company's technologies and relevant know-how (performance obligations (1) and (2)), BeiGene obtained control over certain initial rights, with control over future rights dependent upon the completion of certain collaborative activities.

With respect to the initial rights controlled by BeiGene, deliverables (1) and (2) were considered as a single performance obligation. BeiGene received control of the license and began to benefit from the initial rights at inception of the agreement. The consideration allocated to these performance obligations will be recognized as revenue over a two month period which is the expected period to complete the delivery of the license and transfer of the relevant technology. Deliverables (3) and (4) together were considered as a single performance obligation and the consideration allocated to this performance obligation will be recognized as revenue over time as these performance obligations are completed. Deliverables (5), (6) and (7) are considered individually distinct and the revenue will be recognized as delivery occurs. Remaining deliverable (8) is considered individually distinct and will be recognized as the future rights are transferred to BeiGene.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated selling price of the deliverables based on comparable license and collaboration arrangements as well as using internal estimates of cost to perform the specific services plus a normal profit margin for providing the services. The Company allocated the transaction price for the ZW25 Agreement to performance obligations under deliverables (1) and (2), (3) and (4) and (8). Out of $7.1 million which was allocated to deliverables (1) and (2) of the ZW25 Agreement, the Company recognized $3.5 million for the year ended December 31, 2018.

In relation to the ZW49 Agreement, the Company identified the following promised goods and services at the inception of the BeiGene agreement that are material: (1) development and commercial licenses, (2) initial transfer of the Company's technologies and relevant know-how, (3) continuing technology transfer (4) participation in the Joint Steering Committee ("JSC") and other sub-committees, (5) manufacturing technology transfer, (6) provision of development supply, (7) provision of commercial supply, and (8) transfer of future rights related to the development and commercial license. The Company concluded that the licenses and initial technology transfer together are distinct together while the continuing technology transfer and the Company's participation to the JSC and other sub-committees' activities together are distinct. Manufacturing technology transfer, provisions of development supply and commercial supply were individually determined to be distinct. Accordingly, performance obligations from the ZW49 were determined as below:

Deliverables (1) and (2) were considered as a single performance obligation while deliverables (3) and (4) together were considered as a single performance obligation. Remaining deliverables of (5), (6) and (7) were considered individually distinct. Deliverable (8) is considered individually distinct and will be recognized as the future rights are transferred to BeiGene. No performance obligations were completed by the Company as of December 31, 2018 as the initial transfer of technologies and relevant know-how is not going to start until the completion of the Company's Phase-1 clinical studies for ZW49. Accordingly, no revenue was recognized from the ZW49 Agreement for the year ended December 31, 2018.

As of December 31, 2018, approximately $36.5 million of upfront fees from the ZW25 and ZW49 agreements was recorded as deferred revenue on the Company's consolidated financial statements. Amounts not expected to be recognized as revenue within the next twelve months of the consolidated balance sheet date are classified as long-term deferred revenue.

Research and Licensing Agreement for Azymetric and EFECT Platforms

For the development and commercialization licenses of up to three bispecific antibody therapeutics using the Azymetric and EFECT platforms, the Company received an upfront payment of $20.0 million. The Company is also eligible to receive development and commercial milestone payments of up to $702.0 million. In addition, the Company is eligible to receive tiered royalties in the mid-single digits on product sales. No development or commercial milestone payments or royalties have been received to date. BeiGene is solely responsible for the research, development, manufacturing, and commercialization of the products.

The Company assessed this arrangement in accordance with ASC 606 and concluded that the contract counterparty, BeiGene, is a customer. The Company identified the following promised goods and services at the inception of the BeiGene agreement: (1) the research and commercial license, (2) the transfer of the Company's platform technologies (Azymetric and EFECT) and relevant know-how, and (3) participation in the Information Sharing Committee ("ISC"). The Company concluded that the licenses and platform technologies together are distinct while the Company's participation to the ISC is a protective right. Accordingly, the deliverables (1) and (2) were considered as a single performance obligation and the upfront fee of $20.0 million was allocated to this performance obligation and was recognized as revenue upon delivery of the licenses and transfer of the relevant technology.

In order to evaluate the appropriate transaction price, the Company determined that the upfront amount constituted the entirety of the consideration to be included in the transaction price and to be allocated to the performance obligations based on the Company's best estimate of their relative stand-alone selling prices. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements.

At execution, the transaction price included only the $20.0 million upfront consideration received. None of the research and development milestones have been included in the transaction price, as all milestone amounts were fully constrained. As part of its evaluation of the constraint, the Company considered numerous factors, including that receipt of the milestones is outside the control of the Company and contingent upon success in future clinical trials and the licensee's efforts. Any consideration related to sales-based milestones (including royalties) will be recognized when the related sales occur as they were determined to relate predominantly to the license granted to BeiGene and therefore have also been excluded from the transaction price. The Company will re-evaluate the transaction price in each reporting period and as uncertain events are resolved or other changes in circumstances occur.

13. Financial Instruments

The Company evaluates financial assets and liabilities subject to fair value measurements on a recurring basis to determine the appropriate level at which to classify them each reporting period. This determination requires the Company to make subjective judgments as to the significance of inputs used in determining fair value and where such inputs lie within the fair value hierarchy. The fair market values of the financial instruments included in the financial statements, which include cash and cash equivalents, short-term investments, accounts receivable, accounts payable and accrued liabilities, approximate their carrying values at December 31, 2018 and 2017, due to their short-term maturities. See note 2 for a summary of the fair value balances.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and accounts receivable. Cash and cash equivalents and short-term investments are invested in accordance with the Company's Treasury Policy with the primary objective being the preservation of capital and maintenance of liquidity. The Treasury Policy includes guidelines on the quality of financial instruments and defines allowable investments that the Company believes minimizes the exposure to concentration of credit risk. The Company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions.

The Company does not currently maintain a provision for bad debts on accounts receivable. The maximum exposure to credit risk for accounts receivable at the reporting date was $0.4 million (2017: $0.2 million) and all account receivables are due within a year.

Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due. The ability to do this relies on the Company collecting its trade receivables in a timely manner, by maintaining sufficient cash and cash equivalents and securing additional financing as needed.

The Company's financial obligations include accounts payable and accrued liabilities which generally fall due within 45 days and the Company's current portion of capital lease obligations which fall due within the next 12 months.

Foreign Currency Risk

The Company undertakes certain transactions in currencies other than U.S. dollars and as such is subject to risk due to fluctuations in exchange rates. The Company does not use derivative instruments to hedge exposure to foreign exchange rate risk due to the low volume of transactions denominated in foreign currencies. Non-U.S. dollar denominated payables are paid at the converted rate as due.

The operating results and financial position of the Company are reported in U.S. dollars in the Company's financial statements. The fluctuation of the U.S. dollar in relation to the Canadian dollar and other foreign currencies will consequently have an impact upon the Company's loss and may also affect the value of the Company's assets and the amount of shareholders' equity.

14. Income Taxes

a. Income tax expense (recovery) varies from the amounts that would be computed by applying the expected income tax rate of 27% (2017: 26%) to loss before income taxes as shown in the following tables:

	Year Ended December 31,		
	2018	2017	2016
Computed taxes at Canadian tax rate (27%)	$(9,284)	$(2,587)	$(10,070)
Non-deductible expenses	4,311	259	1,343
Difference between domestic and foreign tax rate	(14)	(11)	95
Effect of change in tax rates	2	(860)	—
Adjustments to prior year	543	(313)	439
Change in valuation allowance	9,340	8,510	3,948
Share issuance costs in equity	(1,906)	(2,547)	158
Change in recognition and measurement of tax positions	672	—	—
Changes due to SR&ED	(1,668)	(1,973)	(588)
Other	175	(34)	(400)
Income tax expense (recovery)	$ 2,171	$ 444	$ (5,075)

	Year Ended December 31,		
	2018	2017	2016
Current income tax expense	$2,188	$429	$ 430
Deferred income tax (recovery) expense	(17)	15	(5,505)
Income tax expense (recovery)	$2,171	$444	$(5,075)

Current income tax expense for the years ended December 31, 2018, 2017 and 2016 arose from the operations of Zymeworks Biopharmaceuticals Inc., the Company's wholly owned subsidiary in the United States, and from the withholding taxes paid by the Company abroad in 2018, 2017 and 2016.

b. Deferred income tax assets and liabilities result from the temporary differences between the amounts of assets and liabilities recognized for financial statement and income tax purposes. The significant components of the deferred income tax assets and liabilities are as follows:

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Non-capital losses carried forward	$ 6,680	$ 11,719
Deferred revenue	9,848	—
Share issue costs	3,428	2,571
Property and equipment	1,167	956
Research and development deductions and credits	20,749	17,267
Contingent consideration	191	127
Stock options	220	102
Other	314	34
	$ 42,597	$ 32,776

	December 31, 2018	December 31, 2017
Deferred tax liabilities:		
Property and equipment	(54)	(70)
IPR&D	(4,967)	(4,619)
Other	(132)	—
	$ (5,153)	$ (4,689)
	37,444	28,087
Less: valuation allowance	(37,360)	(28,020)
Net deferred tax assets (liabilities)	$ 84	$ 67

The realization of deferred income tax assets is dependent upon the generation of sufficient taxable income during future periods in which the temporary differences are expected to reverse. The valuation allowance is reviewed on a quarterly basis and if the assessment of the "more likely than not" criteria changes, the valuation allowance is adjusted accordingly. Following the Company's amalgamation with Zymeworks Biochemistry Inc. on January 1, 2017, deferred income tax assets and liabilities have been presented on a net basis on the consolidated balance sheet.

c. At December 31, 2018, the Company has net operating losses carried forward for tax purposes in Canada, which are available to reduce taxable income of future years of approximately $24.7 million (December 31, 2017: $43.4 million) expiring commencing 2035 through 2038.

At December 31, 2018, the Company also has unclaimed tax deductions for scientific research and experimental development expenditures of approximately $50.3 million (2017: $43.7 million), with no expiry. At December 31, 2018, the Company has approximately $9.0 million (2017: $7.0 million) of investment tax credits available to offset Canadian federal and provincial taxes payable expiring commencing in 2019 through 2038.

d. The investment tax credits and non-capital losses and net operating losses for income tax purposes expire as follows:

Expiry date	Investment tax credits	Non-capital losses
2021	$ 86	$ —
2022	158	—
2023	94	—
2024	—	—
2025	309	—
2026	247	—
2027	511	—
2028	814	—
2029	—	—
2030	10	—
2031	133	—
2032	489	—
2033	557	—
2034	381	—
2035	1,068	—
2036	862	14,116
2037	1,777	10,625
2038	1,513	—
	$ 9,009	$ 24,741

e. The benefit of an uncertain tax position that is more likely than not of being sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. No portion of the benefit of an uncertain tax position may be recognized if the position has less than a 50% likelihood of being sustained.

A reconciliation of the beginning and ending amount of total unrecognized tax benefits for the years ended December 31, 2018, 2017, and 2016 are as follows:

	Year Ended December 31,		
	2018	2017	2016
Balance, beginning of year	$ —	$ —	$ —
Increases related to prior year tax positions	142	—	—
Increases related to current year tax positions	530	—	—
Balance, end of year	$ 672	$ —	$ —

Included in the balance of unrecognized tax benefits at December 31, 2018 are potential benefits of $nil that, if recognized, would affect the effective tax rate on income from continuing operations. This is due to recognition of potential benefits would result in a deferred tax asset in the form of net operating loss carry-forward, which would be subject to a valuation allowance based on conditions existing at the reporting date.

We recognize interest expense and penalties related to unrecognized tax benefits within the provision for income tax expense on the consolidated statements of loss and comprehensive loss. At December 31, 2018, we had accrued $nil (2017—$nil) interest and penalties.

The Company currently files income tax returns in Canada and the US, the jurisdiction in which the Company believes that it is subject to tax. Further, while the statute of limitations in each jurisdiction where an income tax

return has been filed generally limits the examination period, as a result of loss carry-forwards, the limitation period for examination generally does not expire until several years after the loss carry-forwards are utilized. Other than routine audits by tax authorities for tax credits and tax refunds that Zymeworks have claimed, management is not aware of any other material income tax examination currently in progress by any taxing jurisdiction. Tax years ranging from 2006 to 2018 remain subject to Canadian income tax examinations. Tax years ranging from 2015 to 2018 remain subject to U.S. income tax examinations.

15. Commitments and Contingencies

Lease Commitments

The Company leases office premises in Vancouver, British Columbia and Seattle, Washington that expire in August 2021 and February 2022, respectively. The Company has also entered into a lease for laboratory space in Vancouver, British Columbia that will expire in August 2021. The leases contain rent escalation clauses. The Company also leases office equipment under capital lease agreements. Future minimum lease payments under the non-cancellable operating leases and capital leases at December 31, 2018 are as follows:

	Payments due by period					
	Less Than 1 Year	1 to 2 Years	2 to 3 Years	3 to 4 Years	5 Years	Total
	(dollars in thousands)					
Capital lease obligations	$ 21	$ 27	$ 12	$ 2	$—	$ 62
Operating lease obligations	1,860	1,871	1,429	87	—	5,247
Total contractual obligations	$ 1,881	$1,898	$1,441	$ 89	$—	$5,309

Other Commitments

The Company has entered into research collaboration agreements with strategic partners in the ordinary course of operations that may include contractual milestone payments related to the achievement of pre-specified research, development, regulatory and commercialization events and indemnification provisions, which are common in such agreements. Pursuant to the agreements, the Company is obligated to make research and development and regulatory milestone payments upon the occurrence of certain events and royalty payments based on net sales. The maximum amount of potential future indemnification is unlimited, however, the Company currently holds commercial and product liability insurance. This insurance limits the Company's liability and may enable it to recover a portion of any future amounts paid. Historically, the Company has not made any indemnification payments under such agreements and the Company believes that the fair value of these indemnification obligations is minimal. Accordingly, the Company has not recognized any liabilities relating to these obligations for any period presented.

In August 2016, the Company entered into a license agreement with Innovative Targeting Solutions Inc., or ITS, to use ITS' protein engineering technology for the development and commercialization of antibody and protein therapeutics. Pursuant to the agreement, the Company agreed to pay an aggregate of $12.0 million in annual licensing fees to ITS over a five-year period of which $4.5 million was paid to December 31, 2018. Licensing fees paid to ITS are recorded in intangible assets and are amortized over a twelve-month period. The Company may also be required to make payments to ITS upon the achievement of certain development and commercial milestones, as well as royalty payments on net sales. No liabilities have been recorded for any amounts payable as of December 31, 2018.

In connection with the Kairos acquisition, the Company may be required to make future payments to CVI upon the direct achievement of certain development milestones for products incorporating certain Kairos intellectual property, as well as royalty payments on the net sales of such products. For out-licensed products and technologies incorporating certain Kairos intellectual property, the Company may be required to pay CVI a

mid-single digit percentage of the future revenue as a result of a revenue sharing agreement. As of December 31, 2018, the contingent consideration had an estimated fair value of approximately $707, which has been recorded within Other long-term liabilities (note 8) (2017: $470). The contingent consideration was calculated using a probability weighted assessment of the likelihood the milestones would be met, a probability adjusted discount rate that reflects the stage of the development and time to complete the development. Contingent consideration is a financial liability and measured at its fair value at each reporting period, with any changes in fair value from the previous reporting period recorded in the statement of loss and comprehensive loss.

Contingencies

From time to time, the Company may be subject to various legal proceedings and claims related to matters arising in the ordinary course of business. The Company does not believe it is currently subject to any material matters where there is at least a reasonable possibility that a material loss may be incurred.

16. Subsequent events

On January 17, 2019, the Company reported the achievement of a new development milestone in its collaboration with Lilly. In accordance with the Company's 2014 licensing and collaboration agreement with Lilly, the Company will receive a milestone payment of US$8.0 million for Lilly's submission of an IND application for an immuno-oncology bispecific antibody enabled by the Company's proprietary Azymetric platform.

On January 25, 2019, the Company entered into an Indenture of Lease (the "Lease") to lease approximately 57,180 rentable square feet of office and laboratory space and 2,780 rentable square feet of storage space in Vancouver, B.C., Canada. The term of the Lease will commence no later than September 1, 2021, with an initial term of ten years and two five-year extension options. The base rent for the office and laboratory space ranges between C$39.50 and C$44.50 per square foot annually during the initial term. The base rent for the storage space ranges between C$25.00 to C$35.00 per square foot annually during the initial term.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the period covered by this Annual Report on Form 10-K, our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the design and operating effectiveness of our disclosure controls and procedures in accordance with the provisions of Section 404. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosure.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on our evaluation of our

disclosure controls and procedures as of December 31, 2018, our Chief Executive Officer and our Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were, in design and operation, effective at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting

Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over our financial reporting, as such term is defined in Rule 13a-15(f) and Rule 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

The effectiveness of any system of internal control over financial reporting, including ours, is subject to inherent limitations, including the exercise of judgment in designing, implementing, operating, and evaluating the controls and procedures, and the inability to eliminate misconduct completely. Accordingly, any system of internal control over financial reporting, including ours, no matter how well designed and operated, can only provide reasonable, not absolute, assurances. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate. Management has assessed the effectiveness of our internal control over financial reporting as at December 31, 2018. In making its assessment, management used the criteria set forth in the 2013 COSO Framework to evaluate the effectiveness of our internal control over financial reporting. Based on this assessment using those criteria, management has concluded that our internal control over financial reporting was effective as of December 31, 2018.

We have elected to take advantage of certain exceptions from reporting requirements that are available to emerging growth companies under the JOBS Act and therefore we are not required to deliver an auditor's attestation report on the effectiveness of our internal control over financial reporting pursuant to Section 404 until after the date we are no longer an emerging growth company. While our management did perform an evaluation of the design and operating effectiveness of our internal control over financial reporting, this Annual Report on Form 10-K does not include an attestation report from our registered public accounting firm due to the transition period established under the JOBS Act for emerging growth companies.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by Item 10. of Form 10-K is incorporated by reference to our proxy statement for the 2019 annual meeting of shareholders (the "2019 Proxy Statement"), to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 11. Executive Compensation

The information required by Item 11. of Form 10-K is incorporated by reference to our 2019 Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 12. of Form 10-K is incorporated by reference to our 2019 Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 13. Certain Relationships and Related Transactions and Director Independence

The information required by Item 13. of Form 10-K is incorporated by reference to our 2019 Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

Item 14. Principal Accounting Fees and Services

The information required by Item 14. of Form 10-K is incorporated by reference to our 2019 Proxy Statement, to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2018.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements—The financial statements included in Item 8 are filed as part of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedules—All schedules have been omitted because they are not applicable or required, or the information required to be set forth therein is included in the consolidated Financial Statements or notes thereto included in Item 8 of this Annual Report on Form 10-K.

(a)(3) Exhibits—The exhibits required by Item 601 of Regulation S-K are listed in paragraph (b) below.

(b) Exhibits—The exhibits listed on the Exhibit Index below are filed herewith or are incorporated by reference to exhibits previously filed with the SEC.

EXHIBITS INDEX

Exhibit No.	Description
3.1	Form of Notice of Articles of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 17, 2017).
3.2	Form of Articles of the Registrant (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 17, 2017).
4.1	Specimen common share certificate (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 24, 2017).
10.1#	Employment Agreement, dated December 13, 2007, by and between the Registrant and Dr. Ali Tehrani, as amended January 1, 2014 (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.2#	Amended and Restated Employment Agreement, dated January 17, 2017, by and between the Registrant and Dr. Ali Tehrani (incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.3#	Employment Agreement, dated January 25, 2007, by and between the Registrant and Neil Klompas, as amended October 23, 2007 and January 1, 2014 (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.4#	Amended and Restated Employment Agreement, dated January 17, 2017, by and between the Registrant and Neil Klompas (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.5#	Employment Agreement, dated June 1, 2016, by and between the Registrant and Diana Hausman (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).

Exhibit No.	Description
10.6#	Amended and Restated Employment Agreement, dated January 18, 2017, by and between the Registrant and Diana Hausman (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.7#	Form of Indemnity Agreement between the Registrant and its officers and directors (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 17, 2017).
10.8#	Second Amended and Restated Employee Stock Option Plan and forms of agreements thereunder (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 17, 2017).
10.9#	Amended and Restated Stock Option and Equity Compensation Plan (incorporated by reference to Schedule "A" to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on May 16, 2018).
10.10†	Amended and Restated Research and License Agreement, effective as of December 3, 2014, by and between the Registrant and Merck Sharp & Dohme Research GmbH (incorporated by reference to Exhibit 10.16 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.11†	Licensing and Collaboration Agreement, effective as of December 17, 2013, by and between the Registrant and Eli Lilly and Company (incorporated by reference to Exhibit 10.17 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.12†	First Amendment to Licensing and Collaboration Agreement, effective as of May 30, 2014, by and between the Registrant and Eli Lilly and Company, as amended February 25, 2014 and June 16, 2014 (incorporated by reference to Exhibit 10.18 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.13†	Licensing and Collaboration Agreement, effective as of October 22, 2014, by and between the Registrant and Eli Lilly and Company (incorporated by reference to Exhibit 10.19 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.14†	First Amendment to Licensing and Collaboration Agreement, effective as of June 4, 2015, by and between the Registrant and Eli Lilly and Company (incorporated by reference to Exhibit 10.20 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.15†	Second Amendment to Licensing and Collaboration Agreement, effective as of January 24, 2017, by and between the Registrant and Eli Lilly and Company (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.16†	Collaboration Agreement, effective as of December 23, 2014, by and among the Registrant, Celgene Corporation and Celgene Alpine Investment Co. LLC (incorporated by reference to Exhibit 10.22 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.17†	Collaboration and License Agreement, effective as of December 1, 2015, by and between the Registrant and GlaxoSmithKline Intellectual Property Development Limited (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).

Exhibit No.	Description
10.18†	Platform Technology Transfer and License Agreement, effective as of April 21, 2016, by and between the Registrant and GlaxoSmithKline Intellectual Property Development Limited (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.19†	Collaboration and Cross License Agreement, effective as of September 26, 2016, by and between the Registrant and Daiichi Sankyo Co., Ltd (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.20	Lease of Office Space Agreement dated as of April 6, 2015, by and between Poplar Properties Ltd. and Zymeworks Inc. and the Amendment thereto dated August 28, 2015 (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).
10.21#	Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Schedule "B" to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on May 16, 2018).
10.22†	First Amendment to Collaboration Agreement, effective as of May 29, 2017, by and between the Registrant, Celgene Corporation and Celgene Alpine Investment Co. LLC (incorporated by reference to Exhibit 99.1 to a Report of Foreign Private Issuer on Form 6-K (File No. 001-38068), originally furnished to the SEC on July 18, 2017 and deemed filed under the Exchange Act).
10.23†	Collaboration and License Agreement, effective as of November 13, 2017, by and between the Registrant and Janssen Biotech, Inc., (incorporated by reference to Exhibit 99.1 to a Report of Foreign Private Issuer on Form 6-K (File No. 001-38068), originally furnished to the SEC on November 24, 2017 and deemed filed under the Exchange Act).
10.24†	License Agreement, effective as of May 14, 2018, by and between the Registrant and Daiichi Sankyo Company, Limited (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on May 18, 2018).
10.25†	Research and License Agreement, effective as of October 23, 2018, by and between the Registrant and LEO Pharma A/S (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on October 26, 2018).
10.26†	License and Collaboration Agreement, effective as of November 26, 2018, by and between the Registrant and BeiGene Ltd. (incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on December 6, 2018).
10.27†	License and Collaboration Agreement, effective as of November 26, 2018, by and between the Registrant and BeiGene Ltd. (incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on December 6, 2018).
10.28†	Research and License Agreement, effective as of November 26, 2018, by and between the Registrant and BeiGene Ltd. (incorporated by reference to Exhibit 99.3 to the Company's Current Report on Form 8-K (File No. 001-38068), originally filed with the SEC on December 6, 2018).
10.29	Indenture of Lease dated as of January 25, 2019, by and between 5th & Main Partnership and Zymeworks Inc.
10.30#	Employment Agreement effective September 17, 2018, by and between the Registrant and Anthony Polverino.
21.1	Subsidiaries of the Registrant (incorporated by reference to Exhibit 21.1 to the Company's Registration Statement on Form F-1 (File No. 333-217100), originally filed with the SEC on April 3, 2017).

Exhibit No.	Description
23.1	Consent of KPMG LLP, an Independent Registered Public Accounting Firm.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1†	Side Letter Agreement effective as of September 25, 2018, by and between the Registrant and Daiichi Sankyo Co., Ltd.
99.2†	Side Letter Agreement effective as of January 11, 2019, by and between the Registrant and GlaxoSmithKline Intellectual Property Development Limited.
99.3†	First Amendment to the Collaboration and License Agreement, effective as of January 14, 2019, by and between the Registrant and Janssen Biotech, Inc.

† Registrant has omitted portions of the referenced exhibit pursuant to a request for confidential treatment under Rule 246-2 promulgated under the Securities Exchange Act.

# Indicates management contract or compensatory plan.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

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

Dated: March 6, 2019

ZYMEWORKS INC.

By: /s/ Ali Tehrani
Name: Ali Tehrani
Title: President and Chief Executive Officer and Director (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Ali Tehrani Ali Tehrani	President and Chief Executive Officer and Director (Principal Executive Officer)	March 6, 2019
/s/ Neil Klompas Neil Klompas	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 6, 2019
/s/ Nick Bedford Nick Bedford	Director	March 6, 2019
/s/ Kenneth Hillan Kenneth Hillan	Director	March 6, 2019
/s/ Hollings C. Renton Hollings C. Renton	Director	March 6, 2019
/s/ Natalie Sacks Natalie Sacks	Director	March 6, 2019
/s/ Lota Zoth Lota Zoth	Director	March 6, 2019

L E A S E

ADDRESS: **6TH, 7TH AND 8TH FLOORS OF 114 EAST 4TH AVENUE, VANCOUVER, B.C.**

LANDLORD: **5TH & MAIN PARTNERSHIP**

TENANT: **ZYMEWORKS INC.**

DATED: **JANUARY 25, 2019**

INDEX

LEASE SUMMARY

This four page Lease Summary is attached to and forms part of the Indenture of Lease dated for reference the 25th day January, 2019,

BETWEEN:

5TH & MAIN PARTNERSHIP

(the **"Landlord"**)

AND:

ZYMEWORKS INC.

(the **"Tenant"**)

Article 2.6 **RENT**

Basic Rent:

Years of Term 1 – 3: Thirty-Nine Dollars and Fifty Cents ($39.50) per square foot of the Rentable Area Of The Premises per annum in equal monthly installments in advance on the first day of each calendar month.

Years of Term 4 – 7: Forty-One Dollars ($41.00) per square foot of the Rentable Area Of The Premises per annum in equal monthly installments in advance on the first day of each calendar month.

Years of Term 8 – 10: Forty-Four Dollars and Fifty Cents ($44.50) per square foot of the Rentable Area Of The Premises per annum in equal monthly installments in advance on the first day of each calendar month.

Schedule E Storage Rooms:

Years of Term 1 – 3: gross rent of Twenty-Five Dollars ($25.00) per square foot of the Rentable Area of the Storage Rooms per annum in equal monthly installments in advance on the first day of each calendar month.

Years of Term 4 – 7: gross rent of Thirty Dollars ($30.00) per square foot of the Rentable Area of the Storage Rooms per annum in equal monthly installments in advance on the first day of each calendar month.

Years of Term 8 – 10: gross rent of Thirty-Five Dollars ($35.00) per square foot of the Rentable Area of the Storage Rooms per annum in equal monthly installments in advance on the first day of each calendar month.

Article 2.15 **COMMENCEMENT DAY**

The first day following the expiry of the Fixturing Period, currently estimated to be September 1, 2021

Article 2.51 **RENTABLE AREA OF THE PREMISES AND THE STORAGE ROOMS**

Approximately 57,180 square feet of the Premises and approximately 2,780 square feet of the Storage Rooms. Upon the completion of the Landlord's Work, the Rentable Area Of The Premises and the Rentable Area of the Storage Rooms shall be updated according to a measurement conducted in accordance with Article 2.51 of this Lease, and such determination shall be final and binding on the parties hereto.

Article 2.58 **TERM**

Ten (10) Years – commencing on the Commencement Day and expiring on the day prior to the tenth (10th) anniversary thereof.

Article 4.1 **USE OF PREMISES**

The Premises shall be used only for the purpose of a first class office and laboratory, subject to the terms and conditions of this Lease.

Schedule E **FIXTURING PERIOD**

Section 4 Eight (8) months (estimated to be January 1, 2021 until August 31, 2021), commencing on the day that is five (5) Business Days after the Landlord notifies the Tenant that the Premises are available for commencement of the Tenant's Work; provided that if the Landlord, in its sole discretion, provides early access of the Premises to the Tenant, the Fixturing Period will be extended such that it expires on August 31, 2021.

Schedule E **SECURITY DEPOSIT**

Section 1 An amount equal to two (2) months' Basic Rent and estimated Additional Rent plus applicable Sales Taxes first due and owing under the Lease, payable by the Tenant as follows: (i) fifty percent (50%) payable to the Landlord, in trust, upon execution and delivery of this Lease by each of the Landlord and the Tenant; and (ii) the balance thereof payable to the Landlord, in trust, upon Landlord's construction of shell/core of floor 6 comprising the Premises. The Security Deposit will be held and applied in accordance with Section 1 of Schedule E.

Article 2.43 **NOTICES**

Landlord's Address for Notice:

ATTENTION: Property Management
Sixth Floor – 1067 West Cordova Street
Vancouver, B.C. V6C 1C7
Fax #: 604-893-1708

Tenant's Address for Notice:

Until the Commencement Day:

1385 West 8th Avenue, Suite 540
Vancouver, B.C. V6H 3V9
Fax #: 604-737-7077
Attention: Legal Department

Following the Commencement Day:

To the Premises,
Fax #: 604-737-7077
Attention: Legal Department

Schedule C **INDEMNIFIER**

Not applicable.

Schedule E **ADDITIONAL PROVISIONS**

See Schedule E.

The Articles of this Lease identified above in the margin are those Articles where references to particular Lease information initially appear. Each such reference shall incorporate the applicable information from this Lease Summary.

LANDLORD:

5TH & MAIN PARTNERSHIP
by its partners:
2000 MAIN HOLDINGS INC.

Per: /s/ Ian Gillespie
Authorized Signatory

MOUNT PIXEL PROJECTS LIMITED PARTNERSHIP by its general partner, 1038324 B.C. Ltd.

Per: /s/ Ryan Holmes
Authorized Signatory

TENANT:

ZYMEWORKS INC.

Per: /s/ Neil Klompas
Authorized Signatory

LEASE

THIS LEASE dated for referenced as of the 25th day of January, 2019,

BETWEEN:

5TH & MAIN PARTNERSHIP

(the "**Landlord**")

AND:

ZYMEWORKS INC.

(the "**Tenant**")

ARTICLE 1 – DEMISE & TERM

1.1 WITNESSES that in consideration of the rents, covenants and agreements hereinafter reserved and contained and on the part of the Tenant to be paid, observed and performed, the Landlord does hereby demise and lease to the Tenant the Premises (which are defined in Article 2).

1.2 TO HAVE AND TO HOLD the Premises from and including the Commencement Day (which is defined in Article 2) for and during the Term (which is defined in Article 2) yielding and paying during the Term the Rent (which is defined in Article 2). Prior to the Commencement Day (which is defined in Article 2), the Landlord will prepare a Commencement Certificate and deliver a copy thereof to the Tenant. The Tenant will execute the Commencement Certificate forthwith upon receipt thereof and will return an executed copy to the Landlord.

ARTICLE 2 – DEFINITIONS

The Landlord and the Tenant agree that in this Lease (including all Schedules to this Lease), the following words or phrases shall, unless there is something in the context inconsistent therewith, have the meanings hereinafter set out:

2.1 "**Additional Rent**": shall mean the aggregate of (i) Leased Area Expenses; (ii) the Tenant's Proportionate Share of the Common Area Expenses; (iii) the Tenant's Proportionate Share of the Municipal Taxes; (iv) the cost of Additional Services provided to the Tenant plus fifteen percent (15%) of such charge to cover Landlord's cost of administration thereof; and (v) all other sums payable by the Tenant hereunder except Basic Rent.

2.2 "**Additional Services**": shall mean any additional service (including providing waste removal, generator operation or HVAC for periods outside of Standard Business Hours), utility (including water, gas and hydro) or supervision (including security and building operations) provided to the Tenant and supplied by Landlord or by anyone authorized by Landlord and not otherwise expressly provided for as a Basic Service under this Lease, at rates and charges reasonably determined by Landlord and not charged in accordance with the Tenant's Proportionate Share. For greater certainty, any service, utility or supervision provided to the Tenant outside of Standard Business Hours will be charged to the Tenant by the Landlord in an allocation determined by the Landlord acting reasonably.

2.3 "**Affiliate**" shall mean:

(a) any Person which is Controlled by or which Controls the Tenant, or any other Person Controlled by or which Controls that Person whether the Control be direct or indirect; or

(b) any shareholder, director, or officer of the Tenant or of any Affiliate (as defined in Article 2.3(a)); or

(c) any Person related to the Tenant by blood or marriage.

2.4 "**Applicable Laws**": means all statutes, laws, by-laws, regulations, ordinances, orders and requirements of governmental or other public authorities and utilities having jurisdiction in force from time to time, including without limitation all Environmental Laws.

2.5 "**Bank**": shall mean the Canadian Imperial Bank of Commerce or such other Canadian chartered bank as may be designated by the Landlord from time to time by Notice to the Tenant.

2.6 "**Basic Rent**": shall mean the Basic Rent specified in the Lease Summary.

2.7 "**Basic Services**": shall mean those services, utilities or supervision provided by the Landlord to all tenants in the Project which are consistent with basic services, utilities and supervision provided by landlords of other buildings of similar age, location and character to the Building and which are to be paid for by the Tenant in accordance with the Tenant's Proportionate Share, and by all other tenants in the Project on the same basis, which shall include but not be limited to: standard security, general Project repair and maintenance, landscaping, parking lot maintenance, fire protection and life safety, Municipal Taxes, administrative expenses, standard janitorial services (excluding those areas within the Premises which the Tenant is required to provide such services, at its cost), elevator repair and maintenance, and insurance and the other basic services, if any, described in the definition of "Common Area Expenses".

2.8 "**Building**" means the building within the Project in which the Premises is located and having a municipal address of 114 East 4th Avenue, Vancouver, B.C.

2.9 "**Business Day**": means any day except for Saturdays, Sundays and any day which is a statutory holiday in the Province in which the Project is located.

2.10 "**Carbon Offset Costs**": shall mean and refer to the cost of purchasing tradeable units, denominated in tonnes of carbon dioxide (**"CO_2"**), or the CO_2 equivalent using the global warming potential of other Green House Gases, where the purchase of such tradeable units is necessary to ensure compliance of the Project with any required target Green House Gas emission level or energy consumption level as prescribed by Applicable Laws.

2.11 "**Carbon Offset Credits**": shall mean and refer to tradeable units, denominated in tonnes of CO_2, or other Green House Gas, or the CO_2 equivalent using the global warming potential of other Green House Gases, the tradability of which may be permitted voluntarily in a given market or legislatively by a level of government, and which tradeable units may be created as a result of activities undertaken by either the Landlord or the Tenant which cause, directly or indirectly, measurable Green House Gas emission reductions within or in respect of the Project and that have financial or exchange value in the regulatory or voluntary trading market.

2.12 "**Carbon Tax**": shall mean and refer to the aggregate of all taxes, rates, duties, levies, fees, charges and assessments whatsoever, imposed, assessed, levied, confirmed, rated or charged against or in respect of the consumption by the Landlord in or at the Project of electricity, natural gas, propane or any other fossil fuel used to produce energy, such as heat, light or electricity, for the Project or any part of it or levied in lieu thereof, and levied against the Landlord or the Project by any local, provincial or federal government or any agency thereof having jurisdiction under the Applicable Laws.

2.13 "**Change In Control**": shall mean, in the case of any corporation, partnership, firm or other entity, the transfer by sale, assignment, transmission on death, mortgage, trust or otherwise of any shares, voting rights or interest which will result in a change of the identity of the Person or Persons exercising, or who might exercise, Control of such corporation, partnership, firm or other entity, unless such change occurs as the result of trading in shares listed upon a recognised stock exchange.

2.14 "**Commencement Certificate**" shall mean a certificate executed by both the Landlord and Tenant certifying the Commencement Day.

2.15 "**Commencement Day**": shall mean the Commencement Day specified in the Lease Summary.

2.16 "**Commercial Retail Units**": shall mean all those premises in the Project designated or intended by the Landlord from time to time to be used and occupied by businesses which sell or lease goods or services to the public.

2.17 "**Commercial Office Units**" shall mean all those premises in the Project designated or intended by the Landlord from time to time to be used and occupied by tenants for office use.

2.18 "**Commercial Units**" shall mean the Commercial Retail Units and the Commercial Office Units.

2.19 "**Common Area Expenses**": shall mean, without duplication, all costs, charges and expenses incurred by or on behalf of the Landlord as Basic Services (where applicable) for operating, maintaining, managing, repairing and replacing the Project and all utilities, equipment and facilities appurtenant thereto, including without limitation:

(a) the costs of cleaning, servicing, maintaining, inspecting, repairing, replacing and decorating the Common Areas and the costs of purchasing or renting materials, supplies, mechanical equipment and tools;

(b) the costs of landscaping, janitorial, security, window cleaning, rubbish removal, snow removal and pest control services;

(c) the costs of operating and maintaining the heating, ventilating and air conditioning system and any other utility systems and services, including straight-line depreciation of such system over a period of time determined by the Landlord to be a reasonable period in accordance with generally accepted accounting principles or international financial reporting standards, as determined by the Landlord;

(d) the costs of electricity, water, gas, sewer, telecommunication and other utility services;

(e) the costs of rental of any canopies, machinery, equipment and fixtures, including any Project signs, and the costs of promotional and seasonal decorations;

(f) Sales Taxes on goods and services purchased, rented, leased or licensed by the Landlord;

(g) Carbon Tax and Carbon Offset Costs;

(h) wages, salaries, payroll expenses, benefits and other compensation, as well as adjustments thereto, for employees, independent contractors and agents of the Landlord, engaged exclusively with respect to the Project and the costs of their employee uniforms, if any, together with the laundering and repair thereof;

(i) the fees and expenses of professional and consulting services retained from time to time by the Landlord for purposes connected with the Environmental Management Plan, and for the purposes of allocation of various costs and expenses among tenants of the Project;

(j) the fees and expenses of third party management services retained from time to time by the Landlord for the management of the Project or, if no third party manager is retained then a management fee equal to four percent (4%) of Rent per annum;

(k) the costs (including without limitation legal fees, appraiser's fees and Landlord's administration and overhead costs) incurred in legal proceedings taken in order to protect or preserve the general well-being of any tenants of the Project or to protect or preserve their use and enjoyment of the Project, or to enforce covenants in any leases of the Project as they affect the general well-being of any tenants in the Project;

(l) the costs of obtaining medical assistance for Persons in the Project;

(m) license, permit and inspection fees;

(n) insurance premiums and other charges for insurance including, without limitation, reserves established by the Landlord for deductible amounts and losses in excess of insurance coverage, in each case but without limitation for all risks of physical loss or damage to the Project and such fixtures and improvements as the Landlord shall determine, the perils of flood and earthquake, business interruption or loss of rental income, comprehensive bodily injury and property damage liability, workers' compensation and such other insurance coverage in such amounts as the Landlord and any mortgagee of the Lands, in their sole discretion, shall elect to maintain, together with all costs and expenses (including broker and other professional fees) incurred by the Landlord in good faith supervising and monitoring the Landlord's insurance and loss history and exposure, and attempting to obtain the most economical combination of insurance premiums and deductibles (in the Landlord's sole opinion);

(o) the Municipal Taxes for the Common Areas, if separately allocated by the Landlord;

(p) depreciation or amortisation of the costs of canopies, materials, tools, supplies and equipment acquired either before or during the Term and which either require periodic replacement or which enable the Landlord to supply services which the Landlord might otherwise contract out to a third party;

(q) the costs, whether incurred before or during the Term, of any capital improvements, equipment or devices (including the cost of extended warranties, if any) installed or paid for by the Landlord in order to:

(i) conform with any change in laws, rules, regulations or requirements of any government or quasi-government authority having jurisdiction, or of a board of fire underwriters or similar insurance body, or

(ii) effect a labour saving, energy or utility saving, reduction of Green House Gas emissions or other economy, or

(iii) improve safety or security, or

(iv) implement and achieve the objectives of the Environmental Management Plan,

amortised over the useful life of such capital improvement, equipment or device as determined by the Landlord in accordance with generally accepted accounting principles or international financial reporting standards, as determined by the Landlord;

(r) the costs of managing, maintaining, operating and repairing the Project to comply with the provisions of the Environmental Management Plan;

(s) the expenses of operating and maintaining any management and/or maintenance office for the Project as well as any utility rooms, meter rooms, storage rooms or areas, including without limitation the equivalent of the Fair Market Rent as reasonably determined by the Landlord for such office, room or area (or failing any evidence as to Fair Market Rent then a reasonably estimated rental value thereof) and a share of the Common Area Expenses reasonably attributable to such management office;

(t) a pro rata portion of any prepaid expenses as determined by the Landlord for each Lease Year;

(u) the costs and expenses payable by the Landlord pursuant to any easements and covenants which are registered as charges against the titles to the Lands or appurtenant to the titles to the Lands;

(v) costs and expenses with respect to Common Areas and Common Areas Expenses under any contract, insurance policy, warranty or lease which are not recovered, provided that the Landlord complied with its obligations under such contracts, insurance policies, warranties or lease;

and all of which costs shall be allocated by the Landlord to each Lease Year without any duplication, in accordance with generally accepted accounting principles or international financial reporting standards or such other standards as the Landlord may apply from time to time, as determined by the Landlord, but Common Area Expenses shall exclude and there shall be deducted therefrom (if applicable):

(w) net proceeds received from insurance policies taken out by the Landlord or that could have been received had the Landlord complied with its obligations to insure set out in this Lease to the extent that the proceeds relate to the costs and expenses incurred in the maintenance and operation of the Common Areas;

(x) contributions, if any, to the total cost of maintaining and operating the Common Areas made by tenants or occupants of space that is excluded from the Rentable Area of The Project;

(y) repairs and replacements of a capital nature and those for which the Landlord is responsible under Article 6.1;

(z) interest on, and the capital retirement of, debt;

(aa) expenses relating to leasing rentable space to other tenants or occupants including costs relating to tenant inducements, allowances, leasing expenses, real estate brokers fees, leasing commissions, advertising and space planners fees and similar expenses;

(bb) repairs or maintenance done for the direct account of other tenants;

(cc) any increase in insurance premiums resulting from any special uses of the Project by other tenants;

(dd) any and all costs resulting from Landlord's non-compliance with Applicable Laws in existence on the Commencement Day, or other similar costs relating to any of the Landlord's Work;

(ee) the cost of acquiring, financing and the original development and construction of the Project including, without limitation, costs incurred with respect to any expansion or major redevelopment thereof;

(ff) the cost of advertising, promoting, marketing, publicizing or leasing any space within the Project;

(gg) any penalties, interest or other charges or expenses relating to the Landlord's late payment of any expenses, including tax bills;

(hh) any fines, suits, actions, claims, demands, judgments, awards, costs, charges or expenses of any kind or nature for which the Landlord is or may become liable by reason of any negligent or willful acts or omissions of the Landlord or those for whom it is in law responsible, or any breach, violation or non-performance by the Landlord of any covenant, term or provision contained in the Lease or any other lease or agreement in respect of the Project;

(ii) any Sales Taxes paid by the Landlord, and for which the Landlord is able to claim input tax credits, on items otherwise constituting Common Area Expenses;

(jj) costs or expenses which are separately recovered by the Landlord under any contract, insurance policy, warranty or lease, or that could have been recovered had the Landlord taken reasonable steps, in accordance with such contract, insurance policy, warranty or lease, to recover such costs;

(kk) basic annual ground rent, head lease rent or air rights rent payable by the Landlord to the lessor under a ground or head lease or air rights lease, if any, of the Building and/or the Lands;

(ll) net recoveries by the Landlord in respect of warranties or guarantees relating to the construction or repair of the Project to the extent that the repair costs in respect of the work covered by such warranties or guarantees have been charged as Common Area Expenses;

(mm) net recoveries by the Landlord in respect of any recycling programs conducted in respect of the Project to the extent that the costs of such recycling programs have been included in Common Area Expenses; and

(nn) refunds, credits and rebates received from suppliers and contractors relating to amounts that have been included in Common Area Expenses.

2.20 "**Common Areas**": shall mean all those areas of the Project that are not in the exclusive occupation of the Tenant or other tenants, as may from time to time vary with alterations or additions made to the Project,

including, without limiting the generality of the foregoing, all areas for the common or joint use of some or all of the occupants of the Project including all roofs, exterior weather walls, exterior and interior structural elements and bearing walls in all buildings and improvements; pedestrian areas; landscaped areas; parking areas; roadways; driveways; stairways; malls; service and utility corridors; elevators; escalators; public washrooms; telephone, meter, valve, boiler, mail, storage and janitor rooms and galleries; fire prevention, security and communication systems; maintenance workshops; Project management offices; Project signs; canopies; pipes; electrical, plumbing, drainage, mechanical and all other installations, utilities or services located therein or related thereto as well as the structures housing the same and any area of the Project designated by the Landlord from time to time as part of the Common Areas. Common Areas may also include, to the extent applicable in the context, easement and/or right of way areas located on neighbouring properties that may be used for the benefit of the Project.

2.21 "**Control**" and "**Controlled**": shall mean:

(a) the right to exercise a majority of the votes which may be put at a general meeting of a corporation, or

(b) the right to elect or appoint directly or indirectly the majority of the directors of a corporation or other Persons who have the right to manage or supervise the management of the affairs and business of any partnership, corporation, firm or other legal entity;

2.22 "**Environmental Laws**": shall mean all applicable statutes, laws, by-laws, regulations, codes, orders, environmental penalties, tickets, notices, standards, guidelines, criteria, policies and directives, approvals, licences and permits now or at any time hereafter in effect, made or issued by any municipal, provincial or federal government, or by any department, agency, tribunal, board or office thereof, or any other agency or source whatsoever, (collectively, an "**Authority**"), regulating, relating to or imposing liability or standard of conduct concerning the natural or human environment (including air, land, surface water, groundwater, waste, real and personal property, moveable and immovable property, sustainability, building, operations, recycling or resource consumption), public or occupational health and safety and the manufacture, importation, handling, use, reuse, recycling, transportation, storage, disposal, elimination and treatment of a substance, hazardous or otherwise,

2.23 "**Environmental Management Plan**": shall mean and refer to those provisions set out in Schedule H attached hereto, as amended from time to time in accordance with Schedule H attached hereto.

2.24 "**Environmental Objectives**": shall mean those objectives more particularly set out in Sections 1.2 and 1.3 of Schedule H attached hereto.

2.25 "**Event of Default**": shall have the meaning set out in Article 9.4.

2.26 "**Expert**": means any independent accountant, architect, engineer, environmental consultant, energy auditor or other professional consultant appointed by the Landlord who, in the opinion of the Landlord, is qualified to perform the function for which he or she is retained.

2.27 "**Fair Market Rent**" shall mean the net rent which would be paid as between the Landlord and a renewing tenant dealing at arm's length for premises in the Project reasonably comparable to the Premises (with all leasehold improvements completed and in place including the Non-Standard Improvements), taking into consideration all relevant factors, including, without limitation, the age of the buildings in the Project and in the vicinity of the Project, any exclusive use covenants, signage rights and exclusive use areas granted to the Tenant under this Lease, the views, size, configuration and location of the Premises and the rent agreed to for renewing tenants in the Project and in the vicinity of the Project; provided, however, that in determining Fair Market Rent there shall be no reduction or discounting of the Fair Market Rent due to the fact that the Landlord will not incur the costs of commissions, "free rent", tenant inducements, improvement allowances, relocation allowances or "down time" for leasing and construction.

2.28 "**Fixturing Period**" means the eight (8) month period described in the Lease Summary as such may be extended by any early access period granted by the Landlord.

2.29 "**Green House Gases**" shall mean any or all of the Carbon Dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), Sulphur Hexafluoride (SF_6), Perfluoromethane (CF_4), Perfluoroethane (C_2F^6), Hydrofluorocarbons (HFC's) of any nature and type, any substance designated as a greenhouse gas by Applicable Law or any other substance that is the subject of reporting obligations under the Government of Canada's notice with respect to reporting of greenhouse gases released under the Canadian *Environmental Protection Act*, 1999 on February 16, 2008 in the Canada Gazette, vol. 142, no. 7, as updated from time to time, or a successor obligation or any equivalent notice published by any provincial government, and "Green House Gas" means any one of them.

2.30 "**Hazardous Substance**" means:

(a) any solid, liquid, gaseous or radioactive substance (including radiation) which, when it enters into the Project exists in the Project or is present in the water supplied to the Project, or when it is released into the environment from the Project or any part thereof or is entrained from one building to another building, or into the water or the natural environment, is likely to cause, at any time, material harm or degradation to any other property or any part thereof, or to the natural environment or material risk to human health, and includes, without limitation, any flammables, explosives, radioactive materials, asbestos, lead paint, polychlorinated biphenyls (**"PCBs"**), fungal contaminates (including, without limitation and by way of example, stachybotrys chartarum and other moulds), mercury and its compounds, dioxans and furans, chlordane (**"DDT"**), polychlorinated biphenyls, chlorofluorocarbons (**"CFCs"**), hydro-chlorofluorocarbons (**"HCFCs"**), volatile organic compounds (**"VOCs"**), urea formaldehyde foam insulation, radon gas, chemicals known to cause cancer or reproductive toxicity, pollutants, contaminants, hazardous wastes, toxic or noxious substances or related materials, petroleum and petroleum products; or

(b) any substance declared to be hazardous or toxic under any Environmental Laws or that does not meet any prescribed standard or criteria made under any Environmental Laws now or hereafter enacted or promulgated by any Authority; or

(c) both Articles 2.30(a) and (b) above.

2.31 "**Health Emergency**": means a situation in which the Landlord determines, based on advice from a medical professional, or a directive, bulletin, notice or other form of communication from a public health authority, that occupants, tenants, invitees or contractors working in the Project are or may be exposed to imminent danger from a disease, virus or other biological or physical agents that may be detrimental to human health.

2.32 "**Health Emergency Plan**": shall mean and refer to a plan prepared by or for the Landlord for managing the Project in response to a Health Emergency, as such plan may be amended from time to time.

2.33 "**Indemnifier**": means any Person who has given its guarantee or indemnity to the Landlord with respect to the obligations of the Tenant under this Lease, and includes any Person who has executed the Indemnity attached as Schedule C to this Lease.

2.34 "**Laboratory Space**" means any and all space installed, configured, constructed and/or erected within the Premises by or on behalf of the Tenant and used for laboratory purposes.

2.35 "**Landlord's Work**" shall mean the work to be performed relating to the Premises by the Landlord as described in Schedule G attached hereto.

2.36 "**Lands**" shall mean those lands more particularly described in Schedule B hereto, as may from time to time be altered or expanded by the Landlord.

2.37 "**Lease**" shall mean this Indenture including the Lease Summary, together with all Schedules attached hereto.

2.38 "**Lease Summary**" shall mean pages of this Lease, headed "Lease Summary".

2.39 "**Lease Year**" shall mean a twelve (12) month period commencing on the first day of January in any calendar year and ending on the last day of December in that same calendar year, provided that the first Lease Year shall commence on the Commencement Day and end on the last day of December next following and the last Lease Year shall commence on the 1st day of January of the calendar year during which the Term expires and end upon the expiry of the Term; provided however, the Landlord may (from time to time) by written notice to the Tenant specify a date (which may precede the notice) on which the then current Lease Year will terminate and the anniversary of the specified date will be the expiry date of the subsequent Lease Year. In no event will any change to the Lease Year increase Rent nor shorten the Term.

2.40 "**Leased Area Expenses**" shall mean all costs, charges and expenses relating directly to the Premises which are incurred by or on behalf of the Landlord on behalf of the Tenant. Those costs may include, but not be limited to, the cost of utilities, heating, ventilating and air conditioning, costs associated with any easements or rights of way, costs and expenses in respect of elevators and other systems servicing the Premises, insurance, refuse disposal and Municipal Taxes. All costs shall be allocated by the Landlord in and to each Lease Year without any duplication, in accordance with generally accepted accounting principles or international financial reporting standards or such other standards as may be applied from time to time by the Landlord, as determined by the Landlord. In the event that there is a separate assessment or determination for any part of Municipal Taxes made against or attributed to the Premises, the Tenant shall pay all such taxes attributable to the Premises as a result of such separate assessment or determination either by way of Additional Rent to the Landlord, or directly to the taxing authority when due, whichever is so required by the Landlord.

2.41 "**Municipal Taxes**" shall mean the aggregate of all taxes, local improvements or similar rates, duties, assessments and/or charges, municipal realty taxes, water taxes, school taxes, or any other taxes, rates, duties, assessments both general or special or any rate, duty, assessment, charge or tax levied, charged or assessed in lieu thereof now or at any time hereafter levied or imposed upon or in respect of the Project or any part thereof, by any government authority whether federal, provincial, municipal or otherwise, together with all costs and expenses (including legal and other professional fees and interest and penalties on deferred payments) incurred by the Landlord in good faith contesting or appealing any such taxes, levies, rates or assessments or charges levied in lieu thereof. Municipal Taxes shall include business taxes (if any) charged on the Common Areas, but shall not include business taxes charged in respect of the business or activities of the Tenant or other tenants in the Project.

2.42 **"Non-Standard Improvements"** means any and all alterations, additions and improvements constructed or installed in the Premises and/or anywhere in, on or under the Building, whether or not attached or affixed in any manner to the floors, walls, ceilings or roof thereof, including, without limitation, any and all trade fixtures, equipment (including HVAC and laboratory ventilation and equipment and roof stacks) and furnishings installed, made, erected or placed in, on or under the Premises and/or the Building (including the roof-top) by or on behalf of the Tenant which relate to the Tenant's use of the Laboratory Space and/or which are specialized and/or non-standard in nature and specific to the Tenant's Use of the Premises.

2.43 "**Notice**" shall mean any notice, demand, request, consent or objection required or contemplated to be given or made by any provision of this Lease. The Landlord's Address for Notice and the Tenant's Address for Notice shall be as specified in the Lease Summary. All Notices must be in writing.

2.44 "**Person**" means any individual, corporation, partnership, firm, trust, trustee or other entity or any combination of them, and "**Persons**" means more than one Person.

2.45 "**Premises**" shall mean those premises demised and leased to the Tenant and being outlined and hatched on the plans attached hereto as Schedule A2.

2.46 "**Prime Interest Rate**" shall mean the rate of interest per annum (regardless of how or when calculated) designated from time to time by the Bank as being the prime commercial lending rate charged by the Bank for demand loans in Canadian funds made at the main branch of the Bank in Vancouver, British Columbia

(and if at any time there is more than one prime commercial lending rate of the Bank then the Prime Interest Rate shall be the highest prime commercial lending rate of the Bank).

2.47 "**Project**" shall mean the Lands together with all buildings (including the Building), improvements and facilities from time to time located thereon, together with any alterations and additions thereto. For reference purposes only, and without limiting the foregoing definition of the Project, a current plan of the Project as at the date of execution of this Lease by the Landlord is attached hereto as Schedule A1.

2.48 "**Regulations**" shall mean those Project Regulations attached hereto as Schedule D, as may be reasonably amended by the Landlord from time to time.

2.49 "**Rent**" shall mean all payments due to the Landlord under this Lease (including all sums paid or expended by the Landlord in remedying any Event of Default under the provisions of this Lease) and, without limiting the generality of the foregoing, shall include the aggregate of Basic Rent and Additional Rent.

2.50 "**Rentable Area Of The Building**" shall mean the aggregate of all the individual rentable areas (measured in accordance with the method set out in Article 2.51 in respect of the Premises) of all Commercial Units contained within the Building, whether leased or occupied or not, but excluding:

(a) mezzanine areas inside Commercial Units in respect of which the Landlord does not receive any "basic rent"; and

(b) storage space in respect of which the Landlord does not receive any "basic rent".

2.51 "**Rentable Area Of The Premises**" and "**Rentable Area of the Storage Rooms**" shall mean the respective areas specified in the Lease Summary, which areas shall be measured, for all floors and portions of the Premises and the Storage Rooms (excluding any mezzanines in respect of which the Landlord does not receive any rent from a tenant, other than Additional Rent), in accordance with the Standard Methods for Measuring Floor Area in Office Buildings: BOMA 1996 (ANSI/BOMA Z65.1-1996). All areas shall be determined by the Landlord's British Columbia Land Surveyor in accordance with the foregoing measurement standard. Notwithstanding anything herein to the contrary, the Rentable Area Of The Premises will include the areas of any and all pipes, conduits, ducts or vents and other areas of penetrations for HVAC and other Non-Standard Improvements installed in or through the Premises even though same may reduce the usable area of the Premises and, for certainty, shall not include the Rentable Area of the Storage Rooms.

2.52 "**Rentable Area Of The Project**" shall mean the aggregate of all the individual rentable areas (measured in accordance with the method set out in Article 2.51 in respect of the Premises) of all Commercial Units contained within the Project, whether leased or occupied or not, but excluding:

(a) mezzanine areas inside Commercial Units in respect of which the Landlord does not receive any "basic rent"; and

(b) storage space in respect of which the Landlord does not receive any "basic rent".

2.53 "**Sales Taxes**": shall mean all taxes in the nature of sales taxes, harmonized sales taxes, goods and services taxes, multi-stage taxes, business transfer taxes, value-added taxes and any other taxes, rates, duties, levies, fees, charges and assessments whatsoever whether now or hereafter in existence which are imposed, assessed, levied, rated or charged by any governmental authority whatsoever on the Tenant or the Landlord, in respect of any Rent payable by the Tenant under this Lease, or in respect of the rental or use of any premises or space by the Tenant under this Lease (including parking spaces) or the provision of any goods, services or utilities whatsoever by the Landlord to the Tenant under this Lease, whether characterized as sales tax, harmonized sales tax, goods and services tax, multi-stage tax, business transfer tax, value-added tax or otherwise, but excluding the Municipal Taxes and any income tax under Part 1 of the *Income Tax Act* of Canada as at the date of this Lease.

2.54 "**Standard Business Hours**": shall mean 8:00 a.m. to 6:00 p.m. Monday through Friday.

2.55 **"Tenant Construction Manual":** shall mean that document (if any) prepared by the Landlord in respect of the Project consistent with this Lease and applicable generally to all tenants of the Project, which sets out rules, specifications, and procedures for the design and construction of improvements and alterations in and to the Premises and elsewhere by the Tenant, as may be specified in such manual.

2.56 "**Tenant's Proportionate Share**": shall mean a fraction which has as its numerator the Rentable Area Of The Premises and has as its denominator the Rentable Area Of The Project or, if applicable in the Landlord's reasonable and equitable opinion, the Rentable Area Of The Building. The Tenant's Proportionate Share shall be subject to adjustment from time to time as reasonably determined by the Landlord in the event of alterations in the Rentable Area Of The Project, the Rentable Area Of The Building or the Rentable Area Of The Premises, or in the event of a re-survey or re-measurement of the Project, the Building and/or the Premises, as the case may be.

2.57 "**Tenant's Work**" shall mean:

(a) the work relating to the Premises to be performed by the Tenant as described in Schedule G3 attached; and

(b) all other work to the Premises other than the Landlord's Work.

2.58 "**Term**": shall mean the term specified in the Lease Summary.

2.59 "**Transfer**" means all of the following, whether by conveyance, written agreement, instrument:

(a) an assignment of this Lease in whole or in part;

(b) a sublease of all or any part of the Premises;

(c) the sharing or transfer of any right of use or occupancy of all or any part of the Premises; and

(d) any mortgage, charge or encumbrance of this Lease or the Premises under which either this Lease or the Premises becomes security for any indebtedness or other obligation of the Tenant.

2.60 "**Transferee**": means any Person to whom a Transfer is or is to be made.

2.61 **"Unavoidable Delay**": means any prevention, delay, stoppage or interruption in the performance of the Landlord's Work or the Tenant's Work which is caused solely by a strike, lockout, labour dispute, act of God, Applicable Laws, the occurrence of enemy or hostile action, civil commotion, fire or other casualty which is beyond the reasonable control of the Landlord in the case of the Landlord's Work and beyond the reasonable control of the Tenant in the case of the Tenant's Work, provided however Unavoidable Delay shall not include lack of funds or financial condition of the Landlord, the Tenant or any Person nor any failure by the Landlord or the Tenant to make timely application to any government authority for any required permits or approvals in connection with the Landlord's Work or the Tenant's Work.

ARTICLE 3 – RENT

The Tenant hereby covenants and agrees with the Landlord as follows:

3.1 That the Tenant shall pay to the Landlord during the Term (and any applicable renewal or extension thereof), without prior demand or any deduction or set off whatsoever, the aggregate of the Basic Rent and the Additional Rent. The Tenant acknowledges and agrees that the Landlord shall have the right to require the Tenant to pay to the Landlord the amount of the Sales Taxes on any payments of Rent under this Lease and the Tenant covenants and agrees to pay to the Landlord the amount of the Sales Taxes on any payments of Rent under this Lease at the same time as the amounts, to which the Sales Taxes apply, are payable to the Landlord under this Lease, or upon demand at such other time or times as the Landlord may from time to time determine.

3.2 (a) That payment of Rent shall be made to the Landlord by the Tenant at the Landlord's designated office or at such other place and to such other party as the Landlord may from time to time designate in writing. All payments of Rent shall be made in equal instalments on the first day of each month in advance.

(b) The Tenant shall pay the Leased Area Expenses, the Tenant's Proportionate Share of Common Area Expenses and the Tenant's Proportionate Share of the Municipal Taxes, monthly in accordance with the reasonable forward estimates thereof made by the Landlord and shall be adjusted at the end of each Lease Year on the basis of the actual Leased Area Expenses and Common Area Expenses experienced during the Lease Year to which the adjustments relate, together with the final allocation of Municipal Taxes and the final calculation of the management and administration fee, determined by the Landlord for such Lease Year. All other Additional Rent shall be paid by the Tenant monthly or as otherwise demanded by the Landlord.

(c) The failure of the Tenant to comply in any way with any of the provisions of this Article 3.2 shall be deemed to be an Event of Default under this Lease and, following expiry of the applicable cure period in Article 9.4, shall entitle the Landlord to exercise any and all remedies available to the Landlord under this Lease.

3.3 That if, at any time before or after the expiration or earlier termination of the Term, the Landlord shall suffer or incur any damage, loss or expense for which the Tenant is liable hereunder by reason of any failure of the Tenant to observe or comply with any of the covenants or agreements of the Tenant herein contained, or if the Landlord shall make any payment for which the Tenant is liable hereunder, then in every such case the amount of such damage, loss, expense or payment shall be payable by the Tenant to the Landlord on demand and the Landlord shall have the right at its option to add the cost or amount of any such damage, loss, expense or payment to the Rent hereby reserved and any such amount shall thereupon immediately be due and payable as Rent and recoverable in the manner provided by Applicable Laws for the recovery of rent in arrears.

3.4 (a) The Tenant covenants and agrees that the failure by the Tenant to pay to the Landlord the amount of any Sales Taxes owing by the Tenant to the Landlord when due hereunder shall constitute an Event of Default by the Tenant under this Lease and will entitle the Landlord to exercise any and all rights and remedies available to the Landlord for the recovery of Rent in arrears. The Tenant further covenants and agrees that if any of the Sales Taxes are amended in such a manner that it imposes any additional financial obligations on the Landlord, the Tenant shall forthwith pay to and reimburse the Landlord for all such additional financial obligations and the Tenant agrees to execute such agreements and documents as the Landlord may reasonably require in order to ensure that such additional financial obligations will be paid by the Tenant.

(b) Tenant may from time to time be provided with or request Additional Services from Landlord and Tenant shall pay to Landlord the Landlord's charge for such Additional Services plus ten percent (10%) of such charge to cover Landlord's cost of administration, payable forthwith upon delivery of Landlord's invoice therefor.

(c) If Landlord shall from time to time reasonably determine that the use of any utility or service in the Premises is disproportionate to the use of other tenants operating during Standard Business Hours, then Landlord may separately charge Tenant as an Additional Service for the excess costs attributable to such disproportionate use calculated on a reasonable basis.

(d) Landlord may install and maintain, at Tenant's expense, metering devices for measuring the use of any utility or service in the Premises. Tenant shall pay Landlord within thirty (30) days of receipt of any invoice for the cost of installation and maintenance of such device plus ten percent (10%) of such cost on account of Landlord's overhead.

ARTICLE 4 – USE OF PREMISES

4.1 The Tenant covenants and agrees not to use or occupy the Premises or any part thereof for any purpose other than the Use Of Premises specified in the Lease Summary. Tenant acknowledges that annexed hereto as Schedule F is a list of exclusive uses granted by the Landlord as at the date of execution of this Lease to other tenants or occupants of the Project. The Tenant covenants and agrees that it shall carry on business in the Premises in such a way so as to avoid conflict with any of the exclusive uses and restrictive covenant clauses set forth in Schedule F. The Tenant agrees to provide the Landlord with not less than sixty (60) days' prior written Notice if and when the Tenant wishes to vacate the Premises and/or cease carrying on its Use of the Premises; provided, however, that no such vacating and/or ceasing to carry on the Use of the Premises will relieve the Tenant of its obligations, covenants and agreements hereunder and the Tenant will remain bound by this Lease and continue to pay all Rent and observe and perform all other provisions of this Lease including, but not limited, keeping the Premises heated (to avoid damage thereto by reason of cold, frost or otherwise), clean and free of rodents and pests.

As part of its permitted Use Of Premises specified in the Lease Summary, but subject at all times to the Tenant's covenant to avoid conflict with any of the exclusive uses and restrictive covenant clauses set forth in Schedule F, the Tenant will be permitted to grant temporary, co-working licences during the Term for the sole purpose of enabling collaborative co-working between the Tenant and such licensees; provided, however, that such co-working licences are granted on a not-for-profit basis and that the maximum Rentable Area Of The Premises permitted to be occupied by any such co-working licensees at any given time shall not exceed twenty percent (20%) of the total Rentable Area Of The Premises. Notwithstanding any such co-working licences, the Tenant will remain bound by this Lease and in no event shall any such co-working licenses release or relieve the Tenant from its obligations to perform fully all the terms, covenants and conditions of this Lease on its part to be performed. The Tenant shall give prior written notice to the Landlord of any and all co-working licences and licensees including, without limitation, the name, contact particulars and other reasonable information requested by the Landlord pertaining to such licensees. If, in the reasonable opinion of the Landlord, any co-working licences are tantamount to a Transfer or would otherwise conflict with any of the exclusive uses and restrictive covenant clauses set forth in Schedule F, at the request of the Landlord, the Tenant will be required to comply with the terms of Article 8 in respect of any co-working licences notwithstanding the foregoing.

4.2 The Tenant covenants and agrees that it shall not, without the prior written consent of the Landlord, grant any concession to anyone within the Premises.

4.3 The Tenant covenants and agrees to observe and perform all of its obligations and all matters and things necessary or expedient to be done, observed or performed by the Tenant by virtue of Applicable Laws and in any degree affecting the exercise or fulfilment in any manner of any right or obligation arising under or as a result of this Lease and affecting the Premises and the use thereof by the Tenant and all demands and Notices in pursuance of same whether made or served upon the Landlord or the Tenant. In the event of the service of any statutory notice lawfully requiring the execution of works by reason of anything done, omitted or permitted by the Tenant on the Premises during the Term, the following provisions shall apply notwithstanding anything contained in this Lease to the contrary:

(a) if such notice is served upon the Tenant, the Tenant shall forthwith forward the same or a copy thereof to the Landlord and shall (unless a certificate of exemption be obtained) forthwith, at its own expense, execute to the satisfaction of the Landlord such works as the Landlord may approve in order to comply with the requirements of the said notice;

(b) if such notice is served upon the Landlord, the Landlord shall notify the Tenant and thereupon the Tenant shall, at its own expense, forthwith execute to the satisfaction of the Landlord such works as the Landlord may require in order to comply with the requirements of said notice.

4.4 The Tenant covenants and agrees to comply with the Regulations. Each Regulation, as amended from time to time by the Landlord, forms part of this Lease as soon as the Regulation is made known to the Tenant.

The Landlord is not responsible to the Tenant for the non-observance of a Regulation by any other tenant in the Project or of the terms, covenants and conditions of any other lease of premises in the Project.

4.5 The Tenant covenants and agrees that it shall not in respect of the Premises overload any floor, or bring into any part of the Premises any articles or fixtures that by reason of their weight or size might damage or endanger the structure of the Premises or any buildings or improvements comprising the Project, or hang anything from the roof, mechanical or sprinkler systems, or perform any acts or carry on any practice which may injure the Premises, the Project or its Common Areas.

4.6 (a) The Tenant covenants and agrees that it shall not use or permit any part of the Premises to be used in such a manner as to cause a nuisance and in particular shall not use any advertising media which is audible outside the Premises if the Landlord or any other tenant objects thereto.

(b) The Tenant shall not install in the Premises equipment or utilities (including telephone, telecommunication or other information technology equipment and/or any Non-Standard Improvements) which may or does overload any utilities or which generates sufficient heat to affect the temperature otherwise maintained in the Premises by the HVAC facilities as normally operated. Landlord may install supplementary HVAC units, facilities or services in the Premises, or modify the HVAC facilities, as may in the Landlord's reasonable opinion be required to maintain proper temperature levels, and the Tenant shall pay the Landlord, within thirty (30) days of receipt of any invoice, for the cost thereof, including, without limitation, installation, operation and maintenance expenses, plus fifteen percent (15%) of such cost to cover the Landlord's costs of administration.

4.7 The Tenant agrees not to paint, affix, display, erect or place, or suffer to be painted, affixed, displayed, erected or placed, or maintain any sign, decal, design, picture, notice, decoration, lettering, banner, pendant, shade, awning, canopy or advertising matter of any kind (collectively, "**Tenant Signage**") anywhere in the Project or in or on any window or door of the Premises (except any of the foregoing placed in the interior of the Premises that cannot be viewed from outside the Premises) without first obtaining the Landlord's written approval and consent thereto in each instance, which consent cannot be unreasonably withheld, and all permits, licences and consents of all governmental authorities having jurisdiction, (and the Tenant shall promptly provide the Landlord with a copy thereof). Further, if the Tenant fails to obtain the prior consent and approval of the Landlord in accordance with this Article 4.7, and if the Landlord reasonably objects to any Tenant Signage which may be painted, affixed, displayed, erected or placed in or on any part of the interior or exterior of the Premises and which is visible from outside the Premises, the Tenant shall immediately remove such Tenant Signage at the Tenant's expense, failing which the Tenant agrees that the Landlord may, without liability on the Landlord's part and without notice to the Tenant, enter the Premises and remove such Tenant Signage at the Tenant's expense, plus an administration charge of fifteen percent (15%) of the cost of such removal, which shall be paid by the Tenant to the Landlord as Additional Rent on demand. All Tenant Signage shall comply with all Applicable Laws then in effect and the applicable provisions of the Environmental Management Plan, including without limitation, those pertaining to light pollution reduction, energy conservation and, for any outside signage, migrating bird safety programs. It is expressly understood and agreed that no neon open signage will be permitted in or on the Premises.

4.8 The Tenant shall not place any refuse or garbage or form any rubbish dump outside the Premises or anywhere in the Project except in the place provided by the Landlord for that purpose, and shall not burn any refuse or garbage in or about the Premises or anywhere within the Project. The Tenant shall comply with all recycling programs adopted by the Landlord for the Project and the Landlord shall be entitled to refuse to collect refuse and recyclables if not properly sorted into the appropriate recyclable container, and the Landlord shall be entitled to charge the Tenant for any costs it incurs as a result of the Tenant's failure to comply with the recycling programs adopted by the Landlord for the Project. The Tenant covenants and agrees that any food products and food waste (including any grease) in the Premises shall be stored, refrigerated and disposed of in accordance with all Applicable Laws and in accordance with the requirements of the Landlord to ensure that the Premises are not damaged thereby and that food odours do not emanate from the Premises or from any waste collection or disposal area located in the Common Areas

in which the Tenant is permitted by the Landlord to place its food products or food waste, to any other premises or to any other Common Areas, and in this regard, the Landlord may require the removal of all food waste and grease from the Premises and the Project on a daily basis. If the Landlord provides any waste collection or disposal areas in the Project for food waste and grease, the Tenant shall comply with the requirements of the Landlord with respect to such waste collection or disposal areas.

4.9 The Tenant acknowledges that all of its covenants and obligations set forth throughout this Article 4 are covenants and obligations designed for the mutual benefit and protection of all tenants of premises in the Project, and to render the Project as a whole of maximum attractiveness to the public. In the event that the Tenant shall be in breach of any such covenants or obligations or shall fail to observe or perform any of the same then without prejudice to any other right or remedy which the Landlord may have under the terms of this Lease the Landlord shall have the right to bring action in any court of competent jurisdiction against the Tenant for a judgement or order directing the Tenant to remedy such breach and to observe and perform such covenant or obligation.

ARTICLE 5 – COMMON AREAS

5.1 The Landlord covenants and agrees to maintain and provide servicing of Common Areas including lighting, security, refuse removal, snow removal and cleaning as would a landlord acting reasonably having regard to the nature of the Project and the objectives of the Environmental Management Plan.

5.2 The Landlord shall, at all times, have exclusive control and management of the Project, and, without limiting the generality of the foregoing, such control shall apply to signs, the use of show windows and the use made by the Tenant and the public of the parking areas of the Project. The Landlord shall have the right to use any part of the Common Areas, from time to time, for merchandising, display, decorations, entertainment and structures designed for retail selling (including kiosks) or special features or promotional activities and the Landlord shall be entitled to receive and retain all revenue in respect thereof, subject to the provisions hereof.

5.3 The Landlord hereby grants to the Tenant, its employees, invitees and licensees, in common with all others entitled thereto, a licence during the subsisting Term and any renewal or extension thereof for the purposes of reasonable ingress to and egress from the Premises with or without vehicles over that portion of the Lands as the Landlord may from time to time designate, provided, however, that reasonable pedestrian access shall be available to the Premises. The Landlord shall have the right to alter the location and size of the areas which are subject to this licence and rights, provided that reasonable access is provided by the Landlord for the purposes aforesaid.

5.4 The Tenant acknowledges and agrees that the Landlord has the right to regulate and restrict the parking of motor vehicles in the Project and the Tenant covenants that it will, and will cause its employees to, observe all reasonable regulations and restrictions made by the Landlord from time to time with respect to parking on those portions of the Common Areas provided for that purpose and the Tenant shall notify its employees of the Landlord's parking regulations and restrictions. The Tenant shall supply the automobile license plate numbers of its employees to the Landlord upon request. The Landlord reserves the right to:

(a) remove any automobile which, in the reasonable opinion of the Landlord, is infringing regulations made by the Landlord with respect to parking without notice and notwithstanding any bylaws or regulations of any governmental authority concerning removal and towing of motor vehicles; such removal with respect to any automobiles owned by the Tenant or its agents, customers, employees or invitees shall be at the sole risk and expense of the Tenant; and

(b) impose charges for the use of the parking areas or other parking facilities, such rates to be determined by the Landlord having regard to parking facilities provided, and the Landlord shall have the right to retain for itself all revenue received by the Landlord for the use of parking areas or parking facilities without any credit to the Tenant or any other tenants of the Project.

5.5 The Tenant shall not keep or display any merchandise on or otherwise obstruct the parking areas, sidewalks, any other part of the Common Areas or any part of any other tenant's premises.

5.6 The Tenant acknowledges that it is the intention of the Landlord to develop, construct, maintain, continue to modernise and update the Project, including without limitation, the implementation of the objectives of the Environmental Management Plan as determined by the Landlord, and if necessary, in the sole opinion of the Landlord, to expand the Project from time to time as economic and market conditions permit and, in furtherance of all or any of these intentions, it is understood and agreed that subject to Article 5.7, the Landlord shall have the right at all times and from time to time throughout the Term to:

(a) change the area, size, level, location and/or arrangement of the Project or any part thereof (other than the Premises) including the Common Areas;

(b) construct other buildings, structures or improvements in the Project and make alterations thereof, additions thereto, or re-arrangements thereof, demolish parts thereof, build additional storeys on any building in the Project other than the Building (and, for such purposes, to construct and erect columns and support facilities in any building other than the Building), and construct additional buildings or facilities adjoining or proximate to the Project;

(c) construct multiple deck, elevated or underground parking facilities, and expand, reduce or alter the same in any manner whatsoever; provided that the Landlord shall at all times maintain in the Building a number of normal-sized parking stalls made available to the Tenant at least equal to the Original Parking Stall Amount (as such term is defined in Schedule E, Item 9) as the same may be reduced from time to time;

(d) relocate or rearrange the various buildings, parking areas and other parts of the Project (excluding the Premises) from those existing at the Commencement Day or shown on Schedule A1;

(e) make changes and additions to the pipes, conduits and ducts or other structural and non-structural installations in the Premises where desirable to serve the Common Areas and other premises in the Project or to facilitate expansion or alteration of the Project, (including without limitation the construction and erection of columns and support facilities) but the Landlord shall not unreasonably interfere with the use and enjoyment of the Premises beyond the extent necessarily incidental to such changes, additions and installations, and the Landlord shall make good any damage to the Premises arising in the course of such changes and additions;

(f) add additional lands to the Project;

(g) temporarily obstruct or close off the Common Areas or any parts thereof for the purpose of maintenance, repair or construction; and

(h) have access for itself and all workers, agents, contractors and licensees at all reasonable times for the purpose of carrying out the activities set forth in this Article 5.6.

For clarity, and without limiting the foregoing, the Tenant accepts and acknowledges that: (i) the Project (and, in particular, the Building) is currently under redevelopment and any noise or disturbance caused by the redevelopment will not constitute any breach of this Lease; and (ii) any noise or disturbance caused by the Landlord's Work will not constitute any breach of this Lease, provided however that the Landlord complies with its obligations in Articles 5.3 and 5.7.

5.7 The Landlord agrees to use reasonable commercial efforts to complete all construction, alterations, maintenance and repairs as expeditiously and with commercially reasonably disruption and inconvenience to the Tenant's use and enjoyment of the Premises as reasonably possible under the circumstances. The Landlord agrees that nothing in this Article 5 permits the Landlord to alter the Premises nor to reduce the aggregate capacity of the parking areas and other parking facilities of the Project for any period greater than six (6) months below that then legally required by applicable government authorities or the number of normal-sized parking stalls available to the Tenant in the Building below the number of such stalls

comprising the Original Parking Stall Amount, as such Original Parking Stall Amount may be reduced from time to time in accordance with Section 9 of Schedule E attached hereto.

5.8 The Tenant shall be responsible for relocating and protecting its property during the course of any construction, relocation, alteration, reorganization or change to the Project and during the period of the exercise of the Landlord's rights under Article 5.6.

5.9 The Tenant acknowledges and agrees as follows:

(a) Except to the extent resulting from the Landlord's gross negligence or wilful misconduct, the Landlord accepts no liability and is hereby relieved and released by the Tenant in respect of the operation of any delivery facilities provided by the Landlord, or the adequacy thereof, or of the acts or omissions of any Persons or Persons engaged in the operation thereof, or in the acceptance, holding, handling, delivery or dispatch of any such goods for or on behalf of the Tenant, or for any claim of the Tenant by reason of damage, loss, theft, or acceptance, holding, handling, delivery or dispatch, or failure of any acceptance, holding, handling or dispatch, or any error, negligence or delay therein.

(b) The Landlord may from time to time require the payment of reasonable charges for delivery services and facilities and demurrage provided by the Landlord.

(c) The Tenant shall cause its employees and all Persons delivering or shipping any merchandise, supplies, fixtures, materials or goods to the Premises to fully comply with the Landlord's reasonable protocol and rules as established by the Landlord from time to time (including those set forth in Schedule D hereto, as may be amended by the Landlord from time to time) and/or any applicable third party protocols and rules, for the delivery, loading and unloading of merchandise, supplies, fixtures and other materials or goods to or from the Premises. Without limiting the foregoing, the Tenant shall not permit any trucks or trailers to be parked at or adjacent to any loading docks for any period of time not approved by the Landlord and no merchandise, supplies, fixtures or any other materials or goods shall be stored on or adjacent to any loading docks whether in trailers or otherwise.

5.10 The Landlord shall have the right at any time and from time to time, as it may determine in its sole discretion, to place or permit kiosks, telecommunication towers and facilities and third party advertising signage and displays in such locations in the Project and/or the Building, including within the Common Areas, as are from time to time designated by the Landlord and the Landlord may alter the location and size of any kiosks, telecommunication towers and facilities and third party advertising signage and displays. The Landlord shall be entitled to retain for itself all rents and other amounts paid to the Landlord by any Persons using or operating any kiosks, telecommunication towers and facilities and third party advertising signage and displays within the Project without any credit to the Tenant or any other tenant of the Project.

ARTICLE 6 – REPAIRS

6.1 The Landlord covenants to be responsible only for structural repairs to the roof deck, foundations, sub-floor and outer support walls of the building or buildings comprising the Project, and damage to the building or buildings comprising the Project caused by any peril required to be insured against in accordance with Article 7.1 hereof, all excluding any property, leasehold improvements or trade fixtures of the Tenant (including, without limitation, the Non-Standard Improvements).

6.2 The Tenant agrees to permit entry to the Premises by the Landlord, its servants or agents, at any reasonable time for the repair or maintenance of any wires, pipes, machinery, conduits or any other thing or matter used in the operation of the Project or to take such steps as may be reasonably necessary to comply with the Environmental Management Plan, provided that the Landlord shall not unnecessarily inconvenience the Tenant in carrying out such maintenance or repairs. In the event of any emergency, it is agreed that the Landlord may break into the Premises and shall not be held liable for any damage or loss occasioned thereby except to the extent caused by the Landlord's gross negligence or wilful misconduct.

6.3 Except to the extent caused by the Landlord's gross negligence or wilful misconduct, the Landlord shall not be responsible for:

(a) any loss, damage, cost or expense caused by overflow, seepage or leakage of water from any part of the Project or adjoining buildings caused by the use, misuse or abuse of water or any plumbing fixtures; or

(b) any interruption in the supply of any building services including, but not limited to, utility services and any loss, damage, cost or expense occasioned thereby; or

(c) any loss, damage, cost or expense caused by any accident or misadventure to or arising from the use and operation of machinery, elevators, escalators, heating or cooling apparatus, electric wiring, gas pipes, or appliances of any nature.

6.4 (a) The Tenant covenants that, notwithstanding any Notice that it must give in accordance with Article 9.4 hereof, it shall at all times during the Term and at its own cost repair and maintain the Premises in good condition and repair and in accordance with the Environmental Management Plan, including doors, frames, plate glass, walls, floors, ceiling, sprinklers, Tenant's washrooms, heating, ventilating and air conditioning equipment, plumbing (including a free flow to the sewer) and all equipment and fixtures now or hereafter installed in the Premises (with the sole exception of equipment, pipes or conduit serving others and not the Tenant), such repair to be executed as necessary or as reasonably required by the Landlord. The Landlord's contractors alone shall execute work on mechanical systems or work affecting structural elements of the Project and the Tenant hereby agrees to reimburse the Landlord for the cost of such work as and when required. The Tenant shall also heat the Premises in a reasonable manner so as to prevent any damage thereto by reason of frost or moisture.

(b) The Tenant shall at all times keep the Premises and, without limitation, any loading dock and exterior surfaces of the Premises (if applicable), in neat, clean and sanitary condition and shall not allow any refuse, garbage, pallets, cartons, loose or waste material to accumulate in or about the Premises. All trash, rubbish, waste material and other garbage shall be kept at all times from the view of the general public and shall be disposed of by the Tenant on a regular basis, as determined by the Landlord but at the Tenant's sole expense. In the event that the Tenant fails to clean in accordance with this Article 6.4 upon written Notice from the Landlord so to do, then the Landlord may clean the same and the cost thereof shall be paid by the Tenant to the Landlord as Additional Rent upon demand.

6.5 It shall be lawful for the Landlord or its agents at all reasonable times during Standard Business Hours during the Term, upon reasonable advance Notice to the Tenant, except in case of emergency when no Notice shall be required, to enter the Premises to inspect the condition thereof and compliance by the Tenant with the provisions of this Lease, including without limitation, the Environmental Management Plan.

6.6 The Tenant shall, without Notice from the Landlord, at the expiration or sooner termination of the Term peaceably surrender and yield up to the Landlord the Premises together with all fixtures and improvements thereon, together with the numbers of all combination locks and keys to all other locks on the Premises, and all in good and tenantable repair to the extent provided by Article 6.4 and otherwise in accordance with the Tenant's obligations under this Lease.

6.7 In the event that the Premises are damaged or destroyed by fire or any other hazard for which the Landlord is required to be insured to an extent which renders the Premises untenantable and provided that such damage was not caused by the negligence of the Tenant or those for whom the Tenant is responsible at law, the Basic Rent will abate wholly or in part, to an extent which recognises the nature and extent of the damage, until the date the Landlord's repairs to the Premises and the Tenant's work described in Article 6.8 have been completed.

6.8 From and after the date upon which the Tenant is notified in writing by the Landlord that the Landlord's work of reconstruction or repair is completed, the Tenant shall immediately commence all work required to fully restore the Premises and shall complete such work and reopen for business within sixty (60) days of

receipt of the Landlord's Notice aforesaid, with the Premises fully fixtured, stocked and staffed. The certificate of the Landlord's architect or engineer shall bind the parties hereto as to the date upon which the Landlord's work of reconstruction or repair and the Tenant's work described in this Article 6.8 is completed. Notwithstanding anything contained to the contrary in this Lease, in the event of damage to the Premises, the Landlord's covenants as set out in this Lease to repair, rebuild or maintain the Project or any part thereof shall only apply to the extent that insurance proceeds are available or would have been available had the Landlord complied with its obligations to insure as set out in this Lease to the Landlord for the entire cost (but excluding reasonable deductibles) of such repair, rebuilding or maintenance.

6.9 In the event that the Project or any part thereof is damaged by fire or other insured hazard to an extent which cannot be restored within one hundred and eighty (180) days, then either the Landlord or the Tenant may at its sole option within sixty (60) days of the occurrence of such damage terminate this Lease by serving upon the other one (1) month's written Notice in which event Rent shall accrue to the date of damage only. Thereafter, the Tenant shall have no further interest in either the Premises or the Project but shall remain liable for the payment of Rent and all other money then due to the Landlord until fully paid. Notwithstanding anything contained to the contrary in this Lease, in the event of damage to the Project, the Landlord's covenants as set out in this Lease to repair, rebuild or maintain the Project or any part thereof shall only apply to the extent that insurance proceeds are available or would have been available had the Landlord complied with its obligations to insure as set out in this Lease to the Landlord to the entire cost (but excluding reasonable deductibles) of such repair, rebuilding or maintenance.

ARTICLE 7 – INSURANCE; LIMITATION OF LIABILITY

7.1 The Landlord shall take out and maintain in full force and effect insurance against all risks of physical loss or damage to the Project (which coverage may at the Landlord's discretion exclude the foundations and excavations) and such fixtures and improvements as the Landlord shall determine, including, if and to the extent reasonably available at reasonable rates, the perils of flood and earthquake and loss of rental income insurance, in amounts equal to the full insurable value thereof calculated on a replacement cost basis, and subject to such deductibles as the Landlord may reasonably determine. Without limiting the generality of the foregoing, the Landlord shall be entitled to effect and maintain during the Term, property and business interruption insurance that would provide for environmental or other building accreditation recertification costs, sustainable re-engineering or sustainability design costs incurred after a loss, the incremental costs of debris removal and recycling after a loss, and any additional reconstruction costs associated with reconstruction of the buildings and improvements in the Project to a leading energy conservation and/or sustainability standard. In addition, the Landlord may place boiler and machinery breakdown insurance that would permit the replacement of damaged equipment with equipment that increases the efficiency of the buildings and improvement in the Project or enhances safety, and/or otherwise is consistent with the Environmental Management Plan. Provided however, the full insurable value shall not include, and the insurance shall not cover, any property of the Tenant, whether owned by the Tenant or held by it in any capacity, nor leasehold improvements (including the Non-Standard Improvements) whether made by or on behalf of the Tenant, nor Tenant's business interruption insurance. The Tenant acknowledges and agrees that no insurable interest is conferred on the Tenant under any polices of insurance carried by the Landlord and it has no right to receive proceeds of any of those policies.

7.2 (a) The Tenant covenants and agrees to effect and maintain throughout the Term the following insurance in forms, amounts and with insurance carriers satisfactory to the Landlord:

(i) comprehensive bodily injury and property damage liability insurance applying to the operations of the Tenant carried on from the Premises and which shall include, without limitation, personal injury liability, product liability, environmental liability, contractual liability, non-owned automobile liability and protective liability with respect to the occupancy of the Premises by the Tenant, and such insurance shall be written for an amount of not less than Five Million Dollars

($5,000,000.00) per occurrence, or such higher amount as the Landlord may from time to time reasonably require;

(ii) tenant's all risks legal liability insurance in an amount not less than the replacement cost of the Premises;

(iii) insurance against all risks of physical loss or damage (including flood and water damages) on Tenant's fixtures, leasehold improvements (including all Non-Standard Improvements), stock in trade, furniture, and all other contents of the Premises, in an amount not less than the full replacement cost thereof; and

(iv) any other insurance in form, amounts and for insurance risks as the Landlord or the Landlord's mortgagees may reasonably require from time to time.

(b) The Tenant shall renew each such insurance policy no later than the same day as the expiration of its policy term and shall forthwith forward to the Landlord certificates of insurance evidencing the policies in effect. Each such certificate shall separately specify the values insured for the Tenant's fixtures and for leasehold improvements (including Non-Standard Improvements) and each such certificate shall contain sufficient information to verify the Tenant's obligation. Except for tenant's all risk legal liability insurance, each such policy shall name the Landlord as an additional insured as its interest may appear and in the case of public liability insurance it shall contain a provision for cross liability as between the Landlord and the Tenant. Each such policy shall provide that the insurer shall not have any right of subrogation against the Landlord on account of any loss or damage covered by such insurance or on account of any payments made to discharge claims against or liabilities of the Landlord or the Tenant covered by such insurance. Each such policy shall be non-contributing with, and shall apply only as primary and not excess to, any other insurance available to the Landlord, and each such policy shall provide that the insurance coverage shall not be invalidated with respect to the Landlord's interest by reason of the acts or omissions of the Tenant. The cost or premium for each and every such policy of insurance shall be paid by the Tenant. The Tenant shall obtain from the insurers under each of such policies of insurance, undertakings to notify the Landlord in writing at least thirty (30) days prior to the cancellation or material change of any such policies.

7.3 The Tenant covenants and agrees that it will not do or permit its employees or other invitees to do anything on the Premises whereby any policy of insurance maintained by the Tenant or the Landlord may be invalidated, and, for such purpose, upon the receipt of notice in writing received by the Tenant or the Landlord from any insurer requiring the execution of works or a discontinuance of any operation on the Premises which would otherwise invalidate such insurance, the Tenant shall forthwith comply with such notice.

7.4 The Tenant shall not do or permit anything to be done upon the Premises whereby the rates of any insurance in force with respect to the Project or the Premises are increased and in the event of any breach of this covenant by the Tenant then the Tenant shall forthwith pay to the Landlord on demand from time to time during the Term all amounts representing the increase in the rate of premium above the usual rate otherwise charged for such insurance.

7.5 (a) Except to the extent any injury, loss or damage results from the gross negligence or wilful misconduct of the Landlord or those for whom it is responsible in law, the Tenant agrees that the Landlord shall not be liable or responsible in any way to the Tenant or any other person for:

(i) any injury arising from or out of any occurrence in, upon, at or relating to the Project or the Lands or any part thereof or any loss or damage to property (including loss of use thereof) of the Tenant or any other person located in the Project or the Lands or any part thereof from any cause whatsoever;

(ii) without limiting the generality of the foregoing provisions of this Article 7.5, any injury to the Tenant or any other person or loss or damage to property resulting from: fire; smoke; explosion;

falling plaster, ceiling tiles, fixtures or signs; broken glass; steam; gas; fumes; vapours; odours; dust; dirt; grease; acid; oil; any Hazardous Substance; debris; noise; air or noise pollution; theft; breakage; vermin; electricity; computer, utility, communication or electronic equipment or systems malfunction, breakdown or stoppage; electromagnetic radiation; electrical injury; water; rain; flood; flooding; freezing; tornado; windstorm; snow; sleet; hail; frost; ice; excessive heat or cold; sewage; sewer backup; toilet overflow; or leaks or discharges from any part of the Project (including the Premises), or from any pipes, sprinklers, appliances, equipment (including, without limitation, heating, ventilation and air-conditioning equipment) electrical or other wiring, plumbing fixtures, roof(s), windows, skylights, doors, trapdoors, or subsurface of any floor or ceiling of any part of the Project, or from the street or any other place, or by dampness or climatic conditions, or from any defect in the Project or any part thereof, or from any other cause whatsoever;

(iii) any injury, loss or damage caused by other tenants or any persons in the Project, or by occupants of adjacent property thereto, or by the public, or by construction or renovation, or by any private, public or quasi-public work, or by interruption, cessation or failure of public or other utility service, or caused by force majeure;

(iv) any injury to the Tenant or any other person or any loss or damage suffered to the Premises or the contents thereof by reason of the Landlord or its representatives entering the Premises to undertake any work therein, or to exercise any of the Landlord's rights or remedies hereunder, or to fulfill any of the Landlord's obligations hereunder, or in the case of emergency;

(v) any injury, loss or damage insured against or required to be insured against by the Tenant under Article 7.2;

(vi) any injury, loss or damage caused by an act or omission (including theft, malfeasance or negligence) on the part of the agent, contractor or person from time to time employed by the Tenant to perform janitor services, security services, supervision or any other work in or about the Premises or the Project;

(vii) any loss or damage, however caused, to merchandise, stock-in-trade, money, securities, negotiable instruments, papers or other valuables of the Tenant;

(viii) any injury, loss or damage resulting from interference with or obstruction of deliveries to or from the Premises; or

(ix) any injury or damages not specified above to the person or property of the Tenant, its agents, servants or employees, or any other person entering upon the Premises under express or implied invitation of the Tenant.

(b) The Tenant expressly releases the Landlord from or in respect of any injury or loss or damage to property caused by perils insured against or required to be insured against by the Tenant pursuant to the provisions of Article 7.2 or otherwise provided for under this Lease. Without limiting the generality of the provisions of this Article 7.5:

(i) all property of the Tenant kept or stored on the Premises shall be so kept or stored at the risk of the Tenant only; and

(ii) the Tenant shall promptly indemnify and hold harmless the Landlord from and against any and all claims, losses, actions, suits, proceedings, causes of action, demands, damages, fines, duties, judgments, executions, costs, charges, payments and expenses including any professional consultant and legal fees (on a solicitor and his/her own client basis) (collectively, **"Claims"**) arising out of or in connection with:

(A) any loss of or damage to such property, including loss of use thereof, and including, without limitation, any subrogation claims by the Tenant's insurers, and

(B) any injury referred to in this Article 7.5.

(c) The intent of this Article 7.5 is that the Tenant (and any persons having business with the Tenant) is to look solely to the Tenant's insurers to satisfy any Claims which may arise on account of injury, loss or damage, in respect of such insured perils irrespective of the cause.

7.6 (a) The Landlord expressly releases the Tenant from or in respect of any injury or loss or damage to property caused by perils insured against or required to be insured against by the Landlord pursuant to the provisions of Article 7.1 or otherwise provided for under this Lease (the **"Landlord's Insured Damage"**).

(b) The intent of this Article 7.6 is that the Landlord (and any persons having business with the Landlord) is to look solely to the Landlord's insurers to satisfy any claims which may arise on account of the Landlord's Insured Damage.

ARTICLE 8 – OTHER TENANT'S COVENANTS

8.1 Notwithstanding that this Lease and Term shall end without Notice by either party to the other, in the event that the Tenant should hold over, then the tenancy shall be construed as one of a month-to-month and the monthly Basic Rent then payable shall be one and one-half (1.5) times the monthly Basic Rent provided for in the last Lease Year, except if the Tenant has served its Notice to extend in respect of the First Extension Term or the Second Extension Term, as the case may be, in accordance with its options to extend set forth in Article 11, in which event Basic Rent shall then be as set out in Article 11. All other terms and conditions of this Lease shall otherwise apply.

8.2 The Tenant shall have the right to Transfer this Lease in whole or in part to any person(s) or any third-party tenant(s) subject to written consent of the Landlord, which consent shall not be unreasonably withheld or delayed; provided however that the consent of the Landlord shall not be required: (i) for any Transfer to an Affiliate; or (ii) for any Transfer in connection with the acquisition of the Tenant's business as a going concern. For Transfers which require consent, the Landlord shall have the right to consider commercial reputation, proposed use and potential competition with its major tenants of the Project, including, but not limited to, Hootsuite Media Inc. and 2015 Main Street Tenant LP (**"WeWorks"**) financial covenants, and whether the Transfer may imperil any existing or intended certification or accreditation of the Project of any performance targets for the Project in accordance with the Environmental Management Plan when determining whether to grant its approval of the proposed assignee/subtenant.

8.3 (a) If the Tenant intends to effect a Transfer, the Tenant shall give prior Notice to the Landlord of such intent specifying the identity of the Transferee, the type of Transfer contemplated, the part of the Premises affected and the financial and other terms of the Transfer, and shall provide such financial, business or other information relating to the proposed Transferee and its principals as the Landlord or any Mortgagee reasonably requires, together with copies of all documents which record the particulars of the proposed Transfer. Where the Transfer requires the Landlord's consent, the Landlord shall, within thirty (30) days after having received such Notice and all requested information, notify the Tenant either that:

(i) the Landlord consents or does not consent to the Transfer in accordance with the provisions of this Lease; and

(ii) in the case the Landlord does not consent to the proposed Transfer (other than as described in Article 2.59(d) hereof), the Landlord may elect in its sole discretion:

(A) to terminate this Lease as to:

(I) the whole of the Premises (if the proposed Transfer relates to the whole of the Premises), or

(II) as to the part of the Premises affected by the proposed Transfer; or

(B) to sublease from the Tenant the Rentable Area Of The Premises to be sublet or assigned on the same terms and conditions as set out in the Tenant's Notice of the Transfer (except in respect of rent which shall be the lesser of the Rent paid therefor by the Tenant under this Lease or the rent specified in the Tenant's Notice of Transfer) by giving written Notice to the Tenant within fourteen (14) days of receipt of a true copy of the Tenant's Notice for consent, any other Transfer information requested by the Landlord and the documentation fee referred to in Article 8.7.

(b) It is expressly understood and agreed that the Landlord's right of termination as set forth in Article 8.3(a)(ii) above is exercisable by the Landlord in its sole and unfettered discretion, and shall not be limited or affected in any way by any other provision of this Article 8.3 or by any express or implied obligation of the Landlord to consent to the Transfer, and the Landlord shall not be required to act reasonably in deciding whether or not to exercise this right of termination nor shall the Landlord be required to give any reasons for its refusal to consent to the Transfer.

(c) If the Landlord elects to terminate this Lease it shall stipulate in its Notice to the Tenant the termination date of this Lease which shall be not less than ninety (90) days and not more than one-hundred twenty (120) days following the giving of Notice of such election by the Landlord to the Tenant and whether the termination is with respect to the whole of the Premises or the part of the Premises affected by the Transfer. If the Landlord elects to terminate this Lease as aforesaid, the Tenant shall have the right to give Notice to the Landlord within fifteen (15) days following receipt of the Notice of termination from the Landlord, which Notice from the Tenant shall state the Tenant's agreement to refrain from the Transfer in respect of which it requested the Landlord's consent and, if the Tenant provides such Notice within such fifteen (15) days time period, then the Landlord's election to terminate this Lease as aforesaid shall become null and void in respect of such Transfer. If the Tenant fails to deliver such Notice within such time period, then this Lease shall, as to the whole or part of the Premises as stipulated by the Landlord in its Notice of election to terminate, be terminated on the date of termination stipulated by the Landlord in its Notice of election to terminate. If the Tenant is required to deliver possession of a part only of the Premises, the Tenant shall pay all costs incurred in connection with rendering that part functionally separate and suitable for separate use and occupancy, including partitioning and providing entrances and services.

(d) If the Landlord exercises its rights set out in this Article 8.3(a)(ii)(B), the Landlord shall have an additional right to terminate this Lease in respect of the Rentable Area sublet by the Tenant to the Landlord and such additional right of termination shall be exercised by giving written Notice to the Tenant not less than seven (7) days prior to the end of the term of sublease to the Landlord and the termination date shall be the day following the end of the term of the sublease. If this Lease is terminated by the Landlord with respect to a part of the Premises, the Rent payable under this Lease shall thereafter abate proportionately and all other appropriate recalculations shall be made to recognize that the Rentable Area Of The Premises under this Lease has been reduced.

8.4 Upon a Transfer with the consent of the Landlord, the Tenant shall remain bound by the terms of this Lease and in the case of a Transfer (other than as described in Article 2.59(d) hereof), the Tenant further covenants to execute and deliver, and require the Transferee in the case of an assignment to also execute and deliver, to the Landlord an instrument duly executed by the Tenant and assignee, in form and substance satisfactory to the Landlord, containing:

(a) a covenant not to enter into, consent to, or permit any further Transfer without first obtaining the consent of the Landlord thereto in accordance with the provisions of this Article 8.4;

(b) a covenant to assume the Tenant's obligations for the payment of Rent and for the full and faithful observance and performance of the covenants, terms and conditions to be observed and performed by the Tenant under this Lease; and

(c) a covenant on behalf of the Tenant and the assignee in favour of the Landlord which sets out the actual consideration paid between the Tenant and assignee in respect of the Transfer and which obligates the amount of such consideration in excess of the Rent payable pursuant to the terms hereof to be paid to the Landlord.

8.5 If the Tenant requests the Landlord's consent to a Transfer, the Tenant shall submit to the Landlord the name of the proposed Transferee and, if required by the Landlord, the most recent financial statement of the proposed Transferee and such further information as to the nature of its business and its financial responsibility and standing as the Landlord may reasonably require.

8.6 In no event shall any Transfer to which the Landlord may have consented release or relieve the Tenant from its obligations to perform fully all the terms, covenants and conditions of this Lease on its part to be performed. No consent by the Landlord to any Transfer shall be construed to mean that the Landlord has consented or will consent to any further Transfer.

8.7 Any documents relating to the Landlord's consent, or its consideration of a request for consent, to a proposed Transfer shall be prepared by the Landlord or its lawyers and the Tenant shall pay on demand the Landlord's administration charge of One Thousand Five Hundred Dollars ($1,500.00) plus all reasonable and documented legal costs of the Landlord incurred in connection with such Transfer.

8.8 The Tenant shall give immediate Notice to the Landlord of any fire, accident, damage or defect within the Premises or any other part of the Project, and shall promptly thereafter confirm the same in writing, provided that such Notice shall not in any way alter the Tenant's covenants to repair.

8.9 The Tenant covenants with the Landlord that the Tenant shall pay all charges for electricity, gas, telecommunication, cablevision and all other services and utilities of whatever kind with respect to the Premises and shall pay all business taxes, licence fees, rates and other charges levied or assessed on or in respect of, or in relation to the business carried on and/or upon the assets of the Tenant within the Premises, or in respect of any fixture, machinery, equipment or apparatus installed in the Premises or elsewhere in the Project by the Tenant, including Municipal Taxes on improvements (including Non-Standard Improvements) made by the Tenant to the Premises or the Building, whether such taxes, fees, charges or rates are charged to the Landlord or to the Tenant. Such taxes, fees, charges and rates shall include the costs of all appeals made by the Landlord against assessments made or taxes levied. In the event no separate allocation of such rates, charges or taxes is made by the taxing authority then the Landlord shall allocate such taxes, rates or charges among the Tenant and other tenants of the Project in an equitable manner having regard to the municipal mill rates applicable to the various uses of premises within the Project. The Landlord shall have the right, upon written Notice to the Tenant, to require the Tenant to provide to the Landlord copies of all electricity, propane, natural gas, water and other utility bills with respect to the Premises payable by the Tenant within ten (10) Business Days of receipt by the Tenant, and upon receipt of such Notice from the Landlord the Tenant will provide a written summary of usage in such format as the Landlord may require (and if required by the Landlord copies of all such bills) in each case on a monthly basis to the Landlord until otherwise notified in writing by the Landlord.

8.10 (a) The Tenant recognises the right of the Landlord under this Lease to mortgage, charge, transfer or assign the whole or any part of the Lands or this Lease to a purchaser or mortgagee or trustee for bondholders, and in the event of the Landlord's default under any such instrument and the purchaser, mortgagee or trustee, as the case may be, duly entering into possession of the Project or the Premises, the Tenant hereby agrees to attorn to and become the tenant of such purchaser, mortgagee or trustee under the terms of this Lease.

(b) This Lease shall at all times be subject and subordinate to all mortgages, trust deeds or trust indentures which may now or at any time hereafter affect the whole or any part of the Lands or the Project and all renewals, modifications, consolidations, replacements and extensions of any such mortgage, trust deed or trust indenture; provided that no subordination shall have the effect of permitting the mortgagee or trustee, as the case may be, to disturb the occupation and possession of the Premises by the Tenant on

the terms of this Lease so long as the Tenant performs all of its covenants contained herein and there is no Event of Default hereunder. In confirmation of such subordination, agreement to attorn and non-disturbance agreement, the Tenant and the mortgagee or trustee, as the case may be, shall execute promptly any certificate, instrument of postponement or attornment or other instrument which may from time to time be requested by either of them to give effect thereto, which shall be in a form and content satisfactory to all parties thereto, all acting reasonably.

(c) Within ten (10) Business Days after the request thereof by the Landlord or in the event of any sale, assignment, hypothecation or mortgaging of the whole or any part of the Project by the Landlord, the Tenant covenants and agrees with the Landlord to execute and deliver to the Landlord and any existing or proposed mortgagee, purchaser or assignee and any other Person designated by the Landlord, a certificate in a form and content requested by the Landlord to include, without limitation, statements that:

(i) this Lease is unmodified and in force in accordance with its terms (or if there have been modifications, that this Lease is in force as modified, and identifying the modifications, or if this Lease is not in force, that it is not) and that the Tenant is in possession of the Premises;

(ii) the Commencement Day and Term of this Lease;

(iii) the date to which Rent has been paid with particulars of any prepayment of Rent;

(iv) whether or not there is an existing default by the Landlord, or by the Tenant in the payment of Rent or any other sum of money under this Lease, and whether or not there is any other existing default by any party under this Lease concerning which a Notice of default has been given, and if there is any, specifying its nature and extent; and

(v) whether or not there are any set-offs, defences or counterclaims against the enforcement of the obligations of the Tenant under this Lease.

8.11 All fixtures (including all Non-Standard Improvements) installed by the Tenant shall be new or, if not new, in first class condition and of good appearance. The Tenant shall not make or cause to be made any alterations, additions or improvements (including, but not limited to, any Non-Standard Improvements) or install or cause to be installed any trade fixtures, exterior signs, shades or awnings, floor coverings, interior or exterior lighting, or mechanical or electrical systems and fixtures, or plumbing fixtures, or make any changes to the exterior or structural or base building elements of the Premises (for clarity, including any internal areas of the Building) or hang from or affix anything to the ceiling, without first obtaining the Landlord's written approval and consent thereto, which approval and consent shall not be unreasonably withheld or delayed. The Tenant shall present to the Landlord plans and specifications for such work at the time approval is sought and any approved work shall be carried out in a good and workmanlike manner. For clarity, the Landlord's prior written approval and consent, acting reasonably, will be required in connection with any and all Non-Standard Improvements.

8.12 It is hereby understood as between the Tenant and the Landlord that if the Tenant does or permits anything to be done that could be considered or deemed to be an improvement to the Premises, Project and/or the Lands, that said improvement shall be considered to be for the sole benefit of the Tenant, unless the work done resulting in said improvement, was expressly authorized by the Landlord to be done and was expressly acknowledged as an improvement for the benefit of the Landlord.

8.13 So long as the Tenant is not in default hereunder, at the expiration of the Term the Tenant shall have the right to remove its trade fixtures and furnishings, but shall make good any damage caused to the Premises resulting from the installation or removal thereof, PROVIDED, HOWEVER, that all alterations, additions and improvements constructed and installed in or in respect of the Premises or the Tenant's Use of the Premises and attached in any manner whatsoever to the floors, walls, ceilings or roof of the Building (including the Premises), including any floor covering and light fixtures, but not including the Tenant's Non-Standard Improvements, are hereby deemed not to be trade fixtures and shall remain upon and be

surrendered with the Premises, except to the extent the Landlord requires removal thereof pursuant to Article 8.16. Notwithstanding the foregoing or anything to the contrary herein, it is understood and agreed that the Tenant will, at its sole cost, remove all of the Non-Standard Improvements from the Premises and/or the Building at the expiration or sooner termination of the Term and will make good any damage caused to the Premises and/or the Building by reason of such installation and/or removal at the Tenant's sole cost.

8.14 If the Tenant fails to remove its trade fixtures and restore the Premises as aforesaid or as otherwise required by the terms of this Lease, all such trade fixtures and improvements shall become the property of the Landlord except to the extent that the Landlord continues to require removal thereof pursuant to Article 8.16. The Tenant shall be liable for all reasonable documented costs incurred by or on behalf of the Landlord due to the removal of such trade fixtures in the event of the Tenant's failure to remove same in accordance with its obligations under this Lease.

8.15 Should the Tenant abandon the Premises or should this Lease be terminated before the proper expiration of the Term due to an Event of Default on the part of the Tenant then, in such event, as of the moment of the Event of Default by the Tenant all trade fixtures and furnishings of the Tenant (whether or not attached in any manner to the Premises) shall, except to the extent that the Landlord requires the removal thereof pursuant to Article 8.16 or any other provision of this Lease, become and be deemed to be the property of the Landlord without indemnity to the Tenant and as additional liquidated damages in respect of such default but without prejudice to any other right or remedy of the Landlord.

8.16 Notwithstanding that any trade fixtures, furnishings, alterations, additions, improvements or fixtures are or may become the property of the Landlord, the Tenant shall forthwith remove all or part of the same and shall make good any damage caused to the Premises resulting from the installation or removal thereof, all at the Tenant's expense, should the Landlord so require such removal by Notice to the Tenant or should the Tenant otherwise be obligated to remove same pursuant to the terms of this Lease. For clarity, it is understood and agreed that the Landlord shall not be required to give Notice to the Tenant in regards to the removal of the Non-Standard Improvements at the expiration or sooner termination of this Lease; it being acknowledged and agreed that the Tenant is hereby obligated to remove all Non-Standard Improvements installed by or on behalf of the Tenant and to repair all damage caused by such installation and removal of same. With respect to any repair work required in respect of damage to the roof and/or any other structural or base building elements of the Building or the Project caused by the installation and/or removal of the Non-Standard Improvements, the Tenant agrees to use the Landlord's contractors for such work, at the Tenant's expense.

8.17 If the Tenant, after receipt of a Notice from the Landlord pursuant to Article 8.16 (or, in the case of the Non-Standard Improvements, by the expiration or sooner termination of the Term), fails to promptly remove any trade fixtures, furnishings, alterations, additions and improvements in accordance with such Notice (or, in the case of the Non-Standard Improvements, within such notice period, as the case may be), then the Landlord may enter into the Premises and remove therefrom all or part of such trade fixtures, furnishings, alterations, additions and improvements without any liability on the part of the Landlord and at the expense of the Tenant, which expense shall forthwith be paid by the Tenant to the Landlord upon demand therefor.

8.18 The Tenant covenants that it will not permit or cause anything to be done on the Premises (or any part of the Building) or with respect to the Premises which may result in any liens, *lis pendens* or judgments being imposed upon either the Premises or the Project or the Lands. If any lien or encumbrance is registered against the Premises or the Project or the Lands by reason of anything done or permitted to be done by the Tenant, then the Tenant shall forthwith at its own expense cause the same to be removed by payment thereof or posting security in an appropriate court or any other like proceeding.

8.19 The Tenant shall indemnify and save harmless the Landlord and its directors, officers, shareholders, employees, agents, successors and assigns from and against any and all manner of action or causes of action, damages, costs, loss or expenses of whatever kind which the Landlord may sustain, incur or be put to by reason of or arising out of this Lease, or from the use or occupation of the Premises in whole or in part and, without limiting the generality of the foregoing, from the non-observance or non-performance by the

Tenant, its servants or agents, or any other person for whom the Tenant is in law responsible of any of the obligations imposed under the provisions of any laws, ordinances, regulations or requirements of any and all federal, provincial, municipal or other authorities, or any of the covenants and agreements in this Lease contained and by the Tenant to be observed and performed, except to the extent caused by the gross negligence or wilful misconduct of the Landlord, its servants or agents or those for whom it is responsible in law. Such liability to indemnify and save harmless shall survive any termination of this Lease, anything in this Lease to the contrary notwithstanding.

8.20 The Landlord and the Tenant hereby agree that the Landlord shall not be obligated to deliver this Lease in form registrable under the *Land Title Act* of British Columbia. The Tenant agrees not to register this Lease in the Land Title Office unless it is in a short form of lease purely for the purposes of evidencing an interest in the Premises and provided that the said short form of lease does not disclose any part of the Rent and has been approved in writing by the Landlord. The Tenant shall bear all costs of the preparation of a short form of lease including any plans required for registration and the registration fees. The Tenant shall at its expense, arrange for a discharge of the short form lease at the expiration or earlier termination of this Lease.

8.21 The Landlord may, at any time during the Term upon reasonable prior written Notice, enter the Premises and bring others into the Premises at all reasonable hours for the purpose of the Landlord's financing or sale of the Project or any part thereof. The Landlord may, at any time within one hundred and eighty (180) days before the expiry of the Term upon reasonable prior written Notice, enter the Premises and bring others onto the Premises at all reasonable hours for the purpose of showing the same under any offering for rent.

ARTICLE 9 – LANDLORD'S REMEDIES

9.1 (a) In the event that the Tenant shall fail to observe or perform any of the covenants or obligations of the Tenant under or in respect of this Lease, the Landlord may from time to time at its discretion perform or cause to be performed any of such covenants or obligations or any part thereof and for such purpose may do such things as may be required and may enter upon the Premises upon reasonable advance Notice to the Tenant (except in the case of emergency when no Notice will be required) to do such things. All expenses incurred and expenditures made by or on behalf of the Landlord shall be forthwith paid by the Tenant to the Landlord. If the Landlord commences or completes, or causes to be commenced or completed, the performance of any of such covenants or obligations or any part thereof, the Landlord shall not be obligated to complete or cause to be completed such performance or be later obligated to act in like manner. If the Landlord shall suffer or incur any damage, loss, cost or expense whatsoever for which the Tenant is in any way liable hereunder, by reason of any failure of the Tenant to observe or comply with any of the covenants or agreements of the Tenant herein contained, then in every such case the amount of any such damage, loss, cost or expense shall be due and payable by the Tenant to the Landlord on demand by the Landlord and the Landlord shall have the right at its option to add the cost or amount of any such damage, loss, cost or expense to the Rent hereby reserved and any such amount shall thereupon immediately be due and payable as Rent and recoverable by the Landlord in the same manner as for all remedies available to the Landlord for the recovery of Rent in arrears.

(b) The Tenant further agrees that if it leaves the Premises leaving Rent unpaid, the Landlord, in addition to any remedy otherwise provided by Applicable Laws, may seize and sell the goods and chattels of the Tenant at any place to which the Tenant or any other Person may have removed them, in the same manner as if the goods and chattels had remained upon the Premises.

(c) In addition to the costs and expenses incurred by the Landlord, the Tenant shall pay to the Landlord an administration charge equal to fifteen percent (15%) of the expenses and disbursements made or incurred by the Landlord under this Article 9.1.

9.2 Interest on any money due to the Landlord under this Lease shall be paid by the Tenant and shall accrue at a rate which is the aggregate of five percent (5%) points per annum plus the Prime Interest Rate, such rate of

interest to be calculated and compounded monthly not in advance, from the due date for payment of such money. If the Prime Interest Rate changes, then so often as the same occurs at any time until the money owing hereunder has been paid in full, the rate of interest charged under this Lease shall change on the same day and in the same amount as the Prime Interest Rate changed. It is further understood and agreed that there shall be no reduction in the Prime Interest Rate in the event that the Prime Interest Rate is calculated by the Bank on a basis other than a monthly basis as provided in this Lease.

9.3 (a) Whensoever the Landlord shall be entitled to levy distress against the goods and chattels of the Tenant, the Landlord may use such force as is reasonably necessary for the purpose and for gaining admission to the Premises without being liable for any action in respect thereof or for any loss or damage occasioned thereby, and the Tenant hereby expressly releases the Landlord from all actions, proceedings, claims or demands whatsoever for or on account of or in respect of any such forcible entry or any loss or damage sustained by the Tenant in connection therewith except to the extent caused by the gross negligence or wilful misconduct of the Landlord or those for whom it is responsible in law. The Tenant waives and renounces the benefit of any present or future statute taking away or limiting the Landlord's right of distress, and covenants and agrees that notwithstanding any such statute none of the goods and chattels of the Tenant on the Premises at any time during the Term shall be exempt from levy by distress for Rent in arrears.

(b) The Tenant covenants and agrees to indemnify and save harmless the Landlord from and against any and all manner of actions or causes of action, damages, costs, loss or expenses of whatever kind which the Landlord may sustain, incur or be put to by reason of or arising out of the distress, seizure or the levy of distress against any goods or chattels on or in the Premises whether owned by the Tenant or any other Person except to the extent caused by the gross negligence or wilful misconduct of the Landlord or those for whom it is responsible in law, and such liability to indemnify and save harmless shall survive any termination of this Lease and the expiry of the Term, anything in this Lease to the contrary notwithstanding.

9.4 Each of the following acts, events, occurrences or circumstances shall constitute an "**Event of Default**" for the purposes of this Lease:

(a) any payment of Rent or any part thereof, whether the same is demanded or not, is not paid when due and remains unpaid after five (5) days' written Notice from the Landlord to the Tenant; provided, however, that no Notice will be required in respect of non-payment of Rent or any part thereof if and whenever the Tenant has failed to make payment of Rent as and when due more than twice during any calendar year;

(b) during the Term or any renewal thereof, any goods, merchandise, stock in trade, chattels or equipment of the Tenant on the Premises is or are seized or taken or exigible in execution or in attachment or if a creditor takes possession thereof or if a writ of execution, sequestration or extent is issued against the Tenant and such seizure, execution, attachment or sequestration is not vacated within fifteen (15) days written Notice from the Landlord to the Tenant;

(c) the Tenant takes any steps in furtherance of or suffers any order to be made for its winding-up or other dissolution of its corporate existence, or becomes insolvent or commits an act of bankruptcy or becomes bankrupt or takes the benefit of any statute that may be in force for bankrupt or insolvent debtors or becomes involved in voluntary or involuntary winding-up proceedings or if a receiver or receiver/manager shall be appointed for all or any part of the business, property, affairs or revenues of the Tenant or if the Tenant makes an assignment for the benefit of creditors;

(d) the Tenant fails to observe, perform and keep each and every covenant, agreement, provision, stipulation, condition, rule or regulation herein contained to be observed, performed and kept by the Tenant or any Indemnifier (other than payment of Rent) and such failure continues after fifteen (15) days' written Notice by the Landlord to the Tenant or, in the event such failure reasonably requires longer than fifteen (15) days to cure, the Tenant has not commenced to cure such failure within such

fifteen (15) day period and is not diligently continuing to prosecute the curing of such failure to completion;

(e) any Transfer occurs except as permitted by, and in accordance with, the terms and conditions of this Lease;

(f) without the written consent of the Landlord, the Premises are at any time used or occupied by any person other than the Tenant or the Tenant's permitted assignee or permitted sublessees or for any use or purpose other than the Use of Premises specified in the Lease Summary; or

(g) the Tenant abandons or attempts to abandon the Premises or the Premises are vacated or become vacated and remain so for fifteen (15) days following written Notice from the Landlord to the Tenant.

9.5 The Tenant further covenants with the Landlord that at any time upon or after the occurrence of an Event of Default, the Landlord, in addition to any other remedy now or hereafter provided, may immediately re-enter and repossess and enjoy the Premises or any part thereof in the name of the whole, by force if necessary, to enjoy as of its former estate without any previous Notice of intention to re-enter and the Landlord may remove all Persons and property therefrom and may use such force and assistance in making such removal as the Landlord may deem advisable to recover at once full and exclusive possession of the Premises, and such re-entry shall not operate as a waiver or satisfaction in full or in part of any right, claim or demand arising out of or connected with any Event of Default.

9.6 Where the Event of Default is a bankruptcy of the Tenant, then in such case the then current and the next ensuing three (3) months' Rent shall immediately become due and payable; and the Landlord may re-enter and take possession of the Premises or any part thereof in the name of the whole and have again, repossess and enjoy the Premises in its former estate, anything herein to the contrary notwithstanding, as though the Tenant were holding over after the expiration of the Term, and the Term shall, at the option of the Landlord, forthwith become forfeited and determined and accelerated Rent shall be recoverable by the Landlord as if it were Rent in arrears, but the Tenant shall remain liable under this Lease and all of the foregoing is without prejudice to any other rights, claims, and demands of the Landlord arising out of or connected with any breach, non-observance or non-performance of any covenant or agreement on the part of the Tenant to be kept, observed or performed, including any claim for losses and damages sustained by the Landlord.

9.7 The Tenant further covenants and agrees that at any time upon or after the occurrence of an Event of Default the Landlord, in addition to all other rights, shall have the right to enter the Premises as an agent of the Tenant either by force or otherwise, without being liable for any prosecution therefor and to relet the Premises as the agent of the Tenant, and to receive the Rent therefor, and as agent of the Tenant to take possession of any goods, chattels, furniture or other property on the Premises and to sell the same at public or private sale without notice and to apply the proceeds of such sale and any rent derived from reletting the Premises, after deducting the costs of conducting such sale and the costs of reletting, all on account of the Rent owing under this Lease, and the Tenant shall be liable to the Landlord for the deficiency, if any.

9.8 (a) The Tenant further covenants and agrees that at any time upon or after the occurrence of an Event of Default, the Landlord, in addition to all other rights, shall have the right to terminate forthwith this Lease and the Term by giving Notice in writing addressed to the Tenant of its intention to do so, and thereupon Rent shall be computed, apportioned and paid in full to the date of such termination of this Lease, and any other payments for which the Tenant is liable under this Lease shall be paid and the Tenant shall forthwith deliver up possession of the Premises to the Landlord and the Landlord may re-enter and take possession of the same.

(b) If the Landlord terminates this Lease for an Event of Default, it may recover from the Tenant damages it incurs by reason of the Event of Default, including the cost of recovering the Premises solicitor's fees (on a solicitor and client basis) and including the worth at the time of the termination of the excess, if any, of the amount of Rent required to be paid under this Lease for the remainder of the Term over the rental value, at the time, of the Premises for the remainder of the Term, all of which amounts will be due immediately and payable by the Tenant to the Landlord.

9.9 If it shall be necessary for the Landlord to retain the services of a solicitor or any other proper Person for the purpose of assisting the Landlord in enforcing any of its rights hereunder by reason of an Event of Default, the Landlord shall be entitled to collect from the Tenant the cost of all such services including all necessary court proceedings at trial or on appeal on a solicitor and own client basis as if the same were deemed to be Rent reserved and in arrears hereunder.

9.10 It is expressly understood and agreed that the remedies of the Landlord under this Lease are cumulative and the exercise or non-exercise by the Landlord of any right or remedy for an Event of Default or the acceptance of any money owing to the Landlord hereunder, shall not be deemed to be a waiver of or to alter, affect or prejudice such right or remedy, or any other right or remedy to which the Landlord may be lawfully entitled for the same Event of Default, and any waiver by the Landlord of the strict observance, performance or compliance by the Tenant of or with any term, covenant, condition or agreement herein contained, or any indulgence granted by the Landlord to the Tenant, shall not be deemed to be a waiver of any subsequent Event of Default by the Tenant nor entitle the Tenant to any similar subsequent indulgence.

ARTICLE 10 – ENVIRONMENTAL AND HEALTH MATTERS

10.1 The Tenant covenants and agrees as follows:

(a) not to use or permit to be used all or any part of the Premises for the sale, storage, manufacture, disposal, handling, treatment, use or any other dealing with any Hazardous Substance contrary to applicable Environmental Laws. Without limiting the generality of the foregoing, the Tenant shall in no event use, and does not plan or intend to use, the Premises to dispose of, handle or treat any Hazardous Substance in a manner that, in whole or in part, would cause the Premises, the Project or any adjacent property to become a contaminated site under Environmental Laws;

(b) to strictly comply, and cause any Person for whom it is in law responsible to comply, with all Environmental Laws regarding the use and occupancy of the Premises;

(c) to strictly comply with the Environmental Management Plan;

(d) to promptly provide to the Landlord a copy of any environmental site investigation, assessment, audit or report relating to the Premises conducted by or for the Tenant at any time and at the Landlord's request from time to time, to obtain from an independent environmental consultant approved by the Landlord an environmental site investigation of the Premises or an environmental audit of the operations at the Premises, including any additional investigations as the environmental consultant may recommend. The Tenant hereby waives the requirement, if any, for the Landlord to provide a site profile for the Premises or the Project under the Environmental Laws and all regulations made at any time pursuant thereto;

(e) to maintain all environmental site investigations, assessments, audits and reports relating to the Premises or the Project in strict confidence and not to disclose their terms or existence to any third party (including without limitation, any governmental authority) except as required by Applicable Laws, and except to the Tenant's professional advisors, investors, potential acquirors and lenders on a need to know basis or with the prior written consent of the Landlord, which consent may not be unreasonably withheld;

(f) to promptly provide to the Landlord on request such written authorisations as the Landlord may reasonably require from time to time to make inquiries of any governmental authorities regarding the Tenant's compliance with Environmental Laws;

(g) to promptly notify the Landlord in writing of any release of any Hazardous Substance or any other occurrence or condition at the Premises, the Project or any adjacent properties of which the Tenant becomes aware which could contaminate the Premises or the Project or subject the Landlord or the Tenant to any fines, penalties, orders, investigations or proceedings under Environmental Laws;

(h) on the expiry or earlier termination of this Lease or at any time if requested by the Landlord or required by any governmental authority pursuant to Environmental Laws, to remove from the Premises all Hazardous Substances, and to remediate any contamination of the Premises, the Project or any adjacent properties resulting from Hazardous Substances, in either case brought onto, used at or released from the Premises by the Tenant or any Person for whom it is in law responsible. The Tenant shall perform these obligations promptly at its own cost and in accordance with Environmental Laws. The Tenant shall provide to the Landlord full information with respect to any remedial work performed pursuant to this Article 10 and shall comply with the Landlord's requirements with respect to such work. The Tenant shall use a qualified environmental consultant approved by the Landlord to perform the remediation. The Tenant shall, at its own cost, obtain such approvals and certificates from the applicable Provincial governmental authority and any applicable federal government authority in respect of the remediation as are required under Environmental Laws or required by the Landlord, including without limitation a certificate of compliance evidencing completion of the remediation satisfactory to the Ministry. All such Hazardous Substances shall remain the property of the Tenant, notwithstanding any rule of law or other provision of this Lease to the contrary and notwithstanding the degree of their affixation to the Premises or the Project; and

(i) to indemnify the Landlord and its directors, officers, shareholders, employees, agents, successors and assigns, from any and all liabilities, actions, damages, claims, remediation cost recovery claims, losses, costs, orders, fines, penalties and expenses whatsoever (including all consulting and legal costs on a solicitor-client basis and the cost of remediation of the Premises, the Project and any adjacent properties) arising from or in connection with:

(i) any breach of or non-compliance with the provisions of this Article 10.1 by the Tenant; or

(ii) any release or alleged release of any Hazardous Substances at or from the Premises related to or as a result of the use and occupation of the Premises, or any act or omission of the Tenant or any Person for whom it is in law responsible, including its employees, agents, contractors, subtenants, permittees and licensees.

The obligations of the Tenant under this Article 10.1 shall survive the expiry or earlier termination of this Lease. The obligations of the Tenant under this Article 10.1 are in addition to, and shall not limit, the obligations of the Tenant contained in other provisions of this Lease.

10.2 The Landlord shall be entitled, during such time as there is a Health Emergency or a Health Emergency Plan is in effect, to require all occupants, invitees and tenants of the Project to comply with reasonable measures imposed in respect thereof by the Landlord, including health screening, the use of hand washing and other sanitation products directly related to the management of the health threat, attendance at mandatory training sessions, and the use of additional protective clothing by all occupants, invitees and tenants such as protective barriers, gloves and masks. The Tenant covenants and agrees to comply with this Article 10.2.

10.3 During a Health Emergency, the Landlord shall also be entitled to specify specific modes of ingress and egress from and to the Project for tenants generally, or for specific tenants, occupants or invitees who may have a heightened risk of either exposure to a health threat or a heightened risk of transfer of unhealthy conditions to other occupants, invitees or tenants in the Project. The Tenant covenants and agrees to comply with this Article 10.3.

ARTICLE 11 – RIGHTS OF EXTENSION

11.1 If the Tenant duly and punctually observes and performs the covenants, agreements, conditions, and provisos in this Lease on the part of the Tenant to be observed and performed, the Landlord shall at the expiration of the initial Term, at the Tenant's written request delivered to the Landlord in the manner provided in this Lease not later than twelve (12) months prior to the expiration of the initial Term, grant to the Tenant an extension lease of the Premises for a further term of **FIVE (5) YEARS** (the **"First Extension**

Term") from the expiration of the Term, upon all of the covenants, agreements, conditions, and provisos contained in this Lease except this covenant for renewal and any provisions for Landlord's Work, Tenant's Work, exclusive use, free rent, bonuses, leasehold improvements, or incentives or inducements of any kind, and except the Basic Rent to be paid during the First Extension Term, which shall be determined in accordance with Article 11.3 below.

11.2 If the Tenant duly and punctually observes and performs the covenants, agreements, conditions, and provisos in this Lease on the part of the Tenant to be observed and performed, the Landlord shall at the expiration of the First Extension Term, at the Tenant's written request delivered to the Landlord in the manner provided in this Lease not later than twelve (12) months prior to the expiration of the First Extension Term, grant to the Tenant an extension lease of the Premises for a further term of **FIVE (5) YEARS** (the **"Second Extension Term"**) from the expiration of the First Extension Term, upon all of the covenants, agreements, conditions, and provisos contained in this Lease except this covenant for renewal and any provisions for Landlord's Work, Tenant's Work, exclusive use, free rent, bonuses, leasehold improvements, or incentives or inducements of any kind, and except the Basic Rent to be paid during the Second Extension Term, which shall be determined in accordance with Article 11.3 below.

11.3 The Basic Rent for an Extension Term shall be the then-Fair Market Rent for the Premises, but, in any event, being the rent which would be paid for the Premises in their then-current condition (including all leasehold improvements and Non-Standard Improvements thereto) or in whatever condition the Landlord is entitled to require the Tenant to leave the Premises at the expiration of the initial Term or the First Extension Term, as the case may be, whichever condition would result in higher rent, as between persons dealing in good faith and at arm's length and without regard to any restrictive covenants as to use. If the Landlord and the Tenant have not mutually agreed on the amount of the Basic Rent three (3) months prior to the commencement of the applicable Extension Term, then Basic Rent shall be decided by binding arbitration under Article 11.5, provided that the annual Basic Rent payable during an Extension Term shall not be less than the annual Basic Rent payable during the last year of the initial Term or immediately preceding Extension Term, as the case may be. Until the Basic Rent has been determined as provided herein, the Tenant shall pay the monthly Rent determined by the Landlord, acting reasonably, and upon the determination of the Basic Rent the Landlord and the Tenant shall make the appropriate adjustments without interest.

11.4 The Landlord and the Tenant acknowledge and agree that pursuant to Article 11.1 and Article 11.2, the Tenant is given the option of renewing the Term only for **two (2)** term(s) of **five (5) years each**, and at the expiration of the Second Extension Term there shall be no further right of renewal.

11.5 If under the provisions of Article 11.3, the Landlord and the Tenant have failed to agree as to the Basic Rent payable for the Premises with respect to an Extension Term by the date specified in Article 11.3, the determination of the Basic Rent shall be referred to a board of three (3) arbitrators and the following shall apply:

(a) one (1) arbitrator shall be appointed by each of the Landlord and the Tenant and a third (3rd) arbitrator shall be appointed in writing by the first two (2) named arbitrators;

(b) if the Landlord or the Tenant refuses or neglects to appoint an arbitrator within ten (10) days after the other serves a written Notice upon the party so refusing or neglecting to make that appointment, the arbitrator first appointed shall, at the request of the party appointing him or her, proceed to determine the rent as if he or she were a single arbitrator appointed by both the Landlord and the Tenant for the purpose;

(c) if two (2) arbitrators are so appointed within the time prescribed and they do not agree within a period of ten (10) days from the date of appointment of the second (2nd) arbitrator upon the appointment of the third (3rd) arbitrator, then upon the application of either the Landlord or the Tenant, the third (3rd) arbitrator shall be appointed by a Judge of the Supreme Court of British Columbia;

(d) the determination made by the arbitrators or the majority of them or by the single arbitrator, as the case may be, shall be final and binding upon the Landlord and the Tenant, and their respective successors and assigns (subject to the proviso that the annual Basic Rent payable during an Extension Term on a per annum basis shall not be less than the annual Basic Rent payable during the last year of the initial Term or immediately preceding Extension Term, as the case may be);

(e) each party shall pay the fees and expenses of the arbitrator appointed by it and one-half of the fees and expenses of the third (3rd) arbitrator; and

(f) the provisions of this Article 11.5 shall be deemed to be a submission to arbitration within the provisions of the *Arbitration Act*, R.S.B.C. 1996, c. 55, and any statutory modification or re-enactment thereof, provided that any limitation on the remuneration of the arbitrators imposed by that legislation shall not apply.

11.6 The exercise of the rights of extension are solely within the control of the Tenant, and nothing contained in this Lease obligates or requires the Landlord to remind the Tenant to exercise the rights of extension. The Landlord's acceptance of any future rent for any Extension Term shall in no way be deemed a waiver of the Tenant's requirement to give Notice within the time limit set out in Article 11.1 or Article 11.2 for extending the initial Term or First Extension Term, as the case may be.

ARTICLE 12 – MISCELLANEOUS

12.1 The Landlord covenants with the Tenant that, provided the Tenant pays the Rent hereby reserved and performs the covenants in this Lease contained and on its part to be observed and performed, the Tenant shall and may peaceably possess and enjoy the Premises for the Term hereby granted, without interruption or disturbance from the Landlord or any Person or Persons lawfully claiming by, from or under it, subject however to the Landlord's rights hereunder.

12.2 It is understood and agreed that nothing contained in this Lease nor any of the acts of the parties hereto shall be deemed to create any relationship between the parties hereto other than the relationship of Landlord and Tenant.

12.3 Time is of the essence of this Lease.

12.4 Any Notice must be given or made in writing and either sent by facsimile, by delivery or by registered mail, postage prepaid, in every case addressed to the respective parties at their Address for Notice or to such other address as the Landlord or the Tenant may from time to time advise in writing. The Notice shall be deemed to have been received, if by facsimile then upon the recipient's first regular Business Day following the day of faxing, if delivered personally then upon delivery, if mailed then forty-eight (48) hours after the mailing thereof, provided that if mailed and there is between the time of mailing and forty-eight (48) hours later a mail strike or other labour dispute which might affect delivery of the Notice, then such Notice shall only be effective if actually delivered.

12.5 The captions appearing in the margin of this Lease, the headings of Articles and other like notes have been inserted as a matter of convenience and for reference only, and in no way define, limit or enlarge the scope or meaning of this Lease or any provision thereof.

12.6 This Lease shall enure to the benefit of and be binding upon the parties hereto, the successors and assigns of the Landlord, and the heirs, administrators, executors, successors and permitted assigns of the Tenant. Wherever the singular or masculine or neuter is used in this Lease, the same shall be deemed to include the plural or the feminine, or body politic or corporate and the respective heirs, executors, administrators, successors and permitted assigns of the parties hereto, and each of them where the context or the parties so require.

12.7 No prior stipulation, agreement or undertaking, verbal or otherwise, of the parties or their agents shall be valid or enforceable unless embodied in the provisions of this Lease (which Lease includes the Schedules attached hereto) and unless made in writing and signed by both parties.

12.8 If any term or condition of this Lease or the application thereof to any Person or circumstance shall, to any extent, be held to be invalid or unenforceable, the remainder of this Lease and the application of that term or condition to Persons or circumstances, other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term and condition of this Lease shall be valid and enforced to the fullest extent permitted by Applicable Laws.

12.9 In the event of the sale or lease by the Landlord of the Project or a portion thereof containing the Premises, or the assignment by the Landlord of this Lease or any interest of the Landlord hereunder, and to the extent that such purchaser, lessee under such lease or assignee has assumed the covenants and obligations of the Landlord hereunder, then the Landlord shall, without further written agreement, be freed and relieved of liability from such covenants and obligations.

12.10 The Landlord shall not be deemed to have made an offer to the Tenant by furnishing to the Tenant a copy of this Lease with particulars inserted. Notwithstanding that the first instalment of Rent may be received by the Landlord when this Lease is received by it for signature, no contractual or other rights shall exist or be created between the Landlord and the Tenant until such time as all parties to this Lease have executed and delivered the same.

12.11 The Tenant acknowledges and agrees that it is intended that this Lease shall be a completely carefree net lease for the Landlord except as shall be otherwise provided in the specific provisions contained in this Lease, and that the Landlord shall not be responsible during the Term for any costs, charges, expenses and outlays of any nature whatsoever arising from or relating to the Premises, and the Tenant, except as shall be otherwise provided in the specific provisions contained in this Lease, shall pay all charges, impositions and costs of every nature and kind relating to the Premises whether or not referred to herein and whether or not within the contemplation of the Landlord or the Tenant, and the Tenant covenants with the Landlord accordingly.

12.12 This Lease shall be construed and governed exclusively by the laws of the Province of British Columbia. All of the provisions of this Lease shall be construed as covenants and agreements as though the words imparting such covenants and agreements were included in each separate paragraph or Article. Should any provision or provisions of this Lease and/or its conditions be illegal or not enforceable, it or they shall be considered separate and severable from this Lease, and its remaining provisions and conditions shall remain in force and be binding upon the parties hereto as though the said provision or provisions or conditions had never been included herein. The Parties will attorn to the exclusive jurisdiction of the courts of the Province of British Columbia.

12.13 The Tenant acknowledges that it has entered into these presents on the express understanding that it is the Tenant’s obligation to perform the Tenant’s Work at its sole cost and expense and that proper execution of this document shall be a condition precedent to the Tenant’s occupation of the Premises.

12.14 The Tenant shall perform or cause to be performed the Tenant’s Work in accordance with the procedures established by the Landlord for that purpose and about which the Landlord shall inform the Tenant upon request, and subject to the Tenant obtaining the consent of the Landlord to the plans of the specifications of the Tenant’s Work, will fully equip the Premises with all trade equipment, light fixtures, furniture, operating equipment, furnishings, ceilings, floor coverings, heating and ventilating equipment, if any, and any other items necessary for the proper operation of the Tenant’s business, in each case that are not included as part of Landlord’s Work, and that such installation shall be completed without damage to the Landlord’s Work or other Tenant’s Work or causing unnecessary inconvenience to the Landlord or other tenants. All Tenant’s Work shall be in compliance with the Tenant Construction Manual. If the Tenant is delayed in completing any of the Tenant’s Work solely by reason of Unavoidable Delay, the Tenant shall be entitled to an extension of the period of time required to complete the Tenant’s Work equal to the period

of such Unavoidable Delay, provided that the Tenant takes all reasonable action to minimize the period of the Unavoidable Delay.

12.15 The Tenant shall not without first obtaining the Landlord's consent in writing, such consent not to be unreasonably withheld or delayed, alter or add to the improvements constructed within the Premises as Tenant's Work; provided however that nothing herein restricts the Tenant's ability to properly maintain its laboratory ventilation and equipment comprising the Non-Standard Improvements without the Landlord's consent, but subject to the provisions of this Lease.

[*REMAINDER OF PAGE LEFT INTENTIONALLY BLANK]*

12.16 Any additional provisions and amendments to any provisions of this Lease set forth in Schedule E are hereby incorporated in and form a part of this Lease for all purposes. To the extent there is a conflict between the Lease and Schedule E, Schedule E shall govern.

IN WITNESS WHEREOF the parties hereto have duly executed and delivered this Lease as of the day and year first above written.

LANDLORD:

5TH & MAIN PARTNERSHIP,
by its partners:
2000 MAIN HOLDINGS INC.

Per: /s/ Ian Gillespie
Authorized Signatory

MOUNT PIXEL PROJECTS LIMITED PARTNERSHIP, by its general partner, 1038324 B.C. LTD.

Per: /s/ Ryan Holmes
Authorized Signatory

TENANT:

ZYMEWORKS INC.

Per: /s/ Neil Klompas
Authorized Signatory

EMPLOYMENT AGREEMENT

THIS AGREEMENT is made and effective as of the September 17, 2018 (the "Effective Date").

BETWEEN:

Dr. Anthony Polverino, having a residence at […***…][1].
(the "Employee")

AND:

ZYMEWORKS BIOPHARMACEUTIALS INC., a corporation registered in the State of Washington and having its principal place of business at 350-2400 3rd Avenue, Seattle, WA, 98121, USA

(the "Company")

WHEREAS

A. The Company is a protein engineering company engaged in the business of researching, developing and commercializing proteins for pharmaceutical applications;

B. The Employee has experience in discovery research and early development, and/or related skills and expertise and wishes to contribute such experiences to the development and growth of the Company's business; and

C. The Company has agreed to offer employment to the Employee, and the employee has agreed to accept employment with the Company on the terms and conditions set out in this Agreement and Appendices hereto.

NOW THEREFORE THIS AGREEMENT WITNESSES that for and in consideration of the premises and mutual covenants and agreements hereinafter contained, the parties hereto covenant and agree as follows:

ARTICLE 1 – GENERAL

1.1 Definitions. Unless otherwise defined, all capitalized terms used in this Agreement will have the meanings given below:

(a) "Business" means the business of researching, developing and commercializing therapeutic proteins, antibodies, and any other research, development and manufacturing work considered, planned or undertaken by the Company during the Employee's employment;

(b) "Confidential Information" means trade secrets and other information, in whatever form or media, in the possession or control of the Company, which is owned by the Company or by one of its clients or suppliers or a third party with whom the Company has a business relationship (collectively, the "Associates"), and which is not generally known to the public and has been specifically identified as confidential or proprietary by the Company, or its nature is such that it would generally be considered confidential in the industry in which the Company or its Associates operate, or which the Company is

1 Personal Information – Contact Information.

obligated to treat as confidential or proprietary. Confidential Information includes, without limitation, the following:

(i) the products and confidential or proprietary facts, data, techniques, materials and other information related to the business of the Company, including all related development or experimental work or research, related documentation owned or marketed by the Company and related formulas, algorithms, patent applications, concepts, designs, flowcharts, ideas, programming techniques, specifications and software programs (including source code listings), methods, processes, inventions, sources, drawings, computer models, prototypes and patterns;

(ii) information regarding the Company's business operations, methods and practices, including market strategies, product pricing, margins and hourly rates for staff and information regarding the financial, legal and corporate affairs of the Company;

(iii) the names of the Company's Associates and the nature of the Company's relationships with such Associates; and

(iv) technical and business information of, or regarding, the Company's Associates.

(c) "Developments" means all inventions, ideas, concepts, designs, improvements, discoveries, modifications, computer software, and other results which are or have been conceived of, developed by, written, or reduced to practice by the Employee, alone or jointly with others (including, where applicable, all modifications, derivatives, progeny, models, specifications, source code, design documents, creations, scripts, artwork, text, graphics, photos and pictures) at any time;

(d) "Excluded Developments" means any Development that the Employee establishes:

(i) was developed entirely on the Employee's own time;

(ii) was developed without the use of any equipment, supplies, facilities, services or trade secret information of the Company;

(iii) does not relate directly to the Business or affairs of the Company or to the actual or demonstrably anticipated research or development of the Company; and

(iv) does not result from any work performed by the Employee for the Company.

(e) "Prior Developments" means any Development that the Employee establishes was developed prior to the Employee performing such services for the Company and precedes the Employee's initial engagement with the Company.

1.2 Sections and Headings. The division of this Agreement into Articles and Sections and the insertion of headings are for the convenience of reference only and do not affect the construction or interpretation of this Agreement. The terms "hereof", "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement supplemental hereto. Unless something in the subject matter or context is inconsistent therewith, references herein to Articles and Sections are to Articles and Sections of this Agreement.

ARTICLE 2 – EMPLOYMENT

2.1 Services.

On the Effective Date, the Employee will commence employment with the Company in the position of Executive Vice President, Early Development & Chief Scientific Officer on the terms and conditions set out in this Agreement.

2.2 Qualifications.

(a) The Employee acknowledges that the falsification or misrepresentation of qualifications, including but not limited to education, skills, prior experience, depth and/or breadth of knowledge, references or similar matters, used to secure the position of Executive Vice President, Early Development & Chief Scientific Officer, represents a breach of this contract.

(b) Employment Duties. Subject to the direction and control of the senior management of the Company ("Management"), the Employee will perform the duties set out in Appendix "A" to this Agreement and any other duties that may be reasonably assigned to him/her by Management from time to time. Management may alter the duties Employee is expected to perform for the Company at any time with or without notice.

2.3 Throughout the term of this Agreement, the Employee will:

(a) diligently, honestly and faithfully serve the Company and will use all reasonable efforts to promote and advance the interests and goodwill of the Company;

(b) conduct him/herself in adherence to the Code of Conduct in the Zymeworks Employee Handbook;

(c) devote him/herself in a full-time capacity to the business and affairs of the Company;

(d) adhere to all applicable policies of the Company as in effect and as amended from time to time;

(e) exercise the degree, diligence and skill that a reasonably prudent Executive Vice President, Early Development & Chief Scientific Officer would exercise in comparable circumstances;

(f) refrain from engaging in any activity which will in any manner, directly or indirectly, compete with the trade or business of the Company except in accordance with Sections 2.4 and 2.6 herein and as outlined under the Conflict of Interest guidelines in the Zymeworks Employee Handbook; and

(g) not acquire, directly or indirectly, any interest that constitutes 5% or more of the voting rights attached to the outstanding shares of any corporation or 5% or more of the equity or assets in any firm, partnership or association, the business and operations of which in any manner, directly or indirectly, compete with the trade or business of the Company.

2.4 The Employee will disclose to Management all potential conflicts of interest and activities which could reasonably be seen to compete, indirectly or directly, with the trade or business of the Company. Management will determine, in its sole discretion, whether the activity in question constitutes a conflict of interest or competition with the Company. To the extent that Management, acting reasonably, determines a conflict of interest or competition exists, the Employee will discontinue such activity forthwith or within such longer period as Management agrees. The Employee will immediately certify in writing to the Company that he/she has discontinued such activity and that he/she has, as required by Management, cancelled any contracts or sold or otherwise disposed of any interest or assets over the 5% threshold described in 2.3(g) herein acquired by the Employee by virtue of engaging in the impugned activity, or where no market exists to enable such sale or disposition, by transfer of the Employee's beneficial interest into blind trust or other fiduciary arrangements over which the Employee has no control or direction, or other action that is acceptable to the Board.

2.5 The Employee will not be employed by another company or provide consulting or other services to other companies or commercial entities while employed by the Company, without the expressed written permission of the Company. By seeking and accepting employment with the Company, the Employee recognizes that the Employee is employed by the Company for the expressed benefit of advancing the scientific, development and business objectives of the Company and that concurrent employment outside the Company detracts from those objectives.

2.6 Notwithstanding Sections 2.3, 2.4 and 6.2, the Employee is not restricted from nor is required to obtain the consent of the Company to make investments in any company which is involved in pharmaceuticals or biotechnology with securities listed for trading on any Canadian or U.S. stock exchange, quotation system or the over-the-counter market.

2.7 For the purposes of Sections 2.3 2.4 and 2.6 herein, “Employee” includes any entity or company owned or controlled by the Employee.

ARTICLE 3 – COMPENSATION

3.1 Base Salary. As compensation for all services rendered under this Agreement, the Company will pay to the Employee and the Employee will accept from the Company a base salary of $400,000 (USD) per annum. The base salary will be paid semi-monthly, in arrears, in equal instalments, less statutory and other authorized deductions.

3.2 Stock Options. The Employee shall be granted 110,000 options to acquire shares of common stock of Zymeworks Inc. (the “Shares”), provided the Employee is employed by the Company on the grant date (the “Options”). The exercise price of the Options will be set in accordance with the terms of the Company’s Stock Option Plan on the grant date. The Options will vest and become exercisable in accordance with the terms of the Zymeworks Inc. Stock Option Plan, a copy of which is attached hereto as Appendix “C”.

3.3 Incentive Plans. The Employee shall be entitled to participate in certain incentive programs for the Company’s Employees, including, without limiting the generality of the foregoing, share option plans, share purchase plans, profit-sharing or bonus plans (collectively, the “Incentive Plans”). Such Participation shall be on the terms and conditions of such Incentive Plans as at the date hereof or as may from time to time be amended or implemented by the Company in its sole discretion.

3.4 Bonus. The Employee’s target annual bonus will be 35% of base salary, with bonus eligibility starting September 17, 2018.

3.5 Performance and Salary Review. Management will review the Employee’s performance, base salary, and equity participation level under the terms of any Incentive Plans annually beginning in December 2018. The timing of performance and salary reviews as at the date hereof, or as may from time to time be amended by the Company in its sole discretion.

3.6 Expenses. The Company will reimburse the Employee for all ordinary and necessary expenses incurred by the Employee in the performance of the Employee’s duties under this Agreement. Reimbursement of such expenses will be made in accordance with the Company’s policies.

3.7 Professional Fees. The Company will reimburse the Employee for annual registration and/or licensing fees required to maintain the Employee’s status as a member in good standing with the appropriate professional bodies required to continue effective employment, and which were held by the Employee as of the effective date. The Company will reimburse reasonable costs incurred by the Employee to complete the minimum annual continuing professional development requirements required to maintain such status.

3.8 Vacation. The Employee will be eligible for Twenty (20) days’ paid vacation per calendar year, earned pro rata at a rate of 1.66 days per completed month of service. In accordance with the Company’s human resources policies, new employees are not permitted to take vacation during the initial three-month probationary period, without the express permission of Management. Vacation time in excess of ten (10) days not taken during the

year in which it is earned may not be carried forward into the subsequent year without the written pre-approval of Management. Unused vacation time will not be paid out at the end of the fiscal year. Upon termination, vacation not taken in the calendar year will be paid out according to the Employees' annual salary rate pro rated to the number of days' vacation not taken.

3.9 Benefits. The Employee will be eligible to participate in all benefit plans generally available to Employees of the Company, subject to meeting applicable eligibility requirements of such plans.

3.10 Sick Leave. The Employee will be entitled to take up to ten (10) days paid sick leave per calendar year, earned pro rata at a rate of 0.83 days per month of service; however, employees may use Sick Leave on a pro-rata basis following the completion of their first 40 hours of service. Unused sick days will not be paid out or carried forward into the subsequent year. For employees based in Seattle, Sick Leave may be used for any purpose authorized by the Seattle Paid Sick and Safe Time ("PSST") ordinance. This benefit is intended to comply with the PSST ordinance and should be interpreted in accordance with its requirements.

ARTICLE 4 – TERM AND TERMINATION

4.1 Term. This Agreement will commence on the Effective Date and will terminate on the effective date of termination by either the Employee or the Company in accordance with Section 4.2 of this Agreement.

4.2 Termination.

(a) *Termination for Cause*. The Company may terminate the employment of the Employee for cause at any time, without notice, damages or compensation of any kind.

(b) *Termination Without Cause*. The Company may terminate the employment of the Employee without cause at any time by providing written notice or payment in lieu of notice to the Employee as follows:

(i) twelve (12) months of notice or the equivalent of twelve (12) months of base salary and benefits continuation as at that date, or any combination thereof, if termination of employment occurs during the first three years of employment measured from the Start Date; and

(ii) commencing in the fourth year of employment measured from the Start Date, an additional one (1) month of notice or the equivalent of one (1) month of base salary and benefits continuation as at that date, or any combination thereof, for each additional completed year of service, up to a total maximum of eighteen (18) months.

(c) *Resignation*. The Employee may terminate his/her employment with the Company by giving prior written notice to Management of not less than thirty (30) days or such shorter period as the Employee and Management may agree. The Company may choose to waive all or part of the notice period and pay to the Employee the base salary to be earned during the balance of the notice period in full and adequate compensation to the Employee with respect to any claim relating to the Employee's employment, and the Employee waives any right that he/she may have to claim further payment, compensation or damages from the Company.

(d) *Termination following Change of Control*. Notwithstanding any other provision in this Agreement, if within twelve (12) months following a Change of Control of the Company (as defined below), the Employee's employment is terminated by the Company without cause, the Employee shall receive as severance eighteen (18) months of base salary and benefits continuation as at that date, and full vesting

acceleration of all unvested stock options or other equity grants made to the Employee as at that date. For all purposes of this Agreement, "Change of Control" means:

(i) the acquisition, directly or indirectly, by any person or group of persons acting jointly or in concert, as such terms are defined in the Securities Act, British Columbia, of common shares of the Company which, when added to all other common shares of the Company at the time held directly or indirectly by such person or persons acting jointly or in concert constitutes for the first time in the aggregate 40% of more of the outstanding common shares of the Company and such shareholding exceeds the collective shareholding of the current directors of the Company, excluding any directors acting in concert with the acquiring party; or

(ii) the removal, by extraordinary resolution of the shareholders of the Company, of more than 51% of the then incumbent Board of the Company, or the election of a majority of Board members to the Company's board who were not nominees of the Company's incumbent board at the time immediately preceding such election; or

(iii) consummation of a sale of all or substantially all of the assets of the Company; or

(iv) the consummation of a reorganization, plan of arrangement, merger, or other transaction which has substantially the same effect as to above.

Payment under section 4.2(d) herein will be in lieu of and not in addition payment under section 4.2(b).

4.3 Stock Options on Termination. Except as provided by section 4.2(d), the vesting and exercise of any stock options granted to the Employee in the event the Employee's employment with the Company or this Agreement is terminated, for any reason, shall be governed by the terms of the Stock Option Plan and any applicable stock option agreement in effect between the Company and the Employee at the time of termination.

4.4 Benefits Continuation and No Mitigation. The Employee shall not be required to mitigate the amount of any payments provided for in this section by seeking other employment or otherwise, nor shall the amount of any payment provided for in this section be reduced by any compensation earned by the Employee as the result of employment by another employer after the date of termination, or otherwise. Notwithstanding the forgoing, the Employee is required to report to the Company if he/she obtains replacement benefits coverage through new employment during any period of benefits continuation contemplated by this Article 4 and benefits coverage by the Company will cease effective the date the Employee receives such new coverage and the Employee will not be entitled to any payment in respect of benefits coverage from the Company in respect of any notice period or severance payment contemplated in this Article 4.

4.5 No Additional Payments. Payment of severance, in accordance with 4.2(b) or 4.2(d) above, to the Employee by the Company will be full and adequate compensation to the Employee with respect to any claim relating to the Employee's employment or termination or manner of termination of the Employee's employment, and the Employee waives any right that he/she may have to claim further payment, compensation or damages from the Company.

4.6 Condition to Payment. Payment of any amount of severance under this Agreement in excess of any minimum required by the *Employment Standards Act* is conditional upon execution by the Employee of a release of all claims, satisfactory to the Company.

4.7 Survival. Upon a termination of this Agreement for any reason, the Employee will continue to be bound by the provisions of Article 4, Article 5, Article 6, Article 7, and Article 9.

ARTICLE 5 – CONFIDENTIALITY

5.1 Confidential Information.

(a) *Ownership of Confidential Information* – The Employee acknowledges that the Confidential Information is and will be the sole and exclusive property of the Company. The Employee acknowledges that the Employee has not, and will not, acquire any right, title or interest in or to any of the Confidential Information.

(b) *Non Disclosure, Use and Reproduction of Confidential Information* – The Employee will keep all the Confidential Information strictly confidential, and will not, either directly or indirectly, either during or subsequent to employment with the Company, disclose, allow access to, transmit, transfer, use or reproduce any of the Confidential Information in any manner except as required to perform the duties of the Employee for the Company and in accordance with all procedures established by the Company for the protection of the Confidential Information. Without limiting the foregoing, the Employee:

(i) will ensure that all the Confidential Information and all copies thereof, are clearly marked, or otherwise identified as confidential to the Company and proprietary to the person or entity that first provided the Confidential Information, and are stored in a secure place while in the Employee's possession, custody, charge or control;

(ii) will not, either directly or indirectly, disclose, allow access to, transmit or transfer any of the Confidential Information to any person other than to an employee, officer, or director of the Company but only upon a "need to know" basis, without the prior written authorization of Management; and

(iii) will not, except as required by the Employee's position, use any of the Confidential Information to create, maintain or market any product or service which is competitive with any product or service produced, marketed, licensed, sold or otherwise dealt in by the Company, or assist any other person to do so.

(c) *Legally Required Disclosure* – Notwithstanding the foregoing, to the extent the Employee is required by law to disclose any Confidential Information, the Employee will be permitted to do so, provided that notice of this requirement is delivered to the Company in a timely manner, so that the Company may contest such potential disclosure.

(d) *Return of Materials, Equipment and Confidential Information* – Upon request by the Company, and in any event when the Employee leaves the employ of the Company, the Employee will immediately return to the Company all the Confidential Information and all other materials, computer programs, documents, memoranda, notes, papers, reports, lists, manuals, specifications, designs, devices, drawings, notebooks, correspondence, equipment, keys, pass cards, and property, and all copies thereof, in any medium, in the Employee's possession, charge, control or custody, which are owned by, or relate in any way to the Business or affairs of the Company.

(e) *Exceptions* – The non-disclosure obligations of Employee under this Agreement shall not apply to Confidential Information which the Employee can establish:

(i) is, or becomes, readily available to the public other than through a breach of this Agreement;

(ii) is disclosed, lawfully and not in breach of any contractual or other legal obligation, to Employee by a third party; or

(iii) through written records, was known to Employee, prior to the date of first disclosure of the Confidential Information to Employee by the Company

5.2 Ownership of Developments

(a) *Acknowledgment of Company Ownership* – The Employee acknowledges that the Company will be the exclusive owner of all the Developments made during the term of the Employee's employment by the Company except Excluded Developments and to all intellectual property rights in and to such Developments. The Employee hereby assigns all right, title and interest in and to such Developments and their associated intellectual property rights throughout the world and universe to the Company, including without limitation, all trade secrets, patent rights, copyrights, mask works, industrial designs and any other intellectual property rights in and to each such Development, effective at the time each is created. Further, the Employee irrevocably waives all moral rights the Employee may have in such Developments.

(b) *Excluded Developments* and Prior Developments – The Company acknowledges that it will not own any Excluded Developments or Prior Developments.

(c) *Disclosure of Developments* – To avoid any disputes over the ownership of Developments, the Employee will provide the Company with a general written description of any of the Developments the Employee believes the Company does not own because they are Excluded Developments or Prior Developments. Thereafter, the Employee agrees to make full and prompt disclosure to the Company of all Developments, including, without limitation, Excluded Developments, made during the term of the Employee's employment with the Company. The Company will hold any information it receives regarding Excluded Developments and Prior Developments in confidence.

(d) *Further Acts* – The Employee agrees to cooperate fully with the Company both during and after the Employee's employment by the Company, with respect to (i) signing further documents and doing such acts and other things reasonably requested by the Company to confirm the Company's ownership of the Developments other than Excluded Developments and Prior Developments, the transfer of ownership of such Developments to the Company, and the waiver of the Employee's moral rights therein, and (ii) obtaining or enforcing patent, copyright, trade secret or other protection for such Developments; provided that the Company pays all the Employee's expenses in doing so, and reasonable compensation if such acts are required after the Employee leaves the employment by the Company.

(e) *Employee-owned Inventions* – The Employee hereby covenants and agrees with the Company that, unless the Company agrees in writing otherwise, the Employee will not use or incorporate any Excluded Development or Prior Development in its work product, services, or other deliverables the Employee provides to the Company. If the Employee uses or incorporates any Excluded Development or Prior Development with the Company's permission, as provided above, the Employee (i) represents and warrants that he or she owns all proprietary interest in such Excluded Development or Prior Development and (ii) grants to the Company, at no charge, a non-exclusive, irrevocable, perpetual, worldwide license to use, distribute, transmit, broadcast, sub-license, produce, reproduce, perform, publish, practice, make, and modify such Excluded Development or Prior Development.

(f) *Prior Employer Information* – The Employee hereby covenants and agrees with the Company that during the Employee's employment by the Company, the Employee will not improperly use or disclose any confidential or proprietary information of any former employer, partner, principal, co-venturer, customer, or independent contractor of the Employee and that the Employee will not bring onto the Company's premises any unpublished documents or any property belonging to any such persons or entities unless such persons or entities have given their consent. In addition, the Employee will not violate any non-disclosure, non-compete or proprietary rights agreement the Employee has signed with any person or entity prior to the Employee's execution of this Agreement, or knowingly infringe the intellectual property rights of any third party while employed by the Company.

(g) *Protection of Computer Systems and Software* – The Employee agrees to take all necessary precautions to protect the computer systems and software of the Company, including, without limitation, complying with the obligations set out in the Company's policies.

ARTICLE 6 – RESTRICTIVE COVENANTS

6.1 Non-solicitation by the Employee. The Employee agrees that at any time, while employed by the Company and for a period of one (1) year thereafter the Employee will not, without the prior written consent of the Company induce or attempt to influence, directly or indirectly, an employee of the Company to leave the employ of the Company.

6.2 Non-competition. The Employee agrees that while employed by the Company and for a period of six (6) months thereafter, the Employee will not, without the prior written consent of the Company, directly or indirectly, anywhere in Canada, the United States or any country within the European Union, provide any professional services to any person or entity that can be reasonably viewed as a competitor to the Business of the Company, while the Employee was employed by the Company, which relate to therapeutic antibody modeling, design, modification and commercialization for industrial and pharmaceutical applications.

6.3 Reasonableness of Non-competition and Non-solicitation Obligations. The Employee confirms that the obligations in Sections 6.1 and 6.2 are fair and reasonable given that, among other reasons:

(a) the sustained contact the Employee will have with the clients of the Company will expose the Employee to the Confidential Information regarding the particular requirements of these clients and the Company's unique methods of satisfying the needs of these clients, all of which the Employee agrees not to act upon to the detriment of the Company; and/or

(b) the Employee will be performing important development work on the products or services owned, developed or marketed by the Company;

and the Employee agrees that the obligations in Sections 6.1 and 6.2, together with the Employee's other obligations under this Agreement, are reasonably necessary for the protection of the Company's good will, trade secrets and proprietary interests and that given the Employee's general knowledge and experience they would not prevent the Employee from being gainfully employed if the employment relationship between the Employee and the Company were to end. The Employee further confirms that the geographic scope of the obligation in Section 6.2 is reasonable given the nature of the market for the products and business of the Company. The Employee also agrees that the obligations in Sections 6.1 and 6.2 are in addition to the confidentiality and non-disclosure obligations provided for in this Agreement and acknowledges that the Company would not have entered into this Agreement but for the protections provided to the Company by all of the aforementioned obligations.

6.4 Conflict of Interest. The Employee recognizes that the Employee is employed by the Company in a position of responsibility and trust and agrees that during the Employee's employment with the Company, the Employee will not engage in any activity or otherwise put the Employee in a position which conflicts with the Company's interests. Without limiting this general statement, the Employee agrees that during the Employee's employment with the Company, the Employee will not knowingly lend money to, guarantee the debts or obligations of or permit the name of the Employee or any part thereof to be used or employed by any corporation or firm which directly or indirectly is engaged in or concerned with or interested in any Business in competition with the Business of the Company unless the Employee receives prior written authorization from the Company.

6.5 Acknowledgments. In the event the Employee breaches any covenant contained herein, the one (1) year periods provided for in Sections 6.1 and 6.2 will be extended for a period of three (3) months from the date any such breach is cured. In the event it is necessary for the either party to retain legal counsel to enforce any of the terms and conditions of this Agreement, the prevailing party will pay the other parties' reasonable legal fees, court costs and other related expenses.

ARTICLE 7 – ENFORCEMENT

7.1 Consent to Personal Jurisdiction. This Agreement will be governed by the laws of the State of Washington without regards to Washington's conflicts of law rules that may result in the application of the laws of any jurisdiction other than Washington. To the extent that any lawsuit is permitted under this Agreement, Employee expressly consents to the personal and exclusive jurisdiction and venue of the State and Federal Courts located in Washington for any lawsuit filed against me by the Company. In the event of a breach or threatened breach by the Employee of any of the provisions of Article 5 or Article 6 of this Agreement, nothing in this Agreement precludes the Company from applying to a court of competent jurisdiction to seek injunctive relief or otherwise protect or enforce its intellectual property rights, or enforce the Employee's fiduciary, non-competition, non-solicitation, confidentiality or any other post-employment obligations.

ARTICLE 8

8.1 Severability and Limitation. All agreements and covenants contained herein are severable and, in the event any of them will be held to be invalid by any competent court, this Agreement will be interpreted as if such invalid agreements or covenants were not contained herein. Should any court or other legally constituted authority determine that for any such agreement or covenant to be effective that it must be modified to limit its duration or scope, the parties hereto will consider such agreement or covenant to be amended or modified with respect to duration and scope so as to comply with the orders of any such court or other legally constituted authority or to be enforceable under the laws of the State of Washington, and as to all other portions of such agreement or covenants they will remain in full force and effect as originally written.

ARTICLE 9 – ARBITRATION

9.1 Arbitration and Equitable Relief. IN CONSIDERATION OF EMPLOYEE'S EMPLOYMENT WITH THE COMPANY, ITS PROMISE TO ARBITRATE ALL EMPLOYMENT-RELATED DISPUTES, AND EMPLOYEE'S RECEIPT OF THE COMPENSATION, PAY RAISES, AND OTHER BENEFITS PAID TO EMPLOYEE BY THE COMPANY, AT PRESENT AND IN THE FUTURE, EMPLOYEE AGREES THAT ANY AND ALL CONTROVERSIES, CLAIMS, OR DISPUTES WITH ANYONE (INCLUDING THE COMPANY AND ANY EMPLOYEE, OFFICER, DIRECTOR, SHAREHOLDER, OR BENEFIT PLAN OF THE COMPANY, IN THEIR CAPACITY AS SUCH OR OTHERWISE), ARISING OUT OF, RELATING TO, OR RESULTING FROMEMPLOYEE'S EMPLOYMENT WITH THE COMPANY OR THE TERMINATION OF EMPLOYEE'S EMPLOYMENT WITH THE COMPANY, INCLUDING ANY BREACH OF THIS AGREEMENT, SHALL BE SUBJECT TO BINDING ARBITRATION UNDER THE ARBITRATION PROVISIONS SET FORTH IN THE WASHINGTON UNIFORM ARBITRATION ACT (THE "**ACT**"), AND PURSUANT TO WASHINGTON LAW, AND SHALL BE BROUGHT IN EMPLOYEE'S INDIVIDUAL CAPACITY, AND NOT AS A PLAINTIFF OR CLASS MEMBER IN ANY PURPORTED CLASS OR REPRESENTATIVE PROCEEDING. THE FEDERAL ARBITRATION ACT SHALL CONTINUE TO APPLY WITH FULL FORCE AND EFFECT NOTWITHSTANDING THE APPLICATION OF PROCEDURAL RULES SET FORTH IN THE ACT. DISPUTES THAT EMPLOYEE AGREES TO ARBITRATE, AND THEREBY AGREES TO WAIVE ANY RIGHT TO A TRIAL BY JURY, INCLUDE ANY STATUTORY

CLAIMS UNDER LOCAL, STATE, OR FEDERAL LAW, INCLUDING, BUT NOT LIMITED TO, CLAIMS UNDER TITLE VII OF THE CIVIL RIGHTS ACT OF 1964, THE AMERICANS WITH DISABILITIES ACT OF 1990, THE AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967, THE OLDER WORKERS BENEFIT PROTECTION ACT, THE SARBANES-OXLEY ACT, THE WORKER ADJUSTMENT AND RETRAINING NOTIFICATION ACT, THE CALIFORNIA FAIR EMPLOYMENT AND HOUSING ACT, THE FAMILY AND MEDICAL LEAVE ACT, ANY AND ALL CLAIMS UNDER THE REVISED CODE OF WASHINGTON OR ANY OTHER WASHINGTON STATE LABOR LAW, CLAIMS OF HARASSMENT, DISCRIMINATION, AND WRONGFUL TERMINATION, AND ANY STATUTORY OR COMMON LAW CLAIMS. NOTWITHSTANDING THE FOREGOING, EMPLOYEE UNDERSTANDS THAT NOTHING IN THIS AGREEMENT CONSTITUTES A WAIVER OF EMPLOYEE'S RIGHTS UNDER SECTION 7 OF THE NATIONAL LABOR RELATIONS ACT. EMPLOYEE FURTHER UNDERSTAND THAT THIS AGREEMENT TO ARBITRATE ALSO APPLIES TO ANY DISPUTES THAT THE COMPANY MAY HAVE WITH EMPLOYEE.

9.2 Procedure. EMPLOYEE AGREES THAT ANY ARBITRATION WILL BE ADMINISTERED BY JUDICIAL ARBITRATION & MEDIATION SERVICES, INC. ("**JAMS**"), PURSUANT TO ITS EMPLOYMENT ARBITRATION RULES & PROCEDURES (THE "**JAMS RULES**"), WHICH ARE AVAILABLE AT http://www.jamsadr.com/rules-employment-arbitration/ AND FROM HUMAN RESOURCES. EMPLOYEE AGREES THAT THE ARBITRATOR SHALL HAVE THE POWER TO DECIDE ANY MOTIONS BROUGHT BY ANY PARTY TO THE ARBITRATION, INCLUDING MOTIONS FOR SUMMARY JUDGMENT AND/OR ADJUDICATION, AND MOTIONS TO DISMISS AND DEMURRERS, APPLYING THE STANDARDS SET FORTH UNDER THE ACT AND WASHINGTON LAW. EMPLOYEE AGREES THAT THE ARBITRATOR SHALL ISSUE A WRITTEN DECISION ON THE MERITS. EMPLOYEE ALSO AGREES THAT THE ARBITRATOR SHALL HAVE THE POWER TO AWARD ANY REMEDIES AVAILABLE UNDER APPLICABLE LAW, AND THAT THE ARBITRATOR SHALL AWARD ATTORNEYS' FEES AND COSTS TO THE PREVAILING PARTY, WHERE PROVIDED BY APPLICABLE LAW. EMPLOYEE AGREES THAT THE DECREE OR AWARD RENDERED BY THE ARBITRATOR MAY BE ENTERED AS A FINAL AND BINDING JUDGMENT IN ANY COURT HAVING JURISDICTION THEREOF. EMPLOYEE UNDERSTANDS THAT THE COMPANY WILL PAY FOR ANY ADMINISTRATIVE OR HEARING FEES CHARGED BY THE ARBITRATOR OR JAMS EXCEPT THAT EMPLOYEE SHALL PAY ANY FILING FEES ASSOCIATED WITH ANY ARBITRATION THAT EMPLOYEE INITIATES, BUT ONLY SO MUCH OF THE FILING FEES AS EMPLOYEE WOULD HAVE INSTEAD PAID HAD EMPLOYEE FILED A COMPLAINT IN A COURT OF LAW. EMPLOYEE AGREES THAT THE ARBITRATOR SHALL ADMINISTER AND CONDUCT ANY ARBITRATION IN ACCORDANCE WITH WASHINGTON LAW AND THAT THE ARBITRATOR SHALL APPLY SUBSTANTIVE AND PROCEDURAL WASHINGTON LAW TO ANY DISPUTE OR CLAIM, WITHOUT REFERENCE TO RULES OF CONFLICT OF LAW. TO THE EXTENT THAT THE JAMS RULES CONFLICT WITH WASHINGTON LAW, WASHINGTON LAW SHALL TAKE PRECEDENCE. EMPLOYEE AGREES THAT ANY ARBITRATION UNDER THIS AGREEMENT SHALL BE CONDUCTED IN KING COUNTY, WASHINGTON.

9.3 Remedy. EXCEPT AS PROVIDED BY THE ACT AND THIS AGREEMENT, ARBITRATION SHALL BE THE SOLE, EXCLUSIVE, AND FINAL REMEDY FOR ANY DISPUTE BETWEEN EMPLOYEE AND THE COMPANY. ACCORDINGLY, EXCEPT AS PROVIDED FOR BY THE ACT AND THIS AGREEMENT, NEITHER EMPLOYEE NOR THE COMPANY WILL BE PERMITTED TO PURSUE COURT ACTION REGARDING CLAIMS THAT ARE SUBJECT TO ARBITRATION.

9.4 Administrative Relief. EMPLOYEE UNDERSTANDS THAT THIS AGREEMENT DOES NOT PROHIBIT EMPLOYEE FROM PURSUING AN ADMINISTRATIVE CLAIM WITH A LOCAL, STATE, OR FEDERAL

ADMINISTRATIVE BODY OR GOVERNMENT AGENCY THAT IS AUTHORIZED TO ENFORCE OR ADMINISTER LAWS RELATED TO EMPLOYMENT, INCLUDING, BUT NOT LIMITED TO, THE DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING, THE EQUAL EMPLOYMENT OPPORTUNITY COMMISSION, THE NATIONAL LABOR RELATIONS BOARD, OR THE WORKERS' COMPENSATION BOARD. THIS AGREEMENT DOES, HOWEVER, PRECLUDE EMPLOYEE FROM PURSUING COURT ACTION REGARDING ANY SUCH CLAIM, EXCEPT AS PERMITTED BY LAW.

9.5 Voluntary Nature of Agreement. EMPLOYEE ACKNOWLEDGES AND AGREE THAT EMPLOYEE IS EXECUTING THIS AGREEMENT VOLUNTARILY AND WITHOUT ANY DURESS OR UNDUE INFLUENCE BY THE COMPANY OR ANYONE ELSE. EMPLOYEE FURTHER ACKNOWLEDGE AND AGREES THAT EMPLOYEE HAS CAREFULLY READ THIS AGREEMENT AND THAT EMPLOYEE HAS ASKED ANY QUESTIONS NEEDED FOR EMPLOYEE TO UNDERSTAND THE TERMS, CONSEQUENCES, AND BINDING EFFECT OF THIS AGREEMENT AND FULLY UNDERSTAND IT, INCLUDING THAT ***EMPLOYEE IS WAIVING EMPLOYEE'S RIGHT TO A JURY TRIAL***. FINALLY, EMPLOYEE AGREES THAT EMPLOYEE HAS BEEN PROVIDED AN OPPORTUNITY TO SEEK THE ADVICE OF AN ATTORNEY OF EMPLOYEE'S CHOICE BEFORE SIGNING THIS AGREEMENT.

ARTICLE 10 – GENERAL

10.1 Notices. Any notices to be given hereunder by either party to the other party may be effected in writing, either by personal delivery or by mail if sent certified, postage prepaid, with return receipt requested. Mailed notices will be addressed to the parties at the address set out on the first page of this Agreement, or as otherwise specified from time to time. Notice will be effective upon delivery.

10.2 Independent Legal Advice. The Employee specifically confirms that he/she has been advised to retain his/her own independent legal advice prior to entering into this Agreement.

10.3 Construction. The parties acknowledge that each party and its respective counsel have had the opportunity to independently review and negotiate the terms and conditions of this Agreement, and that the normal rule of construction to the effect that any ambiguities are to be construed against the drafting party will not be employed in the interpretation of this Agreement or any exhibits or amendments hereto.

10.4 Assignment. The Employee cannot assign his/her interest in this Agreement.

10.5 Benefit of Agreement. This Agreement will ensure to the benefit of and be binding upon the respective heirs, executors, administrators, successors and permitted assigns of the parties hereto.

10.6 Entire Agreement. The Appendices to this Agreement, together with the terms and conditions contained within this Agreement constitute the entire agreement between the parties hereto with respect to the subject matter hereof and cancels and supersedes any prior employment agreements, understandings and arrangements between the parties hereto with respect thereto. There are no representations, warranties, terms, conditions, undertakings or collateral agreements, express, implied or statutory, between the parties other than as expressly set forth in this Agreement.

10.7 Amendments and Waivers. No amendment to this Agreement will be valid or binding unless set forth in writing and duly executed by all of the parties hereto. No waiver of any breach of any provision of this Agreement will be effective or binding unless made in writing and signed by the party purporting to give the same and, unless otherwise provided in the written waiver, will be limited to the specific breach waived.

10.8 Governing Law. This Agreement will be governed by and construed, enforced and interpreted exclusively in accordance with the laws of the State of Washington.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first above written.

ZYMEWORKS, INC.

By: /s/ Wajida Leclerc
Wajida Leclerc, *Vice President, Human Resources*

SIGNED, SEALED AND DELIVERED
by **Employee:**

/s/ Anthony Polverino
Signature

9/20/18
Date

WITNESSED by:

/s/ Alyssa Black
Signature

/s/ Alyssa Black
Print Name

[...***...][2]
Address

HR Manager
Occupation

2 Personal Information – Contact Information.

Exhibit 23.1

KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors

Zymeworks Inc.

We consent to the incorporation by reference in the registration statement (No. 333-225556) on Form S-8 and registration statement (No. 333-228782) on Form S-3 of Zymeworks Inc. of our report dated March 6, 2019, with respect to the consolidated balance sheets of Zymeworks Inc. as of December 31, 2018 and 2017, the related consolidated statements of loss and comprehensive loss, changes in redeemable convertible preferred shares and shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2018, which report appears in the December 31, 2018 annual report on Form 10-K of Zymeworks Inc.

Our report on the consolidated financial statements refers to changes in accounting policies for revenue in 2018 due to the adoption of ASC 606 – *Revenue from Contracts with Customers*.

/s/ KPMG LLP

Chartered Professional Accountants

Vancouver, Canada

March 6, 2019

Exhibit 31.1

CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Ali Tehrani, certify that:

1. I have reviewed this Annual Report on Form 10-K of Zymeworks Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2019

/s/ Ali Tehrani
Chief Executive Officer

Exhibit 31.2

CERTIFICATION
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Neil Klompas, certify that:

1. I have reviewed this Annual Report on Form 10-K of Zymeworks Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 6, 2019

/s/ Neil Klompas
Chief Financial Officer

Exhibit 32.1

SECTION 906 CERTIFICATION

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) in connection with the Annual Report on Form 10-K of Zymeworks Inc. for the annual period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer hereby certifies, to such officer's knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zymeworks Inc.

/s/ Ali Tehrani

Name: Ali Tehrani
Title: Chief Executive Officer
Date: March 6, 2019

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.

Exhibit 32.2

SECTION 906 CERTIFICATION

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) in connection with the Annual Report on Form 10-K of Zymeworks Inc. for the annual period ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned officer hereby certifies, to such officer's knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Zymeworks Inc.

/s/ Neil Klompas

Name: Neil Klompas
Title: Chief Financial Officer
Date: March 6, 2019

This certification accompanies the Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed "filed" by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section.

Exhibit 99.1

CONFIDENTIAL

CONFIDENTIAL TREATMENT REQUESTED UNDER RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. […***…] INDICATES OMITTED MATERIAL THAT IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST FILED SEPARATELY WITH THE COMMISSION. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE COMMISSION

September 24, 2018

VIA EMAIL

Daiichi Sankyo Co., Ltd.
1-2-58, Hiromachi, Shinagawa-ku
Tokyo 140-8710
Attention: […***…][1]
E-mail: […***…][2]

Re: Extension of Research Program Term

Dear Agatsuma-san:

Pursuant to that certain Collaboration and Cross License Agreement between Daiichi Sankyo Co., Ltd. (**"DS"**) and Zymeworks Inc. ("**Zymeworks**"), made effective September 26, 2016 (the "**Agreement**"), DS is conducting a Research Program with respect to certain Research Sequence Pairs. […***…], by […***…], to […***…] pursuant to such Research Program […***…]. Zymeworks is […***…]. Accordingly, the Research Program Term shall […***…] the Effective Date, subject to the terms and conditions of this letter.[3]

DS shall have the right to exercise its Option with respect to a single Research Sequence Pair (and no other Research Sequence Pair) in accordance with Section 2.1.2 of the Agreement. If DS does not so exercise its Option, then, upon expiration of the Option Term, the Term shall expire in accordance with Section 10.1.1.

Except as expressly provided herein, nothing in this letter is intended, nor shall be construed, to amend or modify the rights and obligations of either party under the Agreement. Capitalized terms used in this letter and not otherwise defined herein shall have the meanings given to them in the Agreement.

Please execute and return this letter to confirm your agreement with the terms of this letter

Sincerely,

Zymeworks Inc.

By: /s/ Ali Tehrani
Name: Ali Tehrani, Ph.D.
Title: President & Chief Executive Officer
Date: September 24, 2018

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1 Personal Information – Contact Information.
2 Personal Information – Contact Information.
3 Competitive Information – Commercially Sensitive Terms.

Accepted and agreed:

Daiichi Sankyo Co., Ltd.

By: /s/ Toshinori Agatsuma
Name: Toshinori Agatsuma, Ph.D.
Title: VP, Biologics & Immuno-Oncology Laboratories
Date: September 25, 2018

cc: […***…][4]

[4] Personal Information – Contact Information.

Exhibit 99.2

CONFIDENTIAL

CONFIDENTIAL TREATMENT REQUESTED UNDER RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. […***…] INDICATES OMITTED MATERIAL THAT IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST FILED SEPARATELY WITH THE COMMISSION. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE COMMISSION

January 11, 2019

[…***…][1]
Medicines Research Centre
Gunnels Wood Road
Stevenage, Hertfordshire SG1 2NY
United Kingdom

VIA EMAIL

Attention: […***…][2]

RE: EXTENSION OF RESEARCH COLLABORATION TERM

Dear […***…][3],

Reference is hereby made to the Collaboration and Research License Agreement between GlaxoSmithKline Intellectual Property Development Limited ("GSK") and Zymeworks Inc. ("Zymeworks") dated December 1, 2015 (the "Agreement"). Unless otherwise defined herein, all capitalized terms have the meanings ascribed to them in the Agreement.

This letter sets out GSK and Zymeworks' agreement to extend conclusion of the Research Collaboration Term under the Agreement until the earlier of (a) […***…] or (b) the date on which the […***…], unless earlier terminated in accordance with Section 10.2, 10.3 or 10.4 of the Agreement. Such extension of the Research Collaboration Term shall take effect as of November 30, 2018.[4]

If the foregoing accurately reflects your understanding, please indicate your agreement in the space provided below and return a fully executed copy of this letter to Zymeworks.

Sincerely,

Zymeworks Inc.

/s/ Neil Klompas
By: Neil A. Klompas,
Chief Financial Officer

Acknowledged and agreed:

GlaxoSmithKline Intellectual Property Development Limited

By: /s/ John Sadler

1 Personal Information – Contact Information.
2 Personal Information – Contact Information.
3 Personal Information – Contact Information.
4 Competitive Information – Commercially Sensitive Terms.

By: /s/Paul Williamson
Authorized Signatory

For and on behalf of
Edinburgh Pharmaceutical Industries Limited
Corporate Director

cc: […***…]5

5 Personal Information – Contact Information.

Exhibit 99.3

CONFIDENTIAL

CONFIDENTIAL TREATMENT REQUESTED UNDER RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. […***…] INDICATES OMITTED MATERIAL THAT IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST FILED SEPARATELY WITH THE COMMISSION. THE OMITTED MATERIAL HAS BEEN FILED SEPARATELY WITH THE COMMISSION

Janssen Biotech, Inc..
800/850 Ridgeview Drive
Horsham, Pennsylvania 19044
United States of America

January 14, 2019

VIA EMAIL

Zymeworks Inc.
540-1385 West 8th Avenue
Vancouver, BC, Canada V6H 3V9
Attention: […***…][1]

Re: First Amendment to Collaboration and License Agreement of November 13, 2017

Dear […***…][2]:

Reference is made to the Collaboration and License Agreement of November 13, 2017 (the "**Agreement**"), by and between Janssen Biotech Inc. (**"Janssen"**), and Zymeworks Inc. (**"Zymeworks"**), or individually as **"Party"** or collectively as **"Parties."** This document is the first amendment to the Agreement (**"First Amendment"**) in which the Parties hereby agree to modify the Agreement to reflect alignment that a "Sequence Pair" and "Target Pair" may include more than two Sequences or Targets, respectively. By this amendment, the Parties also agree to replace the terms "Sequence Pair" and "Target Pair" with the terms "Sequence Group" and "Target Group", respectively; to replace the term "Janssen Sequence Pair" with "Janssen Sequence Group", and to replace the term "[…***…]" with "[…***…]" The **"First Amendment Effective Date"** shall be the last date of the signature below.[3]

To effectuate the agreed upon changes, the Parties agree to the provisions described herein. Defined terms used but not defined herein have the meaning ascribed to such terms in the Agreement.

Agreement Provisions

Amendment to Section 1: The Parties agree that the term "Sequence Pair" will be replaced with the term "Sequence Group" as defined below and the term "Target Pair" will be replaced with the term "Target Group" as defined below:

1.43 "**Sequence Group**" means two or more Sequences. For clarity, all references to a Sequence Group herein shall include all Sequences in such Sequence Group and not a subset thereof, unless expressly stated otherwise.

1.45 "**Target Group**" means two or more Targets in combination. For clarity, all references to a Target Group herein shall include all Targets in such Target Group and not a subset thereof, unless expressly stated otherwise.

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1 Personal Information – Contact Information.
2 Personal Information – Contact Information.
3 Competitive Information – Discovery Information.

Amendment to Section 2.1.2: The Parties agree that the last sentence of Section 2.1.2 of the Agreement will be deleted and replaced in its entirety with the following:

"For clarity, the foregoing grant of rights and licenses in Section 2.1.1 and this Section 2.1.2 shall not limit Zymeworks' ability to apply the Zymeworks Platform (alone or in collaboration with a Third Party) to any Sequence Group (or any subset of the Sequences within such Sequence Group), subject to the gatekeeping provisions in Section 3.5, which is generated and provided to Zymeworks by a Third Party without access to the Janssen Sequence Groups."

Amendment to Section 3.4.1: The Parties agree that the first sentence of Section 3.4.1 of the Agreement will be deleted and replaced in its entirety with the following:

"During the Research Program Term and subject to gatekeeping pursuant to Section 3.5, Janssen may elect to undergo the gatekeeping process with a Target Group(s) for the sole purpose of […***…] as Janssen Sequence Groups under this Agreement; provided that Janssen must be […***…] in pursuing under this Agreement any Target Group so submitted and shall not submit such requests more often than […***…] during the Research Program Term."[4]

Amendment to Section 3.5.1: The Parties agree that Section 3.5.1 of the Agreement will be deleted and replaced in its entirety with the following:

"**3.5.1 Gatekeeping.** Janssen may designate any Sequence Group as a Janssen Sequence Group; provided that, at the time of the selection of such Sequence Group, Zymeworks is not or has not, as of the date Zymeworks receives such written notice from Janssen:

(i) contractually obligated to grant, or granted, to a Third Party rights under Zymeworks Intellectual Property with respect to products incorporating any two or more of the Sequences in such Sequence Group;

(ii) actively and in good faith engaged in negotiations with a Third Party regarding rights under Zymeworks Intellectual Property for the development and/or commercialization of products incorporating any two or more of the Sequences in such Sequence Group ([…***…]); or

(iii) performing, or performed, […***…] on its own behalf regarding the development and/or commercialization of products incorporating any two or more of the Sequences in such Sequence Group.[5]

The gatekeeping described in this Section 3.5.1 shall be performed on each Sequence Group that is designated in connection with Janssen's Designation Notice. Zymeworks hereby agrees that gatekeeping of the Sequence Group shall only be performed by Zymeworks' […***…], and the information provided to such gatekeeper by Janssen in the Designation Notice shall be the Confidential Information of Janssen.[6]

4 Competitive Information – Exclusivity Information and Commercially Sensitive Terms.
5 Competitive Information – Exclusivity Information and Commercially Sensitive Terms.
6 Competitive Information – Exclusivity Information and Commercially Sensitive Terms.

Amendment to the entire Agreement:

The Agreement is hereby amended in its entirety to delete the term "Sequence Pair" and to replace it with the term "Sequence Group".

The Agreement is hereby amended in its entirety to delete the term "Janssen Sequence Pair" and replace it with the term "Janssen Sequence Group" throughout the Agreement.

The Agreement is hereby amended in its entirety to delete the term "[…***…]" and replace it with the term "[…***…]" throughout the Agreement.[7]

The Agreement is hereby amended in its entirety to delete the term "Target Pair" and to replace it with the term "Target Group".

[7] Competitive Information – Discovery Information.

Except as otherwise expressly provided herein, the Agreement shall remain in full force and effect without any amendments or modifications. This First Amendment may be executed in separate counterparts, each of which, whether delivered by electronic mail, or otherwise is deemed to be an original, and all of which taken together shall constitute one and the same instrument. This First Amendment shall be effective as of the First Amendment Effective Date. If the above reflects your understanding of the rights and obligations of the Parties under the Agreement, please acknowledge your agreement of the foregoing by executing the countersignature below.

Sincerely,

/s/ Catherine Owen
Catherine Owen
President, Immunology
Janssen Biotech, Inc.

AGREED & ACCEPTED:

/s/ Ali Tehrani
Name: Ali Tehrani
Title: President & CEO
Date: January 14, 2019
Zymeworks Inc.