SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For the month of November 2017

Commission File Number 001-38068

Zymeworks Inc.

(Translation of registrant's name into English)

Suite 540, 1385 West 8th Avenue, Vancouver, British Columbia, Canada, V6H 3V9
(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

Form 20-F ☒ Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ☐

EXHIBITS INCLUDED AS PART OF THIS REPORT

Exhibit	
99.1	Management's Discussion and Analysis of Financial Condition and Results of Operations for the Nine Months Ended September 30, 2017
99.2	Interim Condensed Consolidated Financial Statements of Zymeworks Inc. as of September 30, 2017 and for the Three and Nine Months Ended September 30, 2017

SIGNATURES

Pursuant to the requirements 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.

		ZYMEWORKS INC.
		(Registrant)
Date: November 8, 2017	By:	/s/ Neil Klompas
	Name:	Neil Klompas
	Title:	Chief Financial Officer

Exhibit 99.1

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

As of November 8, 2017

For the nine months ended September 30, 2017

The following management's discussion and analysis ("MD&A") of our financial condition and results of operations is prepared as of November 8, 2017 and should be read in conjunction with our unaudited condensed financial statements for the three and nine months ended September 30, 2017 and notes thereto, as well as with our audited financial statements and notes thereto for the year ended December 31, 2016. Except as otherwise indicated herein or as the context otherwise requires, "Zymeworks," the "Company," "we," "us" and "our" refer to Zymeworks Inc. and its subsidiary, Zymeworks Biopharmaceuticals Inc.

In this MD&A, we explain Zymeworks' results of operations and cash flows for the three and nine months ended September 30, 2017 and our financial position as of September 30, 2017. You should also refer to the Company's audited consolidated financial statements and the accompanying notes, and management's discussion and analysis for financial condition and results of operations for the fiscal year ending December 31, 2016, which are contained in our supplemented PREP Prospectus dated April 27, 2017 (the "Prospectus") and our registration statement on Form F-1. These documents and additional information regarding Zymeworks are available on our website at www.zymeworks.com, or at www.sedar.com and www.sec.gov.

Our unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"). All amounts are in U.S. dollars except where otherwise indicated.

Our MD&A is intended to enable readers to gain an understanding of Zymeworks' current results of operations, cash flows and financial position. To do so, we provide information and analysis comparing our results of operations, cash flows and financial position for the current quarter and year-to-date periods with the same periods from the preceding fiscal year. We also provide analysis and commentary that we believe will help investors assess our future prospects. In addition, we provide "forward-looking statements" that are not historical facts, but that are based on our current expectations, which are subject to known and unknown important risks, uncertainties, assumptions and other factors that could cause actual results or events to differ materially from current expectations. Forward-looking statements are intended to assist readers in understanding managements' expectations as of the date of this MD&A and may not be suitable for other purposes. See "Cautionary Note Regarding Forward-Looking statements" below.

Certain statements in this MD&A constitute forward-looking statements or forward-looking information within the meaning of applicable securities laws. You should carefully read "Cautionary Note Regarding Forward-Looking Statements" in this MD&A and should not place undue reliance on any such forward-looking statements.

Additional information about the Company, including our most recent consolidated financial statements, is available on SEDAR at www.sedar.com and on EDGAR at www.sec.gov.

Cautionary Note Regarding Forward-Looking Statements

This MD&A includes "forward-looking statements" within the meaning of 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. 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, forward-looking statements in this MD&A include, but are not limited to, statements about:

- 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 in the Prospectus under the heading "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;
- delays with respect to the development and commercialization of our product candidates, which may cause increased costs or delay receipt of product revenue;
- 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 potential disruption of our business and dilution of our shareholdings associated with acquisitions and joint ventures;
- 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;
- 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;
- unstable market and economic conditions;
- currency fluctuations and changes in foreign currency exchange rates;
- restrictions on our ability to seek financing, which were imposed by our credit agreement or which may be imposed by future debt;
- our reliance on third-party manufacturers to produce our clinical product candidate supplies;
- 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;
- we may be unable to protect the confidentiality of our proprietary information;
- we will require 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 law regulating the protection of the environment and health and human safety, our business could be adversely affected;
- 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;
- we may lose our "foreign private issuer" status (as such term is defined under Rule 405 of the U.S. Securities Act of 1933, as amended) in the future, or decide to voluntarily comply with certain U.S. domestic issuer reporting obligations even if we do not lose our "foreign private issuer" status, which could result in additional costs and expenses to us;
- our ability to retain key executives and attract and retain qualified personnel; and
- our ability to manage organizational growth.

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.

Overview

Zymeworks is an innovative, clinical-stage biopharmaceutical company dedicated to the discovery, development and commercialization 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 wholly-owned product candidates with the potential to drive superior outcomes in large underserved and unaddressed patient populations, as further described below.

Initial Public Offering

On May 3, 2017, we successfully 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 estimated offering expenses. The common shares are listed for trading on the New York Stock Exchange and the Toronto Stock Exchange under the symbol "ZYME".

Description of Business and Products

Our lead product candidate, ZW25, is a novel bispecific antibody currently being evaluated in an adaptive Phase 1 clinical trial, targeting two distinct domains of the HER2 receptor. This unique design enables 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. 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 our Phase 1 clinical trial, ZW25 has demonstrated encouraging single agent anti-tumor activity in patients with advanced cancers that have progressed after multiple lines of therapy, including HER2-targeted agents. Our second product candidate, ZW33, 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 a cytotoxic payload. We designed ZW33 to be a best-in-class HER2-targeting ADC for several indications characterized by HER2 expression for which we expect to submit an Investigational New Drug ("IND") application in the second half of 2017. We are also advancing a deep pipeline of preclinical product candidates and discovery-stage programs in immuno-oncology and other therapeutic areas. In addition to our wholly-owned pipeline, two of our therapeutic platforms have been further leveraged through multiple revenue-generating strategic partnerships with the following global pharmaceutical companies: Merck Sharp & Dohme Research Ltd., Eli Lilly and Company, Celgene Corporation and Celgene Alpine Investment Co. LLC, GlaxoSmithKline Intellectual Property Development Limited and Daiichi Sankyo Co., Ltd., or "Merck", "Lilly", "Celgene", "GSK" and "Daiichi Sankyo", respectively.

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

The field of oncology has benefited from major advances in the understanding of cancer biology over the past decade, which have led to the development of several successful biotherapeutics contributing to a global market valued at greater than $83.7 billion in 2015 and projected to grow to $128.0 billion by 2020. Despite this scientific progress, cancer remains the second-leading cause of death worldwide, leaving a substantial opportunity for Zymeworks to develop and deliver more effective medicines.

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 as well as providing general and administrative support, business planning, raising capital 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. From inception through September 30, 2017, we received $199.4 million, net of share issue costs, from private equity placements, the issuance of convertible debt, which subsequently converted into equity securities, and our IPO. 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 September 30, 2017, combined with the collaboration payments we anticipate receiving, will enable us to fund the clinical and preclinical development of our lead product candidates for at least the next twelve months.

Through September 30, 2017, we had an accumulated deficit of $141.5 million. We reported a net loss of $43.1 million for the nine months ended September 30, 2017. 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 Licenses

Our unique combination of proprietary protein engineering capabilities and resulting therapeutic platform technologies was initially recognized by Merck and Lilly, with whom we established strategic partnerships focused on our Azymetric and EFECT therapeutic platforms. We subsequently entered into broader strategic partnerships with Celgene and GSK and a collaboration and cross-licensing agreement with Daiichi Sankyo. Following the completion of the initial agreements with Merck, Lilly and GSK, the relationships were subsequently expanded to include either additional licenses or therapeutic platforms. These strategic partnerships have provided non-dilutive funding as well as access to proprietary therapeutic assets, and increase our ability to rapidly advance our product candidates while maintaining worldwide commercial rights to our wholly-owned therapeutic pipeline. 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, with the royalty term being, on a product-by-product and country-by-country basis, either (i) for as long as there is Zymeworks patent coverage on products, or (ii) for five years, beginning from the first commercial sale, whichever period is longer. If there is no Zymeworks patent coverage on products, royalty rates will be reduced.

  Under the agreement, we are sharing certain research and development responsibilities with Merck to generate bispecific antibodies with the Azymetric and EFECT platforms. Merck provides funding for a portion of our internal and external research costs in support of the collaboration. After the conclusion of the research program, Merck will be solely responsible for the further research, development, manufacturing and commercialization of the products. On September 19, 2017, the Company announced that Merck had provided formal notification of their plans to advance a bispecific drug candidate into preclinical development.

- *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 ($1.0 million received in 2015), IND submission milestone payments of $2.0 million, 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, 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 ten 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.

  Under the agreement, we are sharing certain research and development responsibilities with Lilly to generate bispecific antibodies with the Azymetric platform. Lilly provides funding for a portion of our internal and external research costs in support of the collaboration. After the conclusion of the research program, Lilly will be 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 three bispecific antibodies generated through the use of the Azymetric platform. This agreement did not alter or amend the initial agreement entered in 2013. Under the terms of the agreement, we granted Lilly a worldwide, royalty-bearing antibody target-pair exclusive (for two bispecific antibodies) and an antibody sequence pair-specific (for one bispecific antibody) license to research, develop and commercialize certain licensed products. We are eligible to receive up to $375.0 million, comprised of research milestone payments of up to $6.0 million ($2.0 million recognized in 2016), IND submission milestone payments of up to $24.0 million, development milestone payments of up to $60.0 million and commercial milestone payments of up to $285.0 million. In addition, we are eligible to receive tiered royalties in the low to 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 ten 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. In conjunction with this collaboration agreement, Lilly purchased approximately $24.0 million of our common shares.

  Under the agreement, we are sharing certain research and development responsibilities with Lilly to generate bispecific antibodies with the Azymetric platform. We are responsible for our internal and external research costs in support of this collaboration. After the conclusion of the research program, Lilly will be solely responsible for the further 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 up to eight bispecific antibodies generated through the use of the Azymetric platform. 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. Celgene has the right to exercise options on up to eight programs and if Celgene opts in on a program, we are eligible to receive up to $164.0 million per product candidate
  (up to $1.3 billion for all eight 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.

  In addition, we are eligible to receive tiered royalties in the low to 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. Celgene also 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 to a flat low-single digit rate with a payment of $10.0 million per percentage point. In addition to this collaboration agreement, the parties also entered into an equity subscription agreement under which Celgene paid $8.6 million for common shares.
  Under the agreement, we are collaborating with Celgene to generate and develop a number of bispecific antibodies during the research program, the term of which expires in April 2018 but can be extended by Celgene by 24 months if Celgene makes an additional payment. After the conclusion of the research program, Celgene will be solely responsible for the further 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 10 new 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, with the royalty term being, on a product-by-product and country-by-country basis, either (i) for as long as there is Zymeworks patent coverage on products or certain joint 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 or certain joint patent coverage on products, royalty rates will be reduced. 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 the collaboration and license 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. During the term of the agreement and solely based on the outcome of the research collaboration, we have granted GSK exclusive rights to develop and commercialize monospecific antibodies against targets nominated by GSK. If GSK develops bispecific antibodies using its own platform approaches, we have granted GSK exclusive rights to develop and commercialize such antibodies comprising of specific antibody sequence pairs.

• *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 outlined in the preceding section. Under the terms of this 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, with the royalty term being, on a product-by-product and country-by-country basis, either (i) for as long as there is Zymeworks patent coverage on products, or (ii) for ten 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. No research, development or commercial milestone payments or royalties have been received to date. GSK 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 payable on such product by only 1% with a payment of $10.0 million.

Under the agreement, GSK will bear all responsibility and all costs associated with research, development and commercialization of products generated using the Azymetric platform.

• *Licensing and Collaboration 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 and development milestone payments and a commercial option payment totaling up to $67.9 million ($1.0 million development milestone recognized in 2017), 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, 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 ten years beginning from the first commercial sale, whichever period is longer. 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.

Under the agreement, we are sharing certain research and development responsibilities with Daiichi Sankyo to generate bispecific antibodies with the Azymetric platform. Daiichi Sankyo is responsible for our internal and external research costs in support of this collaboration during the research program term. After the research program term, Daiichi Sankyo will be solely responsible for the further 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.

Critical Accounting Policies and Significant Judgments and Estimates

Our critical accounting policies are those policies that require the most significant judgments and estimates in the preparation of our interim condensed consolidated financial statements. A summary of our critical accounting policies is presented in note 2 of our Annual Consolidated Financial Statements for the year ended December 31, 2016.

Our management's discussion and analysis of financial conditions and results of operations is based on our interim condensed consolidated financial statements, which have been prepared in accordance with U.S. GAAP. 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, including those related to revenue recognition, Scientific Research and Experimental Development ("SR&ED") Program and Industrial Research Assistance Program ("IRAP") credits, share-based compensation, accrual of expenses, preclinical and clinical 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.

There have been no significant changes in our critical accounting policies and estimates during the nine months ended September 30, 2017 as compared to the critical accounting policies and estimates described in our most recent annual consolidated financial statements.

Recent Accounting Pronouncements

Initial adoption of new accounting pronouncements

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation – Improvements to Employee Share-Based Payment Accounting", which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of the statement of cash flows. The amendments stipulate (a) all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, (b) excess tax benefits should be classified along with other tax cash flows as an operating activity, (c) an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, (d) the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions, and (e) cash paid by an employee when directly withholding shares for tax withholding purposes should be classified as financing activity. ASU 2016-09 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2016. We adopted ASU 2016-09 in the nine months ended September 30, 2017 and have elected to continue to estimate the impact of forfeitures when determining the amount of compensation cost to be recognized each period rather than account for forfeitures as they occur. Adoption of this guidance had no significant impact on the Company's consolidated financial statements.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, "Leases", which amends lease accounting requiring 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. ASU 2016-02 will be effective for fiscal years and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (ASC 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". This guidance 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". The core principle of the accounting standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. The amendments should be applied by either (1) retrospectively to each prior reporting period presented; or (2) retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. The new guidance is effective for fiscal years beginning after December 15, 2017, which, for the Company, means the fiscal year beginning January 1, 2018. The Company is currently conducting its analysis of the impact of the guidance on its consolidated financial statements and has a project plan in place to evaluate the implementation of the guidance. As part of this evaluation, the Company is assessing the new guidance as it applies to revenue recognized and revenues that the Company is eligible to receive in future periods under its collaboration agreements including upfront fees, research support payments, milestone payments, and royalties. The Company will be in a position to present the qualitative and quantitative impact of this new standard in its annual consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (ASC 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, which, for the Company, means the fiscal year beginning January 1, 2019. 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 Noncontrolling 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

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.

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 with strategic partners. We expect these and other strategic partnerships to be our primary source 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 research experiments, preclinical and clinical studies, 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 to employees and consultants engaged in research and development activities;
- depreciation of laboratory equipment, computers and leasehold improvements;
- fees paid to consultants, subcontractors, clinical research organizations ("CRO"), and other third party vendors for work performed under our clinical trials and preclinical studies, including but not limited to laboratory work and analysis, licenses, database management, statistical analysis, and other items; and
- amounts paid to vendors and suppliers for laboratory supplies.

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, legal and professional fees, and travel and 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, change in fair value of warrant liabilities, foreign exchange gain (loss), income (expense) from investments and impairment expense.

Results of Operations for the Three and Nine Months Ended September 30, 2017 and 2016

Research and Development Revenue

The following represents a comparison of our research and development revenue for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Revenue from research and collaborations	$ 0.1	$ 2.2	$ (2.1)	(95)%

The decrease in collaboration revenue of $2.1 million for the three months ended September 30, 2017 compared to the same period in 2016 is due to the non-recurring $2.0 million technology access fee from Daiichi Sankyo received in 2016.

	Nine Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Revenue from research and collaborations	$ 1.7	$ 8.8	$ (7.1)	(81)%

The decrease in collaboration revenue of $7.1 million for the nine months ended September 30, 2017 compared to the same period in 2016 is due to the non-recurring $6.0 million technology access fee received from GSK and $2.0 million technology access fee received from Daiichi Sankyo in 2016. These were partially offset by a $1.0 million development milestone from Daiichi Sankyo in 2017.

Research and Development Expense

The following represents a comparison of our research and development expense for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Research and development expense				
ZW25	$ 4.8	$ 1.0	$ 3.8	380%
ZW33	0.1	3.0	(2.9)	(97)%
Therapeutic platforms	1.4	1.9	(0.5)	(26)%
Other research activities	5.2	3.9	1.3	33%
Total research and development expense	$ 11.5	$ 9.8	$ 1.7	17%

During the three months ended September 30, 2017, our research and development expenditures increased by $1.7 million. This was primarily due to an increase in clinical costs for ZW25 and ADC development and antibody discovery activities compared to the same period in 2016. This increase was partially offset by lower ZW33 costs associated with reduced preclinical activities. Research and development expenses for the three months ended September 30, 2017 included $1.0 million related to activities conducted in Quebec, Canada.

	Nine Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Research and development expense				
ZW25	$ 9.3	$ 5.2	$ 4.1	79%
ZW33	1.1	8.9	(7.8)	(88)%
Therapeutic platforms	5.2	5.2	-	-
Other research activities	13.3	8.6	4.7	55%
Total research and development expense	$ 28.9	$ 27.9	$ 1.0	4%

During the nine months ended September 30, 2017, our research and development expenditures increased by $1.0 million. This was primarily due to an increase in clinical costs for ZW25 and ADC development and antibody discovery activities compared to the same period in 2016. This increase was partially offset by a decrease in preclinical costs for ZW33, compared to the same period in 2016. Research and development expenses for the nine months ended September 30, 2017 included $3.3 million related to activities conducted in Quebec, Canada.

General and Administrative Expense

The following represents a comparison of our general and administrative expense for the three and nine months ended September 30, 2017 and 2016:

	Three Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
General and administrative expense	$ 5.3	$ 2.7	$ 2.6	96%

General and administrative expense increased for the three months ended September 30, 2017 by $2.6 million, compared to the same period in 2016, primarily due to an increase in compensation costs, professional fees and recruitment costs.

	Nine Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
General and administrative expense	$ 13.8	$ 7.4	$ 6.4	86%

General and administrative expenses increased for the nine months ended September 30, 2017 by $6.4 million, compared to the same period in 2016, primarily due to an increase in compensation costs, professional fees, recruitment costs and depreciation expenses. The compensation cost increase was the result of new hires and higher share-based compensation expenses due to the impact of accounting treatment that requires the reclassification of certain awards from equity to liability for accounting purposes under U.S. GAAP. 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)

	Three Months Ended September 30,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Other income (expenses), net	$ 0.5	$ (1.1)	$ 1.6	145%

Net other income for the three months ended September 30, 2017 increased by $1.6 million compared to the same period in 2016. Other income for 2017 primarily included a $0.2 million gain due to a decrease in the fair value of warrant liabilities, $0.2 million in interest income and $0.1 million in foreign currency gain resulting in a net other income of $0.5 million.

Net other expenses for the same period in 2016 primarily consisted of $0.4 million in net accretion, interest and other finance expenses, a $0.4 million loss due to an increase in the fair value of warrant liabilities and $0.3 million in foreign currency losses resulting in a net other expense of $1.1 million.

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Increase/(Decrease)	
	(dollars in millions)			
Other income (expense), net	$ (0.6)	$ (0.3)	$ (0.3)	(100)%

Net other expense for the nine months ended September 30, 2017 increased by $0.3 million compared to the same period in 2016. Other income (expenses) for 2017 primarily included a $3.1 million loss on debt extinguishment, which was partially offset by a $2.3 million gain due to a decrease in the fair value of warrant liabilities and a $0.2 million in foreign exchange gain resulting in net other expense of $0.6 million. $3.1 million of loss on debt extinguishment was incurred due to the repayment of long term debt in June 2017.

Net other expense for the same period in 2016 consisted of $0.9 million in accretion, interest and other finance expenses and a $0.8 million loss due to an increase in the fair value of warrant liabilities, which were partially offset by $1.3 million foreign exchange gain and a $0.1 million gain from previously held equity investment in Kairos Therapeutics Inc. ("Kairos"), resulting in a net other expense of $0.3 million.

Summary of Quarterly Results

The following table sets forth selected unaudited quarterly results of operations data for each of the eight quarters ended September 30, 2017. The information for each of these quarters has been derived from unaudited condensed consolidated financial statements that were prepared on the same basis as the audited annual financial statements and, in the opinion of management, reflects all adjustments, which includes only normal recurring adjustments, necessary for the fair presentation of the results of operations for these periods in accordance with U.S. GAAP. This data should be read in conjunction with our interim unaudited financial statements and audited consolidated financial statements and related notes for the same period. These quarterly operating results are not necessarily indicative of our operating results for a full year or any future period.

	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017
	(dollars in thousands)							
Revenue	$ 1,439	$ 262	$ 6,343	$ 2,172	$ 2,232	$ 230	$ 1,342	$ 119
Operating expenses:								
Research and development	8,238	7,916	10,223	9,759	8,918	9,058	8,289	11,525
Government grants and credits	(251)	—	—	—	(1,265)	(218)	—	—
	7,987	7,916	10,223	9,759	7,653	8,840	8,289	11,525
General and administrative	1,371	2,085	2,656	2,696	5,117	6,259	2,285	5,291
Impairment on acquired IPR&D	—	—	—	768	—	1,536	—	—
Total operating expenses	9,358	10,001	12,879	13,223	12,770	16,635	10,574	16,816
Loss from operations	(7,919)	(9,739)	(6,536)	(11,051)	(10,538)	(16,405)	(9,232)	(16,697)
Other income (expense)	4	1,620	(815)	(1,091)	(734)	479	(1,611)	502
Loss before income taxes	(7,915)	(8,119)	(7,351)	(12,142)	(11,272)	(15,926)	(10,843)	(16,195)
Income tax expense	(34)		(72)	(255)	(103)	—	(162)	(35)
Deferred income tax benefit	—	5,407	—	—	98	—	37	(15)
Net loss	$ (7,949)	$ (2,712)	$ (7,423)	$ (12,397)	$ (11,277)	$ (15,926)	$ (10,968)	$ (16,245)
Net loss per common share (basic)	$ (0.70)	$ (0.24)	$ (0.58)	$ (0.94)	$ (0.86)	$ (1.21)	$ (0.55)	$ (0.64)
Weighted-average number of common shares (basic)	11,297,567	11,516,282	12,823,456	13,126,248	13,126,248	13,183,928	20,915,608	25,339,272

Variations in the Company’s revenue and net losses and expenses for the periods above resulted primarily from the following factors:

Revenue

- Revenue in Q4 2015 included $1.0 million in milestone revenue from Lilly and $0.4 million in research support payments from Merck.
- Revenue in Q2 2016 included a $6.0 million technology access fee from GSK and $0.3 million in research support payments from Merck.
- Revenue in Q3 2016 included a $2.0 million technology access fee from Daiichi Sankyo and $0.2 million in research support payments from Merck.
- Revenue in Q4 2016 included a $2.0 million in milestone revenue from Lilly and $0.2 million in research support payments from Merck, Lilly and Daiichi Sankyo.
- Revenue in Q3 2015, Q1 2016 and Q1 2017 included research support payments from Merck, Lilly and Daiichi Sankyo.
- Revenue in Q2 2017 included $1.0 million in milestone revenue and $0.3 million in research support payments from Daiichi Sankyo.
- Revenue in Q3 2017 included $0.1 million in research support payments from Daiichi Sankyo.

Research and development expenses

- During the quarterly periods in year 2016, our research and development expenditures increased compared to 2015. This was primarily due to the start of clinical activities related to ZW25, increased clinical manufacturing activities and IND-enabling studies associated with ZW25 and ZW33, as well as increased activities associated with our therapeutic platforms and early-stage research and discovery programs recorded in other research activities. Increase in research and development activities in 2016 was partially offset by $1.3 million SR&ED credits recognized in Q4 2016.
- Research and development expenses in Q1 2017 were consistent with Q4 2016 which were partially offset by a $0.2 million IRAP credit recognized in Q1 2017.
- Research and development expenses in Q2 2017 decreased, primarily due to decreased preclinical costs for ZW33 and lower partnered programs activities.
- Research and development expenses in Q3 2017 increased, primarily due to an increase in clinical costs for ZW25.

General and administrative expenses

- During the quarterly periods in year 2016, our general and administrative expenses increased compared to 2015. This was primarily due to increases in compensation costs and professional fees. The compensation cost increase was the result of new hires and higher share-based compensation expense due to the non-cash reclassification of certain awards from equity to liability under U.S. GAAP accounting guidelines. The increase in professional fees over the same period in 2015 was associated with consulting services and laboratory and office expansions as well as legal, intellectual property and human resources advisory services.
- The increase in general and administrative expense in Q1 2017 was primarily due to an increase in compensation costs and professional fees. The compensation cost increase was the result of new hires and higher share-based compensation expense due to reclassification of certain awards from equity to liability.
- The decrease in general and administrative expense in Q2 2017 was primarily due to a decrease in compensation costs. The compensation decrease was the result of a decrease in the fair value of certain option awards classified as liability for accounting purposes under U.S. GAAP.
- The increase in general and administrative expense in Q3 2017 was primarily due to compensation costs and professional fees.

Impairment and other income (expenses)

- Impairment charges in Q3 2016 and Q1 2017 were related to the in-process research & development assets (“IPR&D”) that were recognized from the Kairos acquisition.
- Other income (expense) in the quarterly periods in year 2016 were primarily comprised of:
  - interest and accretion expenses related to our long-term debt which are recognized over the period of long term debt starting in Q2 2016;
  - interest income from our short-term investments;
  - changes in fair value of warrant liabilities which fluctuates based on the share price of the Company at reporting dates;
  - net gain recognized from our equity interest in Kairos prior to the full acquisition of Kairos; and
  - foreign exchange gain (loss) which is primarily due to our cash, short-term investments and liabilities denominated in Canadian dollar which fluctuates based on the U.S. dollar exchange rate against the Canadian dollar.
- Other income (expense) in the quarterly periods of 2017 was primarily comprised of:
  - change in fair value of warrant liabilities which fluctuates based on the share price of the Company at the reporting date; and
  - loss on debt extinguishment recorded for accounting purposes under U.S. GAAP due to early repayment of long term debt in Q2 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, a private placement of preferred shares and a credit facility. We entered into the credit facility on June 2, 2016 with the Perceptive Facility Lenders (the “Credit Agreement”). 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 and the Tranche A term amount of $7.5 million was 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 principal balance ($7.5 million) and an early repayment premium ($0.3 million) as well as legal fees ($0.01 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. We received net proceeds of approximately $54.2 million, after underwriting discounts, commissions and estimated 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 September 30, 2017, we had $49.1 million in cash and cash equivalents and short-term investments. We expect to continue to receive additional reimbursements from our existing and future research collaborations for research and development services rendered and additional milestone payments. However, our ability to receive future milestone payments is dependent upon the ability of Zymeworks and its collaborators to successfully complete specified research and development activities and therefore is uncertain at this time (see “Risk Factors” on page 19 of this MD&A).

Cash Flows

The following table represents a summary of our cash flows for the nine months ended September 30, 2017 and 2016:

	Nine Months Ended September 30	
	2017	**2016**
	(dollars in millions)	
Net cash provided by (used in):		
Operating activities	$ (38.8)	$ (26.7)
Financing activities	49.8	66.1
Investing activities	(15.4)	(22.7)
Effect of exchange rate changes on cash and cash equivalents	0.3	(0.3)
Net (decrease) increase in cash and cash equivalents	$ (4.1)	$ 16.4

Operating Activities

Net cash used in operating activities reflects, among other things, amounts used to fund our preclinical and clinical activities, including clinical manufacturing and IND-enabling studies. The increase in net cash used in operating activities was primarily due to an increase in the activities associated with our ongoing research programs and an increase in our professional fees resulting from the license and collaboration agreements. There has been no material variance from the use of proceeds described in the Prospectus filed in connection with the IPO.

Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2017 included $56.1 million of net proceeds from the IPO and $1.5 million from exercises of warrants and stock options offset by $7.8 million in debt repayment. Net cash provided by financing activities for the same period in 2016 included $58.9 million from a private placement and $6.9 million net proceeds from debt financing.

Investing Activities

Net cash used in investing activities for the nine months ended September 30, 2017 is primarily related to a $12.7 million increase in short-term investments, $1.6 million in purchases of laboratory equipment and computer hardware as well as increases in leaseholds and $1.1 million in research license and software.

Funding Requirements

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 of 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 collaboration opportunities. 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 September 30, 2017, will enable us to advance the clinical development of ZW25 and lead preclinical product candidates based on our platform technologies. We may also be eligible to receive certain research, development and commercial milestone payments in the future. 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 the research, development and commercialization of product candidates (see “Risk Factors” on page 19 of this MD&A).

Contractual Obligations and Contingent Liabilities

	Payments due by period			
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Total
	(dollars in thousands)			
Capital lease obligations	$ 17	$ 62	$ —	$ 79
Operating lease obligations	1,834	3,701	1,973	7,508
Total contractual obligations	1,851	3,763	1,973	7,587

Lease Commitments

We lease premises in Vancouver, British Columbia under an agreement that expires in August 2021 and in Seattle, Washington under agreements that expire in February 2022. We have also entered into a lease for laboratory space in Vancouver, British Columbia that will expire in August 2021. The leases contain rent escalation clauses. We also lease office equipment under capital lease agreements.

Other Commitments

We have entered into research collaboration agreements with our 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. 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 Innovative Targeting Solutions Inc., (“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. The licensing fee for the first year was $1.0 million, which has been recorded in intangible assets and is 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 the Kairos acquisition, the Company may be required to make future payments to CDRD Ventures Inc. (“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. The Company believes the fair value of this contingent liability is minimal.

Outstanding Share Capital

As of November 8, 2017, there were no preferred shares in the capital of the Company issued and outstanding, 25,377,246 common shares issued and outstanding, and other securities convertible into common shares as summarized in the following table:

	Number Outstanding as of November 8, 2017
Common shares issued and outstanding	25,377,246
Preferred shares	Nil
Options	2,928,384
Warrants	398,076

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.

Related Party Transactions

Lilly is a shareholder of the Company and is considered a related party under ASC 850. Total revenue recognized from the two Lilly agreements for the nine months ended September 30, 2017 and 2016 are $0.02 million, and $nil, respectively. The amounts receivable from Lilly under these agreements was $nil and $2.0 million as of September 30, 2017 and December 31, 2016, respectively.

CTI Life Sciences Fund, L.P. (“CTI”) is a shareholder of the Company and is considered a related party under ASC 850. On October 22, 2014, the Company issued 117,320 common share purchase warrants to CTI in conjunction with a share exchange. As of September 30, 2017, there are no warrants held by CTI as they were exercised on April 18, 2017.

Proposed Transactions

There are at present no transactions outstanding that have been proposed but not approved by either the Company or regulatory authorities.

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 September 30, 2017, due to their short-term maturities.

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, accounts receivable and other receivables. Cash and cash equivalents and short-term investments are invested in accordance with the Company's treasury policy (the "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 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 $0.2 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.

Fair value of financial instruments

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 quoted prices included within Level 1 that are observable for the asset or liability 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; and
- 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, long term debt, 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. 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. These are level 3 inputs as defined above.

The following table presents 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:

	September 30, 2017	Level 1	Level 2	Level 3
		(dollars in thousands)		
Liabilities				
Liability classified stock options	$ 4,188	$ —	$ —	$ 4,188
Warrant liabilities	1,478	—	—	1,478
Total	$ 5,666	$ —	$ —	$ 5,666

Risk Factors

You should carefully consider the risk factors included in our registration statement filed with the U.S. Securities Exchange Commission on April 3, 2017 and Prospectus dated April 27, 2017 filed with the securities commissions or similar regulatory authorities in each of the provinces and territories of Canada, in addition to the other information contained in this MD&A and our condensed consolidated financial statements and related notes. If any of the events described in the risk factors occurs, our business, operating results and financial condition could be seriously harmed. There have been no significant changes in our risk factors during the three months ended September 30, 2017 as compared to the risk factors described in our registration statement.

Additional Information

Additional information about the Company, including our unaudited condensed financial statements for the three months ended September 30, 2017 and notes thereto as well as with our audited financial statements and notes thereto for the year ended December 31, 2016, is available on SEDAR at www.sedar.com and EDGAR at www.sec.gov.

Exhibit 99.2

Interim Condensed Consolidated Financial Statements of

ZYMEWORKS INC.

As of September 30, 2017 and for the three and nine months ended September 30, 2017
(Unaudited)

(Reported under U.S. GAAP and expressed in
thousands of U.S. dollars, unless otherwise noted)

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

	September 30, 2017 (unaudited)	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 12,332	$ 16,437
Short-term investments (note 4)	36,761	23,824
SR&ED and IRAP receivables	1,788	1,660
Accounts receivables	180	2,647
Prepaid expenses and other current assets	3,372	1,916
Total current assets	54,433	46,484
Deferred financing fees	—	1,560
Acquired in-process research and development (note 5)	18,396	19,932
Goodwill (note 5)	12,016	12,016
Long-term prepaid assets	1,248	1,483
Property and equipment, net	7,540	6,721
Intangible assets, net	1,000	699
Deferred tax assets	5,091	5,100
Total assets	$ 99,724	$ 93,995
Liabilities, redeemable convertible preferred shares, and shareholders' equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 6,058	$ 9,477
Warrant liabilities (note 7.b)	1,478	4,342
Fair value of liability classified stock options (note 8.e)	4,188	2,458
Other current liabilities (note 6)	188	279
Total current liabilities	11,912	16,556
Long-term debt (note 7.a)	—	4,417
Deferred tax liability	4,978	5,019
Other long-term liabilities	256	141
Total liabilities	17,146	26,133
Redeemable convertible preferred shares, nil and 6,413,265 authorized shares at September 30, 2017 and December 31, 2016, no par value, nil and 5,260,404 shares issued and outstanding at September 30, 2017 and December 31, 2016 (note 8.b)	—	58,860
Shareholders' equity:		
Common shares, unlimited authorized shares, no par value: 25,339,955 and 13,126,248 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively	222,162	106,595
Preferred shares, unlimited authorized shares, no par value: nil shares issued and outstanding at September 30, 2017 and December 31, 2016	—	—
Additional paid-in capital	8,524	6,856
Accumulated other comprehensive loss	(6,659)	(6,659)
Accumulated deficit	(141,449)	(97,790)
Total shareholders' equity	82,578	9,002
Total liabilities, redeemable convertible preferred shares and shareholders' equity	$ 99,724	$ 93,995

Research collaboration and licensing agreements (note 9)
Commitments and contingencies (note 10)

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					
	Shares	**Amount**	**Shares**	**Amount**	**Accumulated deficit**	**Accumulated other comprehensive loss**	**Additional paid-in capital**	**Total shareholders' equity**
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	—	—	103,726	948	—	—	(282)	666
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	—	—	—	—	—	—	4,309	4,309
Beneficial conversion feature recognized on the conversion of redeemable convertible class A preferred shares (note 8.c)	—	—	—	—	(520)	—	520	—
Conversion of redeemable convertible class A preferred shares to common shares in connection with initial public offering (note 8.c)	(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 $9,256	—	—	4,894,467	54,196	—	—	—	54,196
Net loss	—	—	—	—	(43,139)	—	—	(43,139)
Balance at September 30, 2017 (unaudited)	—	$ —	25,339,955	$ 222,162	$ (141,449)	$ (6,659)	$ 8,524	$ 82,578

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)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	**2016**	**2017**	**2016**
Revenue				
Research and developmental collaborations (note 9)	$ 119	$ 2,172	$ 1,691	$ 8,777
Operating expenses:				
Research and development	11,525	9,759	28,872	27,898
Government grants and credits	—	—	(218)	—
	11,525	9,759	28,654	27,898
General and administrative	5,291	2,696	13,835	7,437
Impairment on acquired IPR&D (note 5)	—	768	1,536	768
Total operating expenses	16,816	13,223	44,025	36,103
Loss from operations	(16,697)	(11,051)	(42,334)	(27,326)
Other income (expense)				
Interest and other expense	(2)	(266)	(408)	(749)
Change in fair value of warrant liabilities	187	(369)	2,320	(747)
Accretion on long-term debt	—	(285)	(248)	(380)
Interest and other income	210	106	588	238
Foreign exchange gain (loss)	107	(277)	232	1,273
Loss on debt extinguishment (note 7.a)	—	—	(3,114)	—
Equity loss on investment	—	—	—	(98)
Gain on fair value of equity investment	—	—	—	177
Total other income (expense)	502	(1,091)	(630)	(286)
Loss before income taxes	(16,195)	(12,142)	(42,964)	(27,612)
Current income tax expense	(35)	(255)	(197)	(327)
Deferred income tax (expense) recovery	(15)	—	22	5,407
Net loss and comprehensive loss	$ (16,245)	$ (12,397)	$ (43,139)	$ (22,532)
Net loss per common share (note 2):				
Basic	(0.64)	(0.94)	(2.20)	(1.79)
Diluted	(0.65)	(0.94)	(2.32)	(1.79)
Weighted-average common shares outstanding (note 2):				
Basic	25,339,272	13,126,248	19,857,449	12,605,725
Diluted	25,349,210	13,126,248	19,969,002	12,605,725

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)
(unaudited)

	Nine Months Ended September 30,	
	2017	**2016**
Cash flows from operating activities:		
Loss for the period	$ (43,139)	$ (22,532)
Items not involving cash:		
Depreciation of property and equipment	1,213	330
Amortization of intangible assets	781	74
Equity loss on investment	—	98
Gain on fair value of equity investment	—	(177)
Accretion on long-term debt	248	380
Loss on extinguishment of debt	3,114	—
Share-based compensation	2,971	1,730
Deferred income tax expense (recovery)	(22)	(5,407)
Impairment on acquired IPR&D	1,536	768
Change in fair value of warrant liabilities	(2,320)	747
Unrealized foreign exchange (gain) / loss	(181)	—
Changes in non-cash operating working capital:		
Accounts receivables	2,467	(142)
SR&ED and IRAP receivables	2	491
Prepaid expenses and other current assets	(1,222)	(3,043)
Accounts payable and accrued liabilities	(4,101)	(239)
Income taxes payable	(143)	273
Net cash used in operating activities	(38,796)	(26,649)
Cash flows from financing activities:		
Proceeds from initial public offering, net of issuance costs	56,104	—
Issuance of preferred shares from private placement, net of issuance costs	—	58,860
Issuance of common shares on exercise of stock options	525	17
Issuance of common shares on exercise of warrants	1,018	—
Debt financing	—	6,953
Repayment of debt	(7,814)	—
Deferred financing fees	—	246
Capital lease payments	(7)	(5)
Net cash provided by financing activities	49,826	66,071
Cash flows from investing activities:		
Short-term investments	(12,647)	(20,033)
Acquisition of property and equipment	(1,633)	(2,745)
Acquisition of intangible assets	(1,082)	(26)
Cash acquired from Kairos, net of cash consideration	—	78
Net cash used in investing activities	(15,362)	(22,726)
Effect of exchange rate changes on cash and cash equivalents	227	(271)
Net change in cash and cash equivalents	(4,105)	16,425
Cash and cash equivalents, beginning of period	16,437	11,519
Cash and cash equivalents, end of period	$ 12,332	$ 27,944
Supplemental disclosure of non-cash investing and finance items:		
Acquisition of property and equipment in accounts payable and accrued liabilities	409	41
Common Shares issued in connection with the Kairos acquisition	—	22,973

The accompanying notes are an integral part of these 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 discovery, development and commercialization of next-generation biotherapeutics, initially focused on the treatment of cancer.

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 and undertaking preclinical studies as well as providing general and administrative support, business planning, raising capital 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 stock was declared effective by the 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. 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 stock including the sale of 394,467 shares of common stock 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 estimated 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 8.c) 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 7).

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying interim condensed 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") and pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, these financial statements do not include all the information and footnotes required for complete financial statements and should be read in conjunction with the audited financial statements and notes for the year ended December 31, 2016.

These unaudited interim financial statements reflect all adjustments, consisting solely of normal recurring adjustments, which, in the opinion of management, are necessary for a fair presentation of results for the interim periods presented. The results of operations for the three and nine months ended September 30, 2017 and 2016 are not necessarily indicative of results that can be expected for a full year. These unaudited interim financial statements follow the same significant accounting policies as those described in the notes to the audited financial statements of the Company for the year ended December 31, 2016.

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.

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, including those related to revenue recognition, Scientific Research and Experimental Development (“SR&ED”) Program and Industrial Research Assistance Program (“IRAP”) credits, 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.

Financial instruments

Fair value of financial instruments

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 quoted prices included within Level 1 that are observable for the asset or liability 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, accounts receivable, accounts payable and accrued liabilities, warrants, long term debt, liability classified stock options and other long term liabilities.

The carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term maturity of these financial instruments. 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. These are 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:

	September 30, 2017	Level 1	Level 2	Level 3
Liabilities				
Liability classified stock options	$ 4,188	$ —	$ —	$ 4,188
Warrant liabilities (note 7.b)	1,478	—	—	1,478
Total	$ 5,666	$ —	$ —	$ 5,666

	December 31, 2016	Level 1	Level 2	Level 3
Liabilities				
Liability classified stock options	$ 2,458	$ —	$ —	$ 2,458
Warrant liabilities (note 7.b)	4,342	—	—	4,342
Total	$ 6,800	$ —	$ —	$ 6,800

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

	Liability at beginning of the period	Increase (decrease) in fair value of warrant liabilities	Exercise of warrants	Liability at end of the period
Three months ended September 30, 2017	$ 1,665	$ (187)	$ —	$ 1,478

	Liability at beginning of the period	Increase (decrease) in fair value of warrant liabilities	Exercise of warrants	Liability at end of the period
Nine months ended September 30, 2017	$ 4,342	$ (2,320)	$ (544)	$ 1,478

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

	Liability at beginning of the period	Exercise of options	Increase (decrease) in fair value of liability classified stock options	Liability at end of the period
Three months ended September 30, 2017	$ 4,513	$ (20)	$ (305)	$ 4,188

	Liability at beginning of the period	Reclassification to liabilities from equity	Exercise of options	Increase (decrease) in fair value of liability classified stock options	Liability at end of the period
Nine months ended September 30, 2017	$ 2,458	$ 2,879	$ (142)	$ (1,007)	$ 4,188

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 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 estimated 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.

Net income (loss) per share

The Company follows the two-class method when computing net income (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 income (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 period 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 are 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 the periods presented. The redeemable convertible Class A preferred shares were converted into common share in conjunction with the Company's IPO.

Basic net income (loss) per share attributable to common shareholders is computed by dividing the net income (loss) attributable to common shareholders by the weighted- average number of common shares outstanding for the period. Diluted net income (loss) attributable to common shareholders is computed by adjusting net income (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 income (loss) per share attributable to common shareholders is computed by dividing the diluted net income (loss) attributable to common shareholders by the weighted-average number of common shares outstanding for the period, 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 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.

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Numerator:				
Net loss attributable to common shareholders:	$ (16,245)	$ (12,397)	$ (43,139)	$ (22,532)
Deemed dividend due to beneficial conversion feature	$ —	$ —	$ (520)	$ —
Basic	$ (16,245)	$ (12,397)	$ (43,659)	$ (22,532)
Adjustment for change in fair value of ASC 815 liability classified stock options and warrant	(222)	—	(2,627)	—
Diluted	$ (16,467)	$ (12,397)	$ (46,286)	$ (22,532)
Denominator:				
Weighted-average common shares outstanding:				
Basic	25,339,272	13,126,248	19,857,449	12,605,725
Adjustment for dilutive effect of liability classified stock options and warrants	9,938	—	111,553	—
Diluted	25,349,210	13,126,248	19,969,002	12,605,725
Net loss per common share - basic	$ (0.64)	$ (0.94)	$ (2.20)	$ (1.79)
Net loss per common share - diluted	$ (0.65)	$ (0.94)	$ (2.32)	$ (1.79)

3. Recent Accounting Pronouncements

Initial adoption of new accounting pronouncements

In March 2016, the FASB issued ASU 2016-09, "Compensation – Stock Compensation – Improvements to Employee Share-Based Payment Accounting", which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification of the statement of cash flows. The amendments stipulate (a) all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the statement of operations and the tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur, (b) excess tax benefits should be classified along with other tax cash flows as an operating activity, (c) an entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest (current GAAP) or account for forfeitures when they occur, (d) the threshold to qualify for equity classification permits withholding up to the maximum statutory tax rates in the applicable jurisdictions, and (e) cash paid by an employee when directly withholding shares for tax withholding purposes should be classified as financing activity. ASU 2016-09 is effective for fiscal years and interim periods within those years, beginning on or after December 15, 2016. The Company adopted ASU 2016-09 in the three months ended March 31, 2017 and elected to continue to estimate the impact of forfeitures when determining the amount of compensation cost to be recognized each period rather than account for forfeitures as they occur. Adoption of this guidance had no significant impact on the Company's consolidated financial statements.

Recent accounting pronouncements not yet adopted

In February 2016, the FASB issued ASU 2016-02, "Leases", which amends lease accounting requiring 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. ASU 2016-02 will be effective for fiscal years and interim periods within those years, beginning after December 15, 2018. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers" (ASC 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". This guidance 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". The core principle of the accounting standard is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The amendments should be applied by either (1) retrospectively to each prior reporting period presented; or (2) retrospectively with the cumulative effect of initially applying this ASU recognized at the date of initial application. The new guidance is effective for fiscal years beginning after December 15, 2017, which, for the Company, means the fiscal year beginning January 1, 2018. The Company is currently conducting its analysis of the impact of the guidance on its consolidated financial statements and has a project plan in place to evaluate the implementation of the guidance. As part of this evaluation, the

Company is assessing the new guidance as it applies to revenue recognized and revenues that the Company is eligible to receive in future periods under its collaboration agreements including upfront fees, research support payments, milestone payments, and royalties. The Company will be in a position to present the qualitative and quantitative impact of this new standard in its annual consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, "Compensation-Stock Compensation (ASC 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, which, for the Company, means the fiscal year beginning January 1, 2019. 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 Noncontrolling 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.

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") held at financial institutions in accordance with the Company's treasury policy. These GICs bear interest rate of 1.0%-1.53% per annum with a term to maturity of up to 12 months.

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, 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. At the time of acquisition, the Company issued 1,520,371 common shares having a fair value of $19,203 (C$25,000). The remaining 304,074 common shares, having a fair value of $3,770 (C$5,000), were held back for a period of six months under the terms of the agreement for the sellers' satisfaction of general representations and warranties and potential working capital adjustments and were issuable in six months, subject to deductions for any undisclosed matters that may arise during that period. On September 18, 2016, 302,286 common shares were issued after accounting for adjustments relating to undisclosed pre-acquisition invoices. On the date of the acquisition, refundable SR&ED credits receivable by Kairos related to the period preceding the acquisition are payable to CDRD Ventures Inc. ("CVI"), the former majority shareholder of Kairos. As of September 30, 2017, a SR&ED receivable and corresponding payable to CVI of $141 has been recorded in the consolidated financial statements.

Purchase Price Allocation:

The acquisition is accounted for in accordance with ASC—805 Business Combinations using the acquisition method. The acquisition method of accounting requires, among other things, that the assets acquired and liabilities assumed in a business combination be measured at their fair values at the closing date of the acquisition.

The fair value of the previously held 19.99% equity interest is calculated as the implied per share fair value based upon the acquisition purchase price reduced by the lack of control discount associated with the 19.99% holding. Upon acquiring the remaining outstanding ownership interest in Kairos, the Company remeasured its original equity interest to its fair value and recognized a $177 gain.

During the three months ended March 31, 2017, the Company finalized the purchase price allocation which was disclosed on a preliminary basis during the measurement period which was from the acquisition date of March 18, 2016 to the date the Company finalized the purchase price allocation on March 18, 2017. The fair values of the consideration issued, assets acquired and liabilities assumed in the acquisition at March 18, 2016 were finalized with no revisions and adjustments on the previously reported preliminary amounts.

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 or abandonment of the associated research and development efforts, and, if completed, 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 (“OBT Co-Development”) with Oxford BioTherapeutics (“OBT”) due to the negative results received from scientific studies conducted during the period subsequent to the acquisition of Kairos. The corresponding deferred tax liability and deferred tax asset balances of $198 were also reversed which resulted in a deferred tax liability and an offsetting deferred tax asset of $5,127 related to IPR&D as of December 31, 2016. 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 did not make any selections from the therapeutic targets contributed by OBT within the research term which expired on February 11, 2017. The corresponding deferred tax liability and deferred tax asset balances of $399 were also reversed. The Company concluded that there were no further impairment indicators related to IPR&D for the three months ended September 30, 2017.

The following table summarizes the carrying value of IPR&D, net of impairment:

	September 30, 2017	December 31, 2016
Acquired IPR&D	$ 20,700	$ 20,700
Less: Impairment	(2,304)	(768)
	$ 18,396	$ 19,932

6. Current Liabilities

Accounts payable and accrued expenses consisted of the following:

	September 30, 2017	December 31, 2016
Trade payables	$ 1,951	$ 2,955
Accrued research expenses	3,042	2,305
Employee compensation and vacation accruals	368	1,651
Accrued legal and professional fees	332	1,489
Payable to CVI for Kairos SR&ED receivable	141	131
Other	224	946
Total	$ 6,058	$ 9,477

Other current liabilities consisted of the following:

	September 30, 2017	December 31, 2016
Income tax liability	$ 86	$ 230
Lease inducements	92	41
Current portion of capital lease liability	10	8
Total	$ 188	$ 279

7. 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, the "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 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 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.

The Company paid approximately $845 of administrative, legal fees and other costs in connection with the Perceptive Debt, including expenses incurred prior to the transaction date. Of this amount, $368 attributed to the warrants was expensed on the date of the transaction, while $477 was allocated to long-term debt and was being amortized to finance expense over the term of the Perceptive Debt.

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 8.c), 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 are classified as liabilities as they contain a down-round provision and because of the understanding that in compliance with applicable securities laws, the warrants require the issuance of registered securities upon exercise and do 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 outstanding principal balance ($7,500), an early repayment premium ($300) as well as legal fees ($14). 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 will remain outstanding until exercised or expired.

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.

	Nine months ended September 30, 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 include the following:

	September 30, 2017	December 31, 2016
Perceptive Warrants (note 7.a)	$ 1,478	$ 3,314
CTI Warrants	—	1,028
Total warrant liabilities	$ 1,478	$ 4,342

On October 22, 2014, the Company issued 117,320 common share purchase warrants to CTI Life Sciences Fund, L.P. ("CTI") in conjunction with a share exchange (the "CTI Warrants"). Each warrant entitles the holder of the warrants to subscribe for and purchase, subject to the terms and restrictions of the agreement, one fully paid common share of the Company, at a purchase price of C$11.60 per common share. The warrants had an expiry date of the earlier of October 22, 2017 or certain transactions or events as defined under the agreement. These warrants were originally recorded in shareholders' equity. Upon the change of the functional currency from Canadian dollars to U.S. dollars effective January 1, 2016, these warrants were reclassified as liability awards at that date. Subsequently, this liability classified warrant is measured at fair value at each reporting period until exercised or cancelled, with changes in fair value recorded in the consolidated statements of loss and comprehensive loss. Upon the completion of the filing of a preliminary prospectus in Canada and a registration statement in the U.S., the Company exercised its option to accelerate the expiration date by giving written notice to the holder, which provided the holder 30 days to exercise the warrant under the terms of the CTI Warrant certificate. On April 18, 2017, CTI exercised its warrants to purchase 117,320 common shares of the Company at a price of C$11.60 for proceeds of $1,018 (C$1,361). On the date of exercise, the fair value of the CTI Warrants liability was $544 which was recorded in the common shares account. The fair value of the CTI Warrants decreased by $484 during the period leading up to the exercise of the warrants.

The Company recorded a $1,836 decrease in fair value of warrant liabilities during the nine months ended September 30, 2017, related to the Perceptive Warrants. The estimated fair value of the Perceptive Warrants was determined using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	65.57%
Risk-free interest rate	1.77%

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

The number of shares and per share amounts are not presented in thousands.

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

The rights and preferences of the 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 would have ceased to exist upon conversion of preferred shares into common shares.

Each preferred shareholder was 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 and no Redeemable Convertible Class A Preferred Shares were outstanding as of September 30, 2017.

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

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, a new stock option plan (the "New Plan"), was approved by the shareholders of the Company and it became effective immediately prior to the consummation of the IPO. The New Plan allows for the grant of options to directors, officers, employees and consultants in U.S. or Canadian dollars. The Company may also grant incentive stock options ("ISOs"), within the meaning of Section 422 of the Code, to its employees under the New Plan.

The maximum number of common shares reserved for issuance, in the aggregate, under the New Plan is not to exceed a rolling number equal to 17% of the Company's issued and outstanding common shares (on a non-diluted basis) at the time of grant of options under the New Plan (and shall include the number of common shares that are reserved for issuance upon the exercise of stock options outstanding as of the effective time of the New Plan that were previously granted under the Original Plan). ISOs may be granted with respect to a maximum fixed amount equal to 20% of the common shares reserved for issuance under the New Plan at the effective time of the New Plan. Since the inception of the New Plan, the Company has granted 849,705 options under the New Plan.

All options granted under the New Plan will have an exercise price determined and approved by the board of directors at the time of grant, which shall not be less than the market price of the common shares at such time. For purposes of the New Plan, the market price of the common shares shall be the volume weighted average trading price of the common shares on the Toronto Stock Exchange ("TSX") (or the stock exchange where the majority of trading volume and value of the common shares has occurred for the five trading days prior to the relevant date) for the five trading days ending on the last trading day before the day on which the option is granted. 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 of directors 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.

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$)	Weighted-Average Exercise Price (US$)	Weighted-Average Contractual Term (years)	Aggregate intrinsic value (C$)	Aggregate intrinsic value (US$)
Outstanding, December 31, 2016	1,910,521	11.67	8.69	7.36	20,958	15,609
Granted	672,528	19.69	15.06			
Expired	(2,536)	14.44	11.04			
Exercised	(103,726)	6.67	5.10			
Forfeited	(49,192)	17.54	13.42			
Outstanding, September 30, 2017	2,427,595	13.99	11.21	7.49	2,087	1,672

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 (US$)	Weighted-Average Contractual Term (years)	Aggregate intrinsic value (US$)
Outstanding, December 31, 2016	—	—	—	—
Granted	641,480	9.73		
Expired	—	—		
Exercised	—	—		
Forfeited	(6,285)	—	—	—
Outstanding, September 30, 2017	635,195	9.73	9.71	22,249

The Company received cash proceeds of $525 (C$692) (2016 – $17 (C$22)), from stock options exercised.

The stock options expire at various dates from December 31, 2017 to August 13, 2027.

The estimated fair value of options granted to officers, directors, employees and consultants is amortized over the vesting period. Compensation expense (income) is recorded in research and development expenses, general and administration expenses and finance expense (income) as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Research and development	$ 177	$ 392	$ 1,149	$ 1,388
General and administrative and other	1,432	128	1,822	342
Total	$ 1,609	$ 520	$ 2,971	$ 1,730

The estimated fair value of the stock options granted was determined using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Nine Months Ended September 30,	
	2017	2016
Dividend yield	0%	0%
Expected volatility	66.1%	71.8%
Risk-free interest rate	1.28%	1.12%
Expected average life of options	5.89 years	5.91 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 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.

Common 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 of directors. 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 of directors, 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 are as follows:

	September 30, 2017	September 30, 2016
Dividend yield	0%	0%
Expected volatility	66.5%	70.5%
Risk-free interest rate	1.55%	1.06%
Expected average option term	5.89 years	5.91 years
Number of liability classified stock options outstanding	1,525,286	85,886

At September 30, 2017, the unamortized compensation expense related to unvested options was $11,385 (C$14,208). The remaining unamortized compensation expense as of September 30, 2017 will be recognized over the a weighted-average period of 2.15 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 it became effective immediately prior to the consummation of the IPO. Under the ESPP, eligible employees will be able to acquire the Company's common shares at a discount from the average market price of the common shares on the purchase date. The ESPP is intended to qualify as an "employee stock purchase plan" within the meaning of Section 423 of the Code for employees who are United States taxpayers.

Eligible employees will be able to contribute up to 15% of their gross base earnings for purchases under the ESPP through regular payroll deductions. Purchase of shares under the ESPP are limited for each employee at $25 (twenty five thousand) worth of the Company's common shares (determined on the grant date of the purchase right) for each year such purchase right is outstanding.

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. 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.

Common shares purchased under the ESPP will be issued from treasury at a purchase price equal to 85% of the average market price of the common shares on such date, all in accordance with applicable laws and the terms and conditions of the ESPP. For the purposes of the ESPP, the average market price of the common shares as at a given date shall be the weighted average trading price on the trading day immediately preceding such date.

The number of common shares reserved for issuance under the ESPP will not exceed 650,000 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) 1,000,000 common shares.

As this plan is defined as compensatory, a charge is recorded to Selling, general and administrative expense for the difference between the fair market value and the discounted price. As of September 30, 2017, total amount contributed by the ESPP participants is $48.

9. Research Collaboration and Licensing Agreements

The Company has entered into a number of collaboration and licensing agreements including some under which it may receive non-refundable upfront payments for licenses to therapeutic platforms. When the Company determines that the license and the related therapeutic platform have stand-alone value to the licensee, these items are considered a unit of accounting and consideration allocated to this unit of accounting is recognized upon delivery of the therapeutic platform. When research services related to the transfer of the technical information are required, then the license, applicable research services, and therapeutic platform are considered a unit of accounting and the Company generally recognizes revenue from the applicable upfront payments ratably over the estimated period the research services are provided.

The collaborations may also include other research services and contractual milestone payments, which relate to the achievement of pre-specified research, development, regulatory and commercial milestones. 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.

Commercial milestone payments in the Company's agreements may include payments triggered by annual product sales that achieve pre-specified thresholds and the achievement of these commercial milestones may solely depend upon performance of the collaborator or licensee. Commercial milestones do not meet the ASC 605-28 definition of a milestone because achievement of the milestone solely depends on the performance of the licensee.

Each contingent and milestone payment is evaluated to determine whether it is substantive and at risk to both parties. The Company recognizes any payment that is contingent upon the achievement of a substantive milestone entirely in the period in which the milestone is achieved assuming collection is reasonably assured. Any revenue from non-substantive milestones and milestones that do not meet the ASC 605-28 definition of a milestone is subject to an allocation of arrangement consideration and is recognized over the remaining period of the performance obligations, if any, relating to the arrangement. If there are no remaining performance obligations under the arrangement at the time the contingent payment is triggered, the contingent payment is recognized as revenue in full upon the triggering event occurring.

Strategic Partnership Revenue

The following table summarizes revenue recognized from the Company's strategic partnerships.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Merck:				
Research support payments	$ —	$ 172	$ 1	$ 777
Lilly:				
Research support payments	—	—	15	—
Daiichi Sankyo:				
Research support payments	119	—	665	—
Milestone revenue	—	—	1,000	—
Technology access fee	—	2,000	—	2,000
GSK:				
Technology access fee	—	—	—	6,000
Other	—	—	10	—
	$ 119	$ 2,172	$ 1,691	$ 8,777

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.

Over the life of the agreement, the Company is eligible to receive payments up to $190.75 million, comprised of a $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 Company determined that the research, development and commercial milestones do not constitute milestones and will not be accounted for under the milestone method of revenue recognition. The events and conditions resulting in these payments do not meet the definition of a milestone because the achievement of these events solely depends on Merck's performance.

Upon the execution of the agreement, the Company received a one-time, non-refundable upfront payment of $1.25 million. The Company's substantive performance obligations under the agreement include providing the license and the transfer of relevant technical information and therapeutic platform to Merck. In accordance with ASC 605-25, the Company identified the following deliverables 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 determined that the licenses did not have stand-alone value without the Company's platform technology and its technical assistance during the transfer of the technology. Accordingly, the deliverables (1) through (4) were considered as a single unit of accounting and the upfront payment of $1.25 million has been allocated to this unit of accounting. 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.

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 upfront payment of $1.25 million was allocated to the research license deliverable, commercial license deliverable, technology platform deliverable and research services and technical assistance provided during the technology transfer deliverable using the relative estimated selling price method. 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.

The agreement contains customary termination rights for Merck and the Company including the right for Merck to terminate the agreement in its sole discretion with advance notice to the Company. The agreement will terminate on the later of: (a) the expiry of the last patent covering a Merck licensed product excluding methods of making the product; or (b) the expiry of the royalty payment obligations by Merck. During the research term, the agreement will terminate if the antibodies do not achieve all the research milestones or if Merck elects to not further develop the antibodies after the research term.

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 nine months ended September 30, 2017, the Company recorded $1 (2016 – $777) in research support payments from Merck, under the terms of the amended agreement and on September 19, 2017, the Company disclosed that Merck had provided formal notification of their plans to advance a bispecific drug candidate into preclinical development.

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.

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 the research milestone is substantive, while development and commercial milestones do not constitute milestones and will not be accounted for under the milestone method of revenue recognition. The events and conditions resulting in these payments do not meet the definition of a milestone because the achievement of these events solely depends on Lilly's performance.

Upon the execution of the agreement, the Company received a one-time, non-refundable upfront payment of $1.0 million. In accordance with ASC 605-25, the Company identified the following deliverables 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 determined that the licenses did not have stand-alone value without the Company's platform technology and its technical assistance during the transfer of the technology. Accordingly, the deliverables (1) through (4) were considered as a single unit of accounting and the upfront payment of $1.0 million has been allocated to this unit of accounting. 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 have stand-alone value 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.

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.

The upfront payment of $1.0 million was allocated to the research license deliverable, commercial license deliverable, technology platform deliverable and research services and technical assistance provided during the technology transfer deliverable using the relative estimated selling price method. 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.

The agreement contains customary termination rights for Lilly and the Company including the right for Lilly to terminate the agreement in its sole discretion with advance notice to us. The agreement will terminate on a product-by-product and country-by-country basis upon the later of the product being no longer covered by certain patents related to the Lilly licensed product, or 10 years after the first commercial sale of the Lilly licensed product in such a country.

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.

During the nine months ended September 30, 2017, the Company recorded $15 (2016 – $nil) in research support revenue from Lilly.

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. 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 $375.0 million, comprised of up to $6.0 million for research success milestone, up to $24.0 million for IND submission milestones, up to $60.0 million for development milestones and up to $285.0 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 research milestones are substantive while development and commercial milestones do not constitute milestones and will not be accounted for under the milestone method of revenue recognition. The events and conditions resulting in these payments do not meet the definition of a milestone because the achievement of these events solely depends on Lilly's performance.

The agreement contains customary termination rights for Lilly and the Company with advance notice to the Company, in addition to (i) both Lilly and the Company have certain rights to terminate on a program by program basis due to scientific failure, (ii) Lilly can terminate the agreement on a target pair by target pair basis in its sole discretion after the payment of the initial license fee for such a target pair, (iii) Lilly can terminate the agreement or specific target pairs due to an incurable material breach by the Company, and under specific conditions, Lilly shall have certain rights to continue the research, development and commercialization of products with their license payment, milestone and royalty obligations reduced by 50% and (iv) Lilly shall have the right to terminate the agreement or specific target pairs in the event of the Company undergoing a change of control, while retaining certain rights. If the affected research programs have not completed specific research stages, Lilly's obligations to the license payments, milestones and royalties shall be reduced in a tiered fashion ranging from 25-75%

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").

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 research, development and commercial milestones do not constitute milestones and will not be accounted for under the milestone method of revenue recognition. The events and conditions resulting in these payments do not meet the definition of a milestone because the achievement of these events solely depends on Celgene's performance.

Upon the execution of the agreement, the Company received a one-time, non-refundable payment of $8.0 million. In accordance with ASC 605-25, the Company identified the following deliverables 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 determined that the research license did not have stand-alone value without the Company's platform technology and its technical assistance during the transfer of the technology. 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.

The deliverables are considered a single unit of accounting and the upfront payment of $8.0 million has been allocated to this unit of accounting. 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.

The agreement contains customary termination rights for Celgene and the Company including the right of Celgene to terminate the agreement in its entirety or on a product-by-product basis in its sole discretion with advance notice to the Company. The agreement will terminate on a product-by-product and country-by-country basis upon the later of the expiration of the last-expiring patent related to the Celgene licensed product, or 10 years after the first commercial sale of the Celgene licensed product in such a country. If Celgene does not exercise its option for the commercial license, the agreement will terminate on a product-by-product basis for which the option was not exercised.

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 research, development and commercial milestones under the agreement do not constitute milestones and will not be accounted for under the milestone method of revenue recognition. The events and conditions resulting in these payments do not meet the definition of a milestone because the achievement of these events solely depends on GSK's performance.

The agreement contains customary termination rights for GSK and the Company including the right for GSK to terminate the agreement in its sole discretion with advance notice to us, after the research period has advanced beyond a specified stage, and allowing the parties to terminate the agreement by mutual agreement during the research period. If GSK elects not to advance any product into research and development, the agreement will terminate at the end of the research period. If GSK elects to advance one or more products incorporating intellectual property generated under the research period for further research and development, the agreement will terminate on a product-by-product and country-by-country basis upon the latter of the product being no longer covered by a patent related to the GSK licensed product, or 10 years after the first commercial sale of the GSK licensed product in such a country.

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. In accordance with ASC 605-25, the Company identified the following deliverables 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 determined that the licenses did not have stand-alone value without the Company's platform technology and its technical assistance during the transfer of the technology. Accordingly, deliverables (1) through (4) were considered as a single unit of accounting and the technology access fee of $6.0 million has been allocated to this unit of accounting and has been recognized as revenue upon completion of the transfer of the Company's technology and technical know-how to GSK.

The upfront payment of $6.0 million was allocated to the research license deliverable, commercial license deliverable, technology platform deliverable and technical assistance provided during the technology transfer deliverable using the relative estimated selling price method. 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. 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.

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 research, development and commercial milestones for the GSK agreement do not constitute milestones and will not be accounted for under the milestone method of revenue recognition. The events and conditions resulting in these payments do not meet the definition of a milestone because the achievement of these events solely depends on GSK's performance.

The agreement contains customary termination rights for GSK and the Company including the right for GSK to terminate the agreement in its sole discretion with advance notice to the Company. Termination provisions allow for GSK to terminate the agreement or specific antibody sequence pairs due to an incurable material breach by the Company, and under specific conditions, GSK shall have certain rights to continue the research, development, and commercialization of products with their license payment, milestone, and royalty obligations reduced by 50%.

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. In accordance with ASC 605-25, the Company identified the following deliverables 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 license did not have stand-alone value without the Company's platform technologies. Accordingly, the deliverables (1) and (2) were considered as a single unit of accounting and the technology access fee of $2.0 million was allocated to this unit of accounting 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 Daiichi Sankyo after the transfer of the technology are also determined to have stand-alone value 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.

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.

The upfront payment of $2.0 million was allocated to the research license deliverable and technology platform deliverable using the relative estimated selling price method. The Company estimated the best estimate of selling price of the licenses and technology platform based on comparable license and collaboration arrangements.

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 the future. In addition, the Company is eligible to receive tiered royalties on potential product sales. The Company determined that research, development and commercial milestones do not constitute milestones and will not be accounted for under the milestone method of revenue recognition, except a research milestone for $1.0 million which is substantive. The events and conditions resulting in these other payments do not meet the definition of a milestone because the achievement of these events solely depends on Daiichi Sankyo's performance.

The agreement contains customary termination rights for Daiichi Sankyo and the Company including the right for Daiichi Sankyo to terminate the rights to the Company's therapeutic platforms in its sole discretion with advance notice to the Company and for the Company to terminate the Company's rights to Daiichi Sankyo's antibodies with advance notice to Daiichi. The agreement shall terminate, with respect to Daiichi Sankyo's license, if Daiichi Sankyo fails to exercise its option or, on a Product-by-Product basis, until expiration of Daiichi Sankyo's royalty obligations.

On June 26, 2017, the Company recorded non-refundable substantive milestone revenue from Daiichi Sankyo in the amount of $1.0 million upon the achievement of a research milestone.

During the nine months ended September 30, 2017, the Company recorded $683 (2016 – $nil) in research support revenue from Daiichi Sankyo.

10. 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 commenced in September 2016 and 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 September 30, 2017 are as follows:

	Payments due by period			
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	Total
Capital lease obligations	$ 17	$ 62	$ —	$ 79
Operating lease obligations	1,834	3,701	1,973	7,508
Total contractual obligations	1,851	3,763	1,973	7,587

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. 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. The licensing fee for each year is recorded in intangible assets when paid and is being 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.

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. The Company believes the fair value of this contingent liability is minimal.

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.

11. Related Party Transactions

Lilly is a shareholder of the Company and is considered a related party under ASC 850. Total revenue recognized from the two Lilly agreements for the nine months ended September 30, 2017 and 2016 are $15, and $nil, respectively (note 9). The amount due from Lilly under these agreements was $nil and $2,046 as of September 30, 2017 and December 31, 2016, respectively.

CTI is a shareholder of the Company and is considered a related party under ASC 850. On October 22, 2014, the Company issued 117,320 common share purchase warrants to CTI in conjunction with a share exchange. As of September 30, 2017, there are no warrants held by CTI as they were exercised on April 18, 2017 (note 7.b).