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 May 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	Press Release – Zymeworks Reports First Quarter 2017 Financial Results
99.2	Zymeworks Inc. – Interim Financial Statements for the First Quarter ended March 31, 2017
99.3	Zymeworks Inc. – Interim Management's Discussion and Analysis for the First Quarter ended March 31, 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: May 15, 2017

By: /s/ Neil Klompas
Name: Neil Klompas
Title: Chief Financial Officer

Exhibit 99.1

Zymeworks Reports First Quarter 2017 Financial Results

Vancouver, Canada, (May 15, 2017) – Zymeworks Inc. ("Zymeworks") (NYSE: ZYME; TSX: ZYME) a clinical-stage biopharmaceutical company dedicated to the discovery, development and commercialization of next-generation multifunctional biotherapeutics, initially focused on the treatment of cancer, today reported financial results for the first quarter ended March 31, 2017.

"During the first quarter, among other highlights, we received top-line data from the dose escalation stage of our on-going Phase 1 clinical trial of our lead product candidate, ZW25," said Ali Tehrani, Ph.D., Zymeworks' President & CEO. "ZW25 has demonstrated preliminary anti-tumor activity across multiple cancer types in HER2 expressing patients who have progressed after several lines of treatment with HER2-targeted therapies."

First Quarter Highlights:

- Preliminary data for ZW25 phase 1 clinical trial received
- Orphan drug designation for ZW25 in gastric cancer received
- Second research milestone with collaborator Eli Lilly announced
- Two industry veterans added to Board of Directors
- State-of-the-art lab facility opened

On May 3, 2017, subsequent to the first quarter, Zymeworks completed its initial public offering and sold 4,500,000 common shares at a price of $13.00 per share. In addition, Zymeworks has granted the underwriters an option, exercisable within 30 days of the date of its final prospectus relating to the IPO, to purchase up to an additional 675,000 common shares.

First Quarter Ended March 31, 2017 Financial Results

All amounts are in U.S. dollars. Zymeworks' unaudited condensed consolidated financial statements are prepared in accordance with accounting principals generally accepted in the United States ("U.S. GAAP").

Revenues for the first quarter ended March 31, 2017 were $0.2 million compared to $0.3 million for the same period of 2016. The decrease in collaboration revenue of $0.1 million is due to a $0.3 million decrease in research support payments from Merck, which was partially offset by the increase in research support payments of $0.2 million from Daiichi.

Research and development expenditures for the first quarter ended March 31, 2017 were $9.1 million, compared to $7.9 million for the same period in 2016. The increase of $1.2 million, was primarily due to increased activities associated with our therapeutic platforms and early-stage research and discovery programs, recorded in other research activities.

General and administrative expenses in the first quarter ended March 31, 2017 were $6.3 million compared to $2.1 million for the same period in 2016. General and administrative expenses increased by $4.2 million, compared to the same period in 2016, primarily due to an increase in professional fees and compensation costs. The compensation cost increase was the result of new

hires and higher share-based compensation expenses due to reclassification under U.S. GAAP of certain awards from equity to liability for accounting purposes. The increase in professional fees over the same period in 2016 was associated with consulting services as well as legal, intellectual property, assurance and taxation services.

Net loss for the three months ended March 31, 2017 was $15.9 million. Zymeworks expects that over the next several years, research and development expenditures will increase in connection with the ongoing development of product candidates and other clinical, preclinical and regulatory activities.

As of March 31, 2017, Zymeworks had $26.8 million in cash and cash equivalents and short-term investments, as well as $1.9 million in SR&ED and IRAP receivables. On May 3, 2017, subsequent to the first quarter, Zymeworks completed its initial public offering for a total of $58.5 million in aggregate gross proceeds.

First Quarter Conference Call

Zymeworks will host a conference call today at 4:30 p.m. ET (1:30 p.m. PT) to discuss these first quarter financial results and provide a corporate update.

The live call may be accessed by dialing 1-800-319-4610 for North American callers, or 1-604-638-5340 for international callers. Callers should dial in five to ten minutes prior to the scheduled start time, and ask to join the Zymeworks conference call. A telephone replay of the conference call will be available by dialing 1-800-319-6413 or 1-604-638-9010 and entering access code 1440. The replay will be available after the conclusion of the conference call until May 29, 2017.

About Zymeworks Inc.

Zymeworks is a clinical-stage biopharmaceutical company dedicated to the discovery, development and commercialization of next-generation multifunctional biotherapeutics, initially focused on the treatment of cancer. Zymeworks' suite of complementary therapeutic platforms and its fully-integrated drug development engine provide the flexibility and compatibility to precisely engineer and develop highly-differentiated product candidates. Zymeworks' lead product candidate, ZW25, is a novel bispecific antibody currently being evaluated in an adaptive Phase 1 clinical trial. Zymeworks is also advancing a deep pipeline of preclinical product candidates and discovery-stage programs in immuno-oncology and other therapeutic areas. In addition to Zymeworks' wholly-owned pipeline, its therapeutic platforms have been further leveraged through multiple strategic partnerships with global biopharmaceutical companies.

Forward-Looking Statements

This press release includes "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995 and "forward-looking information" within the meaning of Canadian securities laws, or collectively, forward-looking statements. Forward-looking statements include statements that relate to our expected research and development expenditures and other information that is not historical information. 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. All forward-looking statements are based upon our current expectations and various assumptions. 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 as a result of various factors, including, without limitation, market conditions and the factors described under “Risk Factors” in our registration statement on Form F-1 and in our supplemented PREP prospectus dated April 27, 2017 filed in connection with our initial public offering on May 3, 2017 (copies of which filings may be obtained at www.sec.gov and www.sedar.com). 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 any forward-looking statements to reflect new information, future events or circumstances or to reflect the occurrences of unanticipated events, except as may be required by law.

Contact:

Investor Inquiries:
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Senior Manager, Investor Relations & Corporate Communications
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Exhibit 99.2

Interim Condensed Consolidated Financial Statements of

ZYMEWORKS INC.

As of and for the three months ended March 31, 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)

	March 31, 2017	December 31, 2016
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	$ 10,446	$ 16,437
Short-term investments (note 4)	16,343	23,824
SR&ED and IRAP receivables	1,888	1,660
Accounts receivables	468	2,647
Prepaid expenses and other current assets	3,468	1,916
Total current assets	32,613	46,484
Deferred financing fees	3,118	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	1,006	1,483
Property and equipment, net	7,740	6,721
Intangible assets, net	432	699
Deferred tax assets	4,732	5,100
Total assets	$ 80,053	$ 93,995
Liabilities, redeemable convertible preferred shares, and shareholders' (deficit) equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	$ 8,675	$ 9,477
Warrant liabilities (note 7)	3,787	4,342
Other current liabilities (note 6)	8,269	2,737
Total current liabilities	20,731	16,556
Long-term debt (note 7)	4,518	4,417
Deferred tax liability	4,650	5,019
Other long term liabilities	280	141
Total liabilities	30,179	26,133
Redeemable convertible preferred shares, 6,413,265 authorized shares, no par value: 5,260,404 shares issued and outstanding at March 31, 2017 and December 31, 2016 (note 8b)	58,860	58,860
Shareholders' (deficit) equity:		
Common shares, unlimited authorized shares, no par value: 13,208,947 and 13,126,248 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	107,327	106,595
Additional paid-in capital	4,062	6,856
Accumulated other comprehensive loss	(6,659)	(6,659)
Accumulated deficit	(113,716)	(97,790)
Total shareholders' (deficit) equity	(8,986)	9,002
Total liabilities, redeemable convertible preferred shares and shareholders' (deficit) equity	$ 80,053	$ 93,995
Research collaboration and licensing agreements (note 9)		
Commitments and contingencies (note 10)		
Subsequent events (note 12)		

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 (Deficit)
(Expressed in thousands of U.S. dollars except share data)

	Redeemable Convertible Class A Preferred shares		Common shares		Accumulated deficit	Accumulated Other Comprehensive loss	Additional paid-in capital	Total shareholders' equity (deficit)
	Shares	Amount	Shares	Amount				
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	—	—	82,699	732	—	—	(282)	450
Fair value adjustments upon reclassification of options to liabilities	—	—	—	—	—	—	(2,879)	(2,879)
Share-based compensation	—	—	—	—	—	—	367	367
Net loss	—	—	—	—	(15,926)	—	—	(15,926)
Balance at March 31, 2017 (unaudited)	5,260,404	$ 58,860	13,208,947	$ 107,327	$ (113,716)	$ (6,659)	$ 4,062	$ (8,986)

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 March 31,	
	2017	2016
Revenue		
Research and developmental collaborations (note 9)	$ 230	$ 262
Operating expenses:		
Research and development	9,058	7,916
Government grants and credits	(218)	—
	8,840	7,916
General and administrative	6,259	2,085
Impairment on acquired IPR&D (note 5)	1,536	—
Total operating expenses	16,635	10,001
Loss from operations	(16,405)	(9,739)
Other income (expense)		
Interest and other expense	(227)	(1)
Change in fair value of warrant liabilities	555	—
Accretion on long-term debt	(88)	—
Interest and other income	50	46
Foreign exchange (loss) gain	189	1,496
Equity loss on investment	—	(98)
Gain on fair value of equity investment	—	177
Total other income (expense)	479	1,620
Loss before income taxes	(15,926)	(8,119)
Income tax expense	—	—
Deferred income tax (expense) recovery	—	5,407
Net loss and comprehensive loss	$ (15,926)	$ (2,712)
Net loss per common share (note 2):		
Basic	(1.21)	(0.24)
Diluted	(1.25)	(0.24)
Weighted-average common shares outstanding (note 2):		
Basic	13,183,928	11,516,282
Diluted	13,329,751	11,516,282

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)

	Three Months Ended March 31,	
	2017	**2016**
Cash flows from operating activities:		
Loss for the period	$ (15,926)	$ (2,712)
Items not involving cash:		
Depreciation of property and equipment	318	71
Amortization of intangible assets	270	36
Equity loss on investment	—	98
Gain on fair value of equity investment	—	(177)
Accretion on long-term debt	88	—
Share-based compensation	2,976	540
Deferred income tax expense (recovery)	—	(5,407)
Impairment on acquired IPR&D	1,536	—
Change in fair value of warrant liabilities	(555)	—
Unrealized foreign exchange (gain) / loss	(154)	—
Changes in non-cash operating working capital:		
Accounts receivables	2,179	1,192
SR&ED and IRAP receivables	(98)	507
Prepaid expenses and other current assets	(1,076)	(173)
Accounts payable and accrued liabilities	(2,255)	(930)
Income taxes payable	—	(18)
Net cash used in operating activities	(12,697)	(6,973)
Cash flows from financing activities:		
Issuance of preferred shares from private placement, net of issuance costs	—	58,860
Issuance of common shares on exercise of options	450	2
Deferred financing fees	(463)	199
Capital lease payments	(2)	(6)
Net cash provided by financing activities	(15)	59,055
Cash flows from investing activities:		
Short-term investments	7,505	—
Acquisition of property and equipment	(913)	(53)
Acquisition of intangible assets	(3)	(24)
Cash acquired from Kairos, net of cash consideration	—	78
Net cash used in investing activities	6,589	1
Effect of exchange rate changes on cash and cash equivalents	132	(217)
Net change in cash and cash equivalents	(5,991)	51,866
Cash and cash equivalents, beginning of period	16,437	11,519
Cash and cash equivalents, end of period	$ 10,446	63,385
Supplemental disclosure of non-cash investing and finance items:		
Deferred financing fees in accounts payable and accrued liabilities	1,082	—
Acquisition of property and equipment in accounts payable and accrued liabilities	424	22
Common Shares issued in connection with the Kairos acquisition	—	19,203

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). 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.

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 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 months ended March 31, 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, 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, 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. Based on the borrowing rates available to the Company for debt with similar terms and consideration of default and credit risk using Level 2 inputs, the carrying value of the Company's long term debt as of March 31, 2017 approximates its fair value. As quoted prices for the warrants and liability classified stock options are not readily available, the Company has used a Black-Scholes pricing model to estimate fair value. 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:

	March 31, 2017	Level 1	Level 2	Level 3
Liabilities				
Liability classified stock options	$ 7,948	$ —	$ —	$ 7,948
Warrant liabilities	3,787	—	—	3,787
Total	$ 11,735	$ —	$ —	$ 11,735

	December 31, 2016	Level 1	Level 2	Level 3
Liabilities				
Liability classified stock options	$ 2,458	$ —	$ —	$ 2,458
Warrant liabilities	4,342	—	—	4,342
Total	$ 6,800	$ —	$ —	$ 6,800

The following table presents the changes in fair value of the Company's preferred share warrants:

	Liability at beginning of the period	Increase (decrease) in fair value of preferred share warrants	Liability at end of the period
Three months ended March 31, 2017	$ 3,314	$ (95)	$ 3,219

The following table presents the changes in fair value of the Company's common share warrants:

	Liability at beginning of the period	Increase (decrease) in fair value of common share warrants	Liability at end of the period
Three months ended March 31, 2017	$ 1,028	$ (460)	$ 568

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

	Liability at beginning of the period	Reclassification to liabilities from equity	Increase (decrease) in fair value of liability classified stock options	Liability at end of the period
Three months ended March 31, 2017	$ 2,458	$ 2,879	$ 2,611	$ 7,948

Liability Classified Awards

For 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 total fair value of $7,371on January 1, 2017 have been reclassified as liability awards of which $2,879 was classified from additional paid-in capital. 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 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.

Basic net income (loss) per share attributable to common shareholders (which equals net loss for all periods presented) 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. For the three months ended March 31, 2017 and 2016, 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 March 31,	
	2017	2016
Numerator:		
Net loss used to compute net loss per common share:		
Basic	$ (15,926)	$ (2,712)
Adjustment for change in fair value of ASC 815 liability classified stock options and warrant liabilities	(710)	—
Diluted	$ (16,636)	$ (2,712)
Denominator:		
Weighted-average common shares outstanding:		
Basic	13,183,928	11,516,282
Adjustment for dilutive effect of stock options and warrants	145,823	—
Diluted	13,329,751	11,516,282
Net loss per common share - basic	$ (1.21)	$ (0.24)
Net loss per common share - diluted	$ (1.25)	$ (0.24)

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 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 evaluating the new guidance to determine the impact it 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% per annum with a maturity up to 12 months. The Company may redeem these investments 30 days after deposit without penalty.

5. Acquisition of Kairos

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.

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 December 31, 2016, a SR&ED receivable and corresponding payable to CVI of $131 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. For the purpose of these consolidated financial statements, the purchase consideration has been allocated based on management’s best estimates of the fair values.

The Company is required to estimate the acquisition date fair value of the common shares issued. The fair value of the common shares issued was determined by the Company's board of directors, with input from management, and takes into account the most recently available valuation of common shares prepared by independent valuation specialists and the assessment of additional objective and subjective factors the Company believes are relevant and which may have changed between the date of the most recent valuation and the 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 which was included in net loss for the three months ended March 31, 2016.

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 is 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 have been 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 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 deferred tax liability and 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 with 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 following table summarizes the carrying value of IPR&D, net of impairment:

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

The Company further determined that the impairment of the intangible assets triggered an earlier evaluation of the carrying value of goodwill prior to the scheduled annual impairment testing date of December 31, 2017. As part of the evaluation of the recoverability of goodwill, the Company has identified only one reporting unit to which the total carrying amount of goodwill has been assigned. As at March 31 2017, the fair value of the reporting unit exceeded the carrying value of the reporting unit, and as such the second step of the impairment test, which measures the amount of impairment charge if any, was not required.

6. Current Liabilities

Accounts payable and accrued expenses consisted of the following:

	March 31, 2017	December 31, 2016
Trade payables	$ 2,052	$ 2,955
Accrued research expenses	3,169	2,305
Employee compensation and vacation accruals	470	1,651
Accrued legal and professional fees	1,980	1,489
Payable to CVI for Kairos SR&ED receivable	132	131
Other	872	946
Total	$ 8,675	$ 9,477

Other current liabilities consisted of the following:

	March 31, 2017	December 31, 2016
Fair value of liability classified share options	$ 7,948	$ 2,458
Income tax liability	238	230
Lease inducements	76	41
Current portion of lease liability	7	8
Total	$ 8,269	$ 2,737

7. Warrant liabilities and long-term debt

a. Perceptive Debt and preferred share warrant liability

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 “Lenders”). The total credit facility is 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, which excludes other administrative costs, on the transaction date. The Company will be eligible for the Tranche B term loan when it has achieved specific milestones relating to its clinical trials and future collaboration agreements.

The interest rate on the Tranche A term loan is LIBOR plus an applicable margin of 10% per annum with LIBOR to be a minimum of 1%. On December 31, 2016, the applicable interest rate was 11%. The Company will pay monthly interest payments only, up until June 2, 2018, after which monthly principal payments of $225 will also commence. The remaining outstanding principal balance will be paid on June 2, 2020. The Company may settle the loan earlier, subject to certain penalty payments. Amounts borrowed under the Tranche A or Trance B term loans and subsequently repaid or prepaid may not be reborrowed.

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. These warrants are classified as liabilities and recorded at their estimated fair value as they contain a down-round provision and because the shares underlying the warrants may obligate 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. At the completion of an initial public offering, all redeemable convertible Class A preferred share warrants will be converted into common share warrants (note 12c).

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 will be 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 the Lenders.

The Company recorded $206 in interest expense relating to the outstanding principal under the Perceptive Debt, as well as $95 in decrease in fair value of warrant liabilities, during the three months ended March 31, 2017.

In addition to the interest payable, 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 will be amortized to interest expense over the term of the Perceptive Debt. For the three months ended March 31, 2017, $13 of deferred financing costs were amortized as interest expense.

The Credit Agreement contains various customary affirmative, negative and financial covenants, agreements, representations, warranties, borrowing conditions, and events of default. The Company was in compliance with all covenants at March 31, 2017.

	March 31, 2017	December 31, 2016
Long term debt at the beginning of the period or at the time of financing	$ 4,810	$ 4,234
Accretion	88	576
	$ 4,898	$ 4,810
Less: Deferred charges on debt financing, net of amortization	(380)	(393)
Long term debt, net of deferred charges	$ 4,518	$ 4,417

In accordance with the loan agreement, the Company is obligated to make payments on the principal of the term loan as follows:

2018	$ 1,575
2019	2,700
2020	3,225
Total	$ 7,500

b. Common share warrant liability

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. 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 expire upon 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 a filing of a preliminary prospectus in Canada or a registration statement in the U.S., the Company can accelerate the expiration date by giving written notice to the holder, which will give the holder 30 days to exercise the warrant. The Company provided CTI with a notice of acceleration in conjunction with the filing of the registration statement and a contemplated initial public offering subsequent to the balance sheet date. Accordingly, CTI exercised its warrant to purchase 117,320 common shares of the Company (note 12b).

c. Warrant liabilities include the following:

	March 31 2017	December 31 2016
Preferred share warrant liabilities	$ 3,219	$ 3,314
Common share warrant liabilities	568	1,028
Total warrant liabilities	$ 3,787	$ 4,342

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

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

a. Authorized

The Company has an unlimited number of voting common shares without par value. On December 21, 2015, the Company's Articles of Incorporation were amended to include 6,413,265 Class A preferred shares of which 5,260,404 are issued and outstanding as at March 31, 2017 and December 31, 2016.

b. Redeemable Convertible Class A Preferred Shares

The Class A preferred shares accrue dividends at 8% per annum non-cumulative, payable only when, and if, declared by the Board of Directors of the Company (the "Board"). In addition, holders of the Class A preferred shares will be 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 is 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 will be 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 will 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 are entitled to receive, before any distribution or payment on the common shares, an amount equal to the greater of:

(i) a) if such event occurs prior to January 7, 2017, 1.25 times the Class A original issue price of $11.69 per share,

b) if such event occurs 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 cease to exist upon conversion of preferred shares into common shares.

Each preferred shareholder is 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 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 is a contingent beneficial conversion feature that would become applicable if an initial public offering is completed at an issue price in excess of the conversion price within one year of the date the preferred shares were issued. The Company classifies its preferred shares outside of permanent equity as the redemption of such shares is not solely under the control of the Company.

c. Common Share Purchase Warrant

On October 22, 2014, the Company issued 117,320 common share purchase 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 expire upon the earlier of October 22, 2017 or certain transactions or events as defined under the agreement. The estimated fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	62.37%
Risk-free interest rate	0.75%

The warrants had a fair value of $333 (C$374) on issuance.

d. Redeemable Convertible Class A Preferred Shares Warrants

Class A Preferred Share Warrants were issued on June 2, 2016, pursuant to the terms of the Perceptive Debt, 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 (note 7a). The estimated fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions:

Dividend yield	0%
Expected volatility	67.33%
Risk-free interest rate	1.72%

The warrants had a fair value of $3,266 on issuance.

e. Stock-based compensation

On July 14, 2006, the shareholders approved an employee stock option plan (the “Stock Option Plan”). The Stock Option 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 Stock Option 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 Stock Option Plan vest over 4 years. Shares available for issuance under the Stock Option Plan issued to directors vest over 3 years, and shares available for issuance under the Stock Option 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.

The following table summarizes information pertaining to the Company's stock options outstanding:

	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	464,301	22.60	17.07			
Expired	(1,359)	14.44	10.91			
Exercised	(82,699)	7.14	5.39			
Forfeited	—	—	—	—		—
Outstanding, March 31, 2017	2,290,764	14.06	10.55	7.77	10,796	8,103
March 31, 2017:						
Exercisable	1,073,724	9.58	7.19			
Vested and expected to vest	2,235,533	13.96	10.48			
December 31, 2016:						
Exercisable	915,460	8.62	6.42			
Vested and expected to vest	1,859,925	11.60	8.64			

The Company received cash of $450 (C$591) (2016 – $2 (C$3)), resulting from stock options exercised.

The following table summarizes information pertaining to the Company's stock options outstanding at March 31, 2017:

	As of March 31, 2017						
	Options outstanding				Options exercisable		
Exercise price (C$)	Number of options outstanding	Weighted-average remaining contractual life (years)	Weighted-average exercise price (C$)	Weighted-average exercise price (US$)	Number of options exercisable	Weighted-average exercise price (C$)	Weighted-average exercise price (US$)
3.58	16,760	2.2	3.58	2.69	16,760	3.58	2.69
4.75	250,130	2.3	4.75	3.56	250,130	4.75	3.56
5.37	106,216	4.7	5.37	4.03	106,216	5.37	4.03
7.26	110,450	5.7	7.26	5.45	110,450	7.26	5.45
11.60	140,784	6.9	11.60	8.71	127,686	11.60	8.71
12.10	632,690	8.8	12.10	9.08	216,534	12.10	9.08
14.44	319,764	7.8	14.44	10.84	243,727	14.44	10.84
20.74	249,663	9.6	20.74	15.57	—	20.74	15.57
22.60	455,089	9.9	22.60	16.96	2,221	22.60	16.96
22.65	9,218	9.8	22.65	17.00	—	22.65	17.00
3.58 to 22.65	2,290,764	7.8	14.06	10.55	1,073,724	9.58	7.19

The stock options expire at various dates from December 31, 2017 to February 6, 2027.

A summary of the Company's non-vested stock option activity and related information for the three months ended March 31, 2017 is as follows:

	Number of options	Weighted-average fair value price (C$)	Fair value (C$)	Weighted-average fair value price (US$)
Non-vested, December 31, 2016	995,061	8.90	8,867	6.63
Options granted	464,301	13.57	6,302	10.25
Options vested	(242,322)	7.62	(1,846)	5.75
Options forfeited and cancelled	—	—	—	—
Non-vested, March 31, 2017	1,217,040	8.90	13,323	6.69

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

	Three Months Ended March 31,	
	2017	2016
Research and development	$ 844	$ 472
General and administrative	2,132	68
Total	$ 2,976	$ 540

For the three months ended March 31, 2017, $367 of share-based compensation expense was recorded in additional paid-in capital and the remaining balance was recorded in the liability classified stock options account within the other current liabilities (March 31, 2016 – $324).

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

	Three Months Ended March 31,	
	2017	2016
Dividend yield	0%	0%
Expected volatility	66.5%	71.8%
Risk-free interest rate	1.55%	1.12%
Expected average life of options	5.90 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.

Expected Forfeiture Rate—The forfeiture rate is the estimated percentage of options granted that is expected to be forfeited or cancelled on an annual basis before becoming fully vested. The Company estimates the forfeiture rate based on turnover data with further consideration given to the class of the employees to whom the options were granted.

Share Fair Value—The Company grants 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 estimates 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 are as follows:

	March 31, 2017	March 31, 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 share options outstanding	1,554,687	93,307

At March 31, 2017, the unamortized compensation expense related to unvested options was $14,404 (C$19,190). The remaining unamortized compensation expense as of March 31, 2017 will be recognized over the a weighted-average period of 2.25 years.

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 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 presents summarized revenue recognized from the Company's strategic partnerships.

	Three Months Ended March 31,	
	2017	2016
Merck:		
Research support payments	$ 1	$ 262
Lilly:		
Research support payments	15	—
Daiichi:		
Research support payments	214	—
	$ 230	$ 262

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 three months ended March 31, 2017, the Company recorded $1 (2016 – $262) in research support payments from Merck, under the terms of the amended agreement.

Licensing and Collaboration Agreement with Eli Lilly and Company ("Lilly")

On December 17, 2013, the Company entered into a Licensing and Collaboration Agreement with Lilly to develop novel bispecific antibody therapeutics using the Company's proprietary Azymetric platform. The Company will apply its Azymetric platform in combination with Lilly's proprietary targets to create novel bispecific antibodies which Lilly will have the right to develop and commercialize worldwide.

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 three months ended March 31, 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")

On September 26, 2016, the Company entered into a Collaboration and Cross License Agreement with Daiichi 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, with the right to research, develop and commercialize multiple products globally in exchange for royalties on product sales. Under the agreement, Daiichi 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 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. 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 after the transfer of the technology are also determined to have stand-alone value as Daiichi or another third party could provide these services without the Company's assistance. The revenue to be received from Daiichi 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'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 after the transfer of the technology was excluded from the allocation arrangement consideration because the consideration and performance are contingent upon Daiichi 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 $67.9 million in research and development milestone payments and commercial license option; and up to $80.0 million in commercial sales milestone payments. In addition, the Company is eligible to receive tiered royalties on potential product sales. The Company determined that 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 payments do not meet the definition of a milestone because the achievement of these events solely depends on Daiichi's performance.

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

During the three months ended March 31, 2017, the Company recorded $214 (2016 – $nil) in research support revenue from Daiichi.

10. Commitments and Contingencies

Lease Commitments

The Company leases office premises in Vancouver, British Columbia and Seattle, Washington that expire in August 2021 and January 2022, respectively. The Company has also entered into a lease for lab 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 March 31, 2017 are as follows:

	Payments due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
Capital lease obligations	$ 7	$ 9	$ —	$ —	$ 16
Operating lease obligations	1,804	3,746	2,724	—	8,274
Total contractual obligations	1,811	3,755	2,724	—	8,290

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 the first year was $1.0 million, which has been recorded in intangible assets 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.

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 three months ended March 31, 2017 and 2016 are $15, and $nil, respectively (note 9). The amount due from Lilly under these agreements was $62 and $2,046 as of March 31, 2017 and December 31, 2016, respectively.

On October 22, 2014, the Company issued 117,320 common share purchase warrants to CTI in conjunction with a share exchange. CTI is a shareholder of the Company and is considered a related party under ASC 850.

12. Subsequent Events

a. On April 13, 2017, the Company effected a one-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 have been combined into one common share, (ii) every 2.3866 redeemable convertible preferred shares have been 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 have been 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 has been 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 one-for-2.3866 reverse share split.

b. On April 18, 2017, CTI exercised its warrants to purchase 117,320 common shares of the Company at a per share price of C$11.60 for proceeds of $1,018 (C$1,361).

c. 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 has also been 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 4,500,000 shares of common stock, excluding the potential sale of 675,000 shares of common stock to the underwriters upon their exercise of their over-allotment option to purchase additional shares within 30 days from the date of underwriting agreement dated April 27, 2017. The Company received net proceeds of approximately $50.3 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 converted into 7,098,194 common stock and the Redeemable Convertible Class A Preferred Shares Warrant was 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.

Exhibit 99.3

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

As of May 15, 2017

For the three months ended March 31, 2017

The following management's discussion and analysis ("MD&A) of our financial condition and results of operations is prepared as of May 15, 2017 and should be read in conjunction with our unaudited condensed financial statements for the three months ended March 31, 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 months ended March 31, 2017 and our financial position as of March 31, 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 information is 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.

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 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 and 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;
- 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 are imposed by our current credit agreement and or may be imposed by future debt;
- our ability to maintain existing and future strategic partnerships;
- our ability to realize the anticipated benefits of our strategic partnerships;
- our ability to secure future strategic partners;
- our intention to rely 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;
- 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, initially focused on the treatment of cancer. 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”) of 4,500,000 common shares at a price of US$13.00 for aggregate gross proceeds of US$58.5 million. 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 preliminary anti-tumour activity across multiple cancer types in patients who have progressed after second lines of treatment HER2-targeted therapies. Our second product candidate, ZW33, capitalizes on the unique design of ZW25 and is a bispecific 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 initiate a Phase I clinical trial 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”, 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 core 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 of 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 March 31, 2017, we received $143.2 million, net of share issue costs, from private equity placements, and the issuance of convertible debt which subsequently converted into equity securities. 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 March 31, 2017, combined with the collaboration payments we anticipate receiving, together with the net proceeds received in our IPO, will enable us to fund the clinical and preclinical development of our lead product candidates for at least the next twelve months.

Through March 31, 2017, we had an accumulated deficit of $113.7 million. We reported a net loss of $15.9 million for the three months ended March 31, 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. 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.

• *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 earned 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*

In September 2016, we entered into a collaboration and cross-license agreement with Daiichi 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 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 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. No research, development or commercial milestone payments or royalties have been received to date. We also gained non-exclusive rights to develop and commercialize up to three products using Daiichi's proprietary immune-oncology antibodies, with royalties in the low single digits to be paid to Daiichi on sales of such products.

Under the agreement, we are sharing certain research and development responsibilities with Daiichi to generate bispecific antibodies with the Azymetric platform. Daiichi 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 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 three months ended March 31, 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 three months ended March 31, 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 evaluating the new guidance to determine the impact it 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, 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 Months Ended March 31, 2017 and 2016

Research and Development Revenue

The following represents a comparison of our research and development revenue for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Revenue from research and collaborations	$ 0.2	$ 0.3	$ (0.1)	(33)%

The slight decrease in collaboration revenue of $0.1 million for the three months ended March 31, 2017 compared to the same period in 2016 is due to $0.3 million decrease in research support payments from Merck, which was partially offset by the increase in research support payments of $0.2 million from Daiichi.

Research and Development Expense

The following represents a comparison of our research and development expense for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Research and development expense				
ZW25	$ 2.2	$ 2.1	$ 0.1	5%
ZW33	0.6	3.3	(2.7)	(82)%
Therapeutic platforms	2.1	1.1	1.0	91%
Other research activities	4.2	1.4	2.8	200%
Total research and development expense	$ 9.1	$ 7.9	$ 1.2	15%

During the three months ended March 31, 2017, our research and development expenditures increased by $1.2 million, compared to the same period in 2016. This was primarily due to increased activities associated with our therapeutic platforms and early-stage research and discovery programs recorded in other research activities, partly offset by manufacturing activities with ZW33 in the prior year.

General and Administrative Expense

The following represents a comparison of our general and administrative expense for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
General and administrative expense	$ 6.3	$ 2.1	$ 4.2	200%

General and administrative expense increased for the three months ended March 31, 2017 by $4.2 million, compared to the same period in 2016, 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 for accounting purposes under U.S. GAAP. The increase in professional fees over the same period in 2016 was associated with consulting services, as well as legal, intellectual property, assurance and taxation services.

Other Income (Expenses)

	Three Months Ended March 31,			
	2017	2016	Increase/(Decrease)	
	(dollars in millions)			
Other income (expense)	$ 0.5	$ 1.6	$ (1.1)	(69)%

Other income for the three months ended March 31, 2017 decreased by $1.1 million compared to the same period in 2016. Other income for 2017 primarily included $0.6 million income due to decrease in fair value of warrant liabilities and a $0.2 million net foreign exchange gain which were partially offset by $0.3 million of accretion and net interest expense. Other income for the same period in 2016 primarily consisted of $1.5 million in foreign exchange gain and $0.1 million gain from previously held equity investment in Kairos Therapeutics Inc (“Kairos”).

Summary of Quarterly Results

The following table sets forth selected unaudited quarterly results of operations data for each of the eight quarters ended March 31, 2017. The information for each of these quarters has been derived from unaudited condensed 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.

	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
	(dollars in thousands)							
Revenue	$ 3,956	$ 340	$ 1,439	$ 262	$ 6,343	$ 2,172	$ 2,232	$ 230
Operating expenses:								
Research and development	7,141	5,157	8,238	7,916	10,223	9,759	8,918	9,058
Government grants and credits	—	—	(251)	—	—	—	(1,265)	(218)
	7,141	5,157	7,987	7,916	10,223	9,759	7,653	8,840
General and administrative	1,273	1,194	1,371	2,085	2,656	2,696	5,117	6,259
Impairment on acquired IPR&D	—	—	—	—	—	768	—	1,536
Total operating expenses	8,414	6,351	9,358	10,001	12,879	13,223	12,770	16,635
Loss from operations	(4,458)	(6,011)	(7,919)	(9,739)	(6,536)	(11,051)	(10,538)	(16,405)
Other income (expense)	(61)	199	4	1,620	(815)	(1,091)	(734)	479
Loss before income taxes	(4,519)	(5,812)	(7,915)	(8,119)	(7,351)	(12,142)	(11,272)	(15,926)
Income tax expense			(34)		(72)	(255)	(103)	—
Deferred income tax benefit	—	—	—	5,407	—	—	98	—
Net loss	$ (4,519)	$ (5,812)	$ (7,949)	$ (2,712)	$ (7,423)	$ (12,397)	$ (11,277)	$ (15,926)
Net loss per common share (basic)	$ (0.40)	$ (0.51)	$ (0.70)	$ (0.24)	$ (0.58)	$ (0.94)	$ (0.86)	$ (1.21)
Weighted-average number of common shares (basic)	11,283,940	11,296,146	11,297,567	11,516,282	12,823,456	13,126,248	13,126,248	13,183,928

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

Revenue

- $3.8 million of revenue in Q2 2015 was due to recognition of deferred revenue related to the Celgene upfront payment which was recognized into revenue from January 1, 2015 to June 30, 2015.
- 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 $2.0 million technology access fee from Daiichi and the remaining revenue was research support payments from Merck.
- Revenue in Q4 2016 included a $2.0 million in milestone revenue from Lilly and the remaining balance was research support payments from Merck, Lilly and Daiichi.
- Revenue in Q3 2015, Q1 2016 and Q1 2017 only included research support payments from Merck, Lilly and Daiichi.

Research and development expenses

- During the quarterly periods in year 2016, our research and development expenditures increased significantly 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 SRED 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 accrual.

General and administrative expenses

- During the quarterly periods in year 2016, our general and administrative expenses increased significantly 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 reclassification of certain awards from equity to liability. The increase in professional fees over the same period in 2015 was associated with consulting services and lab and office expansions as well as legal, intellectual property and human resources advisory services.
- The increase in general and administrative expense increased 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.

Impairment and other income (expenses)

- Impairment charges in Q3 2016 and Q1 2017 were related to the IPR&D that was recognized from Kairos acquisition.
- Other income (expense) in the quarterly periods in year 2016 was 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;
    - change 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 period of year 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;
    - foreign exchange gain (loss) which is primarily due to our cash, short-term investments and liabilities denominated in Canadian dollars which fluctuates based on the U.S. dollar exchange rate against the Canadian dollar.

Liquidity and Capital Resources

Sources of Liquidity

We have 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" or the "Perceptive Facility"). Pursuant to the Credit Agreement, we are 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. The Tranche A term loan was made available to us immediately. We will be eligible for the Tranche B term loan when we have: (i) enrolled at least one patient in a Phase 1 clinical trial developing ZW25 for an indication targeting HER2 expressing tumors by June 2, 2017, which we achieved in September 2016; (ii) enrolled at least one patient in a Phase 1 clinical trial developing ZW33 for an indication targeting human epidermal growth receptor 2("HER2") expressing tumors by August 2, 2017; and (iii) entered into a collaboration agreement with a publicly-traded pharmaceutical or biotechnology company with a market capitalization greater than $10 billion that is reasonably expected to result in aggregate payments in excess of $100 million, which we achieved in April 2016 by entering into a licensing and collaboration agreement with GSK.

Amounts borrowed under the facility can be repaid at any time, subject to certain penalty payments, prior to the June 2, 2020 maturity date, at which time all amounts borrowed will be due and payable. Amounts borrowed under the Tranche A or Tranche B term loans and subsequently repaid or prepaid may not be reborrowed. In addition, the terms of the Perceptive Facility require us to pay monthly interest payments up until June 2, 2018, after which monthly principal payments of $225,000 will also commence. Advances under the Perceptive Facility bear interest at the rate of LIBOR plus 10% annually, with LIBOR to be a minimum of 1%. As of December 31, 2016, the applicable interest rate was 11%.

We made customary affirmative and negative covenants in the Credit Agreement. As of the date of this MD&A, we are in compliance with the terms and covenants of the Credit Agreement. In the event of a default, including, among other things, our failure to make any payment when due or our uncured default in the performance or observance of any term, covenant, condition or agreement we were required to perform, the lenders under the Perceptive Facility will be able to declare all obligations immediately due and payable. The Perceptive Facility was collateralized by substantially all of our assets, including our intellectual property but excluding specific intellectual property linked to our strategic partnerships and collaborations. Pursuant to the terms of the Credit Agreement, Perceptive was concurrently issued a warrant certificate that entitles Perceptive to purchase up to 295,009 of our Class A preferred shares at an exercise price of $11.69 per share, with an expiry term of five years. On August 3, 2016, the warrant certificates were assigned to Perceptive Credit Holdings, LP, an affiliate of the Perceptive Facility Lenders.

In addition, our operations have been funded through upfront fees, milestone payments, research support payments from our strategic partners and government grants and SR&ED credits. As of March 31, 2017, we had $26.8 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 these milestone payments is dependent upon our ability to successfully complete specified research and development activities and therefore is uncertain at this time.

On May 3, 2017, we consummated our IPO and sold 4,500,000 common shares at a price of US$13.00 per share. In addition, we have granted the underwriters an option, exercisable within 30 days of the date of the IPO, to purchase up to an additional 675,000 common shares. We received net proceeds of approximately US$50.3 million, after deducting underwriting discounts, commissions and estimated offering expenses. Prior to the consummated IPO, we completed the following corporate actions, which are more fully described in the accompanying unaudited condensed financial statements for the three months ended March 31, 2017: i) a 2.3866 for-one reverse stock split of our common shares effected on April 13, 2017; ii) the exercise of all 117,320 outstanding common share warrants at a weighted-average exercise price of C$11.60 per share (or $8.71 per share as at March 31, 2017) effected on April 18, 2017; and iii) the conversion of all our outstanding Class A preferred shares into common shares on a 1.349367 for-one basis after giving effect to the conversion price adjustment, effected immediately prior to the consummated IPO.

Cash Flows

The following table represents a summary of our cash flows for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31	
	2017	2016
	(dollars in millions)	
Net cash provided by (used in):		
Operating activities	$ (12.7)	$ (7.0)
Financing activities	(0.0)	59.1
Investing activities	6.6	(0.0)
Effect of exchange rate changes on cash and cash equivalents	0.1	(0.2)
Net increase (decrease) in cash and cash equivalents	$ (6.0)	$ 51.9

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 increase in our professional fees resulting from the license and collaboration agreements. There has been no 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 three months ended March 31, 2016 included $58.9 million of net proceeds from the equity financing that was completed in January 2016 whereas no private placement activity occurred for the same period in 2017 except $0.5 million from exercises of stock options that was offset by $0.5 million paid for IPO related deferred financing costs.

Investing Activities

Net cash from investing activities for the three months ended March 31, 2017 is primarily related to $7.5 million from disposal of short-term investments which was partially offset by $0.5 million in purchases of lab equipment, computer hardware, and increases in leaseholds, whereas in 2016, $0.1 million in purchases of computer and office equipment was offset by $0.1 million of net cash from Kairos acquisition.

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. We also expect to continue our efforts to pursue additional grants and refundable tax credits from the Canadian government in order to further our research and development. 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 March 31, 2017, combined with the net proceeds of the IPO, will enable us to advance the clinical development of ZW25 and ZW33 product candidates based on our Azymetric platform technology. 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.

Contractual Obligations and Contingent Liabilities

	Payments due by period				
	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years	Total
	(dollars in thousands)				
Debt	$ —	$ 7,500	$ —	$ —	$ 7,500
Capital lease obligations	7	9	—	—	16
Operating lease obligations	1,804	3,746	2,724	—	8,274
Total contractual obligations	$ 1,811	$ 11,255	$ 2,724	$ —	15,790

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 January 2020 and 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 pieces of 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, we may be required to make future payments to CDRD Ventures Inc., or CVI, upon the direct achievement of certain development milestones for products incorporating certain Kairos intellectual property, as well as royalty payments on the net sales of such products. For out-licensed products and technologies incorporating certain Kairos intellectual property, we may be required to pay CVI a mid-single digit percentage of the future revenue as a result of a revenue sharing agreement.

Outstanding Share Capital

As of May 15, 2017, there were no preferred shares in the capital of the company issued and outstanding, 24,940,252 common shares issued and outstanding, and other securities convertible into common shares as summarized in the following table:

	Number Outstanding as of May 15, 2017
Common shares issued and outstanding	24,940,252
Preferred shares	Nil
Options	2,273,170
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 U.S. GAAP. Total revenue recognized from the two Lilly agreements for the three months ended March 31, 2017 and 2016 are $0.02 million, and $nil, respectively. The amount due from Lilly under these agreements was $0.06 million and $2.0 million as of March 31, 2017 and December 31, 2016, respectively.

On October 22, 2014, the Company issued 117,320 common share purchase warrants to CTI in conjunction with a share exchange which were outstanding as of March 31, 2017. CTI is a shareholder of the Company and is considered a related party under U.S. GAAP. These warrants 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 March 31, 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 $0.5 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. Based on the borrowing rates available to the Company for debt with similar terms and consideration of default and credit risk using Level 2 inputs, the carrying value of the Company's long term debt as of March 31, 2017 approximates its fair value. As quoted prices for the warrants and liability classified stock options are not readily available, the Company has used a Black-Scholes pricing model to estimate fair value. 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:

	March 31, 2017	Level 1	Level 2	Level 3
		(dollars in thousands)		
Liabilities				
Liability classified stock options	$ 7,948	$ —	$ —	$ 7,948
Warrant liabilities	3,787	—	—	3,787
Total	$ 11,735	$ —	$ —	$ 11,735

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 March 31, 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 March 31, 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.