As confidentially submitted to the Securities and Exchange Commission on November 18, 2013.
This draft registration statement has not been publicly filed with the Securities and Exchange Commission and all information herein remains strictly confidential.

Registration No. 333-

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

Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

Aquinox Pharmaceuticals (USA) Inc.
(Exact name of registrant as specified in its charter)

Delaware	**2834**	**98-0542593**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

430-5600 Parkwood Way,
Richmond, B.C., Canada V6V 2M2
(604) 629-9223
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

David J. Main
President and Chief Executive Officer
Aquinox Pharmaceuticals Inc.
430-5600 Parkwood Way,
Richmond, B.C., Canada V6V 2M2
(604) 629-9223
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Michael E. Tenta
Gordon H. Empey
Cooley LLP
1700 Seventh Avenue, Suite 1900
Seattle, WA 98101
(206) 452-8700

Patrick A. Pohlen
Latham & Watkins LLP
140 Scott Drive
Menlo Park, CA 94025
(650) 328-4600

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒ (Do not check if a smaller reporting company)	Smaller reporting company	☐

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	**Proposed Maximum Aggregate Offering Price (1) (2)**	**Amount of Registration Fee (3)**
Common Stock, $0.000001 par value per share	$	$

(1) Estimated solely for the purpose of computing the amount of registration fee pursuant to Rule 457(o) under the Securities Act of 1933, as amended.
(2) Includes shares the underwriters have the option to purchase.
(3) Calculated pursuant to Rule 457(o) under the Securities Act of 1933, as amended, based on an estimate of the proposed maximum aggregate offering price.

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

Table of Contents

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

Subject to Completion. Dated November [•], 2013.

Shares

Aquinox Pharmaceuticals (USA) Inc.

Common Stock

We are offering shares of our common stock. This is our initial public offering and no public market currently exists for our stock. We expect the initial public offering price to be between $ and $. We intend to apply to list our common stock on the NASDAQ Global Market under the symbol "AQXP."

We are an "emerging growth company" as the term is used in the Jumpstart Our Business Startups Act of 2012 and, as such, we have elected to comply with certain reduced public company reporting requirements for this prospectus and future filings.

Investing in our common stock involves a high degree of risk. Please see "Risk Factors" beginning on page 10 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	PER SHARE	TOTAL
Public Offering Price	$	$
Underwriting Discounts and Commissions	$	$
Proceeds to Aquinox before expenses	$	$

Certain of our directors and existing stockholders, or their affiliates, have indicated an interest in purchasing in the aggregate between $ million and $ million of shares of our common stock in this offering. The shares will be offered and sold on the same terms as the other shares that are being offered and sold in this offering to the public. Although we anticipate that these parties will purchase all of the shares of our common stock that these parties have indicated an interest in purchasing, indications of interest are not binding agreements or commitments to purchase and any of these parties may determine to purchase more, less or no shares in this offering.

Delivery of the shares of common stock purchased in this offering is expected to be made on or about , 2013. We have granted the underwriters an option for a period of 30 days to purchase up to additional shares of common stock. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us will be $, and total proceeds to us, before expenses, will be $.

Joint Book-Running Managers

Jefferies **Cowen and Company**

Co-Manager

Canaccord Genuity

Prospectus dated , 2013.

TABLE OF CONTENTS

Prospectus

You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us or to which we have referred you. We have not authorized anyone to provide you with information that is different. We are offering to sell shares of our common stock, and seeking offers to buy shares of our common stock, only in jurisdictions where offers and sales are permitted. The information in this prospectus is complete and accurate only as of the date on the front cover of this prospectus, regardless of the time of delivery of this prospectus or any sale of shares of our common stock.

Until and including , 2013 (25 days after the date of this prospectus), all dealers that buy, sell or trade shares of our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

For investors outside the United States: neither we nor any of the underwriters have done anything that would permit this offering or possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in the United States. Persons outside the United States who come into possession of this prospectus must inform themselves about, and observe any restrictions relating to, the offering of shares of our common stock and the distribution of this prospectus outside the United States.

Except as otherwise indicated herein or as the context otherwise requires, references in this prospectus to "Aquinox," "the company," "we," "us," "our" and similar references refer to Aquinox Pharmaceuticals (USA) Inc. and Aquinox Pharmaceuticals Inc. This prospectus contains registered marks, trademarks and trade names of other companies. All other trademarks, registered marks and trade names appearing in this prospectus are the property of their respective holders.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our combined financial statements and the related notes thereto and the information set forth under the sections of this prospectus captioned "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," in each case included in this prospectus.

Except as otherwise indicated herein or as the context otherwise requires, references in this prospectus to "Aquinox," "the company," "we," "us," "our" and similar references refer to Aquinox Pharmaceuticals (USA) Inc. and Aquinox Pharmaceuticals Inc.

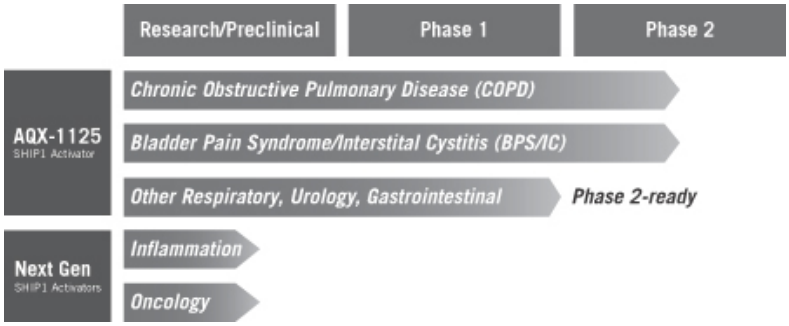
Our Company

We are a clinical-stage pharmaceutical company discovering and developing novel drug candidates to treat inflammation and cancer. Our primary focus is anti-inflammatory product candidates targeting SHIP1, which is a key regulator of an important cellular signaling pathway in immune cells, known as the PI3K pathway. Our lead product candidate, AQX-1125, is a SHIP1 activator and has demonstrated broad anti-inflammatory activity. AQX-1125 has successfully completed three clinical trials dosed as a once daily oral product with over 100 subjects having received AQX-1125 to date. We are currently investigating AQX-1125 in two Phase 2 clinical trials, one for Chronic Obstructive Pulmonary Disease, or COPD, and one for Bladder Pain Syndrome/Interstitial Cystitis, or BPS/IC. COPD and BPS/IC are debilitating chronic inflammatory diseases affecting millions of people worldwide.

Inflammation can be reduced by activation of SHIP1 (SH2-containing inositol-5'-phosphatase 1), which is a natural modulator of the PI3K (P13 kinase) pathway. If the PI3K pathway is over-active, immune cells may produce an abundance of pro-inflammatory signaling molecules and migrate to and concentrate in tissues, resulting in excessive or chronic inflammation. Drugs activating SHIP1 may reduce the function and migration of immune cells and have an anti-inflammatory effect. In addition, because SHIP1 is predominantly present in immune cells, off-tissue toxicities may be minimized. Immune cells with lowered levels of SHIP1 cause abnormal inflammation at mucosal surfaces in response to inflammatory stimuli. Accordingly, we are targeting inflammatory diseases that occur at mucosal surfaces, including those of the respiratory, urinary and gastrointestinal tracts, for which we believe there is broad therapeutic and market potential.

Our Pipeline

The development status of AQX-1125 and our next generation product candidates is summarized below:



AQX-1125 is our lead product candidate and has generated positive clinical data from three completed clinical trials, demonstrating a favorable safety profile and anti-inflammatory activity. Importantly, our clinical trial

results were consistent with the drug-like properties and anti-inflammatory activities demonstrated in our preclinical studies. We believe AQX-1125 is the only SHIP1 activator currently in clinical trials and that no SHIP1 activator has yet received marketing approval as a treatment for disease in humans. For AQX-1125, we retain full worldwide rights and hold patents with terms through at least 2024.

Our three completed clinical trials included one Phase 1 safety trial and two proof-of-concept trials. The first proof-of-concept trial was conducted to evaluate the anti-inflammatory properties, safety and pharmacokinetics of AQX-1125 following a lipopolysaccharide (LPS) challenge in healthy subjects. AQX-1125 met its primary endpoint in the 450 mg dose part of this trial by reducing sputum neutrophils by approximately 62% (p=0.062) compared to placebo. The second proof-of-concept trial evaluated the anti-inflammatory properties, safety and pharmacokinetics of AQX-1125 following an inhaled allergen challenge in mild to moderate asthmatics. The trial met its primary endpoint by demonstrating an approximate 20% improvement in the late asthmatic response (LAR) by 450 mg of AQX-1125 versus placebo (p=0.027). Based on our three completed clinical trials, we have demonstrated that AQX-1125:

- has desirable pharmacokinetic, absorption and excretion properties that make it suitable for once daily oral administration;
- is generally well tolerated, exhibiting mild to moderate adverse events primarily related to gastrointestinal upset that resolve without treatment or long-term effects and are reduced by taking the drug candidate with food; and
- has anti-inflammatory properties consistent with those exhibited in preclinical studies and exhibited activity in two trials using two distinct inflammatory challenges.

Development Plan

We are currently investigating AQX-1125 in two Phase 2 clinical trials, one in COPD and one in BPS/IC.

Chronic Obstructive Pulmonary Disease (COPD)

COPD is a lung disease frequently associated with cigarette smoking and air pollution. COPD is characterized by progressive loss of lung function and chronic inflammation of the airways. The disease is estimated to affect up to 600 million people worldwide with estimates of the number of people suffering from the moderate and severe forms that most frequently require treatment ranging from 65 million to over 200 million.

Our Phase 2 trial, known as the FLAGSHIP trial, will evaluate the effect of AQX-1125 compared to placebo in approximately 350-400 unstable moderate to severe COPD patients following a recent exacerbation. We believe the selection of COPD as a targeted clinical indication matches well with AQX-1125's demonstrated ability, in both preclinical studies and clinical trials, to reduce inflammation, in particular neutrophils, in the airways in response to environmental inflammatory stimuli. This trial focuses on COPD patients with frequent exacerbations, a population with frequent clinical symptoms that we believe will allow us to detect the effects of AQX-1125 in a 12 week trial. The primary endpoint is the change in the severity, duration and reoccurrence of exacerbations in patients treated with AQX-1125 once daily oral capsules versus placebo, as measured by EXACT-PRO, a patient-reported tool that measures symptoms. Initial results are expected before the end of 2014.

Bladder Pain Syndrome/Interstitial Cystitis (BPS/IC)

BPS/IC is a chronic urinary bladder disease characterized by erosion of the lining and chronic inflammation of the bladder, pelvic pain and increased urinary urgency and/or frequency. BPS/IC currently affects an estimated 14 million people in the United States. BPS/IC is now accepted to be one of the most challenging urological conditions without effective therapy.

Our Phase 2 trial, known as the LEADERSHIP trial, is investigating AQX-1125's ability compared to placebo to reduce pain and urinary symptoms in approximately 70 BPS/IC patients. We believe AQX-1125 is a candidate for evaluation in BPS/IC due to the fact that it has demonstrated activity in both preclinical studies and clinical trials relevant to BPS/IC and is delivered to the bladder via the bloodstream as well as excreted

unmetabolized into the urine thereby achieving high concentrations proximate to the inflamed bladder wall. We are currently conducting a multi-center randomized, double-blind, placebo-controlled Phase 2 trial of AQX-1125 once daily oral capsules for six weeks in women suffering from chronic pain associated with BPS/IC. The primary endpoint is to measure the difference in the change from baseline in the mean daily bladder pain score based on an 11-point numeric rating scale at two, four and six weeks recorded by electronic diary. Initial results are expected before the end of 2014.

Expanded Clinical Indications

We believe our preclinical data and clinical proof-of-concept trial results support AQX-1125's potential to treat a range of diseases characterized by mucosal inflammation of the respiratory, urinary and gastrointestinal tracts such as, chronic rhinosinusitis, nephritis, eosinophilic esophagitis, and inflammatory bowel disease. We intend to initiate additional Phase 2 trials with AQX-1125 focusing on diseases that would complement our ongoing evaluation of AQX-1125 in COPD and BPS/IC both from a market and risk-diversification perspective.

Next Generation SHIP1 Activators

We have several next generation product candidates in preclinical development that are also SHIP1 activators. We believe there are anti-inflammatory diseases that would be better addressed by next generation SHIP1 activators that have different properties from AQX-1125 such as concentrating in different tissues, having a different duration of action or being more suitable for different routes of administration.

We also intend to explore the role of SHIP1 activators in the treatment of cancer. The treatment of cancer by modulating the PI3K pathway via SHIP1 offers a potentially promising new approach to improve the treatment of either immune cell cancers or solid tumors. We believe next generation product candidates in the treatment of inflammation and cancer offer significant market potential.

Our Strategy

We intend to maintain and strengthen our leadership position in the development of small molecule drugs that target SHIP1. We have a management team with broad-based experience and expertise that span drug discovery through Phase 3 trials and regulatory filings. The key components of our strategy are to:

- target large, underserved markets with limited competition and an attractive path to approval;
- focus on successfully developing AQX-1125 for a range of inflammatory diseases;
- advance our next generation compounds to maintain our position as a leader in development of SHIP1 activators; and
- evaluate on a selective basis strategic partnerships to maximize the commercial potential of AQX-1125 and actively pursue partnerships for our next generation product candidates and other non-core assets.

Risks Associated to Our Business

Our business is subject to numerous risks and uncertainties, including those highlighted in the section of this prospectus captioned "Risk Factors" immediately following this prospectus summary. These risks include, among others, the following:

- we have no source of revenue, may never become profitable and may incur substantial and increasing net losses for the foreseeable future as we continue development of, seek regulatory approvals for, and potentially begin to commercialize AQX-1125 and any future product candidates;
- we will likely need to obtain additional capital to continue operations;
- our success is primarily dependent on the regulatory approval and commercialization of AQX-1125 and any future product candidates;
- SHIP1 has not been validated as a target;

- we are subject to regulatory approval processes that are lengthy, time consuming and inherently unpredictable; we may not obtain approval for AQX-1125 or any of our future product candidates from the U.S. Food and Drug Administration or foreign regulatory authorities;
- it is difficult and costly to protect our intellectual property rights;
- we may be unable to recruit or retain key employees, including our senior management team; and
- we depend on the performance of third parties, including contract research organizations and third-party manufacturers.

Our Corporate Information

We commenced operations as 6175813 Canada Inc., a corporation formed in December 2003 under the Canada Business Corporations Act. We subsequently changed the name of this corporation to Aquinox Pharmaceuticals Inc., which we refer to in this prospectus as AQXP Canada, in March 2006. We incorporated Aquinox Pharmaceuticals (USA) Inc., a corporation under the laws of the State of Delaware, in May 2007. Upon completion of the exchange of the common exchangeable and exchangeable preferred shares of AQXP Canada, and the redemption of certain other outstanding shares of AQXP Canada, as further described in the section of this prospectus captioned “Description of Capital Stock—Exchangeable Shares”, AQXP Canada will be a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc. Our primary executive offices are located at 430-5600 Parkwood Way, Richmond, B.C., Canada V6V 2M2 and our telephone number is (604) 629-9223. Our website address is www.aqxpharma.com. The information contained in, or that can be accessed through, our website is not part of this prospectus.

Additionally, as a company with less than $1 billion in revenue during our last fiscal year, we qualify as an “emerging growth company” as the term is used in the Jumpstart Our Business Startups Act, or the JOBS Act, and therefore we may take advantage of certain exemptions from various public company reporting requirements, including:

- a requirement to only have two years of audited financial statements and only two years of related management discussion and analysis;
- exemption from the auditor attestation requirement on the effectiveness of our internal controls over financial reporting;
- an exemption from compliance with any requirement that the Public Company Accounting Oversight Board may adopt regarding mandatory audit firm rotation or a supplement to the auditor’s report providing additional information about the audit and the financial statements;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and any golden parachute payments.

We may take advantage of these provisions for up to five years or such earlier time that we are no longer an emerging growth company. We would cease to be an emerging growth company if we have more than $1.0 billion in annual revenues, have more than $700 million in market value of our capital stock held by non-affiliates, or issue more than $1.0 billion of non-convertible debt over a three-year period. We may choose to take advantage of some, but not all, of the available benefits under the JOBS Act. We have taken advantage of some reduced reporting burdens in this prospectus. Accordingly, the information contained herein may be different than the information you receive from other public companies in which you hold stock. In addition, the JOBS Act provides that an “emerging growth company” can delay adopting new or revised accounting standards until such time as those standards apply to private companies.

THE OFFERING

Common stock to be offered	shares
Common stock to be outstanding after this offering	shares
Use of proceeds	We estimate that the net proceeds from this offering will be approximately $ million, or approximately $ million if the underwriters exercise in full their option to purchase additional shares of common stock, assuming an initial public offering price of $ per share, which is the mid-point of the price range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. We expect to use the proceeds of this offering to conduct additional Phase 2 clinical trials to evaluate AQX-1125 as a potential treatment in indications beyond COPD and BPS/IC, to conduct additional toxicology studies, dose ranging studies, and large batch manufacturing and process development related for AQX-1125, to advance one or more of our next generation SHIP1 activator compounds through preclinical development, and to fund working capital, capital expenditures and other general corporate purposes which may include the acquisition or licensing of future product candidates, technologies, other assets or businesses. See the section of this prospectus captioned “Use of Proceeds” for a more complete description of the intended use of proceeds from this offering.
Risk factors	You should read the section of this prospectus captioned “Risk Factors” for a discussion of factors to carefully consider before deciding to invest in shares of our common stock.
Proposed NASDAQ Global Market symbol	“AQXP”

The number of shares of our common stock to be outstanding after this offering is based on 111,890,463 shares of common stock outstanding as of September 30, 2013, and excludes:

- 9,872,184 shares of our common stock issuable upon the exercise of options outstanding under our Joint Canadian Stock Option Plan, or 2006 Plan, at a weighted average exercise price of $0.3163 per share;
- shares of our common stock reserved for future issuance under our 2014 Equity Incentive Plan, or 2014 Plan, which will become effective upon the completion of this offering, as well as any future increases in the number of shares of our common stock reserved for issuance under the 2014 Plan; and
- 339,287 shares of our common stock issuable upon the exercise of outstanding common stock warrants at a weighted average exercise price of $0.01 per share.

Unless otherwise indicated, all information in this prospectus reflects and assumes the following:

- the issuance of an aggregate of 5,793,776 shares of our common stock issuable upon the exchange of all of the outstanding common exchangeable shares of AQXP Canada, in connection with this offering, as described in the section of this prospectus captioned “Description of Capital Stock—Exchangeable Shares”;

- the issuance of an aggregate of 37,697,892 shares of our convertible preferred stock issuable upon the exchange of all of the outstanding exchangeable preferred shares of AQXP Canada, in connection with this offering, as described in the section of this prospectus captioned "Description of Capital Stock—Exchangeable Shares";
- the conversion of all of the outstanding shares of our convertible preferred stock (including the 37,697,892 shares of our convertible preferred stock issuable upon the exchange of all of the outstanding exchangeable preferred shares of AQXP Canada) into an aggregate of 106,096,687 shares of our common stock, which will occur immediately prior to the completion of this offering;
- a 1-for- reverse stock split of our common stock and convertible preferred stock to be effective prior to the consummation of this offering;
- no exercise by the underwriters of their option to purchase up to additional shares of our common stock in this offering; and
- the filing and effectiveness of our amended and restated certificate of incorporation immediately prior to the completion of this offering.

Certain of our directors and existing stockholders, or their affiliates, have indicated an interest in purchasing in the aggregate between $ million and $ million of shares of our common stock in this offering. These shares will be offered and sold on the same terms as the other shares that are being offered and sold in this offering to the public. Although we anticipate that these parties will purchase all of the shares of our common stock that these parties have indicated an interest in purchasing, indications of interest are not binding agreements or commitments to purchase and any of these parties may determine to purchase more, less or no shares of the offering.

SUMMARY COMBINED FINANCIAL DATA

You should read the summary combined financial data in conjunction with the sections of this prospectus captioned “Use of Proceeds,” “Capitalization,” “Selected Combined Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” “Description of Capital Stock”, and the combined financial statements and related notes, all included elsewhere in this prospectus.

Financial Statement Presentation:

In 2007 AQXP Canada implemented a restructuring plan to facilitate investment in either AQXP Canada or Aquinox Pharmaceuticals (USA) Inc. Immediately prior to the completion of this offering, (i) each common exchangeable share of AQXP Canada will be transferred to Aquinox Pharmaceuticals (USA) Inc. in exchange for one share of common stock of Aquinox Pharmaceuticals (USA) Inc. and (ii) each exchangeable preferred share of AQXP Canada will be transferred to the Aquinox Pharmaceuticals (USA) Inc. in exchange for one share of the corresponding series of preferred stock of Aquinox Pharmaceuticals (USA) Inc. (which, in turn, will be immediately converted into one share of common stock of Aquinox Pharmaceuticals (USA) Inc.). AQXP Canada will be a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc. Management has determined that AQXP Canada and Aquinox Pharmaceuticals (USA) Inc. are entities under common control as each of AQXP Canada and Aquinox Pharmaceuticals (USA) Inc. is owned beneficially by identical shareholders and as such the basis of presentation of the financial statements in this prospectus is on a combined basis. When, just prior to or contemporaneously with an initial public offering, a combination of companies under common control takes place, it is appropriate to present combined historical financial statements for all periods shown. The combined financial statements reflect the operations of both Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada and the historical results of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada since inception. All intercompany transactions have been eliminated.

We have derived the combined statements of operations data for the fiscal years ended December 31, 2011 and December 31, 2012 and the combined balance sheet data as of December 31, 2011 and December 31, 2012 from our audited combined financial statements appearing elsewhere in this prospectus. The combined statements of operations data for the year to date period ended September 30, 2012 and September 30, 2013 and combined balance sheet data as of September 30, 2013 have been derived from our unaudited interim combined financial statements appearing elsewhere in this prospectus. We have prepared the unaudited combined financial statements on the same basis as the audited combined financial statements. Our historical results are not necessarily indicative of the results that should be expected in the future, and our interim results are not necessarily indicative of the results that should be expected for the full year or any other period.

Combined Statement of Operations Data

	YEAR ENDED DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2012	DECEMBER 26, 2003 (INCEPTION) TO DECEMBER 31, 2012	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013	DECEMBER 26, 2003 (INCEPTION) TO SEPTEMBER 30, 2013
Operating expenses						
Research and development	$ 8,578,596	$ 5,914,611	$ 33,759,261	$ 5,093,292	$ 4,802,078	$ 38,561,338
General and administrative	1,725,073	1,635,623	7,729,683	1,085,119	1,209,939	8,939,622
Amortization	125,598	130,784	551,601	99,823	45,198	596,799
Total operating expenses	$ 10,429,267	$ 7,681,018	$ 42,040,545	$ 6,278,234	$ 6,057,215	$ 48,097,759
Net loss and comprehensive loss incurred in the development stage	$ (10,507,008)	$ (7,714,198)	$ (38,545,538)	$ (6,288,801)	$ (5,189,256)	$ (43,734,793)
Total loss attributable to common stockholders	$ (14,319,278)	$ (12,137,948)	$ (52,558,728)	$ (9,606,515)	$ (9,660,864)	$ (62,219,591)
Basic and diluted loss per common stock	$ (2.47)	$ (2.09)	$ (9.07)	$ (1.66)	$ (1.67)	$ (10.74)
Basic and diluted weighted average common stock outstanding	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776
Net loss attributable to common stockholders—pro forma		$ (7,668,873)			$ (6,048,894)	
Pro forma net loss per common stock: [1]						
Basic and diluted		$ (0.10)			$ (0.05)	
Weighted average shares outstanding used to compute pro forma net loss per common stock:						
Basic and diluted		79,163,262			111,890,463	

Combined Balance Sheet Data

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013	PRO FORMA(2) SEPTEMBER 30, 2013	PRO FORMA(3) AS ADJUSTED SEPTEMBER 30, 2013
Cash and cash equivalents	$ 9,239,188	$ 2,000,539	$ 15,867,885	$ 15,867,885	$
Working capital	8,878,478	1,678,695	13,881,976	13,881,976	
Total assets	9,883,905	2,341,990	16,155,453	16,155,453	
Warrant liabilities	—	—	221,450	221,450	
Redemption option on preferred stock	—	—	974,742	—	
Accrued tax payable on preferred stock	664,579	1,059,487	1,481,462	—	
Redeemable convertible preferred stock	47,900,948	51,975,238	71,897,622	—	
Total stockholders' deficit	(39,314,581)	(51,101,207)	(60,506,745)	(13,847,075)	
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	$ 9,883,905	$ 2,341,990	$ 16,155,453	$ 16,155,453	$

(1) Pro forma basic and diluted net loss per share represents net loss attributable to common stock holders divided by the pro forma weighted-average shares of common stock outstanding. The pro forma weighted-average shares outstanding reflects the conversion of our redeemable convertible preferred stock into our common stock as though the conversion had occurred on the first day of the relevant period. See Note 11 of the accompanying notes to our combined financial statements

(2) Pro forma balance sheet reflects the conversion that gives effect to the conversion of our redeemable convertible preferred stock into our common stock. This exchange will result in the redemption option on preferred stock, and the accrued tax payable on preferred stock being derecognized.

(3) Pro forma, as adjusted reflects the items described in footnote (2) above and, on an as adjusted basis, our sale of shares of our common stock that we are offering at the assumed initial public offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting the underwriting discount and estimated offering expenses payable by us. The pro forma as adjusted balance sheet data is illustrative only and will change based on the actual initial public offering price and other terms of this offering determined at pricing. Each $ increase or decrease in the assumed initial public offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, would increase or decrease each of cash and cash equivalents, working capital, total assets and total stockholders' deficit on a pro forma as adjusted basis by approximately $ million, assuming that the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same. We may also increase or decrease the number of shares we are offering. Each increase or decrease shares in the number of shares offered by us would increase or decrease each of cash and cash equivalents, working capital, total assets and total stockholders' deficit by approximately $ million, assuming that the assumed initial price to public remains the same, and after deducting the estimated underwriting discount but before estimated offering expenses payable by us.

The balance sheet pro forma as adjusted basis excludes any impact of the term loan facility with Silicon Valley Bank ("SVB") we entered into on October 23, 2013 for up to $4.0 million of which $2.5 million was received on October 30, 2013.

RISK FACTORS

Investing in our common stock involves a high degree of risk. Before making your decision whether to invest in shares of our common stock, you should carefully consider the risks described below, together with the other information contained in this prospectus, including our combined financial statements and the related notes appearing at the end of this prospectus. We cannot assure you that any of the events discussed in the risk factors below will not occur. These events could have a material and adverse impact on our business, results of operations, financial condition and cash flows and our future prospects would likely be materially and adversely affected. If that were to happen, the trading price of our common stock could decline, and you could lose all or part of your investment.

Risks Related to Our Financial Position and Capital Needs

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

We are a clinical-stage pharmaceutical company with a limited operating history. Investment in pharmaceutical product development is highly speculative because it entails substantial upfront capital expenditures and significant risk that any potential product candidate will fail to demonstrate adequate effect or an acceptable safety profile, gain regulatory approval or become commercially viable. We do not have any products approved by regulatory authorities for marketing or commercial sale and have not generated any revenue from product sales, or otherwise, to date, and we continue to incur significant research, development and other expenses related to our ongoing operations. As a result, we are not profitable and have incurred losses in every reporting period since our inception in 2003. For the year ended December 31, 2012 and the nine months ended September 30, 2013, we reported a net loss of $7.7 million and $5.2 million, respectively. As of September 30, 2013, we had an accumulated deficit since inception of $61.0 million.

We expect to continue to incur significant expenses and operating losses for the foreseeable future. We anticipate these losses to increase as we continue the research and development of, and seek regulatory approvals for, AQX-1125 and any of our future potential product candidates, and potentially begin to commercialize any products that may achieve regulatory approval. We may encounter unforeseen expenses, difficulties, complications, delays and other unknown factors that may adversely affect our financial condition. The size of our future net losses will depend, in part, on the rate of future growth of our expenses and our ability to generate revenues. Our prior losses and expected future losses have had and will continue to have an adverse effect on our financial condition. If AQX-1125 or any future potential product candidate fails in clinical trials or does not gain regulatory approval, or if approved, fails to achieve market acceptance, we may never become profitable. Even if we achieve profitability in the future, we may not be able to sustain profitability in subsequent periods.

We have a limited operating history, which may make it difficult for you to evaluate the success of our business to date and to assess our future viability.

Our operations to date have been primarily limited to organizing and staffing our company, acquiring product and technology rights, discovering and developing novel small molecule drug candidates and undertaking preclinical studies and clinical trials of AQX-1125. We have not yet obtained regulatory approval for AQX-1125 or any future potential product candidate. Consequently, evaluating our performance, viability or future success will be more difficult than if we had a longer operating history or approved products on the market.

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

To date, we have not generated any revenues from commercial product sales, or otherwise. Our ability to generate revenue from product sales and achieve profitability will depend upon our ability, alone or with any future collaborators, to successfully commercialize products, including AQX-1125 or any future product candidates that we may develop, in-license or acquire in the future. Even if we are able to successfully achieve regulatory approval for AQX-1125 or any future product candidates, we do not know when any of these products will generate revenue from product sales for us, if at all. Our ability to generate revenue from product sales from AQX-1125 or any of our future product candidates also depends on a number of additional factors, including our or any future collaborators' ability to:

- complete development activities, including the necessary clinical trials;
- complete and submit new drug applications, or NDAs, to the U.S. Food and Drug Administration, or FDA, and obtain regulatory approval for indications for which there is a commercial market;

- complete and submit applications to, and obtain regulatory approval from, foreign regulatory authorities;
- set a commercially viable price for our products;
- establish and maintain supply and manufacturing relationships with third parties, and ensure adequate and legally compliant manufacturing of bulk drug substances and drug products to maintain that supply;
- develop a commercial organization capable of sales, marketing and distribution for any products for which we obtain marketing approval and intend to sell ourselves in the markets in which we choose to commercialize on our own;
- find suitable distribution partners to help us market, sell and distribute our approved products in other markets;
- obtain coverage and adequate reimbursement from third-party payors, including government and private payors;
- achieve market acceptance for our products, if any;
- establish, maintain and protect our intellectual property rights; and
- attract, hire and retain qualified personnel.

In addition, because of the numerous risks and uncertainties associated with pharmaceutical product development, including that AQX-1125 or any future product candidates may not advance through development or achieve the endpoints of applicable clinical trials, we are unable to predict the timing or amount of increased expenses, or when or if we will be able to achieve or maintain profitability. In addition, our expenses could increase beyond expectations if we decide to or are required by the FDA, or foreign regulatory authorities, to perform studies or trials in addition to those that we currently anticipate. Even if we are able to complete the development and regulatory process for AQX-1125 or any future product candidates, we anticipate incurring significant costs associated with commercializing these products.

Even if we are able to generate revenues from the sale of AQX-1125 or any future product candidates that may be approved, we may not become profitable and may need to obtain additional funding to continue operations. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce our operations.

Our operating results may fluctuate significantly on a quarterly and annual basis, which may make our future operating results difficult to predict and could cause our operating results to fall below expectations or our guidance.

Our quarterly and annual operating results have varied significantly in the past and may continue to fluctuate significantly in the future from quarter-to-quarter or year-to-year due to a variety of factors, many of which are beyond our control, which may make it difficult for us to predict our future operating results. Factors that may contribute to these fluctuations include the following, as well as other factors described elsewhere in this prospectus:

- our ability to obtain additional funding for research and development and manufacturing activities relating to AQX-1125 or any of our future product candidates;
- the timing and cost of research and development activities relating to AQX-1125 or any of our future product candidates, which may change from time to time;
- the cost of manufacturing AQX-1125 or any of our future product candidates, which may vary depending on the quantity of production and the terms of our agreements with manufacturers;
- expenditures that we will or may incur to acquire or develop additional product candidates and technologies;
- the level of demand for AQX-1125 or any of our future product candidates, should they receive approval, which may vary significantly;
- our ability to enroll patients in clinical trials;
- the success or failure of clinical studies through all phases of clinical development for AQX-1125 or any of our future product candidates or competing product candidates, including our Phase 2 trials of AQX-1125, or any other change in the competitive landscape of our industry;
- any delays in regulatory review and approval of AQX-1125 or any of our future product candidates;
- potential side effects of AQX-1125 or our future product candidates that could delay or prevent commercialization or cause an approved drug to be taken off the market;

- the ability of patients or healthcare providers to obtain coverage of or sufficient reimbursement for our AQX-1125 or future product candidates and our ability to achieve acceptance among patients and physicians;
- competition from existing and potential future drugs that compete with AQX-1125 or our future product candidates;
- our ability to receive approval and commercialize AQX-1125 or future product candidates outside of the United States;
- our dependency on third-party manufacturers to supply or manufacture our AQX-1125 or future product candidates;
- our ability to establish or maintain collaborations, licensing or other arrangements;
- our ability and third parties' abilities to protect intellectual property rights;
- costs related to and outcomes of potential intellectual property litigation;
- costs associated with recently enacted healthcare legislation;
- our ability to adequately support future growth;
- our ability to attract and retain key personnel to manage our business effectively;
- our ability to build our finance infrastructure and improve our accounting systems and controls;
- potential product liability claims;
- potential liabilities associated with hazardous materials;
- fluctuations in foreign currency exchange rates;
- our ability to use potential future operating losses and our federal and state net operating loss carryforwards to offset taxable income;
- potential unforeseen business disruptions that increase our costs or expenses;
- our ability to maintain adequate insurance policies; and
- the changing and volatile U.S., European and global economic environments.

Investors should not rely on our quarterly or annual results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenue or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our common stock could decline substantially. Such a stock price decline could occur even when we have met any previously publicly stated revenue and/or earnings guidance we may provide.

We are likely to require additional capital to finance our operations and to repay existing debt, which may not be available to us on acceptable terms, or at all. If we fail to obtain necessary financing, we may be unable to complete the development and potential commercialization of AQX-1125 or develop future product candidates.

Developing pharmaceutical products, including conducting preclinical studies and clinical trials, is expensive. Our operations have consumed substantial amounts of cash since inception. We expect research and clinical development expenses to increase substantially in connection with our ongoing activities, particularly as we advance AQX-1125 or future product candidates in clinical trials and launch and commercialize any product candidates for which we receive regulatory approval, including potentially building our own commercial organization. In addition, in October 2013, AQXP Canada entered into a $4.0 million debt facility with Silicon Valley Bank, or SVB (with $2.5 million advanced and outstanding as of October 30, 2013). Aquinox Pharmaceuticals (USA) Inc. is a guarantor of AQXP Canada's obligations under the debt facility. The debt facility is collateralized by a first position lien against substantially all of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada's corporate assets excluding intellectual property, but including all proceeds thereof. We believe that the our existing cash and cash equivalents and interest thereon and the principal amounts borrowed under the SVB debt facility, will be sufficient to fund our operating requirements for at least the next 12 months. However, circumstances may cause us to consume capital more rapidly than we anticipate. We will likely require additional capital for the further development and potential commercialization of AQX-1125 or future product candidates and may also need to raise additional funds sooner to pursue a more accelerated development of AQX-1125 or future product candidates.

If we need to secure additional financing, additional fundraising efforts may divert our management from our day-to-day activities, which may adversely affect our ability to develop and commercialize AQX-1125 or future product

candidates. In addition, we cannot guarantee that future financing will be available in sufficient amounts or on terms acceptable to us, if at all. If we do not raise additional capital when required or on acceptable terms, we may need to:

- significantly delay, scale back or discontinue clinical trials related to the development or commercialization of AQX-1125 or any of our future product candidates or cease operations altogether;
- seek strategic alliances for research and development programs at an earlier stage than we would otherwise desire or on terms less favorable than might otherwise be available; or
- relinquish, or license on unfavorable terms, our rights to AQX-1125 or any future product candidates that we otherwise would seek to develop or commercialize ourselves.

If we need to conduct additional fundraising activities and we do not raise additional capital in sufficient amounts or on terms acceptable to us, we may be prevented from pursuing development and commercialization efforts, which will have a material adverse effect on our business, operating results and prospects.

Our forecast of the period of time through which our financial resources will be adequate to support our operations is a forward-looking statement and involves risks and uncertainties, and actual results could vary as a result of a number of factors, including the factors discussed elsewhere in this “Risk Factors” section. We have based this estimate on assumptions that may prove to be wrong, and we could spend our available capital resources sooner than we currently expect. Our future funding requirements, both near and long-term, will depend on many factors, including, but not limited to:

- the initiation, progress, timing, costs and results of clinical trials for AQX-1125 and any future product candidates;
- the clinical development plans we establish for AQX-1125 or any future product candidates;
- the achievement of milestones and our obligation to make milestone payments under our present or any future in-licensing agreements;
- the number and characteristics of product candidates that we discover or in-license and develop;
- the outcome, timing and cost of regulatory review by the FDA and comparable foreign regulatory authorities, including the potential for the FDA or comparable foreign regulatory authorities to require that we perform more studies than those that we currently expect;
- the cost to establish, maintain, expand and defend the scope of our intellectual property portfolio, including the amount and timing of any payments we may be required to make, or that we may receive, in connection with licensing, preparing, filing, prosecuting, defending and enforcing any patent claims and maintaining and enforcing other intellectual property rights;
- the effect of competing technological and market developments;
- the costs and timing of the implementation of commercial-scale outsourced manufacturing activities; and
- the costs and timing of establishing sales, marketing and distribution capabilities for any product candidates for which we may receive regulatory approval in territories where we choose to commercialize products on our own.

If we are unable to expand our operations or otherwise capitalize on our business opportunities due to a lack of capital, our business, results of operations, financial condition and cash flows and future prospects could be materially adversely affected.

Raising additional capital may cause dilution to our existing stockholders, restrict our operations or require us to relinquish rights to our technologies, AQX-1125 or any future product candidates.

Until we can generate substantial revenue from product sales, if ever, we expect to finance future cash needs through a combination of private and public equity offerings, debt financings, strategic collaborations and alliances and licensing arrangements. To the extent that we raise additional capital through the sale of equity or convertible debt securities, the ownership interests of existing stockholders will be diluted, and the terms may include liquidation or other preferences that adversely affect the rights of existing stockholders. Additional capital may not be available on reasonable terms, if at all. If we raise additional funds through the issuance of additional debt or equity securities, that could result in dilution to our existing stockholders, and/or increased fixed payment obligations. Furthermore, these securities may have rights senior to those of our common stock and could contain

covenants that include restrictive covenants limiting our ability to take important actions and potentially impair our competitiveness, such as limitations on our ability to incur additional debt, make capital expenditures, acquire, sell or license intellectual property rights or declare dividends. For example, we currently have a $4.0 million debt facility with SVB (with $2.5 million advanced and outstanding as of October 30, 2013), and Aquinox Pharmaceuticals (USA) Inc. is a guarantor of AQXP Canada's obligations under the debt facility. The SVB debt facility requires Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada to meet certain operating and financial covenants and place restrictions on our operating and financial flexibility including limiting our ability to dispose of certain assets, engage in certain strategic transactions, incur indebtedness, pay dividends, or make distributions or engage in certain other transactions. If we raise additional funds through strategic collaborations and alliances or licensing arrangements with third parties, we may have to relinquish valuable rights to our technologies AQX-1125 or our future product candidates, or grant licenses on terms that are not favorable to us. If we are unable to raise additional funds through equity or debt financing when needed, we may be required to delay, limit, reduce or terminate our product development or commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

We plan to use potential future operating losses and our federal and state net operating loss, or NOL, carryforwards to offset taxable income from revenue generated from operations or corporate collaborations. However, our ability to use NOL carryforwards could be limited as a result of issuance of equity securities.

We plan to use our current year operating losses to offset taxable income from any revenue generated from operations or corporate collaborations. To the extent that our taxable income exceeds any current year operating losses, we plan to use our NOL carryforwards to offset income that would otherwise be taxable. However, under the Tax Reform Act of 1986, the amount of benefits from our NOL carryforwards may be impaired or limited if we incur a cumulative ownership change of more than 50%, as interpreted by the U.S. Internal Revenue Service, over a three-year period. As a result, our use of federal NOL carryforwards could be limited by the provisions of Section 382 of the U.S. Internal Revenue Code of 1986, as amended, depending upon the timing and amount of additional equity securities that we issue. State NOL carryforwards may be similarly limited. Any such disallowances may result in greater tax liabilities than we would incur in the absence of such a limitation and any increased liabilities could adversely affect our business, results of operations, financial condition and cash flow and future prospects.

Fluctuations in foreign currency exchange rates could result in changes in our reported revenues and earnings.

We currently incur significant expenses denominated in foreign currencies, specifically in connection with our operations in Canada. In addition, we expect that we will utilize numerous clinical trial sites as part of our clinical trials for AQX-1125 which will be located in various countries outside of the United States. We expect that these clinical trial sites will invoice us in the local currency of the site. We do not engage in foreign currency hedging arrangements for our accounts payable, and, consequently, foreign currency fluctuations may adversely affect our earnings. We may decide to manage this risk by hedging our foreign currency exposure, principally through derivative contracts. Even if we decide to enter into such hedging transactions, we cannot be sure that such hedges will be effective or that the costs of such hedges will not exceed their benefits. Fluctuations in the rate of exchange between the U.S. dollar and foreign currencies, primarily the Canadian dollar, could result in material amounts of cash being required to settle the hedge transactions or could adversely affect our financial results.

Risks Related to Our Business and Industry

Our future success is dependent primarily on the regulatory approval and commercialization of AQX-1125 and any of our future product candidates.

We do not have any products that have gained regulatory approval. Currently, our only clinical-stage product candidate is AQX-1125, which is currently undergoing Phase 2 clinical trials.

As a result, our near-term prospects, including our ability to finance our operations and generate revenue, are substantially dependent on our ability to obtain regulatory approval for, and, if approved, to successfully commercialize AQX-1125 in a timely manner. We cannot commercialize AQX-1125 or our future product candidates in the United States without first obtaining regulatory approval for the product from the FDA; similarly, we cannot commercialize AQX-1125 or our future product candidates outside of the United States without obtaining regulatory approval from comparable foreign regulatory authorities. The FDA review process typically takes years to complete and approval is never guaranteed. Before obtaining regulatory approvals for the commercial sale of any AQX-1125 or

our future product candidates for a target indication, we must demonstrate with substantial evidence gathered in preclinical and well-controlled clinical studies, generally including two well-controlled Phase 3 trials, and, with respect to approval in the United States, to the satisfaction of the FDA, that the product candidate is safe and effective for use for that target indication and that the manufacturing facilities, processes and controls are adequate. Obtaining regulatory approval for marketing of AQX-1125 or our future product candidates in one country does not ensure we will be able to obtain regulatory approval in other countries but a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in other countries.

Even if AQX-1125 or any of our future product candidate were to successfully obtain approval from the FDA and comparable foreign regulatory authorities, any approval might contain significant limitations related to use restrictions for specified age groups, warnings, precautions or contraindications, or may be subject to burdensome post-approval study or risk management requirements. If we are unable to obtain regulatory approval for AQX-1125 in one or more jurisdictions, or any approval contains significant limitations, we may not be able to obtain sufficient funding or generate sufficient revenue to continue the development of any of our future product candidate that we may discover, in-license, develop or acquire in the future. Also, any regulatory approval of any of AQX-1125 or our future product candidates, once obtained, may be withdrawn. Furthermore, even if we obtain regulatory approval for AQX-1125, the commercial success of AQX-1125 will depend on a number of factors, including the following:

- development of a commercial organization or establish a commercial collaboration with a commercial infrastructure,
- establishment of commercially viable pricing and obtain approval for adequate reimbursement from third-party and government payors;
- the ability of our third-party manufacturers to manufacture quantities of AQX-1125 using commercially sufficient processes and at a scale sufficient to meet anticipated demand and enable us to reduce our cost of manufacturing;
- our success in educating physicians and patients about the benefits, administration and use of AQX-1125;
- the availability, perceived advantages, relative cost, relative safety and relative efficacy of alternative and competing treatments;
- the effectiveness of our own or our potential strategic collaborators' marketing, sales and distribution strategy and operations;
- acceptance of AQX-1125 as safe and effective by patients and the medical community; and
- a continued acceptable safety profile of AQX-1125 following approval.

Many of these factors are beyond our control. If we or our commercialization collaborators are unable to successfully commercialize AQX-1125, we may not be able to earn sufficient revenues to continue our business.

Because the results of preclinical testing or earlier clinical trials are not necessarily predictive of future results, AQX-1125, which is currently in Phase 2 clinical trials, or any future product candidate we advance into clinical trials, may not have favorable results in later clinical trials or receive regulatory approval.

Success in preclinical testing and early clinical trials does not ensure that later clinical trials will generate adequate data to demonstrate the efficacy and safety of an investigational drug. A number of companies in the pharmaceutical and biotechnology industries, including those with greater resources and experience, have suffered significant setbacks in clinical trials, even after seeing promising results in earlier clinical trials. Despite the results reported in earlier clinical trials for AQX-1125, we do not know whether the clinical trials we are conducting, or may conduct, will demonstrate adequate efficacy and safety to result in regulatory approval to market AQX-1125 or any of our future product candidates in any particular jurisdiction. Even if we believe that we have adequate data to support an application for regulatory approval to market our product candidates, FDA or other applicable foreign regulatory authorities may not agree and may require we conduct additional clinical trials. If later-stage clinical trials do not produce favorable results, our ability to achieve regulatory approval for any of our product candidates may be adversely impacted.

In the Phase 2 trial we are conducting to evaluate the effect of AQX-1125 on COPD patients, we are enrolling only unstable moderate to severe COPD patients following a recent exacerbation. We believe this novel trial design will allow us to measure sufficient clinical events to detect the effects of AQX-1125 using EXACT-PRO as the primary endpoint in a 12 week trial. However, we have not discussed our use of EXACT-PRO with the FDA, and we do not know whether the

FDA will accept EXACT-PRO as a primary endpoint for Phase 3 studies. If the FDA does not accept EXACT-PRO, it could delay our ability to advance AQX-1125 into clinical trials for marketing approval in COPD, and the FDA may require that we use accepted clinical COPD endpoints as the primary endpoint, rather than EXACT-PRO. Even if the FDA accepts EXACT-PRO for our Phase 3 trials and our Phase 2 clinical trial in COPD supports advancement of Phase 3 clinical trials, the trial duration may need to be longer than the 12 weeks of our current Phase 2 trial.

In addition, we have not yet established the optimal dose for AQX-1125. There can be no guarantee that the 200 mg dose currently being studied in our Phase 2 clinical trial will be efficacious or, if it is, whether it will be the optimal dose. We believe we will need to conduct additional clinical trials to evaluate additional dose levels of AQX-1125. There can not be any guarantee that any of these studies will be successful in determining a dose of AQX-1125 suitable for marketing approval.

SHIP1 has not been validated as a target.

Our primary focus is small molecule anti-inflammatory product candidates targeting SHIP1. To date, SHIP1 has not been validated as a target, and we believe AQX-1125 is the only SHIP1 activator currently in clinical trials. SHIP1 activators as a class of drug may ultimately prove unsuitable for treatment of human diseases, or if approved for treatment of human diseases, may be commercially unsuccessful, either of which could cause our business to fail.

Clinical drug development involves a lengthy and expensive process with an uncertain outcome.

Clinical testing is expensive, can take many years to complete, and its outcome is inherently uncertain. Failure can occur at any time during the clinical trial process. Product candidates in later stages of clinical trials may fail to show the desired safety and efficacy traits despite having progressed through preclinical studies and early clinical trials.

We may experience delays in our ongoing or future clinical trials and we do not know whether planned clinical trials will begin or enroll subjects on time, need to be redesigned or be completed on schedule, if at all. All of our clinical trials to date have been conducted outside the United States and we do not know whether the FDA will approve the commencement of future clinical trials. While we do not anticipate any future delays, there can be no assurance that the FDA or other comparable foreign regulatory authority will not put clinical trials of AQX-1125 or any other of our product candidates on clinical hold in the future. Clinical trials may be delayed, suspended or prematurely terminated for a variety of reasons, such as:

- delay or failure in reaching agreement with the FDA or a comparable foreign regulatory authority on a trial design that we are able to execute;
- delay or failure in obtaining authorization to commence a trial or inability to comply with conditions imposed by a regulatory authority regarding the scope or design of a clinical trial;
- delay or failure in reaching agreement on acceptable terms with prospective contract research organizations, or CROs, and clinical trial sites, the terms of which can be subject to extensive negotiation and may vary significantly among different CROs and trial sites;
- delay or failure in obtaining institutional review board, or IRB, approval or the approval of other reviewing entities, including comparable foreign regulatory authorities, to conduct a clinical trial at each site;
- withdrawal of clinical trial sites from our clinical trials as a result of changing standards of care or the ineligibility of a site to participate in our clinical trials;
- delay or failure in recruiting and enrolling suitable subjects to participate in a trial;
- delay or failure in subjects completing a trial or returning for post-treatment follow-up;
- clinical sites and investigators deviating from trial protocol, failing to conduct the trial in accordance with regulatory requirements, or dropping out of a trial;
- inability to identify and maintain a sufficient number of trial sites, many of which may already be engaged in other clinical trial programs, including some that may be for the same indication;
- failure of our third parties, such as CROs, to satisfy their contractual duties or meet expected deadlines;
- delay or failure in adding new clinical trial sites;
- ambiguous or negative interim results or results that are inconsistent with earlier results;
- feedback from the FDA, the IRB, data safety monitoring boards, or a comparable foreign regulatory authority, or results from earlier stage or concurrent preclinical studies and clinical trials, that might require modification to the protocol for the trial;

- decision by the FDA, the IRB, a comparable foreign regulatory authority, or us, to impose a clinical hold following an inspection of our clinical trial operations or trial sites, or recommendation by a data safety monitoring board or comparable foreign regulatory authority, to suspend or terminate clinical trials at any time for safety issues or for any other reason;
- unacceptable risk-benefit profile, unforeseen safety issues or adverse side effects;
- failure to demonstrate a benefit from using a drug;
- delays in the testing, validation, manufacturing and delivery of the product candidates to the clinical sites;
- lack of adequate funding to continue the clinical trial, including the incurrence of unforeseen costs due to enrollment delays, requirements to conduct additional clinical trials or increased expenses associated with the services of our CROs and other third parties; or
- changes in governmental regulations or administrative actions or lack of adequate funding to continue the clinical trial.

As an organization, we have never conducted a Phase 3 clinical trial or submitted an NDA before, and may be unable to do so for AQX-1125 or any product candidate we are developing.

We are currently conducting Phase 2 clinical trials and we may need to conduct additional Phase 2 clinical trials before initiating our Phase 3 clinical trials. If our additional Phase 2 clinical trials are successful, we intend to conduct Phase 3 trials of AQX-1125, either alone or with a future collaborator. The conduct of Phase 3 clinical trials and the submission of a successful NDA is a complicated process. As an organization, we have not conducted a Phase 3 clinical trial before, have limited experience in preparing, submitting and prosecuting regulatory filings, and have not submitted an NDA before. We also have had limited interactions with the FDA and have not discussed our current clinical trial designs or implementation with the Agency. Consequently, even if our Phase 2 clinical trials are successful, we may be unable to successfully and efficiently execute and complete necessary clinical trials in a way that leads to NDA submission and approval of AQX-1125 or any other product candidate we are developing. We may require more time and incur greater costs than our competitors and may not succeed in obtaining regulatory approvals of products that we develop. Failure to commence or complete, or delays in, our planned clinical trials, would prevent us from or delay us in commercializing AQX-1125 or any other product candidate we are developing.

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

Patient enrollment, a significant factor in the timing of clinical trials, is affected by many factors including the size and nature of the patient population, the proximity of subjects to clinical sites, the eligibility criteria for the trial, the design of the clinical trial, ability to obtain and maintain patient consents, risk that enrolled subjects will drop out before completion, competing clinical trials and clinicians' and patients' perceptions as to the potential advantages of the drug being studied in relation to other available therapies, including any new drugs that may be approved for the indications we are investigating. Furthermore, we rely on CROs and clinical trial sites to ensure the proper and timely conduct of our clinical trials, and while we have agreements governing their committed activities, we have limited influence over their actual performance. For example, in our Phase 1b LPS challenge proof-of-concept trial of AQX-1125, a large number of data points were lost for one part of the trial through error, rendering an analysis for efficacy uninterpretable for that part.

If we experience delays in the completion or termination of, any clinical trial of AQX-1125 or any future product candidates, the commercial prospects of our product candidates will be harmed, and our ability to generate product revenues from any of these product candidates will be delayed. In addition, any delays in completing our clinical trials will increase our costs, slow down our product candidate development and approval process and could shorten any periods during which we may have the exclusive right to commercialize our product candidates or allow our competitors to bring products to market before we do, and jeopardize our ability to commence product sales, which would impair our ability to generate revenues and may harm our business, results of operations, financial condition and cash flows and future prospects. In addition, many of the factors that could cause a delay in the commencement or completion of clinical trials may also ultimately lead to the denial of regulatory approval of AQX-1125 or our future product candidates.

The regulatory approval processes of the FDA and comparable foreign regulatory authorities are lengthy, time consuming and inherently unpredictable, and if we are ultimately unable to obtain regulatory approval for AQX-1125 or our future product candidates, our business will be substantially harmed.

The time required to obtain approval by the FDA and comparable foreign regulatory authorities is unpredictable, but typically takes many years following the commencement of preclinical studies and clinical trials and depends upon numerous factors, including the substantial discretion of the regulatory authorities. In addition, approval policies, regulations, or the type and amount of clinical data necessary to gain approval may change during the course of a product candidate's clinical development and may vary among jurisdictions. We have not obtained regulatory approval for any product candidate, and it is possible that neither AQX-1125 nor or any future product candidates we may discover, in-license or acquire and seek to develop in the future will ever obtain regulatory approval.

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

- disagreement over the design or implementation of our clinical trials;
- failure to demonstrate that a product candidate is safe and effective for its proposed indication;
- failure of clinical trials to meet the level of statistical significance required for approval;
- failure to demonstrate that a product candidate's clinical and other benefits outweigh its safety risks;
- disagreement over our interpretation of data from preclinical studies or clinical trials;
- disagreement over whether to accept efficacy results from clinical trial sites outside the United States where the standard of care is potentially different from that in the United States;
- the insufficiency of data collected from clinical trials of AQX-1125 or our future product candidates to support the submission and filing of an NDA or other submission or to obtain regulatory approval;
- disapproval of the manufacturing processes or facilities of third-party manufacturers with whom we contract for clinical and commercial supplies; or
- changes in the approval policies or regulations that render our preclinical and clinical data insufficient for approval.

The FDA or a comparable foreign regulatory authority may require more information, including additional preclinical or clinical data to support approval, which may delay or prevent approval and our commercialization plans, or we may decide to abandon the development program altogether. Even if we do obtain regulatory approval, AQX-1125 or our future product candidates may be approved for fewer or more limited indications than we request, approval contingent on the performance of costly post-marketing clinical trials, or approval with a label that does not include the labeling claims necessary or desirable for the successful commercialization of that product candidate. In addition, if AQX-1125 or our future product candidate produce undesirable side effects or safety issues, the FDA may require the establishment of Risk Evaluation Mitigation Strategies, or REMS, or a comparable foreign regulatory authority may require the establishment of a similar strategy, that may, restrict distribution of our products and impose burdensome implementation requirements on us. Any of the foregoing scenarios could materially harm the commercial prospects for our product candidates.

We have had limited interactions with the FDA and have not discussed our clinical trial designs or implementation or our proposed regulatory approval strategy with the FDA. Even if we believe our current or planned clinical trials are successful, the FDA may not agree that our completed clinical trials provide adequate data on the safety or efficacy of AQX-1125 or our future product candidates to permit us to proceed to Phase 3 clinical trials. Approval by comparable foreign regulatory authorities does not ensure approval by the FDA and approval by one or more foreign regulatory authorities does not ensure approval by regulatory authorities in other countries or by the FDA. However, a failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory process in others. We may not be able to file for regulatory approvals and even if we file we may not receive the necessary approvals to commercialize our products in any market.

AQX-1125 or our future product candidates may cause undesirable side effects or have other properties that could delay or prevent their regulatory approval, limit the commercial profile of an approved label, or result in significant negative consequences following any marketing approval.

Undesirable side effects caused by AQX-1125 or our future product candidates could cause us or regulatory authorities to interrupt, delay or halt clinical trials and could result in a more restrictive label or the delay or denial of regulatory approval by the FDA or other comparable foreign regulatory authority. For example, even though AQX-1125 administered orally has generally been well tolerated by patients in our earlier-stage clinical trials, in our animal toxicity studies certain side-effects, including severe ulcerations to the gastrointestinal tract of dogs and adverse effects to the ocular lens of some animals occurred. There can be no assurance that these toxicities in animals will not occur in humans. If these toxicities do occur in our future clinical trials they could cause delay or even discontinuance of further development of AQX-1125 or future product candidates, which would impair our ability to generate revenues and would have a material adverse effect our business, results of operations, financial condition and cash flows and future prospects. To date, the most common side-effect of AQX-1125 noted in clinical trials is mild gastrointestinal upset including mild diarrhea, nausea and gastric pain. No severe side effects have been noted to date. There can be no assurance that side-effects from AQX-1125 in future clinical trials will be continue to be mild or that side-effects in general will not prompt the discontinued development of AQX-1125 or future product candidates. As a result of these side effects or further safety or toxicity issues that we may experience in our clinical trials in the future, we may not receive approval to market AQX-1125 or any future product candidates, which could prevent us from ever generating revenues or achieving profitability. Results of our trials could reveal an unacceptably high severity and prevalence of side effects. In such an event, our trials could be suspended or terminated and the FDA or comparable foreign regulatory authorities could order us to cease further development of or deny approval of our product candidates for any or all targeted indications. The drug-related side effects could affect patient recruitment or the ability of enrolled subjects to complete the trial or result in potential product liability claims. Any of these occurrences may have a material adverse effect on our business, results of operations, financial condition and cash flows and future prospects.

Additionally, if AQX-1125 or any of our future product candidates receives marketing approval, and we or others later identify undesirable side effects caused by such product, a number of potentially significant negative consequences could result, including:

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

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

Even if AQX-1125 or our future product candidates receive regulatory approval, they may still face future development and regulatory difficulties.

Even if we obtain regulatory approval for AQX-1125 or a future product candidate, it would be subject to ongoing requirements by the FDA and comparable foreign regulatory authorities governing the manufacture, quality control, further development, labeling, packaging, storage, distribution, safety surveillance, import, export, advertising, promotion, recordkeeping and reporting of safety and other post-market information. The safety profile of any product will continue to be closely monitored by the FDA and comparable foreign regulatory authorities after

approval. If the FDA or comparable foreign regulatory authorities become aware of new safety information after approval of AQX-1125 or any future product candidate, they may require labeling changes or establishment of a REMS or similar strategy, impose significant restrictions on a product's indicated uses or marketing, or impose ongoing requirements for potentially costly post-approval studies or post-market surveillance. For example, the label ultimately approved for AQX-1125, if it achieves marketing approval, may include restrictions on use.

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

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

The occurrence of any event or penalty described above may inhibit our ability to commercialize AQX-1125 or any future product candidates and generate revenue.

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

In the United States, engaging in impermissible promotion of our future products for off-label uses can also subject us to false claims litigation under federal and state statutes, which can lead to civil, criminal and/or administrative penalties and fines and agreements that materially restrict the manner in which we promote or distribute our drug products. These false claims statutes include the federal False Claims Act, which allows any individual to bring a lawsuit against a pharmaceutical company on behalf of the federal government alleging submission of false or fraudulent claims, or causing to present such false or fraudulent claims, for payment by a federal program such as Medicare or Medicaid. If the government prevails in the lawsuit, the individual may share in any fines or settlement funds. Since 2004, these False Claims Act lawsuits against pharmaceutical companies have increased significantly in volume and breadth, leading to several substantial civil and criminal settlements based on certain sales practices promoting off-label drug uses. This growth in litigation has increased the risk that a pharmaceutical company will have to defend a false claim action, pay settlement fines or restitution, agree to comply with burdensome reporting

and compliance obligations, and be excluded from the Medicare, Medicaid and other federal and state healthcare programs. If we do not lawfully promote our approved products, we may become subject to such litigation and, if we are not successful in defending against such actions, those actions could have a material adverse effect our business, results of operations, financial condition and cash flows and future prospects.

Existing government regulations may change and additional government regulations may be enacted that could prevent, limit or delay regulatory approval of AQX-1125 or any future product candidates. If we are slow or unable to adapt to changes in existing requirements or the adoption of new requirements or policies, or if we are not able to maintain regulatory compliance, we may lose any marketing approval that we may have obtained and/or be subject to fines or enhanced government oversight and reporting obligations, which would adversely affect our business, prospects and ability to achieve or sustain profitability.

Failure to obtain regulatory approval in international jurisdictions would prevent AQX-1125 or any future product candidates from being marketed outside the United States.

In order to market and sell our products in the European Union and many other jurisdictions, we must obtain separate marketing approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ substantially from that required to obtain FDA approval. The regulatory approval process outside the United States generally includes all of the risks associated with obtaining FDA approval. In addition, in many countries outside the United States, it is required that the product be approved for reimbursement before the product can be approved for sale in that country. Obtaining foreign regulatory approvals and compliance with foreign regulatory requirements could result in significant delays, difficulties and costs for us and could delay or prevent the introduction of our products in certain countries. We may not obtain approvals from regulatory authorities outside the United States on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one regulatory authority outside the United States does not ensure approval by regulatory authorities in other countries or jurisdictions or by the FDA. A failure or delay in obtaining regulatory approval in one country may have a negative effect on the regulatory approval process in others. We may not be able to file for marketing approvals and may not receive necessary approvals to commercialize our products in any market. If we are unable to obtain approval of AQX-1125 or any of our future product candidates by regulatory authorities in the European Union or another jurisdiction, the commercial prospects of that product candidate may be significantly diminished and our business prospects could decline.

Recently enacted and future legislation, including potentially unfavorable pricing regulations or other healthcare reform initiatives, may increase the difficulty and cost for us to obtain marketing approval of and commercialize AQX-1125 or our future product candidates and affect the prices we may obtain.

The regulations that govern, among other things, marketing approvals, coverage, pricing and reimbursement for new drug products vary from country to country. In the United States and some foreign jurisdictions, there have been a number of legislative and regulatory changes and proposed changes regarding the healthcare system that could prevent or delay marketing approval of AQX-1125 or our future product candidates, restrict or regulate post-approval activities and affect our ability to successfully sell any product candidates for which we obtain marketing approval.

In the United States, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003, or Medicare Modernization Act, changed the way Medicare covers and pays for certain pharmaceutical products. The legislation expanded Medicare coverage for outpatient prescription drugs prescribed to the elderly and introduced a new reimbursement methodology based on average sales prices for physician administered drugs. In addition, this legislation provided authority for limiting the number of outpatient prescription drugs that will be covered in any therapeutic class. In recent years, Congress has considered further reductions in Medicare reimbursement for drugs administered by physicians. The Centers for Medicare & Medicaid Services, the agency that administers the Medicare program, also has the authority to revise reimbursement rates and to implement coverage restrictions for drugs. Cost reduction initiatives and changes in coverage implemented through legislation or regulation could decrease utilization of and reimbursement for any approved products, which in turn could affect the price we can receive for those products. While the Medicare Modernization Act and Medicare regulations apply only to drug benefits for Medicare beneficiaries, private payors often follow Medicare coverage policy and payment limitations in establishing their own coverage polices and reimbursement rates. Therefore, any reduction in reimbursement that results from federal legislation or regulation may result in a similar reduction in payments from private payors.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, or the Affordable Care Act, in an effort to, among other things, broaden access to health insurance, reduce or constrain the growth of healthcare spending, enhance remedies against fraud and abuse, add new transparency requirements for healthcare and health insurance industries, impose new taxes and fees on pharmaceutical and medical device manufacturers and impose additional health policy reforms. The Affordable Care Act, among other things, also expanded manufacturers' rebate liability to include covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations increased the minimum rebate due for innovator drugs from 15.1% of average manufacturer price, or AMP, to 23.1% of AMP and capped the total rebate amount for innovator drugs at 100% of AMP. The Affordable Care Act and subsequent legislation also revised the definition of AMP for calculating and reporting Medicaid drug rebates on outpatient prescription drug prices. This could increase the amount of Medicaid drug rebates to states. Furthermore, the Affordable Care Act imposes a significant annual, nondeductible fee on companies that manufacture or import certain branded prescription drug products. Substantial new provisions affecting compliance have also been enacted, which may affect our business practices with healthcare practitioners, and a significant number of provisions are not yet, or have only recently become, effective. Although it is too early to determine the full effect of the Affordable Care Act, and any of its implementing regulations, the new law has the potential to: substantially change healthcare financing and delivery by both governmental and private insurers; continue the pressure on pharmaceutical pricing, especially under the Medicare program; and increase our regulatory burdens and operating costs.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. More recently, on August 2, 2011, the President signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend to Congress proposals in spending reductions. The Joint Select Committee did not achieve a targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, triggering the legislation's automatic reduction to several government programs. This includes aggregate reductions to Medicare payments to providers of up to 2% per fiscal year that went into effect on April 1, 2013. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding, which could have a material adverse effect on our customers and accordingly, our financial operations. Legislative and regulatory proposals have been made to expand post-approval requirements and restrict sales and promotional activities for pharmaceutical products. We cannot be sure whether additional legislative changes will be enacted, or whether existing regulations, guidance or interpretations will be changed, or what the impact of such changes on the marketing approvals of AQX-1125 or our future product candidates, if any, may be.

In the United States, the European Union and other potentially significant markets for AQX-1125 and our future product candidates, government authorities and third-party payors are increasingly attempting to limit or regulate the price of medical products and services, particularly for new and innovative products and therapies, which has resulted in lower average selling prices. Furthermore, the increased emphasis on managed healthcare in the United States and on country and regional coverage, pricing and reimbursement controls in the European Union will put additional pressure on product coverage, pricing, reimbursement and utilization, which may adversely affect our business, results of operations, financial condition and cash flows and future prospects. These pressures can arise from various sources, including but not limited to, rules and practices of managed care groups, judicial decisions and governmental laws and regulations related to Medicare, Medicaid and healthcare reform, pharmaceutical reimbursement policies and pricing in general.

Some countries require approval of the sale price of a drug before it can be marketed. In many countries, the pricing review period begins after marketing or product licensing approval is granted. In some foreign markets, prescription pharmaceutical pricing remains subject to continuing governmental control even after initial approval is granted. As a result, we might obtain marketing approval for a product candidate in a particular country, but then be subject to price regulations that delay our commercial launch of the product, possibly for lengthy time periods, which could negatively impact the revenues we are able to generate from the sale of the product in that particular country. Adverse pricing limitations may hinder our ability to recoup our investment in one or more product candidates even if our product candidates obtain marketing approval.

Laws and regulations governing international operations may preclude us from developing, manufacturing and selling certain product candidates outside of the United States and Canada and require us to develop and implement costly compliance programs.

As we expand our operations outside of the United States and Canada, we must comply with numerous laws and regulations in each jurisdiction in which we plan to operate. We must also comply with U.S. laws applicable to the foreign operations of U.S. businesses and individuals, such as the Foreign Corrupt Practices Act, or FCPA, and Canadian laws applicable to the foreign operations of Canadian businesses and individuals, such as the Corruption of Foreign Public Officials Act, or CFPOA. The creation and implementation of international business practices compliance programs is costly and such programs are difficult to enforce, particularly where reliance on third parties is required.

The FCPA prohibits any U.S. individual or business from paying, offering, authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with certain accounting provisions requiring us to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations. The anti-bribery provisions of the FCPA are enforced primarily by the DOJ. The Securities and Exchange Commission, or the SEC, is involved with enforcement of the books and records provisions of the FCPA.

Compliance with the FCPA is expensive and difficult, particularly in countries in which corruption is a recognized problem. In addition, the FCPA presents particular challenges in the pharmaceutical industry, because, in many countries, hospitals are operated by the government, and doctors and other hospital employees are considered foreign officials. Certain payments to hospitals in connection with clinical studies and other work have been deemed to be improper payments to government officials and have led to FCPA enforcement actions.

Various laws, regulations and executive orders also restrict the use and dissemination outside of the United States, or the sharing with certain non-U.S. nationals, of information classified for national security purposes, as well as certain products and technical data relating to those products. Our expanding presence outside of the United States will require us to dedicate additional resources to comply with these laws, and these laws may preclude us from developing, manufacturing, or selling certain products and product candidates outside of the United States, which could limit our growth potential and increase our development costs.

The failure to comply with laws governing international business practices may result in substantial penalties, including suspension or debarment from government contracting. Violation of the FCPA can result in significant civil and criminal penalties. Indictment alone under the FCPA can lead to suspension of the right to do business with the U.S. government until the pending claims are resolved. Conviction of a violation of the FCPA can result in long-term disqualification as a government contractor. The termination of a government contract or relationship as a result of our failure to satisfy any of our obligations under laws governing international business practices would have a negative impact on our operations and harm our reputation and ability to procure government contracts. The SEC also may suspend or bar issuers from trading securities on U.S. exchanges for violations of the FCPA's accounting provisions.

The CFPOA prohibits Canadian businesses and individuals from giving or offering to give a benefit of any kind to a foreign public official, or any other person for the benefit of the foreign public official, where the ultimate purpose is to obtain or retain a business advantage. Furthermore, a company may be found liable for violations by not only its employees, but also by its third-party agents. Any failure to comply with the CFPOA, as well as applicable laws and regulations in foreign jurisdictions, could result in substantial penalties or restrictions on our ability to conduct business in certain foreign jurisdictions, which may have a material adverse impact on us and our share price.

Even if we are able to commercialize AQX-1125 or our future product candidates, the products may not receive coverage and adequate reimbursement from third-party payors, which could harm our business.

Our ability to commercialize any products successfully will depend, in part, on the extent to which coverage and adequate reimbursement for these products and related treatments will be available from government authorities, private health insurers, health maintenance organizations and third-party payors. Patients who are prescribed medications for the treatment of their conditions generally rely on third-party payors to reimburse all or part of the

costs associated with their prescription drugs. Coverage and adequate reimbursement from government healthcare programs, such as Medicare and Medicaid, and private health insurers are critical to new product acceptance. Patients are unlikely to use AQX-1125 or our future product candidates unless coverage is provided and reimbursement is adequate to cover a significant portion of the cost of our product candidates. A primary trend in the U.S. healthcare industry and elsewhere is cost containment. As a result, government authorities and other third-party payors have attempted to control costs by limiting coverage and the amount of reimbursement for particular medications. Increasingly, third-party payors are requiring that drug companies provide them with predetermined discounts from list prices and are challenging the prices charged for medical products. Third-party payors may also seek additional clinical evidence, beyond the data required to obtain marketing approval, demonstrating clinical benefits and value in specific patient populations before covering our products for those patients. We cannot be sure that coverage and adequate reimbursement will be available for any product that we commercialize and, if reimbursement is available, what the level of reimbursement will be. Coverage and reimbursement may impact the demand for, or the price of, any product candidate for which we obtain marketing approval. If coverage and reimbursement are not available or are available only at limited levels, we may not be able to successfully commercialize any product candidate for which we obtain marketing approval.

There may be significant delays in obtaining coverage and reimbursement for newly approved drugs, and coverage may be more limited than the purposes for which the drug is approved by the FDA or comparable foreign regulatory authorities. Moreover, obtaining coverage does not imply that any drug will be paid for in all cases or at a rate that covers our costs, including research, development, manufacture, sales and distribution. Interim reimbursement levels for new drugs, if applicable, may also not be sufficient to cover our costs and may only be temporary. Reimbursement rates may vary according to the use of the drug and the clinical setting in which it is used. Reimbursement rates may also be based in part on existing reimbursement amounts for lower cost drugs or may be bundled into the payments for other services. Net prices for drugs may be reduced by mandatory discounts or rebates required by government healthcare programs or private payors and by any future relaxation of laws that presently restrict imports of drugs from countries where they may be sold at lower prices than in the United States. Coverage and reimbursement for drug products can differ significantly from payor to payor. As a result, the coverage and reimbursement determination process is often a time-consuming and costly process with no assurance that coverage and adequate reimbursement will be obtained or applied consistently. Third-party payors often rely upon Medicare coverage policy and payment limitations in setting their own coverage and reimbursement policies. Our inability to promptly obtain coverage and profitable reimbursement rates from both government-funded and private payors for any approved products that we develop could have a material adverse effect on our operating results, our ability to raise capital needed to commercialize products and our overall financial condition.

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

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

AQX-1125 and our future product candidates, if approved, may not achieve adequate market acceptance among physicians, patients, and healthcare payors and others in the medical community necessary for commercial success.

Even if we obtain regulatory approval for AQX-1125 or any of our future product candidates that we may develop or acquire in the future, the product may not gain market acceptance among physicians, healthcare payors, patients or the medical community. Our commercial success also depends on coverage and adequate reimbursement of our product candidates by third-party payors, including government payors, generally, which may be difficult or time-consuming to obtain, may be limited in scope and may not be obtained in all jurisdictions in which we may seek to

market our products. Market acceptance of any of our product candidates for which we receive approval depends on a number of factors, including:

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

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

Our relationships with healthcare professionals, principal investigators, consultants, customers (actual and potential) and third-party payors are and will be subject, directly and indirectly, to applicable anti-kickback, fraud and abuse, privacy, transparency and other healthcare laws and regulations, which could expose us to penalties, including without limitation, civil, criminal and administrative sanctions, civil penalties, damages, fines, disgorgement, possible exclusion from participation in Medicare, Medicaid and other federal healthcare programs, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings and the curtailment or restructuring of our operations.

As a pharmaceutical company, even though we do not and will not control referrals of healthcare services or bill directly to Medicare, Medicaid or other third-party payors, federal and state healthcare laws and regulations pertaining to fraud and abuse and patients' rights are and will be applicable to our future arrangements with third-party payors and customers who are in a position to purchase, recommend and/or prescribe our product candidates for which we obtain marketing approval. These broadly applicable fraud and abuse and other healthcare laws and regulations may constrain our future business or financial arrangements and relationships with healthcare professionals, principal investigators, consultants, customers, and third-party payors and other entities, including our marketing practices, educational programs and pricing policies. Restrictions under applicable federal and state healthcare laws and regulations that may affect our ability to operate include, but are not limited to, the following:

- the federal Anti-Kickback Statute, among other things, prohibits persons from knowingly and willfully soliciting, offering, receiving or providing paying any remuneration (including any kickback, bribe, or rebate), directly or indirectly, overtly or covertly, in cash or in kind, to induce or reward, or in return for, either the referral of an individual for, or the purchase, lease, order or recommendation of, any good, facility, item or service, for which payment may be made, in whole or in part, under a federal healthcare program such as Medicare and Medicaid;
- federal civil and criminal false claims laws and civil monetary penalty laws impose criminal and civil penalties, including through civil whistleblower or qui tam actions, among other things, prohibits individuals or entities from knowingly presenting, or causing to be presented, to the federal government, including the Medicare and Medicaid programs, claims for payment or approval that are false or fraudulent or from knowingly making a false statement to improperly avoid, decrease or conceal an obligation to pay money to the federal government;

- the federal Health Insurance Portability and Accountability Act of 1996, or HIPAA, among other things, imposes criminal liability for knowingly and willfully executing, or attempting to execute, a scheme to defraud any healthcare benefit program or to obtain, by means of false or fraudulent pretenses, representations, or promises, any of the money or property owned by, or under the custody or control of, any healthcare benefit program, regardless of the payor (e.g. public or private) and knowingly and willfully falsifying, concealing or covering up by any trick or device a material fact or making any materially false statements in connection with the delivery of or payment for healthcare benefits, items or services relating to healthcare matters;
- HIPAA, as amended by the Health Information Technology for Economic and Clinical Health Act, and its implementing regulations, also imposes certain obligations, including mandatory contractual terms, with respect to safeguarding the privacy, security and transmission of individually identifiable health information without the appropriate authorization by entities subject to the law, such as health plans, healthcare clearinghouses and healthcare providers;
- the federal Physician Payment Sunshine Act, created under Section 6002 of the Affordable Care Act and its implementing regulations, requires manufacturers of drugs, devices, biologics and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) to report annually to the Centers for Medicare & Medicaid Services, or CMS, information related to "payments or other transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and applicable manufacturers and applicable group purchasing organizations to report annually to CMS ownership and investment interests held by physicians (as defined above) and their immediate family members and payments or other "transfers of value" to such physician owners and their immediate family members; and
- analogous state and foreign laws and regulations, including: state anti-kickback and false claims laws which may apply to our business practices, including, but not limited to, research, distribution, sales and marketing arrangements and claims involving healthcare items or services reimbursed by state governmental and non-governmental third-party payors, including private insurers; state laws that require pharmaceutical companies to comply with the pharmaceutical industry's voluntary compliance guidelines and the applicable compliance guidance promulgated by the federal government; state laws that require drug manufacturers to track gifts and other remuneration and items of value provided to healthcare professionals and entities and file reports relating to pricing and marketing information; and state and foreign laws govern the privacy and security of health information in specified circumstances, many of which differ from each other in significant ways and often are not preempted by HIPAA, thus complicating compliance efforts.

Efforts to ensure that our business arrangements with third parties will comply with applicable healthcare laws and regulations will involve substantial costs. Recent healthcare reform legislation has also strengthened these laws. For example, the Affordable Care Act, among other things, amends the intent requirement of the federal anti-kickback statute. A person or entity no longer needs to have actual knowledge of this statute or specific intent to violate it in order to have committed a violation. In addition, the Affordable Care Act codified case law that a claim that includes items or services resulting from a violation of the federal anti-kickback statute constitutes a false or fraudulent claim for purposes of the False Claims Act. It is possible that governmental authorities will conclude that our business practices may not comply with current or future statutes, regulations, agency guidance, or case law involving applicable fraud and abuse or other healthcare laws and regulations. If our operations are found to be in violation of any of these laws or any other governmental regulations that may apply to us, we may be subject to penalties, including without limitation, significant civil, criminal and administrative penalties, damages, fines, disgorgement, exclusion from government funded healthcare programs, such as Medicare and Medicaid, contractual damages, reputational harm, administrative burdens and diminished profits and future earnings, and the curtailment or restructuring of our operations. If any physicians or other healthcare providers or entities with whom we expect to do business are found to not be in compliance with applicable laws, they may be subject to criminal, civil or administrative sanctions, including exclusions from government funded healthcare programs. Moreover, we expect there will continue to be federal and state laws and regulations, proposed and implemented, that could impact our operations and business. The extent to which future legislation or regulations, if any, relating to healthcare fraud abuse laws or enforcement, may be enacted or what effect such legislation or regulation would have on our business remains uncertain.

We may form strategic alliances in the future, and we may not realize the benefits of such alliances.

We may form strategic alliances, create joint ventures or collaborations or enter into licensing arrangements with third parties that we believe will complement or augment our existing business. These relationships or those like them may require us to incur non-recurring and other charges, increase our near- and long-term expenditures, issue securities that dilute our existing stockholders or disrupt our management and business. In addition, we face significant competition in seeking appropriate strategic partners and the negotiation process is time-consuming and complex. Moreover, we may not be successful in our efforts to establish a strategic partnership or other alternative arrangements for AQX-1125 or any future drug candidates and programs because our research and development pipeline may be insufficient, our drug candidates and programs may be deemed to be at too early of a stage of development for collaborative effort and third parties may not view our drug candidates and programs as having the requisite potential to demonstrate safety and efficacy. If we license products or businesses, we may not be able to realize the benefit of such transactions if we are unable to successfully integrate them with our existing operations and company culture. We cannot be certain that, following a strategic transaction or license, we will achieve the revenues or specific net income that justifies such transaction. Any delays in entering into new strategic partnership agreements related to our drug candidates could also delay the development and commercialization of our drug candidates and reduce their competitiveness even if they reach the market.

Our employees may engage in misconduct or other improper activities, including noncompliance with regulatory standards and requirements, which could cause significant liability for us and harm our reputation.

We are exposed to the risk of employee fraud or other misconduct, including intentional failures to comply with FDA regulations or similar regulations of comparable foreign regulatory authorities, provide accurate information to the FDA or comparable foreign regulatory authorities, comply with manufacturing standards we have established, comply with federal and state healthcare fraud and abuse laws and regulations and similar laws and regulations established and enforced by comparable foreign regulatory authorities, report financial information or data accurately or disclose unauthorized activities to us. Employee misconduct could also involve the improper use of information obtained in the course of clinical trials, which could result in regulatory sanctions and serious harm to our reputation. We will adopt a code of conduct for our directors, officers and employees, or the Code of Business Conduct and Ethics, which will be effective as of consummation of this offering, but it is not always possible to identify and deter employee misconduct, and the precautions we take to detect and prevent this activity may not be effective in controlling unknown or unmanaged risks or losses or in protecting us from governmental investigations or other actions or lawsuits stemming from a failure to be in compliance with such laws or regulations. If any such actions are instituted against us, and we are not successful in defending ourselves or asserting our rights, those actions could have a significant impact on our business, results of operations, financial condition and cash flows from future prospects, including the imposition of significant fines or other sanctions.

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

The development and commercialization of new drug products is highly competitive. We face competition with respect to our current product candidate, AQX-1125, and will face competition with respect to any future product candidates that we may seek to develop or commercialize in the future, from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. There are a number of large pharmaceutical and biotechnology companies that currently market and sell products or are pursuing the development of products for the treatment of the disease indications for which we are developing our future product candidates. Some of these competitive products and therapies are based on scientific approaches that are the same as or similar to our approach, and others are based on entirely different approaches. Potential competitors also include academic institutions, government agencies and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization.

More established companies may have a competitive advantage over us due to their greater size, cash flows and institutional experience. Compared to us, many of our competitors may have significantly greater financial, technical and human resources.

As a result of these factors, our competitors may obtain regulatory approval of their products before we do, which will limit our ability to develop or commercialize AQX-1125 or any of our future product candidates. Although there are

no approved therapies that specifically target SHIP1, there are currently approved therapies for treating the same diseases or indications for which our product candidates may be useful In addition, many companies are developing new therapeutics, and we cannot predict what the standard of care will be as our product candidates progress through clinical development.

If AQX-1125, our current product candidate, were approved as treatment of COPD, it could face competition from currently approved and marketed products, including GlaxoSmithKline (fluticasone/salmeterol—LABA/ICS combination (Advair) and umeclidinium, vilanterol—LAMA (Anoro)), GlaxoSmithKline/Theravance (LABA/ICS combination fluticasone/vilanterol (Breo Ellipta), Boehringer Ingelheim/Pfizer (tiotropium—LAMA (Spiriva)), Boehringer Ingelheim (olodaterol—LABA), AstraZeneca (formoterol/budesonide—LABA/ICS (Symbicort)), Almirall SA (AMA aclidinium (Tudorza Pressair), and Novartis AG (LABA indacterol (Onbrez Breezhaler) and glycopyrrolate/indacaterol—LABA/LAMA (Ultibro Breezhaler)) and Takeda Pharmaceuticals International GmbH (Phosphodiesterase-4 (PDE4) inhibitor, Roflumilast). If AQX-1125, our current product candidate, were approved for the treatment of BPS/IC, it could face competition from currently approved and marketed products, including Janssen Pharmaceuticals Inc.'s pentosan polysulfate sodium, marketed in the United States as Elmiron, which is now generic. Also, we believe that Gilead Sciences, Inc., Amgen Inc., and TG Therapeutics, Inc. are developing drugs that target the delta and/or gamma isoforms of PI3K. In addition, many companies are developing product candidates directed to disease targets in the fields of COPD and BPS/IC, including in the specific diseases for which we are currently developing AQX-1125, or for which we may develop AQX-1125 or other SHIP1 activators in the future. Such companies include Pfizer, AbbVie, Urigen, TARIS, and Afferent.

We believe that our ability to successfully compete will depend on, among other things:

- the efficacy and safety profile of AQX-1125, including relative to marketed products and product candidates in development by third parties;
- the time it takes for AQX-1125 or any of our future product candidates to complete clinical development and receive marketing approval;
- the ability to commercialize AQX-1125 and future product candidates that receive regulatory approval;
- whether coverage and adequate levels of reimbursement are available under private and governmental health insurance plans, including Medicare;
- the ability to establish, maintain and protect intellectual property rights related to our product candidates;
- the ability to manufacture commercial quantities of AQX-1125 and future product candidates that receive regulatory approval; and
- acceptance of AQX-1125 and future product candidates that receive regulatory approval by physicians and other healthcare providers.

Our failure to successfully identify, acquire, develop and commercialize additional product candidates or approved products other than AQX-1125 could impair our ability to grow.

Although a substantial amount of our efforts will focus on the continued clinical testing and potential approval of our most advanced product candidate, AQX-1125, a key element of our growth strategy is to acquire, develop and/or market additional products and product candidates. All of our other potential product candidates remain in the discovery and preclinical study stages. Research programs to identify product candidates require substantial technical, financial and human resources, whether or not any product candidates are ultimately identified. Because our internal research capabilities are limited, we may be dependent upon pharmaceutical and biotechnology companies, academic scientists and other researchers to sell or license products or technology to us. The success of this strategy depends partly upon our ability to identify, select and acquire promising pharmaceutical product candidates and products. The process of proposing, negotiating and implementing a license or acquisition of a product candidate or approved product is lengthy and complex. Other companies, including some with substantially greater financial, marketing and sales resources, may compete with us for the license or acquisition of product candidates and approved products. We have limited resources to identify and execute the acquisition or in-licensing of third-party products, businesses and technologies and integrate them into our current infrastructure. Moreover, we may devote resources to potential acquisitions or in-licensing opportunities that are never completed, or we may fail to realize the anticipated benefits of such efforts. Any product candidate that we acquire may require additional

development efforts prior to commercial sale, including extensive clinical testing and approval by the FDA and applicable foreign regulatory authorities. All product candidates are prone to risks of failure typical of pharmaceutical product development, including the possibility that a product candidate will not be shown to be sufficiently safe and effective for approval by regulatory authorities. In addition, we cannot provide assurance that any products that we develop or approved products that we acquire will be manufactured profitably or achieve market acceptance.

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

We face an inherent risk of product liability exposure related to the testing of AQX-1125 and any future product candidates in human clinical trials and will face an even greater risk if we commercially sell any products that we may develop. Product liability claims may be brought against us by subjects enrolled in our clinical trials, patients, healthcare providers or others using, administering or selling our products. If we cannot successfully defend ourselves against claims that our product candidates or products caused injuries, we could incur substantial liabilities. Regardless of merit or eventual outcome, liability claims may result in:

- decreased demand for any product candidates or products that we may develop;
- termination of clinical trial sites or entire trial programs;
- injury to our reputation and significant negative media attention;
- withdrawal of clinical trial participants;
- significant costs to defend the related litigation;
- substantial monetary awards to trial subjects or patients;
- loss of revenue;
- diversion of management and scientific resources from our business operations; and
- the inability to commercialize our product candidates.

We currently have obtained product liability insurance coverage, which is limited to $5 million per occurrence and $5 million in the aggregate. This coverage may not be adequate to cover all liabilities that we may incur. Insurance coverage is becoming increasingly expensive and in the future we may not be able to maintain insurance coverage at a reasonable cost or in an amount adequate to satisfy any liability that may arise. We intend to expand our insurance coverage for products to include the sale of commercial products if we obtain marketing approval for AQX-1125 or our future product candidates, but we may be unable to obtain commercially reasonable product liability insurance for any products approved for marketing. Large judgments have been awarded in class action lawsuits based on drugs that had unanticipated side effects. A successful product liability claim or series of claims brought against us, particularly if judgments exceed our insurance coverage, could decrease our cash and adversely affect our business.

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

As of November 1, 2013, we had 14 employees. As our development and commercialization plans and strategies develop, or as a result of any future acquisitions, we will need additional managerial, operational, sales, marketing, scientific, and financial headcount and other resources. Our management, personnel and systems currently in place may not be adequate to support this future growth. Future growth would impose significant added responsibilities on members of management, including:

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

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

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

We may not be able to attract or retain qualified managerial, operational, sales, marketing, scientific and financial personnel in the future due to the intense competition for qualified personnel among biotechnology, pharmaceutical and other businesses. If we are not able to attract and retain necessary personnel to accomplish our business objectives, we may experience constraints that will significantly impede the achievement of our development objectives, our ability to raise additional capital and our ability to implement our business strategy.

Our industry has experienced a high rate of turnover of management personnel in recent years. We are highly dependent on the development, regulatory, commercialization and business development expertise of our executive officers identified in the section of this prospectus captioned "Management." If we lose one or more of our executive officers or key employees, our ability to implement our business strategy successfully could be seriously harmed. Replacing executive officers and key employees may be difficult and may take an extended period of time because of the limited number of individuals in our industry with the breadth of skills and experience required to develop, gain regulatory approval of and commercialize products successfully. Competition to hire from this limited pool is intense, and we may be unable to hire, train, retain or motivate these additional key personnel. Many of the other pharmaceutical companies that we compete against for qualified personnel have greater financial and other resources, different risk profiles and a longer history in the industry than we do. They also may provide more diverse opportunities and better chances for career advancement. Some of these characteristics may be more appealing to high-quality candidates than what we have to offer. Further, we do not maintain "key person" insurance for any of our executives or other employees. Our failure to retain key personnel could impede the achievement of our research, development and commercialization objectives.

We may engage in future acquisitions that could disrupt our business, cause dilution to our stockholders and harm our business, results of operations, financial condition and cash flows and future prospects.

While we currently have no specific plans to acquire any other businesses, we may, in the future, make acquisitions of, or investments in, companies that we believe have products or capabilities that are a strategic or commercial fit with AQX-1125 or our future product candidates and business or otherwise offer opportunities for our company. In connection with these acquisitions or investments, we may:

- issue stock that would dilute our existing stockholders' percentage of ownership;
- incur debt and assume liabilities; and
- incur amortization expenses related to intangible assets or incur large and immediate write-offs.

We may not be able to complete acquisitions on favorable terms, if at all. If we do complete an acquisition, we cannot assure you that it will ultimately strengthen our competitive position or that it will be viewed positively by customers, financial markets or investors. Furthermore, future acquisitions could pose numerous additional risks to our operations, including:

- problems integrating the purchased business, products or technologies;
- increases to our expenses;
- the failure to discover undisclosed liabilities of the acquired asset or company;
- diversion of management's attention from their day-to-day responsibilities;
- harm to our operating results or financial condition;
- entrance into markets in which we have limited or no prior experience; and
- potential loss of key employees, particularly those of the acquired entity.

We may not be able to complete any acquisitions or effectively integrate the operations, products or personnel gained through any such acquisition.

Our business and operations would suffer in the event of computer system failures.

Despite the implementation of security measures, our internal computer systems, and those of our CROs and other third parties on which we rely, are vulnerable to damage from computer viruses, unauthorized access, natural disasters, fire, terrorism, war and telecommunication and electrical failures. If such an event were to occur and cause interruptions in our operations, it could result in a material disruption of our drug development programs. For example, the loss of clinical trial data from completed, ongoing or planned clinical trials could result in delays in our

regulatory approval efforts and significantly increase our costs to recover or reproduce the data. To the extent that any disruption or security breach results in a loss of or damage to our data or applications, or inappropriate disclosure of confidential or proprietary information, we could incur liability and the further development of AQX-1125 or our future product candidates could be delayed.

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

We are subject to numerous environmental, health and safety laws and regulations in the United States and Canada, including, as a result of our subleased laboratory space, those governing laboratory procedures and the handling, use, storage, treatment and disposal of hazardous materials and wastes. Our operations involve the use of hazardous and flammable materials, including chemicals and biological materials. Our operations also produce hazardous waste products. We generally contract with third parties for the disposal of these materials and wastes. We cannot eliminate the risk of contamination or injury from these materials. In the event of contamination or injury resulting from our use of hazardous materials, we could be held liable for any resulting damages, and any liability could exceed our resources. We also could incur significant costs associated with civil or criminal fines and penalties.

Although we maintain workers' compensation insurance to cover us for costs and expenses we may incur due to injuries to our employees resulting from the use of hazardous materials, this insurance may not provide adequate coverage against potential liabilities. We do not maintain insurance for environmental liability or toxic tort claims that may be asserted against us in connection with our storage or disposal of biological or hazardous materials.

In addition, we may incur substantial costs in order to comply with current or future environmental, health and safety laws and regulations. These current or future laws and regulations may impair our research, development or production efforts. Failure to comply with these laws and regulations also may result in substantial fines, penalties or other sanctions.

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

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

Risks Related to Our Dependence on Third Parties

We rely on third parties to conduct our preclinical studies and clinical trials. If these third parties do not successfully carry out their contractual duties or meet expected deadlines, this could substantially harm our business because we may not be able to obtain regulatory approval for or commercialize AQX-1125 or our future product candidates in a timely manner or at all.

We have extensively relied upon and plan to continue to extensively rely upon third-party CROs to monitor and manage data for our ongoing preclinical and clinical programs. We rely on these parties for execution of our preclinical studies and clinical trials, and we control only some aspects of their activities. Nevertheless, we are responsible for ensuring that each of our studies is conducted in accordance with the applicable protocol and legal, regulatory and scientific standards, and our reliance on the CROs does not relieve us of our regulatory responsibilities. We also rely on third parties to assist in conducting our preclinical studies in accordance with Good Laboratory Practices, or GLP, and the Animal Welfare Act requirements. We and our CROs are required to comply with federal regulations and current Good Clinical Practices, or GCP, which are international standards meant to

protect the rights and health of patients that are enforced by the FDA, the Competent Authorities of the Member States of the European Economic Area, or EEA, and comparable foreign regulatory authorities for all of our products in clinical development. Regulatory authorities enforce GCP through periodic inspections of trial sponsors, principal investigators and trial sites. If we or any of our CROs fail to comply with applicable GCP, the clinical data generated in our clinical trials may be deemed unreliable and the FDA or comparable foreign regulatory authorities may require us to perform additional clinical trials before approving our marketing applications. We cannot assure you that upon inspection by a given regulatory authority, such regulatory authority will determine that any of our clinical trials comply with GCP requirements. In addition, our clinical trials must be conducted with product produced under cGMP requirements. Failure to comply with these regulations may require us to repeat preclinical studies and clinical trials, which would delay the regulatory approval process.

Our CROs are not our employees, and except for remedies available to us under our agreements with such CROs, we cannot control whether or not they devote sufficient time and resources to our ongoing clinical, nonclinical and preclinical programs. If CROs do not successfully carry out their contractual duties or obligations or meet expected deadlines or if the quality or accuracy of the clinical data they obtain is compromised due to the failure to adhere to our clinical protocols, regulatory requirements or for other reasons, our clinical trials may be extended, delayed or terminated and we may not be able to obtain regulatory approval for or successfully commercialize AQX-1125 or our future product candidates. As a result, our results of operations and the commercial prospects for our product candidates would be harmed, our costs could increase and our ability to generate revenues could be delayed.

Because we have relied on third parties, our internal capacity to perform these functions is limited. Outsourcing these functions involves risk that third parties may not perform to our standards, may not produce results in a timely manner or may fail to perform at all. In addition, the use of third-party service providers requires us to disclose our proprietary information to these parties, which could increase the risk that this information will be misappropriated. We currently have a small number of employees, which limits the internal resources we have available to identify and monitor our third-party providers. To the extent we are unable to identify and successfully manage the performance of third-party service providers in the future, our business may be adversely affected. Though we carefully manage our relationships with our CROs, there can be no assurance that we will not encounter challenges or delays in the future or that these delays or challenges will not have a material adverse impact on our business, results of operations, financial condition and cash flows and future prospects.

If we lose our relationships with CROs, our drug development efforts could be delayed.

We rely on third-party vendors and CROs for preclinical studies and clinical trials related to our drug development efforts. Switching or adding additional CROs would involve additional cost and requires management time and focus. Our CROs have the right to terminate their agreements with us in the event of an uncured material breach. In addition, some of our CROs have an ability to terminate their respective agreements with us if it can be reasonably demonstrated that the safety of the subjects participating in our clinical trials warrants such termination, if we make a general assignment for the benefit of our creditors or if we are liquidated. If any of our relationships with our third-party CROs terminate, we could experience a significant delay in identifying, qualifying and managing performance of a comparable third-party service provider, which could adversely affect our development programs. In addition, there is a natural transition period when a new CRO commences work and the new CRO may not provide the same type or level of services as the original provider. We may not be able to enter into arrangements with alternative CROs or to do so on commercially reasonable terms.

We have no experience manufacturing our product candidates on a large clinical or commercial scale and have no manufacturing facility. As a result, we are dependent on third-party manufacturers for the manufacture of our most advanced product candidate as well as on third parties for our supply chain, and if we experience problems with any third parties, the manufacturing of our product candidates or products could be delayed.

We do not own or operate facilities for the manufacture of our product candidates. We currently have no plans to build our own clinical or commercial scale manufacturing capabilities. We currently rely on a single source contract manufacturing organization, or CMO, for the chemical manufacture of active pharmaceutical ingredient for AQX-1125, and another CMO for the production of AQX-1125 final product formulation in a gelatin capsule and packaging for Phase 2 clinical trials. To meet our projected needs for clinical supplies to support our activities through regulatory approval and commercial manufacturing, the CMOs with whom we currently work will need to increase the scale of production. We may need to identify additional CMOs for continued production of supply for our

product candidates. We have not yet identified alternate suppliers in the event the current CMOs we utilize are unable to scale production, or if we otherwise experience any problems with them. Although alternative third-party suppliers with the necessary manufacturing and regulatory expertise and facilities exist, it could be expensive and take a significant amount of time to arrange for alternative suppliers. We may encounter technical difficulties or delays in the transfer of AQX-1125 manufacturing on a commercial scale to additional third-party manufacturers. We may be unable to enter into agreements for commercial supply with third party manufacturers, or may be unable to do so on acceptable terms. If we are unable to arrange for alternative third-party manufacturing sources, or to do so on commercially reasonable terms or in a timely manner, we may not be able to complete development of our product candidates, or market or distribute them.

Reliance on third-party manufacturers entails risks to which we would not be subject if we manufactured product candidates or products ourselves, including reliance on the third party for regulatory compliance and quality assurance, the possibility of breach of the manufacturing agreement by the third party because of factors beyond our control, including a failure to synthesize and manufacture our product candidates or any products we may eventually commercialize in accordance with our specifications, and the possibility of termination or nonrenewal of the agreement by the third party, based on its own business priorities, at a time that is costly or damaging to us. In addition, the FDA and other regulatory authorities require that our product candidates and any products that we may eventually commercialize be manufactured according to cGMP and similar foreign standards. Any failure by our third-party manufacturers to comply with cGMP or failure to scale up manufacturing processes, including any failure to deliver sufficient quantities of product candidates in a timely manner, could lead to a delay in, or failure to obtain, regulatory approval of any of our product candidates and could cause us to incur higher costs and prevent us from commercializing our product candidates successfully. In addition, such failure could be the basis for the FDA to issue a warning letter, withdraw approvals for product candidates previously granted to us, or take other regulatory or legal action, including recall or seizure of outside supplies of the product candidate, total or partial suspension of production, suspension of ongoing clinical trials, refusal to approve pending applications or supplemental applications, detention or product, refusal to permit the import or export of products, injunction, or imposing civil and criminal penalties.

Any significant disruption in our supplier relationships could harm our business. Any significant delay in the supply of a product candidate or its key materials for an ongoing clinical study could considerably delay completion of our clinical trials, product testing and potential regulatory approval of our product candidates. If our manufacturers or we are unable to purchase these key materials after regulatory approval has been obtained for our product candidates, the commercial launch of our product candidates would be delayed or there would be a shortage in supply, which would impair our ability to generate revenues from the sale of our product candidates. It may take several years to establish an alternative source of supply for our product candidates and to have any such new source approved by the FDA.

Risks Related to Intellectual Property

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

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

The steps we have taken to protect our proprietary rights may not be adequate to preclude misappropriation of our proprietary information or infringement of our intellectual property rights, both inside and outside the United States. The rights already granted under any of our currently issued patents and those that may be granted under future issued patents may not provide us with the proprietary protection or competitive advantages we are seeking. If we are unable to

obtain and maintain patent protection for our technology and products, or if the scope of the patent protection obtained is not sufficient, our competitors could develop and commercialize technology and products similar or superior to ours, and our ability to successfully commercialize our technology and products may be adversely affected.

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

We could be required to incur significant expenses to strengthen our intellectual property rights, and our intellectual property rights may be inadequate to protect our competitive position.

The patent prosecution process is expensive and time-consuming, and we or our future potential licensors may not be able to file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we or our future potential licensors will fail to identify patentable aspects of inventions made in the course of our development and commercialization activities before it is too late to obtain patent protection on them. Further, given the amount of time required for the development, testing and regulatory review of new product candidates, patents protecting such candidates might expire before or shortly after such candidates are commercialized. As a result, our owned and licensed patent portfolio may not provide us with sufficient rights to exclude others from commercializing products similar or identical to ours. We expect to seek extensions of patent terms in the United States and, if available, in other countries where we are prosecuting patents. In the United States, the Drug Price Competition and Patent Term Restoration Act of 1984 permits a patent term extension of up to five years beyond the expiration of the patent. However, the applicable authorities, including the FDA in the United States, and any equivalent regulatory authority in other countries, may not agree with our assessment of whether such extensions are available, and may refuse to grant extensions to our patents, or may grant more limited extensions than we request. If this occurs, our competitors may be able to take advantage of our investment in development and clinical trials by referencing our clinical and preclinical data and launch their product earlier than might otherwise be the case. Changes in either the patent laws or interpretation of the patent laws in the United States and other countries may diminish the value of our patents or narrow the scope of our patent protection. The laws of foreign countries may not protect our rights to the same extent as the laws of the United States, and these foreign laws may also be subject to change. For example, methods of treatment and manufacturing processes may not be patentable in certain jurisdictions. Publications of discoveries in the scientific literature often lag behind the actual discoveries, and patent applications in the United States and other jurisdictions are typically not published until 18 months after filing or in some cases not at all. Therefore we cannot be certain that we or our licensors were the first to make the inventions claimed in our owned or licensed patents or pending patent applications, or that we or our licensors were the first to file for patent protection of such inventions.

Recent patent reform legislation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents.

On September 16, 2011, the Leahy-Smith America Invents Act, or the Leahy-Smith Act, was signed into law. The Leahy-Smith Act includes a number of significant changes to U.S. patent law. These include provisions that affect the way patent applications will be prosecuted and may also affect patent litigation. In particular, under the Leahy-Smith Act, the United States transitioned in March 2013 to a “first to file” system in which the first inventor to file a patent application will be entitled to the patent. Third parties are allowed to submit prior art before the

issuance of a patent by the U.S. Patent and Trademark Office, or the USPTO, and may become involved in opposition, derivation, reexamination, inter-partes review or interference proceedings challenging our patent rights or the patent rights of others. An adverse determination in any such submission, proceeding or litigation could reduce the scope of, or invalidate, our patent rights, which could adversely affect our competitive position.

The USPTO is currently developing regulations and procedures to govern administration of the Leahy-Smith Act, and many of the substantive changes to patent law associated with the Leahy-Smith Act, and in particular, the first to file provisions, did not become effective until March 16, 2013. Accordingly, it is not clear what, if any, impact the Leahy-Smith Act will have on the operation of our business. However, the Leahy-Smith Act and its implementation could increase the uncertainties and costs surrounding the prosecution of our patent applications and the enforcement or defense of our issued patents, all of which could have a material adverse effect on our business, results of operations, financial condition and cash flows and future prospects.

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

Periodic maintenance and annuity fees on any issued patent are due to be paid to the USPTO and foreign patent agencies in several stages over the lifetime of the patent. The USPTO and various foreign governmental patent agencies require compliance with a number of procedural, documentary, fee payment and other similar provisions during the patent application process. While an inadvertent lapse can in many cases be cured by payment of a late fee or by other means in accordance with the applicable rules, there are situations in which noncompliance can result in abandonment or lapse of the patent or patent application, resulting in partial or complete loss of patent rights in the relevant jurisdiction. Non-compliance events that could result in abandonment or lapse of a patent or patent application include, but are not limited to, failure to respond to official actions within prescribed time limits, non-payment of fees and failure to properly legalize and submit formal documents. If we or our future potential licensors fail to maintain the patents and patent applications covering AQX-1125 or our future product candidates, our competitive position would be adversely affected.

We may be subject to claims by third parties asserting that our employees or we have misappropriated their intellectual property, or claiming ownership of what we regard as our own intellectual property.

Many of our employees, including our senior management, were previously employed at universities or at other biotechnology or pharmaceutical companies, including our competitors or potential competitors. Some of these employees, including each member of our senior management, executed proprietary rights, non-disclosure and non-competition agreements, in connection with such previous employment. Although we try to ensure that our employees do not use the proprietary information or know-how of others in their work for us, we may be subject to claims that we, or these employees, have used or disclosed confidential information or intellectual property, including trade secrets or other proprietary information, of any such employee's former employer. We are not aware of any threatened or pending claims related to these matters or concerning the agreements with our senior management, but in the future litigation may be necessary to defend against such claims. If we fail in prosecuting or defending any such claims, in addition to paying monetary damages, we may lose valuable intellectual property rights or personnel or sustain damages. Such intellectual property rights could be awarded to a third party, and we could be required to obtain a license from such third party to commercialize our technology or products. Such a license may not be available on commercially reasonable terms or at all. Even if we are successful in defending against such claims, litigation could result in substantial costs and be a distraction to management.

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

In addition to seeking patents for some of our technology and products, we also rely on trade secrets, including unpatented know-how, technology and other proprietary information, to maintain our competitive position. We seek to protect these trade secrets, in part, by entering into non-disclosure and confidentiality agreements with parties who have access to them, such as our employees, corporate collaborators, outside scientific collaborators, CMOs, consultants, advisors and other third parties. We also generally enter into confidentiality and invention or patent assignment agreements with our employees and consultants. Despite these efforts, any of these parties may breach the agreements and disclose our proprietary information, including our trade secrets, and we may not be able to obtain adequate remedies for such breaches. Enforcing a claim that a party illegally disclosed or misappropriated a trade secret is

difficult, expensive and time-consuming, and the outcome is unpredictable. In addition, some courts both within and outside the United States may be less willing or unwilling to protect trade secrets. If any of our trade secrets were to be lawfully obtained or independently developed by a competitor, we would have no right to prevent such competitor from using that technology or information to compete with us, which could harm our competitive position.

Although we expect all of our employees to assign their inventions to us, and all of our employees, consultants, advisors and any third parties who have access to our proprietary know-how, information or technology to enter into confidentiality agreements, we cannot provide any assurances that all such agreements have been duly executed or that our trade secrets and other confidential proprietary information will not be disclosed or that competitors will not otherwise gain access to our trade secrets or independently develop substantially equivalent information and techniques. Additionally, if the steps taken to maintain our trade secrets are deemed inadequate, we may have insufficient recourse against third parties for misappropriating the trade secret, In addition, others may independently discover our trade secrets and proprietary information. For example, the FDA, as part of its Transparency Initiative, is currently considering whether to make additional information publicly available on a routine basis, including information that we may consider to be trade secrets or other proprietary information, and it is not clear at the present time how the FDA's disclosure policies may change in the future, if at all.

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

Filing, prosecuting and defending patents on AQX-1125 and our future product candidates throughout the world would be prohibitively expensive. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as federal and state laws in the United States. Consequently, we and our licensors or collaborators may not be able to prevent third parties from practicing our inventions in all countries outside the United States, or from selling or importing products made using our inventions in and into the United States or other jurisdictions. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products, and may export otherwise infringing products to territories where we have patent protection, but where enforcement is not as strong as that in the United States. These products may compete with our products in jurisdictions where we do not have any issued patents and our patent claims or other intellectual property rights may not be effective or sufficient to prevent them from so competing.

Many companies have encountered significant problems in protecting and defending intellectual property rights in foreign jurisdictions. The legal systems of certain countries, particularly certain developing countries, do not favor the enforcement of patents and other intellectual property protection, particularly those relating to biopharmaceuticals, which could make it difficult for us to stop the infringement of our patents or marketing of competing products in violation of our proprietary rights generally. Proceedings to enforce our patent rights in foreign jurisdictions could result in substantial cost and divert our efforts and attention from other aspects of our business. We may not prevail in any lawsuits that we initiate and the damages or other remedies awarded, if any, may not be commercially meaningful.

The requirements for patentability may differ in certain countries, particularly developing countries. For example, unlike other countries, China has a heightened requirement for patentability, and specifically requires a detailed description of medical uses of a claimed drug. In India, unlike the United States, there is no link between regulatory approval of a drug and its patent status. Furthermore, generic or biosimilar drug manufacturers or other competitors may challenge the scope, validity or enforceability of our or our licensors' or collaborators' patents, requiring us or our licensors or collaborators to engage in complex, lengthy and costly litigation or other proceedings. Generic or biosimilar drug manufacturers may develop, seek approval for, and launch biosimilar versions of our products. In addition to India, certain countries in Europe and developing countries, including China, have compulsory licensing laws under which a patent owner may be compelled to grant licenses to third parties. In those countries, we and our licensors or collaborators may have limited remedies if patents are infringed or if we or our licensors or collaborators are compelled to grant a license to a third party, which could materially diminish the value of those patents. This could limit our potential revenue opportunities. Accordingly, our and our licensors' or collaborators' efforts to enforce intellectual property rights around the world may be inadequate to obtain a significant commercial advantage from the intellectual property that we own or license.

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

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

- Others may be able to make compounds that are the same as or similar to AQX-1125 or our future product candidates but that are not covered by the claims of the patents that we own or have exclusively licensed.
- We or any of our licensors or strategic partners might not have been the first to make the inventions covered by the issued patent or pending patent application that we own or have exclusively licensed.
- We or any of our licensors or strategic partners might not have been the first to file patent applications covering certain of our inventions.
- Others may independently develop similar or alternative technologies or duplicate any of our technologies without infringing our intellectual property rights.
- It is possible that our pending patent applications will not lead to issued patents.
- Issued patents that we own or have exclusively licensed may not provide us with any competitive advantages, or may be held invalid or unenforceable, as a result of legal challenges by our competitors.
- Our competitors might conduct research and development activities in the United States and other countries that provide a safe harbor from patent infringement claims for certain research and development activities, as well as in countries where we do not have patent rights and then use the information learned from such activities to develop competitive products for sale in our major commercial markets.
- We may not develop additional proprietary technologies that are patentable.
- The patents of others may have an adverse effect on our business.

Risks Related to This Offering and Ownership of Our Common Stock

We do not know whether an active, liquid and orderly trading market will develop for our common stock or what the market price of our common stock will be and as a result it may be difficult for you to sell your shares of our common stock.

Prior to this offering there has been no market for shares of our common stock. An active trading market for our shares may never develop or be sustained following this offering. The initial public offering price for our common stock will be determined through negotiations with the underwriters, and the negotiated price may not be indicative of the market price of our common stock after this offering. The market value of our common stock may decrease from the initial public offering price. As a result of these and other factors, you may be unable to resell your shares of our common stock at or above the initial public offering price. The lack of an active market may impair your ability to sell your shares at the time you wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. Further, an inactive market may also impair our ability to raise capital by selling shares of our common stock and may impair our ability to enter into collaborations or acquire companies or products by using our shares of common stock as consideration. The market price of our stock may be volatile, and you could lose all or part of your investment.

The trading price of our common stock following this offering is likely to be highly volatile and could be subject to wide fluctuations in response to various factors, some of which are beyond our control. In addition to the factors discussed in this “Risk Factors” section and elsewhere in this prospectus, these factors include:

- the success of competitive products or technologies;
- regulatory actions with respect to our products or our competitors’ products;
- actual or anticipated changes in our growth rate relative to our competitors;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures, collaborations or capital commitments;
- results of clinical trials, including both safety and efficacy, of AQX-1125 or any of our future product candidates or those of our competitors;
- regulatory or legal developments in the United States and other countries;

- developments or disputes concerning patent applications, issued patents or other proprietary rights;
- the recruitment or departure of key personnel;
- the level of expenses related to AQX-1125 or any of our future product candidates or clinical development programs;
- the results of our efforts to in-license or acquire additional product candidates or products;
- actual or anticipated changes in estimates as to financial results, development timelines or recommendations by securities analysts;
- variations in our financial results or those of companies that are perceived to be similar to us;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares;
- announcement or expectation of additional financing efforts;
- sales of our common stock by us, our insiders or our other stockholders;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors; and
- general economic, industry and market conditions.

In addition, the stock market in general, and pharmaceutical and biotechnology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of these companies. Broad market and industry factors may negatively affect the market price of our common stock, regardless of our actual operating performance. The realization of any of these risks or any of a broad range of other risks, including those described in these "Risk Factors," could have a dramatic and material adverse impact on the market price of our common stock.

We may be subject to securities litigation, which is expensive and could divert management attention.

The market price of our common stock may be volatile, and in the past companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

Our principal stockholders and management own a significant percentage of our stock and will be able to exert significant control over matters subject to stockholder approval.

Prior to this offering, our executive officers, directors, director nominees, holders of 5% or more of our capital stock and their respective affiliates together beneficially owned approximately 96.2% of our voting stock and, upon consummation of this offering, that same group will together hold approximately % of our outstanding voting stock, assuming no exercise of the underwriters' option to purchase additional shares of common stock, no exercise of outstanding options and after giving effect to the issuance of shares in this offering. However, certain of our directors, holders of 5% or more of our capital stock and their respective affiliates, including certain affiliates of our directors, have indicated an interest in purchasing up to an aggregate of $ million of shares of common stock in this offering, or shares at an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus. If these directors, holders of 5% or more of our capital stock and their respective affiliates purchase all such shares of common stock in this offering, our executive officers, directors, director nominees holders, of 5% or more of our capital stock and their respective affiliates would beneficially own % of our outstanding voting stock, assuming no exercise of the underwriters' option to purchase additional shares of common stock, no exercise of outstanding options and after giving effect to the issuance of shares in this offering. These stockholders may be able to determine the outcome of all matters requiring stockholder approval. For example, these stockholders may be able to control elections of directors, amendments of our organizational documents, or approval of any merger, sale of assets, or other major corporate transaction. This may prevent or discourage unsolicited acquisition proposals or offers for our common stock that you may feel are in your best interest as one of our stockholders. The interests of this group of stockholders may not always coincide with your interests or the interests of other stockholders and they may act in a manner that advances their best interests and not necessarily those of other stockholders, including seeking a premium value for their common stock, and might affect the prevailing market price for our common stock.

If you purchase our common stock in this offering, you will incur immediate and substantial dilution in the book value of your shares.

The initial public offering price is substantially higher than the net tangible book value per share of our common stock. Investors purchasing common stock in this offering will pay a price per share that substantially exceeds the book value of our tangible assets after subtracting our liabilities. As a result, investors purchasing common stock in this offering will incur immediate dilution of $ per share, based on an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover of this prospectus. Further, investors purchasing common stock in this offering will contribute approximately % of the total amount invested by stockholders since our inception, but will own, as a result of such investment, only approximately % of the shares of common stock outstanding immediately following this offering.

The exercise of any of our outstanding options would result in additional dilution. As a result of the dilution to investors purchasing shares in this offering, investors may receive significantly less than the purchase price paid in this offering, if anything, in the event of our liquidation. Further, because we may need to raise additional capital to fund our clinical development programs, we may in the future sell substantial amounts of common stock or securities convertible into or exchangeable for common stock. These future issuances of equity or equity-linked securities, together with the exercise of outstanding options and any additional shares issued in connection with acquisitions, if any, may result in further dilution to investors.

We are an "emerging growth company" as that term is used in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, and we intend to take advantage of reduced disclosure and governance requirements applicable to emerging growth companies, which could result in our common stock being less attractive to investors and adversely affect the market price of our common stock or make it more difficult to raise capital as and when we need it.

We are an "emerging growth company" as that term is used in the JOBS Act, and we intend to take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved and exemptions from any rules that the Public Company Accounting Oversight Board may adopt requiring mandatory audit firm rotation or a supplement to the auditor's report on the financial statements. We currently intend to take advantage of some, but not all, of the reduced regulatory and reporting requirements that will be available to us under the JOBS Act, so long as we qualify as an "emerging growth company." For example, so long as we qualify as an "emerging growth company," we may elect not to provide you with certain information, including certain financial information and certain information regarding compensation of our executive officers, that we would otherwise have been required to provide in filings we make with the Securities and Exchange Commission, or SEC, which may make it more difficult for investors and securities analysts to evaluate our company. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile. We may take advantage of these reporting exemptions until we are no longer an emerging growth company, which in certain circumstances could be for up to five years. See the section of this prospectus captioned "Summary—Our Corporate Information."

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

If we fail to maintain an effective system of internal control over financial reporting in the future, we may not be able to accurately report our business, results of operations, financial condition and cash flows and future prospects, which may adversely affect investor confidence in us and, as a result, the value of our common stock.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls for financial reporting and disclosure controls and procedures. Commencing with our annual report on Form 10-K for the year

ending December 31, 2014, we will be required, under Section 404 of the Sarbanes-Oxley Act, to furnish a report by management on, among other things, the effectiveness of our internal control over financial reporting. This assessment will need to include disclosure of any material weaknesses identified by our management in our internal control over financial reporting. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting that results in more than a reasonable possibility that a material misstatement of annual or interim financial statements will not be prevented or detected on a timely basis. Section 404 of the Sarbanes-Oxley Act also generally requires an attestation from our independent registered public accounting firm on the effectiveness of our internal control over financial reporting. However, for as long as we remain an emerging growth company as defined in the JOBS Act, we intend to take advantage of the exemption permitting us not to comply with the independent registered public accounting firm attestation requirement.

Our compliance with Section 404 will require that we incur substantial accounting expense and expend significant management efforts. We currently do not have an internal audit group, and we will need to hire additional accounting and financial staff with appropriate public company experience and technical accounting knowledge, and compile the system and process documentation necessary to perform the evaluation needed to comply with Section 404. We may not be able to complete our evaluation, testing and any required remediation in a timely fashion. In connection with the audit of the combined financial statements of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada as of December 31, 2012 and December 31, 2011, and for the years then ended and for the period from December 26, 2003 (inception) to December 31, 2012, included in this prospectus and registration statement, we identified certain significant deficiencies in our internal controls over financial reporting. A “significant deficiency” is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting, including the audit committee of the board of directors. During the evaluation and testing process, if we fail to remediate the significant deficiencies identified, fail to identify and to remediate any significant deficiencies or material weaknesses that may be identified in the future, or encounter problems or delays in the implementation of internal control over financial reporting, we will be unable to assert that our internal control over financial reporting is effective. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain internal control over financial reporting could severely inhibit our ability to accurately report our financial condition, results of operations or cash flows. If we are unable to conclude that our internal control over financial reporting is effective, or if our independent registered public accounting firm determines we have a material weakness or significant deficiency in our internal control over financial reporting once that firm begin its Section 404 reviews, we could lose investor confidence in the accuracy and completeness of our financial reports, the market price of our common stock could decline, and we could be subject to sanctions or investigations by the NASDAQ Stock Market, the SEC or other regulatory authorities. Failure to remedy any material weakness in our internal control over financial reporting, or to implement or maintain other effective control systems required of public companies, could also restrict our future access to the capital markets.

Our disclosure controls and procedures may not prevent or detect all errors or acts of fraud.

Upon consummation of this offering, we will become subject to the periodic reporting requirements of the Exchange Act. Our disclosure controls and procedures are designed to reasonably assure that information required to be disclosed by us in reports we file or submit under the Exchange Act is accumulated and communicated to management, recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. We believe that any disclosure controls and procedures or internal controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by an unauthorized override of the controls. Accordingly, because of the inherent limitations in our control system, misstatements or insufficient disclosures due to error or fraud may occur and not be detected.

We will incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company, and these expenses may increase even more after we are no longer an "emerging growth company." We will be subject to the reporting requirements of the Exchange Act, the Sarbanes-Oxley Act, the Dodd-Frank Wall Street Reform and Protection Act, as well as rules adopted, and to be adopted, by the SEC and NASDAQ Stock Market. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, we expect these rules and regulations to substantially increase our legal and financial compliance costs and to make some activities more time-consuming and costly. We estimate that we will incur approximately $2.0 to $3.0 million of incremental costs per year associated with being a publicly traded company, although it is possible that our actual incremental costs will be higher than we currently estimate. The increased costs will increase our combined net loss. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to incur substantial costs to maintain the sufficient coverage. We cannot predict or estimate the amount or timing of additional costs we may incur to respond to these requirements. The impact of these requirements could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

Because we do not anticipate paying any cash dividends on our capital stock in the foreseeable future, capital appreciation, if any, will be your sole source of gain.

We have never declared or paid cash dividends on our capital stock. We currently intend to retain all of our future earnings, if any, to finance the growth and development of our business. In addition, the terms of any future debt agreements may preclude us from paying dividends. Under the SVB debt facility, AQXP Canada is not permitted to make any cash dividends or distributions. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

Sales of a substantial number of shares of our common stock in the public market could cause our stock price to fall.

Sales of a substantial number of shares of our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. After this offering, we will have outstanding shares of common stock based on the number of shares outstanding as of September 30, 2013. This includes the shares that we are selling in this offering, which may be resold in the public market immediately without restriction, unless purchased by our affiliates. Of the remaining shares, shares of our common stock (or shares assuming certain of our existing stockholders, including certain of our directors, who have indicated an interest in purchasing up to an aggregate of $ million of shares of our common stock in this offering, or shares at an assumed initial public offering price of $ per share, which is the midpoint of the price range set forth on the cover page of this prospectus, purchase all of the shares they have indicated an interest in purchasing in this offering), will be restricted as a result of securities laws or lock-up agreements but will be able to be sold after the offering as described in the "Shares Eligible for Future Sale" section of this prospectus. Moreover, after this offering, holders of an aggregate of shares of our common stock will have rights, subject to certain conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also intend to register all shares of common stock that we may issue under our equity compensation plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to volume limitations applicable to affiliates and the lock-up agreements described in the "Underwriting" section of this prospectus.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause our stock price to fall.

We expect that significant additional capital will be needed in the future to continue our planned operations. To raise capital, we may sell substantial amounts of common stock or securities convertible into or exchangeable for common stock. These future issuances of common stock or common stock-related securities, together with the exercise of outstanding options and any additional shares issued in connection with acquisitions, if any, may result in material dilution to our investors. Such sales may also result in material dilution to our existing stockholders, and new investors could gain rights, preferences and privileges senior to those of holders of our common stock, including shares of common stock sold in this offering.

Pursuant to our equity incentive plans, our compensation committee is authorized to grant equity-based incentive awards to our directors, executive officers and other employees and service providers, including officers, employees and service providers of our subsidiaries and affiliates. Effective immediately prior to the listing of our common stock on the NASDAQ Global Market, we will adopt a 2014 Equity Incentive Plan. Future option grants and issuances of common stock under our 2014 Equity Compensation Plan may have an adverse effect on the market price of our common stock.

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

Although we currently intend to use the net proceeds from this offering in the manner described in "Use of Proceeds" elsewhere in this prospectus, our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not improve our results of operations or enhance the value of our common stock. The failure by our management to apply these funds effectively could result in financial losses that could have a material adverse effect on our business, cause the market price of our common stock to decline and delay the development of AQX-1125 and our future product candidates. Pending their use, we may invest the net proceeds from this offering in a manner that does not produce income or that loses value. If we do not invest the net proceeds from this offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause the price of our common stock to decline.

Some provisions of our charter documents and Delaware law may have anti-takeover effects that could discourage an acquisition of us by others, even if an acquisition would be beneficial to our stockholders and may prevent attempts by our stockholders to replace or remove our current management.

Provisions in our amended and restated certificate of incorporation, or certificate of incorporation, and amended and restated bylaws, or bylaws, that will become effective in connection with consummation of this offering, as well as provisions of Delaware law, could make it more difficult for a third party to acquire us or increase the cost of acquiring us, even if doing so would benefit our stockholders, or remove our current management. These include provisions that will:

- permit our board of directors to issue up to 5,000,000 shares of preferred stock, with any rights, preferences and privileges as they may designate;
- provide that all vacancies on our board of directors, including as a result of newly created directorships, may, except as otherwise required by law, be filled by the affirmative vote of a majority of directors then in office, even if less than a quorum;
- require that any action to be taken by our stockholders must be effected at a duly called annual or special meeting of stockholders and not be taken by written consent;
- provide that stockholders seeking to present proposals before a meeting of stockholders or to nominate candidates for election as directors at a meeting of stockholders must provide advance notice in writing, and also specify requirements as to the form and content of a stockholder's notice;
- not provide for cumulative voting rights, thereby allowing the holders of a majority of the shares of common stock entitled to vote in any election of directors to elect all of the directors standing for election; and
- provide that special meetings of our stockholders may be called only by the board of directors or by such person or persons requested by a majority of the board of directors to call such meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, who are responsible for appointing the members of our management. Because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which may discourage, delay or prevent someone from acquiring us or merging with us whether or not it is desired by or beneficial to our stockholders. Under Delaware law, a corporation may not, in general, engage in a business combination with any holder of 15% or more of its capital stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Any provision of our amended and restated certificate of incorporation or amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

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

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us, or our business. Securities and industry analysts do not currently, and may never, publish research on our company. If no securities or industry analysts commence coverage of our company, the trading price for our stock would likely be negatively impacted. In the event securities or industry analysts initiate coverage, if one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our stock could decrease, which might cause our stock price and trading volume to decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements that involve substantial risks and uncertainties. All statements other than statements of historical facts contained in this prospectus, including statements regarding our future financial condition, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as “believe,” “will,” “may,” “estimate,” “continue,” “anticipate,” “intend,” “should,” “plan,” “might,” ““approximately, “ “expect,” “predict,” “could,” “potentially” or the negative of these terms or other similar expressions. Forward-looking statements appear in a number of places throughout this prospectus and include statements regarding our intentions, beliefs, projections, outlook, analyses or current expectations concerning, among other things, our ongoing and planned preclinical development and clinical trials, the timing of and our ability to make regulatory filings and obtain and maintain regulatory approvals for AQX-1125 and our product candidates, our intellectual property position, the degree of clinical utility of our products, particularly in specific patient populations, our ability to develop commercial functions, expectations regarding clinical trial data, our results of operations, cash needs, spending of the proceeds from this offering, financial condition, liquidity, prospects, growth and strategies, the industry in which we operate and the trends that may affect the industry or us.

These forward-looking statements are subject to a number of risks, uncertainties and assumptions described in the section of this prospectus captioned “Risk Factors” and elsewhere in this prospectus, regarding, among other things:

- our expected uses of the net proceeds to us from this offering;
- the success and timing of our preclinical studies and clinical trials;
- our ability to enroll patients in our clinical trials at the pace that we project;
- the effectiveness of our clinical trial designs using EXACT-PRO as the primary endpoint;
- the size and growth of the potential markets for AQX-1125 or any future product candidates and our ability to serve those markets;
- our ability to obtain and maintain regulatory approval of AQX-1125 or any future product candidates, and the labeling under any approval we may obtain;
- our expectations regarding the potential safety, efficacy or clinical utility of AQX-1125 or any future product candidates;
- our plans and ability to develop and commercialize AQX-1125 or any future product candidates;
- the rate and degree of market acceptance of our future products;
- our reliance on third parties to conduct our preclinical studies and clinical trials;
- regulatory developments in the United States and foreign countries;
- the successful development of our commercialization capabilities, including sales and marketing capabilities;
- our reliance on third-party contract manufacturers to manufacture and supply AQX-1125 or any future product candidates for us;
- our ability to retain and recruit key scientific or management personnel or to retain our executive officers;
- our ability to obtain and maintain intellectual property protection for AQX-1125 or any future product candidates and our proprietary technology;
- our estimates of our expenses, ongoing losses, future revenue, capital requirements and our needs for or ability to obtain additional financing;
- our ability to identify, develop, acquire and in-license any future product candidates;
- recently enacted and future legislation regarding the healthcare system;
- the performance of third parties, including contract research organizations and third-party manufacturers; and
- developments and projections relating to our competitors or our industry.

These risks are not exhaustive. Other sections of this prospectus may include additional factors that could adversely impact our business and financial performance. Moreover, we operate in a very competitive and rapidly changing

environment. New risk factors emerge from time to time, and it is not possible for our management to predict all risk factors nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in, or implied by, any forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. We cannot assure you that the events and circumstances reflected in the forward-looking statements will be achieved or occur. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement of which this prospectus is a part with the understanding that our actual future results, levels of activity, performance and achievements may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus or to conform these statements to actual results or to changes in our expectations.

You should also read carefully the factors described in the section of this prospectus captioned “Risk Factors” and elsewhere to better understand the risks and uncertainties inherent in our business and underlying and forward-looking statements.

This prospectus also contains industry, market and competitive position data from our own internal estimates and research as well as industry and general publications and research surveys and studies conducted by third parties. While we believe that each of these studies and publications is reliable, we have not independently verified market and industry data form third-party sources. While we believe our internal company research is reliable and the market definitions we use are appropriate, neither such research nor these definitions have been validated by any independent source.

USE OF PROCEEDS

We estimate that the net proceeds from the sale of shares of our common stock in this offering will be approximately $ million, assuming an initial public offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise in full their option to purchase additional shares of common stock, we estimate that our net proceeds will be approximately $ million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the net proceeds to us from this offering by $, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us. Each increase or decrease of shares by shares in the number of shares offered by us would increase or decrease the net proceeds to us from this offering by approximately $, assuming that the assumed initial price to public remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us. We do not expect that a change in the initial price to the public or the number of shares by these amounts would have a material effect on uses of the proceeds from this offering, although it may accelerate the time at which we will need to seek additional capital.

The principal purposes of this offering are to obtain additional capital to support our operations, establish a public market for our common stock and to facilitate our future access to the public capital markets. We currently expect to use the net proceeds from this offering for the following purposes:

- approximately $ million to conduct additional Phase 2 clinical trials to evaluate AQX-1125 as a potential treatment in indications beyond COPD and BPS/IC;
- approximately $ million to conduct additional toxicology studies, dose ranging clinical trials, large batch manufacturing and process development, all in preparation for potential Phase 3 clinical development of AQX-1125;
- approximately $ million to advance one or more of our next generation SHIP1 activator compounds through preclinical development in preparation for a potential IND filing; and
- the remainder to fund working capital, capital expenditures and other general corporate purposes.

The expected use of the net proceeds from this offering represents our intentions based upon our current plans and business conditions, which could change in the future as our plans and business conditions evolve. The amounts and timing of our actual expenditures depend on numerous factors, including the progress of our preclinical development efforts, the ongoing status of and results of our clinical trials and other studies and any unforeseen cash needs. As a result, our management will have broad discretion in the application of the net proceeds, and investors will be relying on the judgment of our management regarding the application of the net proceeds of this offering. Although we may use a portion of the net proceeds from the offering for the acquisition or licensing, as the case may be, of product candidates, technologies, compounds, other assets or complementary businesses, we have no current understandings, agreements or commitments to do so. Pending these uses, we intend to invest the net proceeds from this offering in interest-bearing, investment-grade securities.

Although it is difficult to predict future liquidity requirements, we believe that the net proceeds from this offering, together with our existing cash, cash equivalents and marketable securities will fund our operations into the quarter of 201 .

DIVIDEND POLICY

We have never declared or paid dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support operations and to finance the growth and development of our business. We do not intend to declare or pay cash dividends on our capital stock in the foreseeable future. As a result, you will likely need to sell your shares of common stock to realize a return on your investment, and you may not be able to sell your shares at or above the price you paid for them. Any future determination to pay dividends will be made at the discretion of our board of directors subject to applicable laws, and will depend upon, among other factors, our results of operations, financial condition, contractual restrictions and capital requirements. Our future ability to pay cash dividends on our stock may be limited by the terms of any future debt or preferred securities.

CAPITALIZATION

The following table sets forth our cash and cash equivalents and our capitalization as of September 30, 2013 on:

- an actual basis;
- a pro forma basis to reflect (i) the issuance of our common stock upon the exchange of all of the outstanding common exchangeable shares of AQXP Canada, (ii) the issuance of our convertible preferred stock upon the exchange of all of the outstanding exchangeable preferred shares and (iii) the conversion of all of the outstanding shares of our convertible preferred stock including the convertible preferred stock issuable upon the exchange of all of the outstanding exchangeable preferred shares of AQXP Canada; and
- a pro forma as adjusted basis to reflect the sale of shares of common stock in this offering at the initial public offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, as if the sale of the shares in this offering had occurred on September 30, 2013.

The information in this table is illustrative only and our capitalization following the completion of this offering will be adjusted based on the actual initial public offering price and other terms of this offering determined at pricing. You should read this table together with the sections of this prospectus captioned "Selected Combined Financial Data," "Description of Capital Stock" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our financial statements and related notes included elsewhere in this prospectus.

	SEPTEMBER 30, 2013		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED (1)
Cash and cash equivalents	$ 15,867,885	$ 15,867,885	$
Redeemable Convertible Preferred Stock			
AQXP Canada, Series A exchangeable preferred shares, no par value—authorized unlimited as of September 30, 2013; issued and outstanding, 15,187,683 as of September 30, 2013 Pro Forma and September 30, 2013 Pro Forma, As Adjusted	$13,078,888	$ —	$
Aquinox USA, Series A preferred stock, $0.000001 par value— authorized 28,213,224 as of September 30, 2013, and 0 as of September 30, 2013 Pro Forma, and September 30, 2013 Pro Forma, As Adjusted; issued and outstanding, 12,727,628 as of September 30, 2013, and 0 as of September 30, 2013 Pro Forma and September 30, 2013 Pro Forma, As Adjusted	10,946,254	—	
AQXP Canada, Series B exchangeable preferred shares, no par value—authorized unlimited as of September 30, 2013; issued and outstanding, 15,237,508 as of September 30, 2013, 0 as of September 30, 2013 Pro Forma, and 0 as of September 30, 2013 Pro Forma, As Adjusted	10,480,142	—	
Aquinox USA, Series B preferred stock, $0.000001 par value—authorized 45,454,535 as of September 30, 2013, and 0 as of September 30, 2013 Pro Forma and September 30, 2013 Pro Forma, As Adjusted; issued and outstanding, 30,217,027 as of September 30, 2013, and 0 as of September 30, 2013 Pro Forma, and 0 as of September 30, 2013 Pro Forma, As Adjusted	20,691,549	—	
AQXP Canada, Series C exchangeable preferred shares, no par value—authorized, unlimited as of September 30, 2013, September 30, 2013 Pro Forma, and September 30, 2013 Pro Forma, As Adjusted; issued and outstanding, 7,272,701 as of September 30, 2013, and 0 as of September 30, 2013 Pro Forma and September 30, 2013 Pro Forma, As Adjusted	3,724,960	—	

	SEPTEMBER 30, 2013		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED (1)
Aquinox USA, Series C preferred stock, $0.000001 par value—authorized 45,793,738 as of September 30, 2013, and 0 as of September 30, 2013 Pro Forma and 0 as of September 30, 2013 Pro Forma, As Adjusted; issued and outstanding, 25,454,500 as of September 30, 2013, 0 as of September 30, 2013 Pro Forma and 0 as of September 30, 2013 Pro Forma, As Adjusted	12,975,829	—	
Stockholders' deficit	71,897,622	—	
Common stock			
AQXP Canada, new common share, no par value; authorized, 10 as of all dates presented; issued and outstanding, 1 as of all dates presented	—	—	
AQXP Canada, exchangeable common stock, no par value; authorized, unlimited as of all dates presented; issued and outstanding 5,793,776 as of September 30, 2013, 0 as of September 30, 2013 Pro Forma and September 30, 2013 Pro Forma, As Adjusted	534,729	—	
AQXP Canada, special voting common shares no par value; authorized, unlimited as of all dates presented; issued and outstanding 111,890,462 as of September 30, 2013, 0 as of September 30, 2013 Pro Forma September 30, 2013 Pro Forma, As Adjusted	—	—	
Aquinox USA, special voting common stock, $0.000001 par value; authorized, 69,027,955 as of September 30, 2013, 0 as of September 30, 2013 Pro Forma, and 0 as of September 30, 2013 Pro Forma, As Adjusted; issued and outstanding 43,491,667 as of September 30, 2013, 0 as of September 30, 2013 Pro Forma, and 0 as of September 30, 2013 Pro Forma, As Adjusted	44	—	
Aquinox USA, common stock, $0.000001 par value - authorized, 139,266,077 as of September 30, 2013, and as of September 30, 2013 Pro Forma, and as of September 30, 2013 Pro Forma, As Adjusted; issued and outstanding, September 30, 2013, 111,890,463 as of September 30, 2013 Pro Forma, and as of September 30, 2013 Pro Forma, As Adjusted	—	72	
Additional paid-in capital	—	72,432,317	
Deficit accumulated in the development stage	(61,041,518)	(58,585,314)	
Total stockholders' deficit	(60,506,745)	13,847,075	
Balance	$ 16,155,453	$ 16,155,453	$

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) the pro forma as adjusted stockholders' deficit by $ and our total capitalization by $, or $ if the underwriters exercise their option to purchase additional shares in full, assuming the number of shares set forth on the cover page of this prospectus remains the same and after deducting estimated underwriting discounts and commissions and estimated expenses payable by us. Each increase or decrease of shares in the number of shares offered by us would increase or decrease cash and cash equivalents, additional paid in capital, total stockholders' deficit and total capitalization by approximately $, assuming that the assumed initial price to public remains the same, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us.

The number of shares of our common stock to be outstanding after this offering is based on 111,890,463 shares of common stock outstanding as of September 30, 2013 and excludes:

- 9,872,184 shares of our common stock issuable upon the exercise of options outstanding under our 2006 Plan at a weighted average exercise price of $0.3163 per share;
- shares of or common stock reserved for issuance under the 2014 Plan, which will become effective upon completion of this offering, as well as any future increases in the number of shares of our common stock reserved for issuance under the 2014 Plan; and
- 339,287 shares of our common stock issuable upon the exercise of outstanding common stock warrants at a weighted average exercise price of $0.01 per share.

The capitalization on a pro forma as adjusted basis excludes any impact of the term loan facility with Silicon Valley Bank (“SVB”) we entered into on October 23, 2013 for up to $4.0 million of which $2.5 million was received on October 30, 2013.

DILUTION

If you invest in our common stock in this offering, your ownership interest will be immediately diluted to the extent of the difference between the price per share of our common stock in this offering and the pro forma as adjusted net tangible book value per share of our common stock upon closing of this offering. Net tangible book value per share of our common stock is determined at any date by subtracting our total liabilities from the total book value of our tangible assets and dividing the difference by the number of shares of common stock deemed to be outstanding at that date.

Our historical net tangible book deficit as of September 30, 2013 was $ million, or $ per share, which does not give effect to:

(1) the exchange of all of the common exchangeable and exchangeable preferred shares of AQXP Canada into our securities as described in the section of this prospectus captioned “Description of Capital Stock—Exchangeable Shares”; and
(2) the conversion of all outstanding shares of our preferred stock into shares of our common stock immediately prior to the completion of this offering.

Our pro forma net tangible book deficit as of September 30, 2013 was $ million, or $ per share, which gives effect to:

(1) the exchange of all of the common exchangeable and exchangeable preferred shares of AQXP Canada into our securities as described in the section of this prospectus captioned “Description of Capital Stock—Exchangeable Shares”; and
(2) the conversion of all outstanding shares of our preferred stock into shares of our common stock immediately prior to the completion of this offering.

Investors participating in this offering will incur immediate and substantial dilution. After giving effect to the receipt of approximately $ million of estimated net proceeds (after deducting underwriting discounts and commissions and estimated offering expenses payable by us) from our sale of shares of common stock in this offering at an assumed offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, our pro forma as adjusted net tangible book value as of September 30, 2013 would have been $ million, or $ per share. This amount represents an immediate increase in net tangible book value of $ per share to existing stockholders and an immediate dilution of $ per share to new investors purchasing shares of common stock in the offering.

The following table illustrates this substantial and immediate per share dilution to new investors.

Assumed initial public offering price per share (the midpoint of the range set forth on the cover page of this prospectus)		$
Historical net tangible book deficit per share as of September 30, 2013	$	
Pro forma increase in net tangible book value per share attributable to pro forma transactions and other adjustments described above	$	
Pro forma net tangible book value per share at September 30, 2013	$	
Pro forma increase in net tangible book value per share attributable to new investors participating in this offering	$	
Pro forma as adjusted net tangible book value per share after giving effect to this offering		$
Dilution in pro forma as adjusted net tangible book value per share to new investors		$

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus, would increase (decrease) our pro forma as adjusted net tangible book value by $, the pro forma as adjusted net tangible book value per share by $ per share

and the dilution per share to new investors in this offering by $, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

We may also increase or decrease the number of shares we are offering. An increase of 1.0 million shares in the number of shares offered by us would increase our pro forma as adjusted net tangible book value (deficit) as of September 30, 2013, by approximately $ million or by $ per share and the dilution per share to new investors purchasing common stock in this offering by $, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. Conversely, a decrease of 1.0 million shares in the number of shares offered by us would decrease our pro forma as adjusted net tangible book value (deficit) as of September 30, 2013, by approximately $ million or by $ per share and the dilution per share to new investors purchasing common stock in this offering by $, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

If the underwriters exercise in full their option to purchase additional shares of common stock the pro forma as adjusted net tangible book value per share would be $ per share, which amount represents an immediate increase in pro forma net tangible book value of $ per share of our common stock to existing stockholders and an immediate dilution in net tangible book value of $ per share of our common stock to new investors purchasing shares of common stock in this offering.

The following table summarizes, as of September 30, 2013:

- the total number of shares of common stock purchased from us by our existing stockholders and by new investors purchasing shares in this offering;
- the total consideration paid to us by our existing stockholders and by new investors purchasing common stock in this offering, assuming an initial public offering of $ per share, which is the midpoint of the range set forth on the cover page of this prospectus (before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us in connection with this offering); and
- the average price per share paid by existing stockholders and by new investors purchasing shares in this offering.

	SHARES PURCHASED		TOTAL CONSIDERATION		AVERAGE PRICE PER SHARE
	NUMBER	PERCENT	AMOUNT	PERCENT	
Existing stockholders		%	$	%	$
New investors					
Total		100%	$	100%	$

The tables and calculations above are based on shares of our common stock outstanding as of September 30, 2013 and gives effect to the pro forma transactions above, but excludes:

- 9,872,184 shares of our common stock issuable upon the exercise of options outstanding under our 2006 Plan at a weighted average exercise price of $0.3163 per share;
- shares of our common stock reserved for issuance under our 2014 Plan, which will become effective upon completion of this offering, as well as any future increases in the number of shares of our common stock reserved for issuance under the 2014 Plan; and
- 339,287 shares of our common stock issuable upon the exercise of outstanding common stock warrants at a weighted average exercise price of $0.01 per share.

A $1.00 increase (decrease) in the assumed initial public offering price of $ per share would increase (decrease) total consideration paid by existing stockholders, total consideration paid by new investors and the average price per share by $, $ and $, respectively, assuming the number of shares offered by

us, as set forth on the cover page of this prospectus, remains the same and without deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

The foregoing table does not reflect the exercise by the underwriters of their option to purchase additional shares of common stock. If the underwriters exercise their option to purchase additional shares in full, the number of shares held by the existing stockholders after this offering would be reduced to , or % of the total number of shares of our common stock outstanding after this offering, and the number of shares held by new investors would increase to , or %, of the total number of shares of our common stock outstanding after this offering.

The shares reserved for future issuance under our 2014 Plan will be subject to automatic annual increases in accordance with the terms of the plans. To the extent that options are exercised, new options are issued under our equity incentive plans, or we issue additional shares of common stock in the future, there will be further dilution to investors participating in this offering.

In addition, we may choose to raise additional capital because of market conditions or strategic considerations, even if we believe that we have sufficient funds for our current or future operating plans. If we raise additional capital through the sale of equity or convertible debt securities, the issuance of these securities could result in further dilution to our stockholders.

SELECTED COMBINED FINANCIAL DATA

You should read the following selected combined financial data in conjunction with the sections of this prospectus captioned “Use of Proceeds,” “Capitalization,” “Summary Combined Financial Data,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” “Description of Capital Stock” and our combined financial statements and related notes, all included elsewhere in this prospectus.

Financial Statement Presentation:

In 2007 AQXP Canada implemented a restructuring plan to facilitate investment in either AQXP Canada or Aquinox Pharmaceuticals (USA) Inc. Immediately prior to the completion of this offering, (i) each common exchangeable share of AQXP Canada will be transferred to Aquinox Pharmaceuticals (USA) Inc. in exchange for one share of common stock of Aquinox Pharmaceuticals (USA) Inc. and (ii) each exchangeable preferred share of AQXP Canada will be transferred to the Aquinox Pharmaceuticals (USA) Inc. in exchange for one share of the corresponding series of preferred stock of Aquinox Pharmaceuticals (USA) Inc. (which, in turn, will be immediately converted into one share of common stock of Aquinox Pharmaceuticals (USA) Inc.). AQXP Canada will be a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc. Management has determined that AQXP Canada and Aquinox Pharmaceuticals (USA) Inc. are entities under common control as each of AQXP Canada and Aquinox Pharmaceuticals (USA) Inc. is owned beneficially by identical shareholders and as such the basis of presentation of the financial statements in this prospectus is on a combined basis. When, just prior to or contemporaneously with an initial public offering, a combination of companies under common control takes place, it is appropriate to present combined historical financial statements for all periods shown. The combined financial statements reflect the operations of both Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada and the historical results of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada since inception. All intercompany transactions have been eliminated.

We have derived the combined statements of operations data for the fiscal years ended December 31, 2011 and December 31, 2012 and the combined balance sheet data as of December 31, 2011 and December 31, 2012 from our audited combined financial statements appearing elsewhere in this prospectus. The combined statements of operations data for the year to date period ended September 30, 2012 and September 30, 2013 and combined balance sheet data as of September 30, 2013 have been derived from our unaudited interim combined financial statements appearing elsewhere in this prospectus. We have prepared the unaudited combined financial statements on the same basis as the audited combined financial statements. Our historical results are not necessarily indicative of the results that should be expected in the future, and our interim results are not necessarily indicative of the results that should be expected for the full year or any other period.

Combined Statement of Operations Data

	YEAR ENDED DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2012	DECEMBER 26, 2003 (INCEPTION) TO DECEMBER 31, 2012	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013	DECEMBER 26, 2003 (INCEPTION) TO SEPTEMBER 30, 2013
Operating expenses						
Research and development	$ 8,578,596	$ 5,914,611	$ 33,759,261	$ 5,093,292	$ 4,802,078	$ 38,561,338
General and administrative	1,725,073	1,635,623	7,729,683	1,085,119	1,209,939	8,939,622
Amortization	125,598	130,784	551,601	99,823	45,198	596,799
Total operating expenses	$ 10,429,267	$ 7,681,018	$ 42,040,545	$ 6,278,234	$ 6,057,215	$ 48,097,759
Net loss and comprehensive loss incurred in the development stage	$ (10,507,008)	$ (7,714,198)	$ (38,545,538)	$ (6,288,801)	$ (5,189,256)	$ (43,734,793)
Total loss attributable to common stockholders	$ (14,319,278)	$ (12,137,948)	$ (52,558,728)	$ (9,606,515)	$ (9,660,864)	$ (62,219,591)
Basic and diluted loss per common stock	$ (2.47)	$ (2.09)	$ (9.07)	$ (1.66)	$ (1.67)	$ (10.74)
Basic and diluted weighted average common stock outstanding	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776
Net loss attributable to common stockholders—pro forma		$ (7,668,873)			$ (6,048,894)	
Pro forma net loss per common stock: [1]						
Basic and diluted		$ (0.10)			$ (0.05)	
Weighted average shares outstanding used to compute pro forma net loss per common stock:						
Basic and diluted		79,163,262			111,890,463	

Combined Balance Sheet Data

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013	PRO FORMA SEPTEMBER 30, 2013 [2]
Cash and cash equivalents	$ 9,239,188	$ 2,000,539	$ 15,867,885	$ 15,867,885
Working capital	8,878,478	1,678,695	13,881,976	13,881,976
Total assets	9,883,905	2,341,990	16,155,453	16,155,453
Warrant liabilities	—	—	221,450	221,450
Redemption option on preferred stock	—	—	974,742	—
Accrued tax payable on preferred stock	664,579	1,059,487	1,481,462	—
Redeemable convertible preferred stock	47,900,948	51,975,238	71,897,622	—
Total stockholders' deficit	(39,314,587)	(51,101,213)	(60,506,751)	(13,847,075)
Total liabilities, redeemable convertible preferred stock and stockholders' deficit	$ 9,883,905	$ 2,341,990	$ 16,155,453	$ 16,155,453

(1) Pro forma basic and diluted net loss per share represents net loss attributable to common stock holders divided by the pro forma weighted-average shares of common stock outstanding. The pro forma weighted-average shares outstanding reflects the conversion of our redeemable convertible preferred stock into our common stock as though the conversion had occurred on the first day of the relevant period. See Note 11 of the accompanying notes to our combined financial statements

(2) Pro forma balance sheet represent reflects the conversion that gives effect to the conversion of our redeemable convertible preferred stock into our common stock. This exchange will result in the redemption option on preferred stock, and the accrued tax payable on preferred stock being derecognized.

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

You should read the following discussion and analysis of our financial condition and results of operations together with the section of this prospectus captioned "Selected Combined Financial Data" and our combined financial statements and related notes appearing elsewhere in this prospectus. Our combined financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those set forth under the sections of this prospectus captioned "Risk Factors" and "Special Note Regarding Forward-Looking Statements and Industry Data" and elsewhere in this prospectus, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

We are a clinical-stage pharmaceutical company discovering and developing novel drug candidates to treat inflammation and cancer. Our primary focus is anti-inflammatory product candidates targeting SHIP1, which is a key regulator of an important cellular signaling pathway in immune cells, known as the PI3K pathway. Our lead product candidate, AQX-1125, is a SHIP1 activator and has demonstrated broad anti-inflamitory activity. AQX-1125 has successfully completed three clinical trials dosed as a once daily oral product with over 100 subjects having received AQX-1125 to date. We are currently investigating AQX-1125 in two Phase 2 clinical trials, one for Chronic Obstructive Pulmonary Disease, or COPD, and one for Bladder Pain Syndrome/Interstitial Cystitis, or BPS/IC. COPD and BPS/IC are debilitating chronic inflammatory diseases affecting millions of people worldwide. For AQX-1125, we retain full worldwide rights and hold patents with terms through at least 2024.

We use a proprietary screening approach to discover new drug candidates that selectively target SHIP1 to modulate activated immune cells while minimizing their toxicity to normal cells. Our intellectual property covers SHIP1 as a target, the C2 binding domain for screening and the composition of matter for our compounds.

We have an extensive chemical library and several candidate lead compounds that target SHIP1. These compounds have both similar and distinct properties from AQX-1125. We believe AQX-1125 is the only SHIP1 activator currently in clinical trials and that no SHIP1 activator has yet received marketing approval as a treatment for disease in humans.

We commenced operations as 6175813 Canada Inc., a corporation formed in December 2003 under the Canada Business Corporations Act. We subsequently changed the name of such entity to Aquinox Pharmaceuticals Inc. We incorporated Aquinox Pharmaceuticals (USA) Inc., a corporation under the laws of the State of Delaware, in May 2007. Upon completion of the exchange of the common exchangeable and exchangeable preferred shares of AQXP Canada, and the redemption of certain other outstanding shares of AQXP Canada, as further described in the section of this prospectus captioned "Description of Capital Stock—Exchangeable Shares", AQXP Canada will be a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc. Our operations to date have included our organization and staffing, business planning, raising capital, in-licensing technology from research institutions, identifying potential product candidates, developing AQX-1125 and future product candidates, as well as undertaking preclinical studies and clinical trials of our product candidates.

Since commencing operations we have dedicated a significant portion of our resources to development efforts for our clinical-stage product candidate AQX-1125. We incurred research and development expenses of $8.6 million and $5.9 million during the years ended December 31, 2011 and 2012, respectively, and $4.8 million during the nine months ended September 30, 2013. We anticipate that a significant portion of our operating expenses will continue to be related to research and development as we continue to advance our preclinical programs and our clinical-stage product candidates. We have funded our operations primarily through the sale of preferred stock and debt financing. As of December 31, 2012 and September 30, 2013, we had $2.0 million and $15.9 million in cash and cash equivalents, respectively.

Since inception, we have incurred significant operating losses. Our net losses were $10.5 million and $7.7 million for the years ended December 31, 2011 and 2012, respectively, and $5.2 million for the nine months ended September 30, 2013. As of September 30, 2013, we had an accumulated deficit of $61.0 million. We expect to

incur significant expenses and operating losses for the foreseeable future as we continue the development and clinical trials of, and seek regulatory approval for, AQX-1125 and any future product candidates we advance to clinical development. If we obtain regulatory approval for any of our product candidates, we expect to incur significant commercialization expenses. For example, we do not currently have the infrastructure for the sales, marketing, manufacture and distribution of any products. We may enter into licensing and co-promotion agreements with strategic or collaborative partners for the commercialization of our products in the United States and other territories, but have not currently entered into any such arrangements. To develop a commercial infrastructure, we would have to invest financial and management resources, some of which would have to be deployed prior to having any certainty of marketing approval.

Following consummation of this offering, we expect to incur additional costs associated with operating as a public company. Unless and until we generate sufficient revenue to be profitable, we will seek to fund our operations primarily through public or private equity or debt financings or other sources. Other additional financing may not be available to us on acceptable terms, or at all. Our failure to raise capital as and when needed could have a material adverse effect on our business, results of operations, financial condition and cash flows and future prospects.

Financial Operations Overview

Revenue

To date, we have not generated any revenue. In the future, we may generate revenue from a combination of product sales, license fees, milestone payments and royalties from the sale of products developed under licenses of our intellectual property. Our ability to generate revenue and become profitable depends on our ability to successfully commercialize or partner AQX-1125 and any future product candidates we may advance in the future. We expect that any revenue we may generate will fluctuate from quarter to quarter as a result of the timing and amount of license fees, milestone and other payments, and the amount and timing of payments that we receive upon the sale of our products, to the extent any are successfully commercialized. If we fail to complete the development of AQX-1125 or any future product candidates we advance in a timely manner or obtain regulatory approval for them, our ability to generate future revenue, and our business, results of operations, financial condition and cash flows and future prospects would be materially adversely affected.

Operating Expenses

The following table summarizes our operating expenses for the years ended December 31, 2011 and 2012 and for the nine months ended September 30, 2012 and 2013:

	YEAR ENDED DECEMBER 31,	
	2011	2012
Research and development	$ 8,578,596	$ 5,914,611
General and administrative	1,725,073	1,635,623
Amortization	125,598	130,784
Total operating expenses	$ 10,429,267	$ 7,681,018

	NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2013
Research and development	$ 5,093,292	$ 4,802,078
General and administrative	1,085,119	1,209,939
Amortization	99,823	45,198
Total operating expenses	$ 6,278,234	$ 6,057,215

Research and Development Expenses

Since our inception, we have focused our resources on our research and development activities. Our research and development expenses consist primarily of costs incurred for the development of AQX-1125 and our future product candidates, which include:

- costs associated with research, development and regulatory activities;
- employee-related expenses, including salaries, benefits, travel and stock-based compensation expense;
- expenses incurred under agreements with CROs and investigative sites that conduct our clinical trials and preclinical studies;
- the cost of acquiring and manufacturing our products, for preclinical studies and clinical trials; and
- facilities, and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, amortization of equipment and leasehold improvements, insurance and supplies.

Research and development costs are expensed as incurred. License fees and milestone payments we make related to in-licensed products and technology are expensed if it is determined that they have no alternative future use. We record costs for some development activities, such as clinical trials, based on an evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations or information provided to us by our vendors.

Research and development activities are central to our business model. In November 2012, following completion of early-stage lead compound identification and screening, we began to decrease our internal research efforts to focus our resources on clinical development and on outsourced research activities. Product candidates in later stages of clinical development generally have higher development costs than those in earlier stages of clinical development, primarily due to the increased size and duration of later-stage clinical trials. We expect to increase our research and development expenses for the foreseeable future as we initiate further clinical trials.

To date, our research and development expenses have related primarily to the development of AQX-1125. In the years ended December 31, 2011 and 2012 our research and development expenses were approximately $8.6 million and $5.9 million respectively, and for the nine months ended September 30, 2012 and 2013, were approximately $5.1 million and $4.8 million, respectively. From our inception through September 30, 2013, we have incurred approximately $13.3 million in external costs related to the development of AQX-1125.

The following table summarizes our research and development expenses by functional area for the years ended December 31, 2011 and 2012:

	YEAR ENDED DECEMBER 31,	
	2011	2012
Clinical development	$ 2,859,177	$ 1,993,341
Personnel related	2,099,085	1,834,172
Manufacture and formulation	663,317	174,114
Preclinical research	1,603,371	871,755
Facility and overhead	1,252,411	843,578
Consulting	42,113	21,990
Stock-based compensation	59,122	175,661
Total research and development expenses	$ 8,578,596	$ 5,914,611

The following table summarizes our research and development expenses by functional area for the nine months ended September 30, 2012 and 2013:

	NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2013
Clinical development	$ 2,023,810	$ 2,202,407
Personnel related	1,434,102	931,689
Manufacture and formulation	64,978	1,002,556
Preclinical research	867,047	103,958
Facility and overhead	654,095	399,122
Consulting	13,021	34,687
Stock-based compensation	36,239	127,659
Total research and development expenses	$ 5,093,292	$ 4,802,078

It is difficult to determine with certainty the duration and completion costs of our current or future preclinical programs and clinical trials of AQX-1125 and any of our future product candidates we may advance, or if, when or to what extent we will generate revenue from the commercialization and sale of any of our product candidates that obtain regulatory approval. We may never succeed in achieving regulatory approval for any of our product candidates. The duration, costs and timing of clinical trials and development of our product candidates will depend on a variety of factors, including the uncertainties of future clinical trials and preclinical studies, uncertainties in clinical trial enrollment rate and significant and changing government regulation. In addition, the probability of success for each product candidate will depend on numerous factors, including competition, manufacturing capability and commercial viability. A change in the outcome of any of these variables with respect to the development of a product candidate could mean a significant change in the costs and timing associated with the development of that product candidate. For example, if the FDA or another regulatory authority were to require us to conduct clinical trials beyond those that we currently anticipate will be required for the completion of clinical development of a product candidate, or if we experience significant delays in enrollment in any of our clinical trials, we could be required to expend significant additional financial resources and time with respect to the development of that product candidate. We will determine which programs to pursue and how much to fund each program in response to the scientific and clinical success of each product candidate, as well as an assessment of each product candidate's commercial potential.

General and Administrative Expenses

General and administrative expenses consist principally of salaries and related costs for executive and other administrative personnel, including stock-based compensation and travel expenses. Other general and administrative expenses include facility-related costs, communication expenses and professional fees for legal, patent review, consulting and accounting services.

For the years ended December 31, 2011 and 2012, our general and administrative expenses totaled approximately $1.7 million and $1.6 million, respectively, and for the nine months ended September 30, 2012 and 2013, were $1.1 million and $1.2 million, respectively. We anticipate that our general and administrative expenses will increase in the future with the continued research and development and potential commercialization of AQX-1125 and any of our future product candidates and as we operate as a public company. These increases will likely include increased costs for insurance, costs related to the hiring of additional personnel, increased stock-based compensation expense, and payments to outside consultants, investor relations, lawyers and accountants, among other expenses.

Additionally, if in the future we believe regulatory approval of AQX-1125 or any of our future product candidates appears likely, we anticipate that we would begin preparations for commercial operations, which would result in an increase in payroll and other expense, especially as it relates to the sales and marketing of our product candidates.

JOBS Act

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

Internal Control Over Financial Reporting

Neither we nor our independent registered chartered accountants firm has performed an evaluation of our internal control over financial reporting during any period in accordance with the provisions of the Sarbanes-Oxley Act. However, in connection with the audit of the combined financial statements of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada as of December 31, 2012 and December 31, 2011, and for the years then ended and for the period from December 26, 2003 (inception) to December 31, 2012, included in this prospectus and registration statement, we identified certain significant deficiencies in our internal controls over financial reporting. A “significant deficiency” is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those responsible for oversight of our financial reporting, including the audit committee of the board of directors. As a result of the limited procedures performed, we believe that it is possible that, had we and our independent registered chartered accountants firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, material weaknesses and additional significant control deficiencies may have been identified. However, for as long as we remain an “emerging growth company” as defined in the JOBS Act, we intend to take advantage of the exemption permitting us not to comply with the requirement that our independent registered public accounting firm provide an attestation on the effectiveness of our internal control over financial reporting. We will remain an emerging growth company until the earlier of (1) the last day of the fiscal year (a) following the fifth anniversary of the completion of this offering, (b) in which we have total annual gross revenue of at least $1.0 billion, or (c) in which we are deemed to be a large accelerated filer, which means the market value of our common stock that is held by non-affiliates exceeds $700 million as of the prior June 30th, or (2) the date on which we have issued more than $1.0 billion in non-convertible debt securities during the prior three-year period.

Results of Operations

Comparison of the Nine Months Ended September 30, 2012 and 2013

	NINE MONTHS PERIOD ENDED SEPTEMBER 30, 2012	2013	CHANGE
Operating expenses:			
Research and development	$ 5,093,292	$ 4,802,078	$ (291,214)
General and administrative	1,085,119	1,209,939	124,820
Amortization	99,823	45,198	(54,625)
Total operating expenses	6,278,234	6,057,215	(221,019)
Other income (expenses)			
Bank charges and financing costs	(7,509)	(5,246)	2,263
Interest income	9,003	17,845	8,842
Sale of equipment	—	124,353	124,353
Change in fair value of derivative liabilities	—	972,757	972,757
Amortization of discount on preferred stock	(34,025)	(265,650)	(231,625)
Foreign exchange gain (loss)	64,258	18,856	(45,402)
	31,727	862,915	831,188
Net loss before income taxes	(6,246,507)	(5,194,300)	1,052,207
Income tax (provision) recovery	(42,294)	5,044	47,338
Net loss and comprehensive loss incurred in the development stage	$ (6,288,801)	$ (5,189,256)	$ 1,099,545
Accretion for liquidation preference on preferred stock	(2,895,102)	(3,953,595)	(1,058,493)
Accretion for share issuance costs on preferred stock	(126,430)	(96,039)	30,391
Tax expense on preferred stock	(296,182)	(421,974)	(125,792)
Total loss attributable to common stockholders	$ (9,606,515)	$ (9,660,864)	$ (54,349)

Research and development expenses

Research and development expenses decreased by $0.3 million, or 5.7%, from $5.1 million for the nine months ended September 30, 2012 to $4.8 million for the nine months ended September 30, 2013. This decrease was driven primarily by a decrease in preclinical research expenses of $0.8 million. In November 2012, following completion of early-stage lead compound identification and screening, we began to decrease our internal research efforts to focus our resources on clinical development and on outsourced research activities. On February 15, 2013, we reduced number of research and development employees on a full-time equivalent basis, decreasing from 13 as of September 30, 2012 to nine as of September 30, 2013.

General and administrative expenses

General and administrative expenses increased by $0.1 million, or 11.5%, from $1.1 million for the nine months ended September 30, 2012 to $1.2 million for the nine months ended September 30, 2013. The increase was primarily attributable to an increase in travel expenses related to our Series C financing.

Sale of equipment

We sold laboratory equipment during the nine month period ended September 30, 2013 for proceeds of $0.2 million. The laboratory equipment had historical costs of $0.2 million, and accumulated amortization of $0.2 million. A gain of $0.1 million the nine month period ended September 30, 2013.

Change in fair value of derivative liabilities

These liabilities are re-measured at each balance sheet date with the corresponding change recorded within change in fair value of derivative liabilities. The fair value of the convertible preferred stock warrants and redemption option

is determined using the Black-Scholes option-pricing model which incorporates a number of assumptions and judgments to estimate the fair value of these warrants and redemption option including the fair value per share of the underlying stock, the remaining contractual term of the warrants and redeemable convertible preferred stock, risk-free interest rate, expected dividend yield, and expected volatility of the price of the underlying stock. During the nine months ended on September 30, 2013, *we* recorded an expense of $1.0 million due to an increase in the fair value of our warrant liability as a result of the change in the fair value of our underlying common stock.

Amortization of discount on preferred stock

Amortization of discount on preferred stock increased from $34,025 for the nine months ended September 2012 to $0.3 million due to the discount associated with the issuance of Series C preferred stock in March of 2013.

Comparison of Years Ended December 31, 2011 and 2012

	YEAR ENDED DECEMBER 31,		
	2011	2012	CHANGE
Operating expenses:			
Research and development	$ 8,578,596	$ 5,914,611	$ (2,663,985)
General and administrative	1,725,073	1,635,623	(89,450)
Amortization	125,598	130,784	5,186
Total operating expenses	10,429,267	7,681,018	(2,748,249)
Other income (expenses)			
Bank charges and financing costs	(9,404)	(9,470)	(66)
Interest income	19,747	10,804	(8,943)
Sale of equipment	—	—	—
Change in fair value of derivative liabilities	—	—	—
Amortization of discount on preferred stock	(45,325)	(45,448)	(123)
Foreign exchange gain (loss)	(197,227)	53,228	250,455
	(232,209)	9,114	241,323
Net loss before income taxes	(10,661,476)	(7,671,904)	2,989,572
Income tax recovery (provision)	154,468	(42,294)	(196,762)
Net loss incurred in the development stage	(10,507,008)	(7,714,198)	2,792,810
Accretion for liquidation preference on preferred stock	(3,303,200)	(3,860,140)	(556,940)
Accretion for share issuance costs on preferred stock	(163,483)	(168,702)	(5,219)
Tax expense on preferred stock	(345,587)	(394,908)	(49,321)
Total loss attributable to common stockholders	$ (14,319,278)	$ (12,137,948)	$ 2,181,330

Research and development expenses

Research and development expenses decreased by $2.7 million, or 31%, from $8.6 million for the year ended December 31, 2011 to $5.9 million for the year ended December 31, 2012. This decrease was driven primarily by a decrease in clinical development expenses of $0.9 million in 2012 compared to 2011 as a result of a decrease in the number of clinical trials were conducting in 2012. In 2011 we had three clinical trials underway, one Phase 1 trial and two proof-of-concept trials, and in 2012 we had two proof-of-concept trials underway. Preclinical research expenses decreased by $0.7 million in 2012 compared with 2011 as fewer studies were underway. Furthermore, each of manufacturing and formulation related expenses and facility and overhead expenses decreased by $0.4 million in 2012 as compared to 2011, as we commenced a manufacturing campaign in 2011 and costs associated with internal research supporting preclinical and manufacturing activities were higher in 2011 as we initiated our two Phase 2 proof-of-concept trials. In November 2012, following completion of early-stage lead compound identification and screening, we began to decrease our internal research efforts to focus our resources on clinical development and on outsourced research activities. Personnel costs declined by $0.3 million in 2012 compared to 2011 as we reduced our research and development head-count from 18 to 12 full-time equivalents. Offsetting these decreases we recognized $0.1 million higher stock-based compensation expenses in 2012 compared to 2011 related to option grants made to directors, management and employees in November 2011.

General and administrative expenses

General and administrative expenses decreased by $89,450, or 5.2%, from $1.7 million for the year ended December 31, 2011 to $1.6 million for the year ended December 31, 2012. The decrease was primarily attributable to a decline in market research expenses in 2012.

Bank charges and financing costs

Bank charges and financing costs consist of transfer fees, and normal course bank charges.

Interest income

Interest (expense) income, net consists primarily of interest earned on cash, cash equivalents and short-term investments held by us.

Foreign exchange gain (loss)

Foreign exchange gain (loss) increased by $0.3 million, or 127%, from a loss of $0.2 million at year ended December 31, 2011 to a gain of $53,228 at year-ended December 31, 2012, primarily due to changes in foreign exchange gains (losses) due to the greater amount of cash balances held in non-USD currencies as of December 31, 2011, which were more vulnerable to the unfavorable exchange rates for British Pounds, Euros and Canadian dollar relative to USD (our functional currency) at December 31 2012, and the related effects of period end translation of cash balances and expenses incurred in these currencies.

Liquidity and Capital Resources

From inception through September 30, 2013, we have received gross proceeds of $57.8 million from the issuance of preferred stock.

Since our inception, we have incurred net losses and negative cash flows from our operations. We incurred net losses of $10.5 million and $7.7 million for the years ended December 31, 2011 and 2012, respectively, and $6.3 million and $5.2 million for the nine months ended September 30, 2012 and 2013, respectively. Our operating activities used $6.1 million and $4.1 million of cash flows during the nine months ended September 30, 2012 and 2013, respectively. As of September 30, 2013, we had an accumulated deficit of $61 million, working capital of $13.9 million and cash and cash equivalents of $15.9 million.

Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2012 and 2013:

	YEAR ENDED DECEMBER 31,	
	2011	2012
Net cash (used in) provided by:		
Operating activities	$ (9,798,301)	$ (7,232,382)
Investing activities	(62,845)	(6,447)
Financing activities	12,119,976	—
Net increase (decrease) in cash and cash equivalents	$ 2,258,830	$ (7,238,829)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2012	2013
Net cash (used in) provided by:		
Operating activities	$ (6,113,737)	$ (4,083,097)
Investing activities	(3,901)	174,385
Financing activities	—	17,776,058
Net (decrease) increase in cash and cash equivalents	$ (6,117,638)	$ 13,867,346

Net cash (used in) provided by operating activities

The use of cash in all periods resulted primarily from our net losses adjusted for non-cash charges and changes in components of working capital. The significant decrease in cash used in operating activities for the year ended December 31, 2012 compared to the year ended December 31, 2011 is primarily due to in 2011 our having three clinical trials underway, one Phase 1 trial, and two proof-of-concept trials, and in 2012 we had two proof-of-concept trials underway. Furthermore, personnel costs declined in 2012 compared to 2011 as we reduced our research and development head-count from 18 to 12 full-time equivalents. The significant decrease in cash used in operating activities for the nine months ended September 30, 2013 compared to the nine months ended September 31, 2012 is primarily due to a decrease in preclinical research expenses and in November 2012, following completion of early-stage lead compound identification and screening, we began to decrease our internal research efforts to focus our resources on clinical development and on outsourced research activities. We reduced the number of research and development employees on a full-time equivalent basis, decreasing from 13 as of September 30, 2012 to nine as of September 30, 2013.

Net cash used in investing activities

Cash from investing activities for the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2012 and 2013 primarily consisted of acquisitions and dispositions of fixed assets, and was immaterial.

Net cash provided by financing activities

Net cash provided by financing activities was $12.1 million for the year ended December 31, 2011, which was due to $12.1 million in proceeds from the issuance of Series B convertible preferred stock. These proceeds were offset by $38,269 in share issue costs.

Net cash provided by financing activities was $17.8 million for the nine months ended September 30, 2013, which was due to $18.0 million in proceeds from the issuance of Series C convertible preferred stock. These proceeds were offset by $223,910 in share issue costs.

Operating and Capital Expenditure Requirements

We have not achieved profitability since our inception and we expect to continue to incur net losses for the foreseeable future. We expect our cash expenditures to increase in the near term as we fund our Phase 2 clinical trials of AQX-1125, as well as our continuing preclinical activities. Following this offering, we will be a publicly traded company and will incur significant legal, accounting and other expenses that we were not required to incur as a private company. In addition, the Sarbanes-Oxley Act, as well as rules adopted by the SEC and the NASDAQ Stock Market, require public companies to implement specified corporate governance practices that are currently inapplicable to us as a private company. We expect these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. We estimate that we will incur approximately $2.0 to $3.0 million of incremental costs per year associated with being a publicly traded company, although it is possible that our actual incremental costs will be higher than we currently estimate.

We believe that our existing capital resources will be sufficient to fund our operations for at least the next 12 months. However, in addition to the proceeds from this offering, we anticipate that we will need to raise substantial financing in the future to fund our operations. In order to meet these additional cash requirements, we may seek to sell additional equity or convertible debt securities that may result in dilution to our stockholders. If we raise additional funds through the issuance of convertible debt securities, these securities could have rights senior to those of our common stock and could contain covenants that restrict our operations. There can be no assurance that we will be able to obtain additional equity or debt financing on terms acceptable to us, if at all. Our failure to obtain sufficient funds on acceptable terms when needed could have a negative impact on our business, results of operations, financial condition and cash flows and future prospects. Our future capital requirements will depend on many factors, including:

- the timing, receipt and amount of sales of, or royalties on, future approved products, if any;
- the timing to completion and the results of our Phase 2 clinical trials;
- the number and characteristics of any future product candidates we develop or may acquire;

- the scope, progress, results and costs of researching and developing our product candidates or any future product candidates, and conducting preclinical studies and clinical trials;
- the timing of, and the costs involved in, obtaining regulatory approvals for AQX-1125 or any future product candidates;
- the cost of manufacturing AQX-1125 and our future product candidates and any products that may achieve regulatory approval;
- the cost of commercialization activities if any future product candidates are approved for sale, including marketing, sales and distribution costs;
- our ability to establish and maintain strategic collaborations, licensing or other arrangements and the financial terms of such agreements;
- any product liability or other lawsuits related to our products;
- the expenses needed to attract and retain skilled personnel;
- the costs associated with being a public company; and
- the costs involved in preparing, filing, prosecuting, maintaining, defending and enforcing patent claims, including litigation costs and the outcome of such litigation.

Please see the section of this prospectus captioned “Risk Factors” for additional risks associated with our substantial capital requirements.

Contractual Obligations and Commitments

The following is a summary of our long-term contractual cash obligations as of December 31, 2012(1)(2):

	TOTAL	LESS THAN ONE YEAR	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Operating lease obligations	$632,000	$ 232,000	$400,000	$ —	$ —
Total contractual obligations	$632,000	$ 232,000	$400,000	$ —	$ —

1. Under the Asset Purchase Agreement dated August 19, 2009 between us and Biolipox AB, upon commencement by us of a Phase 3 trial of AQX-1125, a $3 million milestone payment will be due to Biolipox. We cannot predict the likelihood or the timing of any such payment.
2. On October 23, 2013, AQXP Canada entered into a Growth Capital Term Loan with Silicon Valley Bank, or SVB, for up to $4.0 million to be advanced in two tranches as follows: Tranche 1—$2.5 million advanced on October 30, 2013, and Tranche 2—$1.5 million to be available through December 31, 2014 upon AQXP Canada receiving positive certain agreed-upon Phase IIA top-line data results from its COPD or BPS/IC clinical trials. Aquinox Pharmaceuticals (USA) Inc. is a guarantor of AQXP Canada’s obligations under the debt facility. In addition to principal, interest and other related payments due to SVB, Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada issued SVB warrants to purchase 218,181 shares of Series C preferred stock of Aquinox Pharmaceuticals (USA) Inc. and a corresponding number of shares in Canadian special voting of AQXP Canada. Following the completion of the offering, the warrant will be exercisable for 218,181 shares of our common stock.

Legal Proceedings

In the ordinary course of business, the Companies may be subject from time to time to various proceedings, lawsuits, disputes, or claims. Although the Companies cannot predict with assurance the outcome of any litigation, they do not believe there are currently any such actions that, if resolved unfavorable, would have a material impact on the Companies’ financial condition, results of operations or cash flows.

Purchase Commitments

We have no material non-cancelable purchase commitments with contract manufacturers or service providers as we have generally contracted on a cancelable purchase order basis.

Milestone, Royalty-Based and Other Commitments

On August 19, 2009, AQXP Canada entered into an asset purchase agreement with Biolipox AB of Sweden, or Biolipox, for the purchase of all assets, including patent rights and know-how, relating exclusively or principally to a compound library from which we ultimately identified and selected AQX-1125. Under the terms of the agreement, AQXP Canada paid Biolipox Canadian $50,000 immediately upon closing. An additional $250,000 by way of

issuance of our common stock will become payable upon the first submission to the FDA of an IND for a compound from the acquired class. The terms of the agreement also require a one-time Canadian $3.0 million milestone payment upon the commitment of financial resources by the Board of Directors of AQXP Canada to advance AQX-1125 into a Phase 3 clinical study. We will also be required to make certain other milestone payments totaling up to Canadian $1.5 million in the aggregate upon the first commercial sale of the first compound covered by the acquired patent rights (which we expect will be triggered by the first commercial sale of AQX-1125) in each of the United States, Europe and Japan. There are no royalty payments due under this agreement. There were no expenses related to this agreement during the years ended December 31, 2011 and December 31, 2012 or the nine months period ended September 30, 2013.

AQXP Canada entered into an exclusive license agreement with the University of British Columbia, or UBC, dated June 6, 2006, for certain patent rights and technology relating to small molecule compounds and pharmaceutical compositions as modulators of SHIP1 activity. This agreement was amended and restated on June 8, 2007, and subsequently amended in September 2008, April 2010 and June 2010. This agreement will expire at the last to expire issued patent covering the licensed technology. The agreement will terminate automatically upon our insolvency or may be terminated by either party for material breach by the other party. The terms of the agreement required AQXP Canada to pay an initial license fee of Canadian $50,000, all of which was paid by the issuance of 100,000 of our common shares. We do not currently have any product candidates under development that are covered by the agreement, nor have we sublicensed our rights under the licensed patents. However, if we develop products covered by the UBC technology in the future, we will be required to pay certain development and regulatory milestones up to an aggregate of Canadian $2.2 million for the first drug product developed under the license and up to $1.5 million for each subsequent drug product, which may be paid in cash or by issue of our shares. We must also pay UBC low single-digit royalties based on aggregate worldwide net sales of products covered by the licensed patents and a percentage of sublicensing revenue ranging from the low single digits to the mid double digits based on the stage of development at which such sublicense is granted. We are also required to reimburse costs incurred by UBC related to the prosecution and maintenance of the licensed patents, and to pay an annual license maintenance fee. There were annual license maintenance fees of Canadian $1,000 related to this agreement during the years ended December 31, 2011 and December 31, 2012 and $1,000 for the nine month period ended September 30, 2013.

In May 2005, AQXP Canada entered into an assignment agreement, which was subsequently amended in December 2005 and March 2006, with the British Columbia Cancer Agency (“BCCA”) and StemCell Technologies, Inc. (“STI”), for the assignment to AQXP Canada of the 2002 exclusive license agreement between BCCA and STI to certain patents relating to technology relating to SHIP1. The license agreement between AQXP Canada and BCCA was amended and restated on August 9, 2006 and on June 8, 2007. This agreement has subsequently been amended in June 2008 to revise the schedule of the technology licensed under this agreement, and further amended in February 2013. Pursuant to this agreement, as amended, BCCA has granted us an exclusive worldwide license to certain of its intellectual property relating to core SHIP1 technology, and screening of compounds for activity using SHIP1, including the C2 binding domain. The agreement is to expire at the later of 20 years from the effective date of the agreement or upon the expiration of the last patent covered by the license. The terms of the assignment agreement among STI, BCCA and AQXP Canada required AQXP Canada to pay an assignment license fee of Canadian $150,000, paid in stages beginning May 2005 and ending March 2006. We do not currently have any product candidates under development that are covered by the BCCA license agreement, nor have we sublicensed our rights under the licensed patents. However, if we develop products covered by the BCCA technology in the future, we will be required to pay BCCA low single-digit royalties based on aggregate worldwide net sales of products covered by the licensed patents, and if we sublicense any rights to the technology, a low double digit percentage of sublicensing revenue. We are also required to reimburse BCCA's patent costs incurred in relation to the licensed technology, and pay an annual maintenance fee in the amount of $5,000. Our license with BCCA will terminate automatically upon our insolvency, and may be terminated by either party for material breach by the other party. There were annual maintenance fees of Canadian $5,000 related to this agreement during the years ended December 31, 2011 and December 31, 2012 and Canadian $5,000 for the nine months period ended September 30, 2013.

Critical Accounting Policies and Significant Judgments and Estimates

This management's discussion and analysis of our financial condition and results of operations is based on our combined financial statements, which have been prepared in accordance with generally accepted accounting principles in the United States ("US GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses and the disclosure of contingent assets and liabilities in our combined financial statements. On an ongoing basis, we evaluate our estimates and judgments, including those related to accrued liabilities, stock-based compensation and derivative liabilities. We base our estimates on historical experience, known trends and events and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

While our significant accounting policies are described in the notes to our combined financial statements appearing elsewhere in this prospectus, we believe the following accounting policies to be most critical to the judgments and estimates used in the preparation of our combined financial statements.

Research and Development Expenses

Research and development costs are charged to expense as incurred and include, but are not limited to, employee-related expenses, including salaries and benefits, expenses incurred under agreements with CROs and investigative sites that conduct clinical trials and preclinical studies, the cost of acquiring, developing and manufacturing clinical trial materials, facilities, and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, and other supplies and costs associated with clinical trials, preclinical activities, and regulatory operations.

Development costs are expensed in the period incurred unless we believe a development project meets generally accepted accounting criteria for deferral and amortization. No product development expenditures have been deferred to date. We record costs for certain development activities, such as clinical trials, based on our evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, or information provided to us by our vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the combined financial statements as prepaid or accrued liabilities, as the case may be.

Warrant Liabilities and Preferred Stock Embedded Derivative Liabilities

We account for detachable warrants to purchase redeemable convertible preferred stock or common stock as liabilities as they are freestanding derivative financial instruments. The warrants are recorded as liabilities at fair value, estimated using a Black-Scholes option pricing model, and marked to market at each combined balance sheet date, with changes in the fair value of the derivative liabilities recorded in the combined statements of operations. The Companies allocate the total consideration received for issuing preferred stock and warrants based on the relative fair value of each security at the date of issuance. This allocation results in a discount to the initial carrying amount of the preferred stock at the date of issuance. This discount is amortized over the life of the preferred stock and is recorded as "amortization of discount of preferred stock" in the combined statements of operations.

We also evaluate and account for conversion and redemption options embedded in convertible instruments as they can be free standing derivative financial instruments depending on certain criteria. If they are determined to be free standing derivative financial instruments, we record these as preferred stock embedded derivatives on their combined balance sheets at fair value with changes in the fair values of these derivatives recorded in the combined statements of operations.

Stock-Based Compensation

We measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of such award will be recognized over the period during which services are provided in exchange for the award, generally the vesting period.

All share-based payments to employees are recognized in the financial statements based upon their respective grant-date fair values.

We estimate the fair value of options granted using the Black-Scholes option pricing model. This approximation uses assumptions regarding a number of inputs that required us to make significant estimates and judgments. Since prior to the completion of this offering, our common stock was not publicly traded, the expected volatility assumption was based on industry peer information. Additionally, because we have no significant history to calculate the expected term, the simplified method calculation was used.

Stock-based compensation expense totaled $118,243, $351,322 and $255,318 for the years ended December 31, 2011 and 2012 and for the nine months ended September 30, 2013, respectively. We record stock-based compensation expense as a component of research and development expenses or general and administrative expenses. For the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2012 and 2013, we allocated stock-based compensation as follows:

	YEAR ENDED DECEMBER 31,	
	2011	2012
Research and development	$ 59,122	$ 175,661
General and administrative	59,121	175,661
Total	$ 118,243	$ 351,322

	NINE MONTHS PERIOD ENDED SEPTEMBER 30,	
	2012	2013
Research and development	$ 36,239	$ 127,659
General and administrative	36,238	127,659
Total	$ 72,477	$ 255,318

Fair Value Estimates

We are required to estimate the fair value of the common stock underlying our stock-based awards when performing the fair value calculations using the intrinsic value method at each reporting date. We engaged an independent third-party valuation firm to assist our board of directors in determining the fair value of the common stock underlying our stock-based awards. All options to purchase shares of our common stock have been granted with an exercise price per share no less than the fair value per share of our common stock underlying those options on the date of grant, based on the information known to us on the date of grant.

In the absence of a public trading market for our common stock, on each grant date, we develop an estimate of the fair value of our common stock in order to determine an exercise price for the option grants based in part on input from the independent third-party valuation firm. We determined the fair value of our common stock using methodologies, approaches and assumptions consistent with the American Institute of Certified Public Accountants, or AICPA, Audit and Accounting Practice Aid Series: *Valuation of Privately Held Company Equity Securities Issued as Compensation,* or the AICPA Practice Guide. In addition, our board of directors considered various objective and subjective factors, along with input from management and the independent third-party valuation firm, to determine the fair value of our common stock, including external market conditions affecting the pharmaceutical industry, trends within the pharmaceutical industry, the prices at which we sold shares of our different series of preferred stock, the superior rights and preferences of each series of preferred stock relative to our common stock at the time of each grant, our results of operations and financial position, the status of our research and development efforts, our stage of development and business strategy, the lack of an active public market for our common and our preferred stock, and the likelihood of achieving a liquidity event such as an initial public offering or sale of our company in light of prevailing market conditions.

The per share estimated fair value of common stock in the table below represents the determination by our board of directors of the fair value of our common stock as of the date of grant, taking into consideration the various objective and subjective factors described above, including the conclusions, if applicable, of contemporaneous valuations of our common stock as discussed below. The following table presents the grant dates and related exercise prices of stock options granted to employees and non-employees from January 1, 2011 through October 31, 2013 pursuant to our 2006 plan:

DATE OF ISSUANCE	NUMBER OF SHARES UNDERLYING OPTION GRANTS	EXERCISE PRICE PER OPTION	PER SHARE ESTIMATED FAIR VALUE OF COMMON STOCK	PER SHARE GRANT DATE INTRINSIC VALUE OF OPTIONS
January 1, 2011 to June 30, 2011	160,000	$ 0.30	$ 0.16	$ —
July 1, 2011 to June 30, 2012	6,290,000	$ 0.30	$ 0.20	$ —
July 1, 2012 to March 31, 2013	5,000	$ 0.30	$ n/a	$ —
April 1, 2013 to June 30, 2013	1,205,000	$ 0.30	$ 0.21	$ —
June 30, 2013 to September 30, 2013	—	$ —	$ 0.21	$ —
September 30 to October 31, 2013	2,512,500	$ 0.66	$ 0.66	$ —

In determining the exercise prices of the options set forth in the table above granted from January 1, 2011 through June 25, 2013, our board of directors considered the most recent valuations of our common stock, which were prepared as of June 30, 2010, June 30, 2011 and March 31, 2013, and based its determination in part on the analyses summarized below. On October 14, 2013, an independent third-party valuation was prepared as of June 30, 2013 and as of September 30, 2013 to assist our board of directors in determining the exercise price of options to be issued after that date and to calculate the liability for our outstanding vested stock awards as of September 30, 2013. The key assumptions from each of our third-party valuations are detailed below:

THIRD-PARTY VALUATION DATE	PER SHARE ESTIMATED FAIR VALUE OF COMMON STOCK	RISK-ADJUSTED DISCOUNT RATE	VOLATILITY	DIVIDEND YIELD	RISK-FREE RATE	DISCOUNT FOR LACK OF MARKETABILITY
June 30, 2010	$ 0.16	n/a	97%	0%	0.61%	19.4%
June 30, 2011	$ 0.20	45.6%	70%	0%	1.76%	30%
March 31, 2013	$ 0.21	43.4%	70%	0%	0.77%	30%
June 30, 2013	$ 0.21	44.1%	70%	0%	1.41%	30%
September 30, 2013	$ 0.66	34.8%	70%	0%	0.04, 0.1, & 1.39%	30%

Stock option grants from January 1, 2011 to June 30, 2011

Our board of directors granted stock options from January 1, 2011 through June 30, 2011, with each having an exercise price of $0.30 per share. In determining the fair value, our board of directors relied in part on an independent third-party valuation as of June 30, 2010. The specific facts and circumstances considered by our board of directors for the June 30, 2010 valuation included the following:

- In March 31, 2010, we completed the first tranche of a financing through the issuance of our convertible preferred shares at a price of $0.55 per share. We used the Option Pricing Model Backsolve (OPM Backsolve) method to estimate our equity value. This method sets the implied price of the most recent round of preferred stock to its original issuance price, and then uses the solver function in MS Excel to calculate our implied equity value. The implied equity value is then used to calculate the value per common share.
- The values derived from the OPM Backsolve method were then used to determine an initial estimated equity value. We then used an option-pricing model to allocate the calculated equity value between the shares of

preferred stock and common stock outstanding, including estimated liquidation payments to the preferred stockholders for all series of preferred stock. A discount was then applied to reach the final valuation of the common stock based on the fact that, inasmuch as we are a private company, there are impediments to liquidity, including lack of publicly available information and the lack of a trading market. The discount was determined after considering a number of empirical studies related to discounts for lack of marketability, and by using a protective put option model that considered such variables as an estimated time to liquidity of two years, estimated volatility of 97%, expected dividend yield of 0% of the underlying stock and a risk-free rate of 0.61%. In addition, the current restrictions on the marketability of our common stock were considered. We estimated a 19.4% discount for the lack of marketability. The fair value of common shares determined at the June 30, 2010 valuation was $0.16 per share.

Stock option grants from July 1, 2011 to June 30, 2012

Our board of directors granted stock options from July 1, 2011 through June 30, 2012, with each having an exercise price of $0.30 per share. In determining the fair value, our board of directors relied in part on an independent third-party valuation as of June 30, 2011. The specific facts and circumstances considered by our board of directors for the June 30, 2011 valuation included the following:

- From March 31, 2010 through September 21, 2011 we completed a financing with gross proceeds of $25 million through the issuance of our convertible preferred shares at a price of $0.55 per share. We used the income approach to estimate our equity value. The income approach involves applying an appropriate risk-adjusted discount rate to projected cash flows based on forecasted revenue and costs. We used a risk-adjusted discount rate of 45.6% to discount the projected cash flows to the valuation date within the income approach. This discount rate is based upon a market-derived weighted average cost of capital, which takes into account the required rate of return for equity investors.
- We prepared financial forecasts used in the computation of the equity value for the income approach. The financial forecasts were based on assumed revenues and operating margin levels that took into account our future expectations. The risks associated with achieving these forecasts were assessed in selecting the appropriate cost of capital rates.
- The values derived from the income approach were then used to determine an initial estimated equity value. We then used an option-pricing model to allocate the calculated equity value between the shares of preferred stock and common stock outstanding, including estimated liquidation payments to the preferred stockholders for all series of preferred stock. A discount was then applied to reach the final valuation of the common stock based on the fact that, inasmuch as we are a private company, there are impediments to liquidity, including lack of publicly available information and the lack of a trading market. The discount was determined after considering a number of empirical studies related to discounts for lack of marketability, and by using a protective put option model that considered such variables as an estimated time to liquidity of five years, estimated volatility of 70%, an expected dividend yield of 0% of the underlying stock and a risk-free rate of 1.76%. In addition, the current restrictions on the marketability of our common stock were considered. We estimated a 30% discount for the lack of marketability. The fair value of common shares determined at the June 30, 2011 valuation was $0.20 per share.

Stock option grants from July 1, 2012 to March 31, 2013

Our board of directors granted stock options from July 1, 2012 through March 31, 2013, with each having an exercise price of $0.30 per share. The fair value per share was supported by the aforementioned independent third-party valuation as of June 30, 2011. We concluded that during the period from July 1, 2012 to March 31, 2013, the value of our company remained relatively unchanged from June 30, 2011. In the board of directors making this conclusion, they considered feedback we received during on-going discussions with potential investors in our next round of financing, our cash position and our financial forecasts. This was confirmed by the results of a subsequent valuation as of March 31, 2013.

Stock option grants from March 31, 2013 to June 30, 2013

Our board of directors granted stock options from March 31, 2013 through June 30, 2013, with each having an exercise price of $0.30 per share. In determining the fair value, our board of directors relied in part on an independent third-party valuation as of March 31, 2013. The specific facts and circumstances considered by our board of directors for the March 31, 2013 valuation included the following:

- On March 19, 2013 we completed a financing with gross proceeds of $18 million through the issuance of our convertible preferred shares at a price of $0.55 per share. We used the income approach to estimate our equity value. The income approach involves applying an appropriate risk-adjusted discount rate to projected cash flows based on forecasted revenue and costs. We used a risk-adjusted discount rate of 43.4% to discount the projected cash flows to the valuation date within the income approach. This discount rate is based upon a market-derived weighted average cost of capital, which takes into account the required rate of return for equity investors.
- We prepared financial forecasts used in the computation of the equity value for the income approach. The financial forecasts were based on assumed revenues and operating margin levels that took into account our future expectations. The risks associated with achieving these forecasts were assessed in selecting the appropriate cost of capital rates.
- The values derived from the income approach were then used to determine an initial estimated equity value. We then used an option-pricing model to allocate the calculated equity value between the shares of preferred stock and common stock outstanding, including estimated liquidation payments to the preferred stockholders for all series of preferred stock. A discount was then applied to reach the final valuation of the common stock based on the fact that, inasmuch as we are a private company, there are impediments to liquidity, including lack of publicly available information and the lack of a trading market. The discount was determined after considering a number of empirical studies related to discounts for lack of marketability, and by using a protective put option model that considered such variables as an estimated time to liquidity of five years, estimated volatility of 70%, an expected dividend yield of 0% of the underlying stock and a risk-free rate of 0.77%. In addition, the current restrictions on the marketability of our common stock were considered. We estimated a 30% discount for the lack of marketability. The fair value of common shares determined at the March 31, 2013 valuation was $0.21 per share.

Stock option grants from June 30, 2013 to September 30, 2013

No stock options were granted in the period from June 30, 2013 through September 30, 2013. An independent third-party valuation was conducted on October 14, 2013 as of June 30, 2013. The specific facts and circumstances considered by our board of directors for the June 30, 2013 valuation included the following:

- We used the income approach to estimate our equity value. The income approach involves applying an appropriate risk-adjusted discount rate to projected cash flows based on forecasted revenue and costs. We used a risk-adjusted discount rate of 44.1% to discount the projected cash flows to the valuation date within the income approach. This discount rate is based upon a market-derived weighted average cost of capital, which takes into account the required rate of return for equity investors.
- We prepared financial forecasts used in the computation of the equity value for the income approach. The financial forecasts were based on assumed revenues and operating margin levels that took into account our future expectations. The risks associated with achieving these forecasts were assessed in selecting the appropriate cost of capital rates.
- The values derived from the income approach were then used to determine an initial estimated equity value. We then used an option-pricing model to allocate the calculated equity value between the shares of preferred stock and common stock outstanding, including estimated liquidation payments to the preferred stockholders for all series of preferred stock. A discount was then applied to reach the final valuation of the common stock based on the fact that, inasmuch as we are a private company, there are impediments to liquidity, including lack of publicly available information and the lack of a trading market. The discount was determined after considering a number of empirical studies related to discounts for lack of marketability, and by using a protective put option model that considered such variables as an estimated time to liquidity of five years, estimated volatility of 70%, an expected dividend yield of 0% of the underlying stock and a risk-free rate of 1.41%. In addition, the current restrictions on the marketability of our common stock were considered. We

estimated a 30% discount for the lack of marketability. The fair value of common shares determined at the June 30, 2013 valuation was $0.21 per share.

Stock option grants from September 30, 2013 to October 31, 2013

Our board of directors granted stock options on October 31, 2013, with each having an exercise price of $0.66 per share. In determining the fair value, our board of directors relied in part on an independent third-party valuation conducted on October 14, 2013 as of September 30, 2013. The fair value of common shares determined at the September 30, 2013 valuation was $0.66 per share. The specific facts and circumstances considered by our board of directors for September 30, 2013 valuation included the following:

- We used the income approach to estimate our equity value. The income approach involves applying an appropriate risk-adjusted discount rate to projected cash flows based on forecasted revenue and costs. We used a risk-adjusted discount rate of 34.8% to discount the projected cash flows to the valuation date within the income approach. This discount rate is based upon a market-derived weighted average cost of capital, which takes into account the required rate of return for equity investors.
- We prepared financial forecasts used in the computation of the equity value for the income approach. The financial forecasts were based on assumed revenues and operating margin levels that took into account our future expectations. The risks associated with achieving these forecasts were assessed in selecting the appropriate cost of capital rates.
- The values derived from the income approach were then used to determine an initial estimated equity value. We then applied a scenario analysis in conjunction with an option-pricing model, to allocate the calculated equity value between the shares of preferred stock and common stock outstanding, including estimated liquidation payments to the preferred stockholders for all series of preferred stock. The three exit scenarios we included in the option-pricing model were (1) complete an initial public offering, or IPO, in the first quarter of 2014, (2) complete an IPO, in the second quarter of 2014, and (3) continue as a private company, while the related probabilities for each were estimated to be 30%, 30% and 40%, respectively. As an IPO began to become a possible near-term outcome, we began to factor an IPO as a possible exit scenario in our valuation calculations. A discount was then applied to reach the final valuation of the common stock based on the fact that, inasmuch as we are a private company, there are impediments to liquidity, including lack of publicly available information and the lack of a trading market. The discount was determined after considering a number of empirical studies related to discounts for lack of marketability, and by using a protective put option model that considered such variables as an estimated time to liquidity of, five months to Scenario 1, nine months to scenario 2, and five years to scenario 3. Furthermore, estimated volatility of 70% and an expected dividend yield of 0% of the underlying stock, as well as risk-free rates of 0.04% for Scenario 1, 0.10% for Scenario 2, and 1.39% for Scenario 2 were incorporated into the model. In addition, the current restrictions on the marketability of our common stock were considered. For the September 30, 2013 valuation, we estimated a 30% discount for the lack of marketability. The Probability Weighted Expected Return Method was not explicitly used; however, we did perform a scenario analysis with regards to allocating value to our securities, and such a scenario analysis may be considered to be part of the Probability Weighted Expected Return Method. The fair value of common shares determined at the September 30, 2013 valuation was $0.66 per share.

There is inherent uncertainty in our forecasts and projections and, if we had made different assumptions and estimates than those described previously, the amount of our stock-based compensation expense, net loss and net loss per share amounts could have been materially different.

Basic and Diluted Net Loss Per Share of Common Stock

We calculated net loss per share in accordance with ASC 260, *Earning Per Share*. We had a net loss for all periods presented; accordingly, the inclusion of common stock options and warrants would be anti-dilutive. Dilutive common stock equivalents would include the dilutive effect of convertible securities, common stock options, warrants for convertible securities and warrants for common stock equivalents.

Potentially dilutive weighted average common stock equivalents totaled approximately 83 million and 84 million for the years ended December 31, 2011, and 2012, respectively, and 84 million and 116 million for the nine months ended September 30, 2012 and 2013, respectively. Potentially dilutive common stock equivalents were excluded

from the diluted earnings per share denominator for all periods of net loss from continuing operations because of their anti-dilutive effect. Therefore, for the years ended December 31, 2011 and 2012 and for the nine months ended September 30, 2012 and 2013, the weighted average shares used to calculate both basic and diluted loss per share are the same.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable SEC regulations.

Quantitative and Qualitative Disclosure About Market Risk

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

We had cash and cash equivalents of $2.0 million and $15.9 million at December 31, 2012 and September 30, 2013, respectively, consisting primarily of funds in cash and guaranteed investment certificates. The primary objective of our investment activities is to preserve principal and liquidity while maximizing income without significantly increasing risk. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of our investment portfolio, we do not believe an immediate 10% increase in interest rates would have a material effect on the fair market value of our portfolio, and accordingly we do not expect our operating results or cash flows to be materially affected by a sudden change in market interest rates.

We are exposed to foreign currency exchange rate fluctuations related to our Canadian operations. At the end of each reporting period, expenses of the Canadian company are remeasured into U.S. dollars using the average currency rate in effect for the period and assets and liabilities are remeasured into U.S. dollars using either historical rates or the exchange rate in effect at the end of the period. Additionally, we are exposed to foreign currency exchange rate fluctuations relating to payments we make to vendors and suppliers using foreign currencies. In addition, we are subject to currency risk for balances held in foreign currencies, including the Canadian Dollar and the Euro. We currently do not hedge against foreign currency risk. Fluctuations in exchange rates may impact our financial condition and results of operations. For the years ended December 31, 2011 and 2012, we incurred approximately $4.1 million and $5.7 million, respectively, of non-U.S. dollar expenses. As reported in U.S. dollars, we have recorded foreign currency losses and gains for the years ended December 31, 2011 and 2012, of $0.2 million, and $0.05 million, respectively.

We do not believe that inflation and changing prices had a significant impact on our results of operations for any periods presented herein.

Segment Reporting

We view our operations and manage our business in one segment, which is the identification and development of therapeutics for inflammatory diseases and cancer.

Recently Adopted Accounting Standards

In May 2011, the Financial Accounting Standards Board (“FASB”) issued amendments to disclosure requirements for common fair value measurement. These amendments were effective for the Companies for the year ended December 31, 2012.

In February 2013, the FASB issued ASU 2013-02 to improve the reporting of reclassifications out of accumulated other comprehensive income (loss). This ASU provides that companies must report the effect of significant reclassifications out of accumulated comprehensive income (loss) on the respective line items in net income (loss). For other amounts that are not required to be reclassified in their entirety to net income (loss), an entity may cross reference to the relevant note disclosure. The Companies adopted this ASU on January 1, 2013.

In June 2011, the FASB issued amendments to disclosure requirements for the presentation of comprehensive income. These amendments were effective retrospectively for the Companies for the year ended December 31, 2012 and it requires the presentation of total comprehensive income (loss), the components of net income (loss), and the

components of other comprehensive income (loss) either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements.

Recent Accounting Pronouncements

In March 2013, the FASB issued ASU 2013-05 to provide guidance on releasing cumulative translation adjustments when a reporting entity parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a non-profit activity or a business within a foreign entity. We are required to adopt this ASU effective January 1, 2014.

In July 2013, the FASB issued ASU 2013-11 to clarify that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. We are required to adopt this ASU effective January 1, 2014.

The adoption of the ASUs described above is not expected to have a significant impact on our disclosures, financial position or results of operations.

Factor Affecting Comparability

We anticipate that the following factors, which are described in greater detail in the section of this prospectus captioned “Description of Capital Stock—Exchangeable Shares”, will affect the comparability of our historic and future financial performance. Our share exchange will result in our preferred stock being de-recognized from mezzanine equity, and recognition of common shares. After the share exchange AQXP Canada will be a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc.

BUSINESS

Overview

We are a clinical-stage pharmaceutical company discovering and developing novel drug candidates to treat inflammation and cancer. Our primary focus is anti-inflammatory product candidates targeting SHIP1, which is a key regulator of an important cellular signaling pathway in immune cells, known as the PI3K pathway. Our lead product candidate, AQX-1125, is a SHIP1 activator and has demonstrated broad anti-inflammatory activity. AQX-1125 has successfully completed three clinical trials dosed as a once daily oral product with over 100 subjects having received AQX-1125 to date. We are currently investigating AQX-1125 in two Phase 2 clinical trials, one for Chronic Obstructive Pulmonary Disease, or COPD, and one for Bladder Pain Syndrome/Interstitial Cystitis, or BPS/IC. COPD and BPS/IC are debilitating chronic inflammatory diseases affecting millions of people worldwide.

Inflammation can be reduced by activation of SHIP1, which is a natural modulator of the PI3K pathway. If the PI3K pathway is over-active, immune cells may produce an abundance of pro-inflammatory signaling molecules and migrate to and concentrate in tissues, resulting in excessive or chronic inflammation. Drugs activating SHIP1 may reduce the function and migration of immune cells and have an anti-inflammatory effect. In addition, because SHIP1 is predominantly present in immune cells, off-tissue toxicities may be minimized. Immune cells with lowered levels of SHIP1 cause abnormal inflammation at mucosal surfaces in response to inflammatory stimuli. Accordingly, we are targeting inflammatory diseases that occur at mucosal surfaces, including those of the respiratory, urinary and gastrointestinal tracts, for which we believe there is broad therapeutic and market potential.

Our longer-term strategy is to broaden our development activities for AQX-1125 and to advance next generation SHIP1 activators for the treatment of additional inflammatory diseases and cancer.

SHIP1 and the PI3K Pathway

Role and Regulation of the PI3K Pathway

The PI3K pathway is a cellular signaling pathway that has been linked to a diverse group of cellular functions and biological processes such as cell activation and migration, which are related to inflammation, and cell growth, proliferation and survival, which are related to cancer. As a result, the PI3K pathway is heavily researched by the academic community as well as pharmaceutical and biotechnology companies in the areas of immune disorders and cancer.

In the PI3K pathway, the key messenger molecule is phosphatidylinositiol-3,4,5-trisphosphate, or PIP3, which initiates the signaling pathway. In cells derived from bone marrow tissues (e.g. immune cells), the key enzymes that control levels of PIP3 are the PI3 kinase, or PI3K, and the phosphatases, phosphatase and tensin homolog, or PTEN, and SH2-containing inositol-5'-phosphatase 1, or SHIP1. PI3K generates PIP3, thus initiating the signaling pathway. This signaling is reduced by degradation of PIP3 by PTEN and SHIP1. PTEN is generally considered to be constantly working in the pathway, whereas SHIP1 is activated when the cell is stimulated. In preclinical studies, PTEN has been shown to suppress cancer by controlling cell proliferation, whereas SHIP1, when functioning, has been demonstrated to control inflammation by reducing cell migration and activation.

If the PI3K pathway is over-active, immune cells can produce an abundance of pro-inflammatory signaling molecules and migrate to and concentrate in tissues, resulting in excessive or chronic inflammation. SHIP1 is predominantly expressed in cells derived from bone marrow tissues, which are mainly immune cells. Consequently, drugs that activate SHIP1 can reduce the function and migration of immune cells and have an anti-inflammatory effect.

SHIP1 as a Drug Target

Inflammation can be reduced by activation of SHIP1, taking advantage of the natural modulation of the PI3K pathway. When activated, SHIP1 redirects signaling in immune cells to reduce their activation and migration, thereby reducing inflammation while still allowing these cells to maintain cell growth and survival. Our scientific founders, based at the University of British Columbia, were the first to discover SHIP1 and show that small molecules could activate it, thereby making it a potential target for a new class of anti-inflammatory drugs. Additionally, academic scientists have shown that certain immune cell cancers have suppressed levels of SHIP1, making such cancers also potential targets for SHIP1 activators.

SHIP1 is predominantly present in immune cells. Therefore SHIP1 activators target immune cells to cause an anti-inflammatory effect while minimizing effects in other tissues. We believe AQX-1125 is the only SHIP1 activator currently in clinical trials and that no SHIP1 activator has yet received marketing approval as a treatment for disease in humans.

Our approach also targets a unique activation site in SHIP1 called the C2 binding domain. We have demonstrated that targeting the C2 binding domain does not significantly activate or inhibit other enzymes, imparting target selectivity and further limiting potential off-target toxicities. Historically, phosphatases such as SHIP1 have been found to be poor drug targets based upon efforts to develop inhibitors of these enzymes, since the binding sites for inhibitors are similar across the family of phosphatases, resulting in poor selectivity and leading to undesired off-target toxicities. The unique activation site of SHIP1 enables this important phosphatase as a drug target.

The SHIP1 Knockout Mouse Provides a Roadmap for Clinical Development

Our scientific founders developed a strain of genetically modified mouse, which we refer to as the SHIP1 knockout mouse, with an immune system that lacks the presence of SHIP1. This knockout mouse has been useful for determining which diseases develop when the PI3K pathway is unregulated by SHIP1. A SHIP1 knockout mouse is viable and fertile and does not exhibit abnormal inflammation if raised under sterile conditions. However, if exposed to environmental inflammatory challenges like allergens or bacteria, a SHIP1 knockout mouse develops severe progressive inflammation and fibrosis of its airways, similar to respiratory diseases seen in humans. In addition, a SHIP1 knockout mouse, when exposed, develops inflammation of the urinary bladder and gastrointestinal lining.

Abnormal inflammation observed in a SHIP1 knockout mouse occurs at mucosal surfaces, including those of the respiratory, urinary and gastrointestinal tracts. The mucosal surfaces are important barriers between the body and the external environmental. Chronic inflammation at the mucosal surface reduces the effectiveness of this barrier and may lead to a variety of diseases.

Potential Clinical Indications

Given our findings with respect to the SHIP1 knockout mouse, we are focused on diseases characterized by inflammation at mucosal surfaces. There is a broad range of diseases characterized by mucosal inflammation and we believe there is broad therapeutic and market potential for drugs that can activate SHIP1. Inflammatory diseases of the mucosal surfaces of the respiratory, urinary and gastrointestinal tracts are increasing worldwide in both number and incidence.

A number of diseases are characterized by mucosal inflammation and include:

DISEASE	ESTIMATED U.S. PREVALENCE	ESTIMATED WORLDWIDE PREVALENCE
Lung/Airway		
Moderate-Severe COPD	13M	65M to 200M
Chronic Rhinosinusitis	51M	538M
Severe Asthma	5M	95M
Non-CF Bronchiectasis	0.2M	4M
Churg-Strauss Syndrome	15K	0.3M
Idiopathic Pulmonary Fibrosis	0.2M	3M
Urinary Tract		
BPS/IC	15M	323M
Glomerulonephritis	50K	0.8M
Gastrointestinal Tract		
Eosinophilic Esophagitis	0.2M	4M
Crohn's Disease	1.0M	18M
Ulcerative Colitis	0.8M	19M

We are conducting two Phase 2 clinical trials, one in COPD and one in BPS/IC, and in the future expect to expand our clinical development into other inflammatory diseases. We have selected these initial indications based on the following criteria:

- sizeable patient populations with generally inadequate therapy to facilitate rapid enrollment in clinical trials;
- an attractive commercial opportunity with limited competition; and
- an acute phase of the disease or an endpoint that could reasonably be affected in three months of treatment to match our completed toxicology studies.

Our Discovery Platform

We believe our discovery platform enables us to discover new drug candidates that selectively target SHIP1 to modulate activated immune cells while minimizing their toxicity to normal cells. Our discovery platform includes:

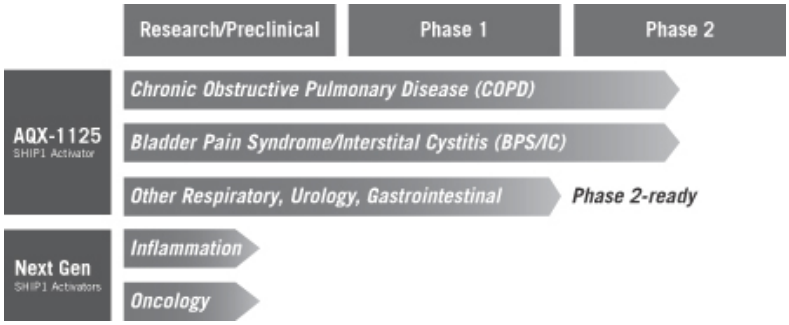
- a novel *in vitro*, high throughput assay to screen SHIP1 activators;
- a patented approach to screening drugs against the C2 binding domain;
- the use of the SHIP1 knockout mouse to produce cells for *in vitro* experiments or for *in vivo* studies to determine the selectivity and specificity of our compounds; and
- an extensive library of chemical compounds that are known to be SHIP1 activators.

Our discovery platform was initially applied to the screening of a natural product library of compounds to identify potential SHIP1 activators, which SHIP1 activators were covered by an exclusive license from the University of British Columbia. We chemically modified these initial compounds to improve on their activity and drug-like properties, which resulted in several SHIP1 activator compound classes being developed. From these compound classes, we developed a key understanding of the chemical structure characteristics of SHIP1 activators. With this understanding of what a SHIP1 activator structure should look like, we identified additional compound classes in other libraries of interest. We acquired one proprietary compound library of interest from Biolipox AB, with all patents transferred to us without any future royalty obligations. We screened compounds from this acquired library and confirmed that it contained SHIP1 activators, including a compound that was the basis for AQX-1125.

Our Pipeline

AQX-1125 is our clinical stage product candidate. In addition, we have several other candidates that also target SHIP1 and that have both similar and distinct properties from AQX-1125, with some showing preliminary evidence of enhanced anti-inflammatory properties.

The development status of AQX-1125 and our next generation product candidates is summarized below:



AQX-1125

AQX-1125 is our lead product candidate and has generated positive clinical data from three completed clinical trials, including two proof-of-concept trials, one in COPD and one in allergic asthma, demonstrating a favorable safety profile and anti-inflammatory activity. Importantly, our clinical trial results were consistent with the drug-like

properties and anti-inflammatory activities demonstrated in our preclinical studies. AQX-1125 is a once daily oral capsule with many desirable drug-like properties. We are currently investigating AQX-1125 in two Phase 2 clinical trials, one in COPD and one in BPS/IC. For AQX-1125, we retain full worldwide rights and hold patents with terms through at least 2024.

AQX-1125 Activates SHIP1, Reducing Inflammation

AQX-1125 is an activator of SHIP1, which controls the PI3K cellular signaling pathway. If the PI3K pathway is over-active, immune cells can produce an abundance of pro-inflammatory signaling molecules and migrate to and concentrate in tissues, resulting in excessive or chronic inflammation. SHIP1 is predominantly expressed in cells derived from bone marrow tissues, which are mainly immune cells. Therefore drugs that activate SHIP1 can reduce the function and migration of immune cells and have an anti-inflammatory effect. By controlling the PI3K pathway, AQX-1125 reduces immune cell function and migration by targeting a mechanism that has evolved in nature to maintain homeostasis of the immune system.

AQX-1125 has Desirable Pharmaceutical Properties

In addition to demonstrating strong *in vitro* and *in vivo* activity, AQX-1125 was also selected as a lead candidate based on its many desirable drug-like properties. The drug candidate is highly water soluble and does not require complex formulation for oral administration. AQX-1125 has low plasma protein binding, is not metabolized and is excreted unmetabolized in both urine and feces. After oral or intravenous dosing, AQX-1125 reaches high concentrations in respiratory, urinary and gastrointestinal tracts, all of which have mucosal surfaces of therapeutic interest. In humans, AQX-1125 has shown linear elimination, consistent half-life and dose proportional exposure suitable for once-a-day dosing. In addition, the absorption of the drug candidate is equivalent whether taken with or without food.

AQX-1125 is Active in a Broad Range of Preclinical Inflammatory Studies

We have demonstrated compelling preclinical activity in a broad range of relevant inflammatory studies including preclinical models of COPD, asthma, pulmonary fibrosis, BPS/IC and inflammatory bowel disease (IBD). In these studies we have seen a meaningful reduction in the relevant inflammatory cells, such as neutrophils, eosinophils and macrophages, and a reduction in the symptoms of inflammation, such as pain and swelling. The following table summarizes these results from our preclinical *in vivo* studies with AQX-1125:

CLINICAL INDICATION	ANIMAL MODEL	PRIMARY ENDPOINT
COPD/Respiratory	LPS Airway Inflammation (Rat)	Reduction of neutrophils
	Ovalbumin Airway Inflammation (Rat)	Reduction of eosinophils
	Smoke Airway Inflammation (Mouse)	Reduction of neutrophils
	Bleomycin Fibrosis (Mouse)	Reduction of fibrosis and increase in survival
BPS/IC	Cyclophosphamide Bladder Cystitis (Rat)	Reduction of inflammation, pain and hemorrhage
	Carrageenan Paw Edema (Mouse)	Reduction of edema
IBD	TNBS IBD (Rat)	Reduction of adhesions/strictures and inflammation

The activity, efficacy and potency seen with AQX-1125 in most preclinical studies compare favorably to published results with corticosteroids. In addition, AQX-1125 demonstrated compelling activity in the smoke airway inflammation and Bleomycin Fibrosis models, which are known to be steroid refractory, or in other words, do not respond to corticosteroids. We believe this broad anti-inflammatory profile is not typical amongst drugs in development and supports the therapeutic potential for AQX-1125.

AQX-1125 has Demonstrated Desirable Properties in Three Completed Clinical trials

Overall, more than 100 subjects have received to AQX-1125 in three separate trials. An overview of these clinical trials is described below.

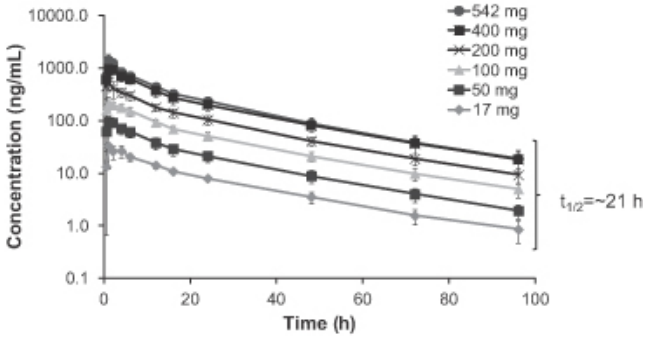
Phase 1 Safety Trial

We conducted a Phase 1, three-part, randomized, placebo-controlled, dose escalation trial of the safety, tolerability, pharmacokinetics and food effect of AQX-1125 in normal healthy subjects. This trial investigated single doses of

AQX-1125 ranging from 17 mg to 542 mg (single ascending dose, or SAD, part, n = 16), daily doses ranging from 100 mg to 542 mg for up to ten days (multiple ascending dose, or MAD, part, n = 18) and daily dose of 200 mg for seven days in fasted or fed subjects (food effect part, n = 12).

In the SAD part of our Phase 1 trial, AQX-1125 demonstrated desirable drug-like properties: it is rapidly and nearly completely absorbed; it has dose proportional pharmacokinetics; and it has a consistent plasma half-life of approximately 21 hours. The results of the SAD part of our Phase 1 trial are shown below.

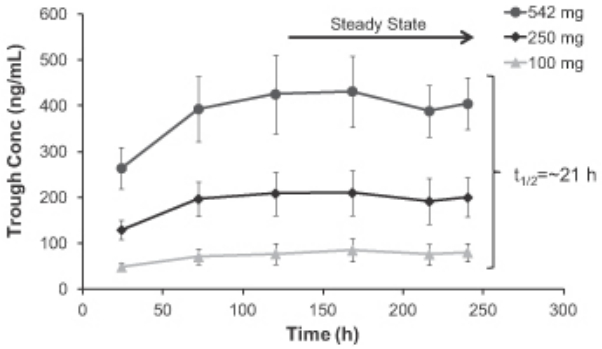
Phase I: SAD PK



From a safety perspective, there were no drug-related adverse events reported in the SAD part.

In the MAD part of our Phase 1 trial, which studied AQX-1125 for ten days, AQX-1125 reached steady state levels after the first four days of dosing and again had dose proportional pharmacokinetics and a consistent half-life. The results of the MAD part of our Phase 1 trial are shown below.

Phase I: MAD PK



The most frequently reported drug-related and dose-related adverse events in the MAD part were related to gastrointestinal upset. All other adverse events were at a similar level to those reported with placebo. All adverse events were short-lived, observed in the first seven days of dosing, and resolved without treatment or long-term effects. Based on these data, treatment with single daily doses of either 100 mg, 250 mg or 542 mg AQX-1125 for ten days was generally well tolerated in healthy subjects. The maximum tolerated dose was considered not to be reached. In the food effect part, the absorption of the drug was considered equivalent whether taken with or without food.

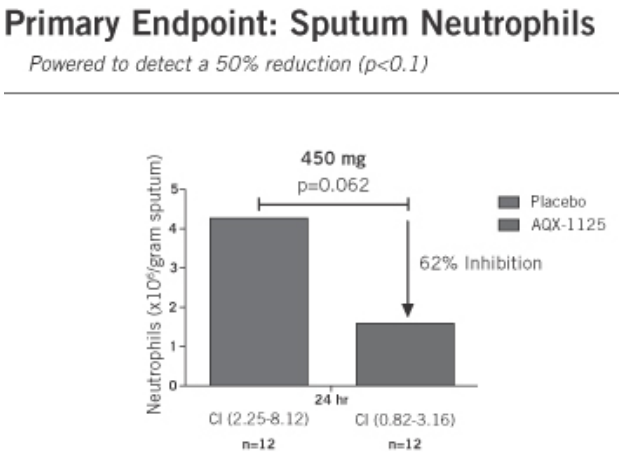
Overall, our Phase 1 safety trial demonstrated that AQX-1125 has many desirable drug-like properties. AQX-1125's consistent pharmacokinetics and safety profile combined with its high level of bioavailability, low protein binding and lack of metabolism all contribute to the consistent results to date from subject to subject, which we believe are positive attributes for future clinical trials and commercialization.

Following the completion of the Phase 1 safety trial, we initiated two proof-of-concept clinical trials of inflammation to demonstrate the first evidence of AQX-1125 activity, and importance of SHIP1 as a target, in humans.

Phase 1b COPD Proof-of-Concept Trial

The first proof-of-concept trial was conducted to evaluate the anti-inflammatory properties, safety and pharmacokinetics of AQX-1125 following a lipopolysaccharide (LPS) challenge in healthy subjects. In the LPS challenge, patients inhale aerosolized LPS, the inhalation of which induces an acute inflammatory response that is characterized by the activation and migration of neutrophils into the lung and results in a mild and transient impairment in pulmonary function. The inflammatory response induced by LPS inhalation is considered a model of the inflammatory mechanisms seen in patients with COPD. This type of proof-of-concept trial has been undertaken by other pharmaceutical companies to evaluate other anti-inflammatory therapies for COPD. This type of trial must be done in healthy volunteers whose normal lungs can tolerate the inflammatory response to LPS, as exposing COPD patients to LPS could induce a dangerous exacerbation.

Our trial was designed to investigate two doses of AQX-1125, 450 mg and 200 mg, in a crossover format where each subject received either drug for seven days, followed by placebo for seven days, or vice versa. The 450 mg part of the trial was successfully completed. Following seven days of once-daily treatment with 450 mg AQX-1125 or placebo, subjects (n = 18) were challenged with 50 µg of LPS at two hours following the last dose on day seven. AQX-1125 met its primary endpoint in the 450 mg dose part by reducing sputum neutrophils by approximately 62% (p=0.062) compared to placebo. AQX-1125 also showed a reduction in sputum IL-6 and, although not statistically significant, showed a trend towards a reduction in sputum IL-8, both of which are important cytokines in the activation and recruitment of neutrophils. The reduction of sputum neutrophil levels compares favorably to published results for anti-inflammatory drugs that are in development, or have been approved, for the treatment of COPD. The results of the 450 mg dose part of our trial are shown below.



The results of the 200 mg dose (n = 18) part of the trial were limited to safety and pharmacokinetic measurements. Due to a technical processing error at a third-party laboratory, we were unable to measure the magnitude of sputum neutrophil inhibition.

From a safety perspective, adverse events reported were mild to moderate. The majority of adverse events experienced was similar to reports from other published LPS challenge trials and relate to the administration of LPS (fever, chills, malaise, cough, chest tightness, headache and muscle pain). The most frequently reported dose-related adverse event was gastrointestinal upset. All adverse events resolved without treatment or long-term effects.

Overall, the results for AQX-1125 compare favorably with published results for other oral drugs studied in similar LPS challenge trials that are in development, or have been approved, for the treatment of COPD. We believe this proof-of-concept trial supports development of AQX-1125 in COPD.

Phase 2a Allergic Asthma Inflammation Proof-of-Concept Trial

The second proof-of-concept trial evaluated the anti-inflammatory properties, safety and pharmacokinetics of AQX-1125 following an inhaled allergen challenge in mild to moderate asthmatics. Allergen, when inhaled, is a pro-inflammatory stimulus and in general can be used to evaluate the effects of anti-inflammatory compounds on allergic inflammation. Following inhalation of allergen, asthmatics develop an acute asthmatic attack, which peaks at 20 to 30 minutes. Even if initially treated with bronchodilators, approximately 50% of these subjects develop secondary airway inflammation, known as late asthmatic response (LAR), between four and ten hours after inhalation. This type of proof-of-concept trial has been undertaken by other pharmaceutical companies to evaluate the ability of other anti-inflammatory therapies to prevent or reduce the LAR.

AQX-1125 (450 mg) was investigated in a randomized, double-blind, placebo-controlled crossover format. Steroid-naïve asthmatics (n = 22) were randomized to AQX-1125 followed by placebo or placebo followed by AQX-1125 for seven days each. The primary efficacy measure was the LAR as measured by the forced exhalation volume in one second (FEV1) from four to ten hours after allergen challenge (AUC_{4-10}). The trial met its primary endpoint by demonstrating an approximate 20% improvement in the LAR by 450 mg of AQX-1125 versus placebo ($p = 0.027$).

From a safety perspective, all of the adverse events reported were mild to moderate, with the most frequently reported adverse events related to headaches and gastrointestinal upset, with no gastrointestinal upset in the placebo group. All adverse events resolved without treatment or long-term effects.

Overall, the results for AQX-1125 compare favorably with published results for other drugs studied in similar allergic challenge trials that are in development or have been approved. More importantly, this proof-of-concept trial provides evidence of AQX-1125's ability to modulate allergic responses at a mucosal surface after exposure to an allergen. We believe this may imply AQX-1125's potential ability to be useful in a range of diseases characterized by allergic inflammation such as chronic rhinosinusitis, eosinophilic esophagitis and diseases that have an allergic component, such as BPS/IC.

AQX-1125 Safety Profile

Safety data have been obtained from over 100 subjects from our three completed trials who have been exposed to doses of AQX-1125 ranging from 17 mg to 542 mg for up to ten consecutive days. All of the treatment-related adverse events reported to date have been mild to moderate in intensity. There have been no deaths, no withdrawals due to treatment-related adverse events and no serious adverse events or suspected unexpected serious adverse events (SUSAR) reported from the completed trials. In addition, there have been no drug-related, clinically significant, adverse changes in any laboratory parameter. The most frequent dose-related adverse events that increased with increasing dose were gastrointestinal disorder, which were intermittent and resolved without treatment or long-term effects. Frequency of gastrointestinal adverse events decreased with lower dose and with reduced fasting time, consistent with the adverse events being associated with irritation of the gastrointestinal lining from the rapid dissolution and absorption of AQX-1125. For the current and future trials, AQX-1125 will be administered with food with the goal of avoiding gastrointestinal events. The adverse events noted for AQX-1125 have been consistent across all trials conducted to date.

Clinical Trial Summary

Based on our three completed clinical trials, we have demonstrated that AQX-1125:

- has desirable pharmacokinetic, absorption and excretion properties that make it suitable for once daily oral administration;
- is generally well tolerated, exhibiting mild to moderate adverse events primarily related to gastrointestinal upset that resolve without treatment or long-term effects and are reduced by taking the drug candidate with food; and
- has anti-inflammatory properties consistent with those exhibited in preclinical studies and exhibited activity in two trials using two distinct inflammatory challenges.

Development Plan

Based upon the supportive preclinical and clinical data generated to date, we have advanced AQX-1125 to two Phase 2 trials. In general, the factors we considered most important in selecting our Phase 2 trials were:

- sizeable patient populations with generally inadequate therapy to facilitate rapid enrollment in clinical trials;
- an attractive commercial opportunity with limited competition; and
- an acute phase of the disease or an endpoint that could reasonably be affected in three months of treatment to match our completed toxicology studies.

While we believe there is an expansive list of potential clinical indications that could potentially benefit from treatment with AQX-1125, we selected COPD and BPS/IC for further Phase 2 evaluation based on the preceding factors.

Dose Selection for Phase 2

We selected 200 mg once daily as the most appropriate dose for our Phase 2 COPD and BPS/IC trials based upon preclinical efficacy/target coverage experiments, regulatory considerations and human dosing/activity results from Phase 1 and 2a. Human doses as low as 70 mg daily would provide blood levels of AQX-1125 equal or greater than the average blood levels needed to achieve maximum efficacy in animal models. From our preclinical pharmacodynamic/pharmacokinetic (PK/PD) studies the observed maximal efficacy occurs in animal models at an average plasma concentration of 90 ng/ml (40-140 ng/ml). We believe 200 mg daily will provide excess target coverage (281 ng/ml) and an appropriate safety margin for extended duration dosing (e.g. six weeks or greater in current Phase 2 trials). From a safety perspective, in our completed trials a 200 mg dose was demonstrated to have a side effect profile equivalent to placebo and the plasma drug concentration in humans at this dose corresponds with a dose in animals that caused no toxicity for up to 13 weeks. We expect that future development of AQX-1125 will include clinical trials that will explore lower doses of AQX-1125 as establishing the minimally effective dose is an important endpoint for drugs that are intended for extended or chronic dosing.

Chronic Obstructive Pulmonary Disease

COPD is a lung disease frequently associated with cigarette smoking and air pollution. COPD is characterized by progressive loss of lung function and chronic inflammation of the airways. The disease is estimated to affect up to 600 million people worldwide with estimates of the number of people suffering from the moderate and severe forms that most frequently require treatment ranging from 65 million to over 200 million. It is the third leading cause of death in the United States and the fourth leading cause of death worldwide. COPD affects almost 25 million people in the United States alone, at an estimated annual economic burden of $50 billion. COPD is the leading cause of urgent hospitalization in developed countries.

COPD Exacerbations — COPD patients suffer periodic episodes with severe worsening of symptoms, known as exacerbations. Exacerbations are characterized by severe airway inflammation triggered by various factors, such as viral or bacterial infection, or environmental irritants. Symptoms include cough, difficulty breathing, elevated mucous production, reduced tolerance to exertion and fatigue, and these symptoms typically worsen over time and often cause feelings of suffocation, panic and anxiety. Exacerbations can be so severe that they lead to respiratory failure and death. These exacerbations have a profoundly negative impact on the quality of life and long-term survival of patients and cause significant challenges for healthcare systems and the global economy. Each year on average, patients experience one to two exacerbations, which may be classified as mild, moderate or severe (requiring hospitalization). Of COPD patients, 22-40% die within one year of a severe exacerbation and 66% die within three years. Since exacerbations involve severe increased airway inflammation, treatment with potent anti-inflammatories that reduces the recruitment of immune cells (especially neutrophils) to the lungs is potentially a promising strategy to reduce exacerbations.

A 2009 study by Hurst, et al, of COPD patients demonstrated that there are generally two categories of patients with COPD exacerbations: those with infrequent exacerbations (stable) and those with frequent exacerbations (unstable). This was the first study to document the major finding that in unstable patients, exacerbations tend to cluster together; therefore patients that have had an exacerbation are most at risk of having secondary exacerbations within the next eight weeks. The unstable COPD patients tend to have clusters of exacerbations on an annual basis, often having a second or even third exacerbation within eight to 12 weeks of their first. The study reported that

approximately 27% of patients on study had a second discrete exacerbation within eight weeks of their most recent exacerbation. This is consistent with a United Kingdom national audit of COPD outcomes, in which 34% of 1,221 hospitalized patients with exacerbations of COPD were readmitted in the subsequent three months. In contrast, the stable population is characterized by effective treatment and resolution of their first exacerbation and typically no further worsening of their symptoms for at least 12 weeks.

A medical editorial that reviewed the results of the Hurst study suggested that it may be particularly important, regardless of exacerbation frequency, to target patients after an initial exacerbation. It would be clinically important to prevent a second exacerbation in a COPD patient who has had a recent first exacerbation. However, clinical trials to date of preventive medications have, by virtue of their exclusion criteria, not addressed this issue. Most COPD clinical trials with bronchodilators, either alone or in combination with inhaled corticosteroids, have intentionally excluded patients that experienced a recent COPD exacerbation. The data presented by Hurst and colleagues suggest that this is an incorrect approach, because it is these very patients who are most at risk for recurrent exacerbations and who can be expected to drive clinical trial outcomes. We believe that a trial design that intentionally enrolls patients that have experienced a recent exacerbation to prevent a recurrent exacerbation represents an important opportunity for anti-inflammatory therapy.

COPD Current Therapy — Most marketed therapies for COPD are inhaled drugs directed towards managing symptoms by dilating narrowed airways (bronchodilators) often in combination with inhaled corticosteroids intended to open the airways as much possible to improve the ease of breathing. These inhaled therapies have modest effects on slowing the progression of COPD or reducing exacerbations. With over two decades of innovation and incremental improvement from new bronchodilator approvals, the majority of moderate and severe COPD patients still suffer from periodic exacerbations and approximately two-thirds of these patients have multiple exacerbations per year. The scientific literature also questions the value of inhaled corticosteroids in the treatment of COPD and links their use to increased risk of pneumonia and yeast infections of the mouth and throat.

The standard treatment following an exacerbation is a combination of antibiotics and/or oral corticosteroids, both of which can only be used for short durations, typically ten to 14 days due to toxicities or risk of resistance from prolonged use. Following treatment and withdrawal from oral corticosteroids, unstable COPD patients frequently have a re-emergence of exacerbation symptoms within a two-month period that can lead to hospitalization or urgent care.

The recently approved phosphodiesterase-4 or PDE4 inhibitor, roflumilast (Daliresp), for the treatment of severe COPD, is the only approved oral therapy indicated as a treatment to reduce the risk of COPD exacerbations in patients with severe COPD associated with chronic bronchitis and a history of exacerbations. Roflumilast has demonstrated some ability in reducing exacerbations but its clinical use is limited due to its side effect profile. Despite their limitations and restricted use, the evidence that both oral corticosteroids and roflumilast can reduce and treat exacerbations provide the precedent that oral anti-inflammatory therapy is an important strategy for improving the management of COPD. We believe that there is a significant medical need for new oral therapies to treat the acute and chronic lung inflammation that COPD patients experience, to reduce the severity, duration and reoccurrence of exacerbations and to slow or prevent disease progression. We believe that the anti-inflammatory properties that we have demonstrated for AQX-1125 to date compare favorably with roflumilast and oral corticosteroids while having a safety profile potentially more suitable for prolonged use.

The FLAGSHIP Trial: AQX-1125 in COPD Patients with Frequent Exacerbations — Our Phase 2 trial, known as the FLAGSHIP trial, will evaluate the effect of AQX-1125 compared to placebo in approximately 350-400 unstable moderate to severe COPD patients who have experienced a recent exacerbation and at least two other exacerbations in the prior 18 months. We believe this trial targets the COPD patients in greatest need and with the highest likelihood of responding to anti-inflammatory therapy. Enrolling patients who are expected to have frequent exacerbations permits the trial design to allow fewer patients and shorter required dosing to see a positive outcome compared to historical trials of bronchodilators. The primary endpoint is the change in the severity, duration and reoccurrence of exacerbations in patients treated with AQX-1125 versus placebo, as measured by EXACT-PRO, a patient-reported tool that measures symptoms. We are evaluating AQX-1125 administered as once daily oral 200 mg capsules for 12 weeks in a multi-center, randomized, double-blind, placebo-controlled Phase 2 trial to reduce the severity, duration and reoccurrence of exacerbations on top of standard of care. This trial will be conducted in Northern and Central Europe, and regulatory approval for the trial has been obtained in two countries as of

October 31, 2013. We expect to commence enrollment in the fourth quarter of 2013. The patients will be randomized to receive either AQX-1125 or placebo in addition to the current standard of care. The FLAGSHIP trial will be conducted at outpatient clinics and is anticipated to complete with full enrollment and initial results before the end of 2014. Full results are expected to be submitted for publication and presented at a leading medical conference in 2015. If we achieve positive results in this trial, we intend to meet with the FDA and other regulatory authorities to determine the most appropriate path to marketing approval for AQX-1125.

We believe the selection of COPD as a targeted clinical indication matches well with AQX-1125's demonstrated ability, in both preclinical studies and clinical trials, to reduce inflammation, in particular neutrophils, in the airways in response to environmental inflammatory stimuli. By focusing the trial to include COPD patients with frequent exacerbations, a population with frequent clinical events, allows for shorter trial duration and number of patients needed to see sufficient clinical events to detect the effects of AQX-1125 in a 12 week trial. This novel trial design utilizes the recently developed EXACT-PRO measurement tool, which is a highly sensitive patient reported questionnaire utilizing electronic diaries for accurate and reliable capture of data on the daily symptoms affecting COPD patients.

The EXAcerbations of Chronic pulmonary disease Tool (EXACT), a patient-reported outcome (PRO), or EXACT-PRO, is a recent development for research of exacerbations in COPD patients. EXACT-PRO was designed to standardize the method for evaluating the frequency, severity and duration of exacerbations. The EXACT-PRO initiative was spearheaded by United Biosource Corporation, an Express Scripts Company, with input from the FDA and was funded by a consortium of pharmaceutical companies, including AstraZeneca plc, Almirall S.A., Bayer AG, Bohringer Ingleheim Corporation, Forest Pharmaceuticals, Inc., GlaxoSmithKline plc, Merck & Co., Inc., Novartis AG, Ortho-McNeil Pharmaceutical, a division of Johnson & Johnson, Pfizer, Inc. and Sunovion Pharmaceuticals, Inc. It is available in more than 40 languages and has been tested in a number of validation studies in approximately 50 countries, with a comprehensive evidence dossier submitted to the FDA and EMA for qualification of this tool for use in Phase 3 trials.

EXACT-PRO provides data and quantification of numerous symptoms on a daily basis, thereby providing more robust and continuous measure of the effects of AQX-1125 on COPD exacerbations. We believe EXACT scores may be particularly useful in studying an exacerbation patient's recovery pattern allowing a more sensitive measure of a patient's progress, rather than simply whether a patient has experienced another exacerbation or deteriorated to the point where the patient requires hospitalization, which was a typical endpoint prior to the development of EXACT-PRO. We are not aware of any other clinical trial utilizing EXACT scores as a primary endpoint in a Phase 2 or Phase 3 trial. We have not discussed our use of EXACT-PRO as a primary endpoint in our ongoing Phase 2 clinical trials with the FDA, and we do not know if the FDA will agree with our use of EXACT-PRO as a primary endpoint instead of more traditional COPD trial endpoints. Overall, we believe that we will collect substantially more data by using EXACT-PRO compared to traditional COPD trial endpoints that will be beneficial in guiding our marketing approval strategy for AQX-1125, but we have not discussed this approach with the FDA.

Bladder Pain Syndrome/Interstitial Cystitis

BPS/IC is a chronic urinary bladder disease characterized by erosion of the lining and chronic inflammation of the bladder, pelvic pain and increased urinary urgency and/or frequency. Stress or a change in diet has been known to trigger symptoms. BPS/IC affects men and women of all ages. BPS/IC currently affects an estimated 14 million people in the United States. BPS/IC is accepted to be one of the most challenging urological conditions without effective therapy.

Chronic inflammation within the bladder wall can lead to damage and fibrotic changes in the bladder. There have been several studies linking allergic sensitivity to worsening BPS/IC symptoms. Furthermore, the inflammation leads to the release of mediators that irritate and trigger surrounding nerve tissue and causes radiating pain. For many BPS/IC sufferers, their symptoms of constant pain and urinary frequency are severe and adversely affect all major aspects of their lives, including overall physical and emotional health, employment, social and intimate relationships, and leisure activities.

The diagnosis of BPS/IC is often challenging and is based on exclusion of other diseases, including bladder cancer, kidney stones, vaginitis, endometriosis, sexually transmitted diseases and prostate infections. BPS/IC is generally

diagnosed through cystoscopy or hydrodistention under anesthesia; however, many cases are overlooked. Sometimes patients have to see a number of doctors and specialists over a period of several years to obtain a correct diagnosis.

BPS/IC Current Therapies — There is no known cure for BPS/IC, although a number of therapies can relieve symptoms. The only approved oral therapy is an agent, pentosan polysulfate (Elmiron), first approved in 1996, which helps to temporarily restore the bladder lining. Other therapies include such approaches as antihistamines, low dose antidepressants to fight neurogenic pain and analgesics. Most BPS/IC patients continue to suffer this debilitating condition, despite treatment with existing therapies. Most current therapies and those in development are focused solely on symptomatic relief of BPS/IC.

In addition to oral therapies, direct instillation of drugs into the bladder via catheter (intravesical therapy) has been shown to provide temporary relief of symptoms. Dimethylsulfoxide (DMSO; RIMSO-50) is the only drug approved by the FDA for bladder instillation for BPS/IC. It offers anti-inflammatory, muscle relaxant and analgesic effects. DMSO is used alone or in combination with heparin, corticosteroids, bicarbonate and a local anesthetic (lidocaine) for intravesical administration.

Corticosteroids have also been reported to work via transurethral injection into the bladder wall or instillation into the bladder. Prolonged use of corticosteroids by BPS/IC patients is associated with bladder wall scarring. The AUA guidelines for BPS/IC specifically state that corticosteroids are not recommended and should be avoided for chronic treatment of BPS/IC. Nonetheless, there is supporting evidence that achieving sufficient concentration of an anti-inflammatory compound in the bladder can reduce the pain and urinary symptoms associated with BPS/IC.

Instillation therapies are invasive and inconvenient, and oral therapies can offer significant potential advantages for BPS/IC patients. However, despite precedents for BPS/IC anti-inflammatory therapies, there are no satisfactory oral therapies currently available. We believe there is a significant medical need for new and innovative treatments that target the underlying inflammatory disease process.

The LEADERSHIP Trial: AQX-1125 in BPS/IC patients — Our Phase 2 trial, known as the LEADERSHIP trial, is investigating AQX-1125's ability compared to placebo to reduce pain and urinary symptoms in approximately 70 BPS/IC patients. We believe AQX-1125 is a candidate for evaluation in BPS/IC due to the fact that it has demonstrated activity in both preclinical studies and clinical trials relevant to BPS/IC and is delivered via the bloodstream and excreted unmetabolized into the urine thereby achieving high concentrations proximate to the inflamed bladder wall. We are currently conducting a multi-center randomized, double-blind, placebo-controlled Phase 2 trial of AQX-1125 once daily oral 200 mg capsules for six weeks in women suffering from chronic pain associated with BPS/IC. The primary endpoint is to measure the difference in the change from baseline in the mean daily bladder pain score based on an 11-point numeric rating scale at two, four and six weeks recorded by electronic diary. The trial is being conducted at community and academic sites across Canada and is anticipated to complete with full enrollment and initial results before the end of 2014. Full results are expected to be submitted for publication and presented at a leading medical conference in 2015. We had enrolled five patients as of October 31, 2013. If we achieve positive results in this trial, we intend to meet with the FDA and other regulatory authorities to determine the most appropriate path to marketing approval for AQX-1125.

We believe that we have incorporated strategies into our Phase 2 trial for AQX-1125 in BPS/IC that address the shortcomings of prior published trials by other companies, and capitalize on the properties of our product candidate. We have designed our LEADERSHIP trial to:

- require cystoscopic confirmation of inflammation of a patient's bladder for entry in the trial to ensure the enrollment of the proper patient population;
- measure patients over a six-week period, which we believe will provide a measure of therapeutic activity of AQX-1125 over a period that should both be sufficient to see improvement in pain and urinary symptoms but also long enough to minimize the risk that placebo effects could confound the trial results;
- utilize a trial size sufficient to detect a change in pain, which is our primary endpoint, as measured by electronic diaries; and
- administer a once daily oral 200 mg capsule dose that we expect to achieve concentrations both in the blood stream and in the urine that are significantly higher than required to activate SHIP1 in affected tissues.

Expanded Clinical Indications for AQX-1125

We have demonstrated compelling preclinical efficacy with AQX-1125 in a broad range of relevant inflammatory and fibrotic models of inflammation including models of respiratory, urinary and gastrointestinal tract inflammation. We believe our preclinical data and clinical proof-of-concept trial results support AQX-1125's potential to treat a range of diseases characterized by mucosal inflammation such as, chronic rhinosinusitis, eosinophilic esophagitis, inflammatory bowel disease and nephritis.

We intend to use a portion of the proceeds from this offering to initiate additional Phase 2 trials with AQX-1125 focusing on diseases of the respiratory, urinary and/or gastrointestinal tracts that would complement our ongoing evaluation of AQX-1125 in COPD and BPS/IC both from a market and risk-diversification perspective.

We are currently evaluating a range of clinical indications for inclusion into our near-term development plan for AQX-1125. In addition to the relevance of SHIP1 as a target, and the properties of AQX-1125, each disease and patient population must also be considered based on its relative unmet medical need, market opportunity, the competitive environment and feasibility of clinical/regulatory pathway. We believe that there are multiple value creating opportunities in further expanding the clinical indications for which AQX-1125 is being evaluated.

Next Generation SHIP1 Activators

We have several next generation product candidates in preclinical development that are also SHIP1 activators and intend to advance these through additional preclinical evaluation.

We believe there are anti-inflammatory diseases that would be better addressed by next generation SHIP1 activators that have different properties from AQX-1125 such as concentrating in different tissues, having a different duration of action or being more suitable for different routes of administration.

We also intend to explore the role of SHIP1 activators in the treatment of cancer. Academic scientists have shown that in certain immune cell cancers the suppressed activity of SHIP1 could play a central role in the deregulation of PI3K pathway and tumor growth. Restoration of the SHIP1 activity by activators may make immune cell cancers more susceptible to chemotherapy. In addition, there is evidence that activating SHIP1 can reduce the chronic inflammation surrounding solid tumors, making these tumors more susceptible to chemotherapy. The treatment of cancer by modulating the PI3K pathway via SHIP1 offers a promising new approach to improve the treatment of either immune cell cancers or solid tumors.

We believe next generation product candidates in the treatment of inflammation and cancer offer significant market potential.

Strategy

We intend to maintain and strengthen our leadership position in the development of small molecule drugs that target SHIP1. We have a management team with broad-based experience and expertise that span drug discovery through Phase 3 trials and regulatory filings. The key components of our strategy are to:

- ***Target large, underserved markets with limited competition and an attractive path to approval***. We prioritize clinical indications that are characterized by significant economic burden and are currently under invested by the pharmaceutical industry thereby limiting potential competition. We believe our current product candidate offers an innovative treatment option with an attractive approval pathway in both COPD and BPS/IC. COPD, for example, is estimated to affect up to 600 million people worldwide, with current inhaled therapies having modest effects on slowing progression or reducing exacerbations. Our FLAGSHIP trial targets unstable COPD patients in greatest need and with the highest likelihood of responding to anti-inflammatory therapy. We believe enrolling those who experience frequent exacerbations creates the opportunity to demonstrate effect with fewer patients and shorter required dosing.
- ***Focus on successfully developing AQX-1125 for a range of inflammatory diseases***. We are focused on successfully executing the completion of our current Phase 2 trials for COPD and BPS/IC. We will undertake additional work necessary for regulatory approval that may reduce the transition time between clinical trials. Some of these activities are already underway and others will be undertaken with proceeds from this

offering. These activities include: chronic toxicity studies in rat and dog, reproductive toxicity studies and carcinogenicity studies; chemistry, manufacturing and control, or CMC activities, including final dosage form development, process development, additional active pharmaceutical ingredient, or API, and final drug product manufacturing, and process validation; and supportive clinical trial work, including dose ranging studies to establish minimally effective dose. We also intend to initiate multiple Phase 2 trials with AQX-1125 focusing on additional diseases of the respiratory, urinary and gastrointestinal tracts that would complement our ongoing evaluation of AQX-1125 in COPD and BPS/IC.

- ***Advance our next generation compounds in indications not covered by AQX-1125***. We believe there are anti-inflammatory diseases that would be better addressed by our next generation SHIP1 activators that have different properties from AQX-1125 such as concentrating in different tissues, having a different duration of action or being more suitable for different routes of administration. We already have a significant library of candidate compounds and will advance these through additional preclinical evaluation. We also intend to explore the role of SHIP1 activators in the treatment of cancer. Each of these applications offers significant market potential. We intend to advance one next generation product candidate for either an inflammatory disease or for the treatment of cancer to clinical trials by 2016.
- ***Evaluate on a selective basis strategic partnerships to maximize the commercial potential of AQX-1125 and actively pursue partnerships for our next generation and other non-core assets***. From a commercialization strategy perspective, we have intentionally maintained full commercial rights to our product candidates to date. The decision on partnering will be made when a well-defined approval and commercialization plan is possible as this timing will at the time when our available data supports a well defined path to approval and market as this timing will enable us to capture maximum value from our product candidates. We intend to explore a variety of alternatives for the potential commercialization of AQX-1125 on a global basis, including direct commercialization, co-promotion or selective territorial out-licensing of rights to a third party. By retaining worldwide rights to AQX-1125 through early development, we have maintained flexibility for any future commercialization of AQX-1125. We intend to pursue a similar strategy for our next generation product candidates except for those that require expertise outside our core-areas or require resources beyond those available to us. For non-core assets, as we advance our next generation product candidates, we intend to seek early partnerships to defray the cost, risk and infrastructure requirements in order to further their commercial development.

Research and Development

Since commencing operations, we have dedicated a significant portion of our resources to the development of product candidates, particularly AQX-1125. We incurred research and development expenses of $8.6 million, $5.9 million and $4.8 million during the years ended December 31, 2011 and 2012 and the nine months ended September 30, 2013, respectively. We anticipate that a significant portion of our operating expenses will continue to be related to research and development as we continue to advance AQX-1125 and our future product candidates.

Intellectual Property

Our commercial success depends in part on our ability to obtain and maintain patent and other proprietary protection for AQX-1125 and our future product candidates, novel biological discoveries, screening and drug development technologies such as our SHIP1 discovery platform, manufacturing and process discoveries, and other inventions that are important to our business, as well as to operate without infringing the proprietary rights of others and to prevent others from infringing our proprietary rights. We strive to protect our intellectual property through a combination of patent, copyright, trademark and trade secrets laws, as well as through confidentiality provisions in our contracts.

With respect to AQX-1125 and our future product candidates, we endeavor to obtain and maintain patent protection in the United States and internationally on all patentable aspects of AQX-1125 and our other pipeline products, as it is critical to our global business strategy. Our patenting strategy is initially to pursue patent protection covering both compositions of matter and methods of use of AQX-1125 and our future product candidates and then seek to obtain additional patent protection throughout the development process on other aspects of our technology that would potentially enhance our competitive exclusivity and commercial success. Such additional means of protection may include filing applications with claims to additional methods of use, processes of manufacture, methods of screening,

biomarkers, and companion diagnostic. We also rely on continuing technological innovation, know-how and trade secrets relating to our discovery platform and product candidates and seek to protect and maintain the confidentiality of proprietary information to protect aspects of our business that are not amenable to, or that we do not consider appropriate for, patent protection.

The patent positions of biotechnology companies like ours are generally uncertain and involve complex legal, scientific and factual questions. In addition, the coverage claimed in a patent application can be significantly reduced before the patent is issued, and its scope can be reinterpreted, or the patent held invalid after issuance. Consequently, we may not be able to obtain or maintain adequate patent protection for AQX-1125 any of our future product candidates. We cannot predict whether the patent applications we are currently pursuing will issue as patents in any particular jurisdiction or whether the claims of any issued patents will provide sufficient proprietary protection from competitors. Any patents that we hold may be challenged, circumvented or invalidated by third parties. For a more comprehensive discussion of the risks related to our intellectual property, please see the section of this prospectus captioned “Risk Factors—Risks Related to Intellectual Property.”

Our patent estate on a worldwide basis includes approximately 31 issued patents and approximately 23 pending patent applications that we are actively prosecuting and/or maintaining. These figures include patents and patent applications to which we hold exclusive commercial rights under our licenses from third parties. Our solely owned issued patents include seven U.S. patents and nine foreign patents and our solely owned patent applications include four U.S. applications and 12 foreign patent applications.

Intellectual Property Relating to AQX-1125

We are the sole owner of a patent portfolio that includes issued patents and pending patent applications covering compositions of matter and methods of use of AQX-1125. We acquired these patents and applications relating to AQX-1125 by way of an asset purchase from Biolipox AB in August 2009. This patent portfolio includes three issued United States patents and nine foreign patents issued in Europe, Japan, Canada, Korea, Mexico, Russia, Australia and New Zealand. Our issued patents cover the composition of matter of both the class of compounds to which AQX-1125 belongs, and also AQX-1125 specifically, and methods for using AQX-1125. The foreign patents will expire in 2024, while the United States patents will expire in 2024-28, excluding patent term extensions that may be available in the United States under the Hatch-Waxman Act or in foreign countries under similar statutes. The expiration dates of the issued U.S. patents relating to AQX-1125 include patent term adjustment (PTA) under the provisions of 35 U.S.C. §154; namely, we have received a PTA extension of 1,379 days for U.S. Patent 7,601,874, which covers the composition of matter of AQX-1125, and a PTA extension of 58 days for U.S. Patent 8,084,503 which covers the method of using AQX-1125.

Patent Terms

The term of individual patents and patent applications listed in previous sections will depend upon the legal term of the patents in the countries in which they are obtained. In most countries, the patent term is 20 years from the date of filing of the patent application (or parent application, if applicable). For example, if an international Patent Cooperation Treaty, or PCT, application is filed, any patent issuing from the PCT application in a specific country expires 20 years from the filing date of the PCT application. In the United States, however, if a patent was in force on June 8, 1995, or issued on an application that was filed before June 8, 1995, that patent will have a term that is the greater of 20 years from the filing date or 17 years from the date of issue.

In the United States, the Hatch-Waxman Act permits the patent term of a patent that covers an FDA-approved drug to be eligible for patent term extension, or PTE, of up to five years beyond the original expiration of the patent. This patent term restoration acts as compensation for the patent term lost during product development and the FDA regulatory review process if approval of the application for the product is the first permitted commercial marketing of a drug or biological product containing the active ingredient. The length of the patent term extension is related to the length of time the drug is under regulatory review, and is generally one-half the time between the effective date of an IND and the submission date of a NDA plus the time between the submission date of a NDA and the approval of that application. Patent term extension under the Hatch-Waxman Act cannot extend the remaining term of a patent beyond a total of 14 years from the date of product approval and only one patent applicable to an approved drug may be extended. Similar provisions are available in Europe and other foreign jurisdictions to extend the term of a patent that covers an approved drug. In the future, if and when our products receive FDA approval, we expect to

apply for patent term extensions on patents covering those products. We plan to seek patent term extensions to any of our issued patents in any jurisdiction where these are available, however there is no guarantee that the applicable authorities, including the FDA in the United States, will agree with our assessment of whether such extensions should be granted, and if granted, the length of such extensions.

Trade Secrets

In addition to patents, we also rely upon proprietary know-how (including trade secrets) to protect our technology and maintain and develop our competitive position. In some situations, maintaining information as a trade secret may be more appropriate to protect the type of technology than filing a patent application. We seek to protect our confidential and proprietary information in part by confidentiality agreements and it is our policy to require employees, consultants, scientific advisors, outside scientific collaborators, sponsored researchers, and contractors to execute such agreements upon the commencement of a relationship with us. These agreements provide that all confidential information concerning our business or financial affairs developed or made known to the individual during the course of the individual's relationship with us is to be kept confidential and not disclosed to third parties except in specific circumstances. We also employ invention assignment clauses in our agreements to grant us ownership of technologies that are developed through a relationship with a third party. Our agreements with employees also provide that all inventions conceived by the employee in the course of employment with us or from the employee's use of our confidential information are our exclusive property. We also seek to preserve our trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems.

While we have confidence in these individuals, organizations and systems, agreements or security measures may be breached, and we may not have adequate remedies for any breach. Although we take steps to protect our proprietary information and trade secrets, third parties may independently develop substantially equivalent proprietary information or otherwise gain access to, or disclose, our trade secrets. To the extent that our employees, consultants, scientific advisors, contractors, or any future collaborators use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions. For this and more comprehensive risks related to our proprietary technology and processes, please see the section on "Risk Factors—Risks Related to Intellectual Property."

Contractual Obligations Related to Intellectual Property

On August 19, 2009, AQXP Canada entered into an asset purchase agreement with Biolipox AB of Sweden, or Biolipox, for the purchase of all assets, including patent rights and know-how, relating exclusively or principally to a compound library from which we ultimately identified and selected AQX-1125. Under the terms of the agreement, AQXP Canada paid Biolipox Canadian $50,000 immediately upon closing. An additional Canadian $250,000 by way of issuance of our common stock will become payable upon the first submission to the FDA of an IND for a compound from the acquired class. The terms of the agreement also require a one-time Canadian $3 million milestone payment upon the commitment of financial resources by the Board of Directors of AQXP Canada to advance AQX-1125 into a Phase 3 clinical study. We will also be required to make certain other milestone payments totaling up to Canadian $1.5 million in the aggregate upon the first commercial sale of the first compound covered by the acquired patent rights (which we expect will be triggered by the first commercial sale of AQX-1125) in each of the United States, Europe and Japan.

AQXP Canada entered into an exclusive license agreement with the University of British Columbia, or UBC, dated June 6, 2006, for certain patent rights and technology relating to small molecule compounds and pharmaceutical compositions as modulators of SHIP1 activity. This agreement was amended and restated on June 8, 2007, and subsequently amended in September 2008, April 2010, and June 2010. This agreement will expire at the last to expire issued patent covering the licensed technology. The agreement will terminate automatically upon our insolvency or may be terminated by either party for material breach by the other party. The terms of the agreement required AQXP Canada to pay an initial license fee of Canadian $50,000, all of which was paid by the issuance of 100,000 of our common shares. We do not currently have any product candidates under development that are covered by the agreement, nor have we sublicensed our rights under the licensed patents. However, if we develop products covered by the UBC technology in the future, we will be required to pay certain development and regulatory milestones up to an aggregate of Canadian $2.2 million for the first drug product developed under the license and up to $1.5 million for each subsequent drug product, which may be paid in cash or by issue of our shares. We must

also pay UBC low single-digit royalties based on aggregate worldwide net sales of products covered by the licensed patents and a percentage of sublicensing revenue ranging from the low single digits to the mid double digits based on the stage of development at which such sublicense is granted. We are also required to reimburse costs incurred by UBC related to the prosecution and maintenance of the licensed patents, and to pay an annual license maintenance fee.

In May 2005, AQXP Canada entered into an assignment agreement, which was subsequently amended in December 2005 and March 2006, with the British Columbia Cancer Agency ("BCCA") and StemCell Technologies, Inc. ("STI"), for the assignment to AQXP Canada of the 2002 exclusive license agreement between BCCA and STI to certain patents relating to technology relating to SHIP1. The license agreement between AQXP Canada and BCCA was amended and restated on August 9, 2006 and on June 8, 2007. This agreement has subsequently been amended in June 2008 to revise the schedule of the technology licensed under this agreement, and further amended in February 2013. Pursuant to this agreement, as amended, BCCA has granted us an exclusive worldwide license to certain of its intellectual property relating to core SHIP1 technology, and screening of compounds for activity using SHIP1, including the C2 binding domain. The agreement is to expire at the later of 20 years from the effective date of the agreement or upon the expiration of the last patent covered by the license. The terms of the assignment agreement among STI, BCCA and AQXP Canada required AQXP Canada to pay an assignment license fee of Canadian $150,000, paid in stages beginning May 2005 and ending March 2006. We do not currently have any product candidates under development that are covered by the BCCA license agreement, nor have we sublicensed our rights under the licensed patents. However, if we develop products covered by the BCCA technology in the future, we will be required to pay BCCA low single-digit royalties based on aggregate worldwide net sales of products covered by the licensed patents, and if we sublicense any rights to the technology, a low double digit percentage of sublicensing revenue. We are also required to reimburse BCCA's patent costs incurred in relation to the licensed technology, and pay an annual maintenance fee in the amount of Canadian $5,000. Our license with BCCA will terminate automatically upon our insolvency, and may be terminated by either party for material breach by the other party.

General Considerations

As with other biotechnology and pharmaceutical companies, our ability to maintain and solidify a proprietary position for our product candidates will depend upon our success in obtaining effective patent claims and enforcing those claims once granted.

Our commercial success will depend in part upon not infringing upon the proprietary rights of third parties. It is uncertain whether the issuance of any third-party patent would require us to alter our development or commercial strategies, or our product candidates or processes, obtain licenses or cease certain activities. The biotechnology and pharmaceutical industries are characterized by extensive litigation regarding patents and other intellectual property rights. If a third party commences a patent infringement action against us, or our collaborators, it could consume significant financial and management resources, regardless of the merit of the claims or the outcome of the litigation.

Competition

The biotechnology and pharmaceutical industries are characterized by rapid innovation, intense competition and a strong emphasis on proprietary products. While we believe that our SHIP1 and related technologies, product candidates, intellectual property, knowledge, experience and scientific resources provide us with competitive advantages, we face competition from other pharmaceutical and biotechnology companies, academic institutions, governmental agencies, and public and private research institutions, among others. Any product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future.

Key product features that would affect our ability to effectively compete with other therapeutics include the efficacy, safety and convenience of our products and the ease of use and effectiveness of any companion diagnostics. The level of generic competition and the availability of reimbursement from government and other third-party payors will also significantly affect the pricing and competitiveness of our products.

COPD

Inhaled bronchodilators, such as long-acting beta-2 adrenergic agonists (LABAs) and long-acting muscarinic antagonists (LAMAs), alone or in combination with each other or with inhaled corticosteroids (ICSs), are central to the symptomatic treatment of COPD. Companies competing in this space with inhaled bronchodilators include GlaxoSmithKline (fluticasone/salmeterol—LABA/ICS combination (Advair)), Boehringer Ingelheim/Pfizer (tiotropium—LAMA (Spiriva)) and AstraZeneca (formoterol/budesonide—LABA/ICS (Symbicort)). Recent inhaled bronchodilator approvals include GlaxoSmithKline/Theravance's once-daily LABA/ICS combination fluticasone/vilanterol (Breo Ellipta), Almirall SA's twice-daily LAMA aclidinium (Tudorza Pressair) and Novartis AG's once-daily LABA indacterol (Onbrez Breezhaler). Companies with inhaled products in Phase 3 clinical trials or pending approval in the United States include GlaxoSmithKline/Theravance (umeclidinium, vilanterol—LAMA (Anoro)), Novartis (glycopyrrolate/indacaterol—LABA/LAMA (Ultibro Breezhaler)) and Boehringer Ingelheim (olodaterol—LABA).

Currently, the only oral anti-inflammatory approved by the FDA for the treatment of COPD is Takeda Pharmaceuticals International GmbH's Phosphodiesterase-4 (PDE4) inhibitor, roflumilast, marketed in the United States by Forest Laboratories, Inc. as DALIRESP. Roflumilast's success has been limited by its modest efficacy, safety and tolerability profile. To our knowledge, there are no Phase 3 trials being conducted for any new anti-inflammatory therapies. We are aware of several other companies developing novel oral anti-inflammatory therapies that are in various stages of clinical development for the treatment of COPD including Pfizer (PH-797804), Pfizer/Revotar (TBC-1269), AstraZeneca (AZD-5069), GlaxoSmithKline (GW-856553) and Novartis (BCT-197). However, we believe our novel anti-inflammatory therapy, AQX-1125, remains one of the most advanced in clinical development.

BPS/IC

Few treatments exist for BPS/IC and bladder instillations remain the mainstay therapy for symptomatic relief of BPS/IC with intravesical administration of analgesics, DMSO, sodium hyaluronate, heparin and cocktails of the same being typical. There are no oral anti-inflammatories approved by the FDA for the treatment of BPS/IC; however, the leading oral therapy approved by the FDA is Janssen Pharmaceuticals Inc.'s pentosan polysulfate sodium, marketed in the United States as Elmiron. We are aware of several other companies developing competing therapies that are in various stages of development for the treatment of BPS/IC. Companies competing in this space include AbbVie (Humira), Pfizer (tanezumab), Urigen (URG101), TARIS (LiRIS) and Afferent (AF219).

We believe that AQX-1125 offers key potential advantages over competitive products that could enable, if approved, to capture meaningful market share from our competitors. However, many of our competitors have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals, and marketing approved products than we do. Mergers and acquisitions in the pharmaceutical and biotechnology industries may result in even more resources being concentrated among a smaller number of our competitors. Smaller or early-stage companies may also compete with us, particularly through collaborative arrangements with large and established companies. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel and establishing clinical trial sites and patient registration for clinical trials, as well as in acquiring technologies complementary to, or necessary for, our programs. Our competitors may also obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours, which could result in our competitors establishing a strong market position before we are able to enter the market.

Manufacturing

We conduct our manufacturing activities for our clinical development of our product candidates under individual purchase orders with third-party contract manufacturing organizations (CMOs) as we currently have no manufacturing facilities and do not intend to develop one. We have in place quality agreements with our key CMOs. We have also established an internal quality management system, which audits and qualifies CMOs. Our third-party manufacturers, their facilities and all lots of drug substance and drug products used in our clinical trials are required to be in compliance with current Good Manufacturing Practices, or cGMP.

AQX-1125 is a small molecule and capable of being manufactured in reliable and reproducible synthetic processes from readily available starting materials. We believe the chemistry used to manufacture AQX-1125 is amenable to scale up and does not require unusual equipment in the manufacturing process. One of our CMOs is currently

manufacturing active pharmaceutical ingredient (API) on multi-kilogram scale, for use in preclinical and clinical development of AQX-1125. A second CMO produces AQX-1125 final drug product for use in our ongoing clinical trials. We believe that the manufacturing processes for AQX-1125 API and final drug product have been developed to adequately support current development. For future development and commercial demands, additional CMO activities will be required for API process development, API manufacturing validation, and final drug product formulation. We believe that our existing suppliers of AQX-1125 API and drug products would be capable of providing sufficient quantities of the AQX-1125 API and drug products to meet anticipated commercial demands.

The FDA regulates and inspects equipment, facilities and processes used in manufacturing pharmaceutical products prior to approval. If we fail to comply with applicable cGMP requirements and conditions of product approval, the FDA may seek sanctions, including fines, civil penalties, injunctions, suspension of manufacturing operations, operating restrictions, withdrawal of FDA approval, seizure or recall of products and criminal prosecution. Although we periodically monitor the FDA compliance of our third-party CMOs, we cannot be certain that our present or future third-party CMOs will consistently comply with cGMP and other applicable FDA regulatory requirements.

Commercial Operations

We do not currently have an organization for the sales, marketing and distribution of pharmaceutical products. We may rely on licensing and co-promotion agreements with strategic partners for the commercialization of our products in the United States and other territories. If we choose to build a commercial infrastructure to support marketing in the United States, such commercial infrastructure could be expected to include a targeted, sales force supported by sales management, internal sales support, an internal marketing group and distribution support. To develop the appropriate commercial infrastructure internally, we would have to invest financial and management resources, some of which would have to be deployed prior to any confirmation that AQX-1125 will be approved.

Government Regulation

As a pharmaceutical company that operates and anticipates seeking approval for pharmaceutical product candidates in the United States, we are subject to extensive regulation by the FDA, and other federal, state, and local regulatory agencies. The Federal Food, Drug, and Cosmetic Act, or the FDC Act, and its implementing regulations set forth, among other things, requirements for the research, testing, development, manufacture, quality control, safety, effectiveness, approval, labeling, storage, record keeping, reporting, distribution, import, export, advertising and promotion of our products. Our pharmaceutical product candidates must be approved by the FDA before we can commence clinical trials or market those products in the United States.

Although the discussion below focuses on regulation in the United States, we conduct research activities and anticipate seeking approval for, and marketing of, our products in other countries and regions, such as Canada and Europe. Generally, our activities in other countries will be subject to regulation that is similar in nature and scope as that imposed in the United States, although there can be important differences. Additionally, some significant aspects of regulation in Europe are addressed in a centralized way through the EMA, but country-specific regulation remains essential in many respects. The process of obtaining regulatory marketing approvals and the subsequent compliance with appropriate federal, state, local and foreign statutes and regulations require the expenditure of substantial time and financial resources.

FDA Regulation

The FDA is the main regulatory body that controls pharmaceuticals in the United States, and its regulatory authority is based in the FDC Act. Pharmaceutical products are also subject to other federal, state and local statutes. A failure to comply with any requirements during the product development, approval, or post-approval periods, may lead to administrative or judicial sanctions. These sanctions could include the imposition by the FDA or an institutional review board, or IRB, of a hold on clinical trials, refusal to approve pending marketing applications or supplements, withdrawal of approval, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties or criminal prosecution.

The steps required before a new drug may be marketed in the United States generally include:

- Completion of preclinical laboratory tests, animal studies and formulation studies in compliance with the FDA's Good Laboratory Practices regulations;

- Submission to the FDA of an IND, which must become effective before human clinical studies may begin;
- Approval by an IRB at each clinical site before each trial may be initiated;
- Performance of adequate and well-controlled clinical trials in accordance with federal regulations and with current good clinical practices, or GCPs, to establish the safety and efficacy of the investigational drug product for each targeted indication;
- Submission of an New Drug Application, or NDA, to the FDA;
- Satisfactory completion of an FDA Advisory Committee review, if applicable;
- Satisfactory completion of an FDA inspection of the manufacturing facilities at which the investigational product is produced to assess compliance with cGMP, and to assure that the facilities, methods and controls are adequate; and
- FDA review and approval of the NDA.

Clinical Trials

An IND is a request for authorization from the FDA to administer an investigational drug product to humans. This authorization is required before interstate shipping and administration of any new drug product to humans that is not the subject of an approved NDA. A 30-day waiting period after the submission of each IND is required prior to the commencement of clinical testing in humans. If the FDA has neither commented on nor questioned the IND within this 30-day period, the clinical trial proposed in the IND may begin. Clinical trials involve the administration of the investigational drug to patients under the supervision of qualified investigators following GCPs, an international standard meant to protect the rights and health of patients and to define the roles of clinical trial sponsors, administrators and monitors. Clinical trials are conducted under protocols that detail the parameters to be used in monitoring safety, and the efficacy criteria to be evaluated. Each protocol involving testing on U.S. patients and subsequent protocol amendments must be submitted to the FDA as part of the IND. The informed written consent of each participating subject is required. The clinical investigation of an investigational drug is generally divided into three phases. Although the phases are usually conducted sequentially, they may overlap or be combined. The three phases of an investigation are generally described as follows:

- *Phase 1* — Phase 1 includes the initial introduction of an investigational drug into humans. Phase 1 clinical trials may be conducted in patients with the target disease or condition or healthy volunteers. These studies are designed to evaluate the safety, metabolism, pharmacokinetics and pharmacologic actions of the investigational drug in humans, the side effects associated with increasing doses, and if possible, to gain early evidence on effectiveness. During Phase 1 clinical trials, sufficient information about the investigational product's pharmacokinetics and pharmacological effects may be obtained to permit the design of Phase 2 clinical trials. The total number of participants included in Phase 1 clinical trials varies, but is generally in the range of 20 to 80.
- *Phase 2* — Phase 2 includes the controlled clinical trials conducted to evaluate the effectiveness of the investigational product for a particular indication(s) in patients with the disease or condition under study, to determine dosage tolerance and optimal dosage, and to identify possible adverse side effects and safety risks associated with the drug. Phase 2 clinical trials are typically well-controlled, closely monitored, and conducted in a limited patient population, usually involving no more than several hundred participants.
- *Phase 3* — Phase 3 clinical trials are controlled clinical trials conducted in an expanded patient population at geographically dispersed clinical trial sites. They are performed after preliminary evidence suggesting effectiveness of the investigational product has been obtained, and are intended to further evaluate dosage, clinical effectiveness and safety, to establish the overall benefit-risk relationship of the product, and to provide an adequate basis for product approval. Phase 3 clinical trials usually involve several hundred to several thousand participants. In most cases, the FDA requires two adequate and well controlled Phase 3 clinical trials to demonstrate the efficacy of the drug. A single Phase 3 trial with other confirmatory evidence may be sufficient in rare instances where the trial is a large multicenter trial demonstrating internal consistency and a statistically very persuasive finding of a clinically meaningful effect on mortality, irreversible morbidity or prevention of a disease with a potentially serious outcome and confirmation of the result in a second trial would be practically or ethically impossible.

Progress reports detailing the results of the clinical studies must be submitted at least annually to the FDA and safety reports must be submitted to the FDA and the investigators for serious and unexpected adverse events.

Phase 1, Phase 2 and Phase 3 testing may not be completed successfully within any specified period, if at all. The decision to terminate development of an investigational drug product may be made by either a health authority body, such as the FDA or IRB/ethics committees, or by a company for various reasons. The FDA may order the temporary, or permanent, discontinuation of a clinical trial at any time, or impose other sanctions, if it believes that the clinical trial either is not being conducted in accordance with FDA requirements or presents an unacceptable risk to the clinical trial patients. Similarly, an IRB can suspend or terminate approval of a clinical study at its institution if the clinical study is not being conducted in accordance with the IRB's requirements or if the drug has been associated with unexpected serious harm to patients. In some cases, clinical trials are overseen by an independent group of qualified experts organized by the trial sponsor, or the clinical monitoring board. This group provides authorization for whether or not a trial may move forward at designated check points. These decisions are based on the limited access to data from the ongoing trial. The suspension or termination of development can occur during any phase of clinical trials if it is determined that the participants or patients are being exposed to an unacceptable health risk. In addition, there are requirements for the registration of ongoing clinical trials of drugs on public registries and the disclosure of certain information pertaining to the trials as well as clinical trial results after completion.

Concurrent with clinical studies, companies usually complete additional animal studies and must also develop additional information about the chemistry and physical characteristics of the product and finalize a process for manufacturing the product in commercial quantities in accordance with cGMP requirements. The manufacturing process must be capable of consistently producing quality batches of the product candidate and, among other things, the manufacturer must develop methods for testing the identity, strength, quality and purity of the final product. Additionally, appropriate packaging must be selected and tested and stability studies must be conducted to demonstrate that the product candidate does not undergo unacceptable deterioration over its shelf life.

Assuming successful completion of all required testing in accordance with all applicable regulatory requirements, detailed investigational drug product information is submitted to the FDA in the form of a NDA to request market approval for the product in specified indications.

New Drug Applications

In order to obtain approval to market a drug in the United States, a marketing application must be submitted to the FDA that provides data establishing the safety and effectiveness of the drug product for the proposed indication. The application includes all relevant data available from pertinent preclinical studies and clinical trials, including negative or ambiguous results as well as positive findings, together with detailed information relating to the product's chemistry, manufacturing, controls and proposed labeling, among other things. Data can come from company-sponsored clinical trials intended to test the safety and effectiveness of a product, or from a number of alternative sources, including studies initiated by investigators. To support marketing approval, the data submitted must be sufficient in quality and quantity to establish the safety and effectiveness of the investigational drug product to the satisfaction of the FDA.

In most cases, the NDA must be accompanied by a substantial user fee; there may be some instances in which the user fee is waived. The FDA will initially review the NDA for completeness before it accepts the NDA for filing. The FDA has 60 days from its receipt of an NDA to determine whether the application will be accepted for filing based on the agency's threshold determination that it is sufficiently complete to permit substantive review. After the NDA submission is accepted for filing, the FDA begins an in-depth review. The FDA has agreed to certain performance goals in the review of NDAs. Most such applications for standard review drug products are reviewed within ten to 12 months of filing. The FDA can extend this review by three months to consider certain late-submitted information or information intended to clarify information already provided in the submission. The FDA does not always achieve its performance goal and its review of NDAs can take significantly longer. The FDA reviews the NDA to determine, among other things, whether the proposed product is safe and effective for its intended use, and whether the product is being manufactured in accordance with cGMP. The FDA may refer applications for novel drug products which present difficult questions of safety or efficacy to an advisory committee, typically a panel that includes clinicians and other experts, for review, evaluation and a recommendation as to whether the application should be approved and under what conditions. The FDA is not bound by the recommendations of an advisory committee, but it considers such recommendations carefully when making decisions.

Before approving an NDA, the FDA will inspect the facilities at which the product is manufactured. The FDA will not approve the product unless it determines that the manufacturing processes and facilities are in compliance with cGMP requirements and adequate to assure consistent production of the product within required specifications. Additionally, before approving an NDA, the FDA will typically inspect one or more clinical sites to assure compliance with GCP. After the FDA evaluates the NDA and the manufacturing facilities, it issues either an approval letter or a complete response letter. A complete response letter generally outlines the deficiencies in the submission and may require substantial additional testing or information in order for the FDA to reconsider the application. If, or when, those deficiencies have been addressed to the FDA's satisfaction in a resubmission of the NDA, the FDA will issue an approval letter. The FDA has committed to reviewing such resubmissions in two or six months depending on the type of information included. The approval process is lengthy and difficult and notwithstanding the submission of any requested additional information, the FDA ultimately may refuse to approve an NDA if applicable regulatory criteria are not satisfied or if the FDA believes additional clinical data or other data and information are required. Data obtained from clinical studies are not always conclusive and the FDA may interpret data differently than a company interprets the same data.

An approval letter authorizes commercial marketing of the drug with specific prescribing information for specific indications. FDA's approval of a product may be significantly limited to specific disease and dosages or the indications for use may otherwise be limited, which could restrict the commercial value of the product. Further, the FDA may require that certain contraindications, warnings, or precautions be included in the product labeling. In addition, as a condition of NDA approval, the FDA may require a risk evaluation and mitigation strategy, or REMS, to help ensure that the benefits of the drug outweigh the potential risks. REMS can include medication guides, communication plans for healthcare professionals, special training or certification for prescribing or dispensing, dispensing only under certain circumstances, special monitoring, and the use of patient registries. The requirement for a REMS can materially affect the potential market and profitability of the drug. Moreover, product approval may require substantial post-approval testing and surveillance to monitor the drug's safety or efficacy. Once granted, product approvals may be withdrawn if compliance with regulatory standards is not maintained or problems are identified following initial marketing.

Changes to some of the conditions established in an approved application, including changes in indications, labeling, or manufacturing processes or facilities, require submission and FDA approval of a new NDA or NDA supplement before the change can be implemented. An NDA supplement for a new indication typically requires clinical data similar to that in the original application, and the FDA uses the same procedures and actions in reviewing NDA supplements as it does in reviewing NDAs.

Advertising and Promotion

The FDA and other federal regulatory agencies closely regulate the marketing and promotion of drugs through, among other things, standards and regulations for direct-to-consumer advertising, communications regarding unapproved uses, industry-sponsored scientific and educational activities, and promotional activities involving the Internet. A product cannot be commercially promoted before it is approved. After approval, product promotion can include only those claims relating to safety and effectiveness that are consistent with the labeling approved by the FDA. Healthcare providers are permitted to prescribe drugs for "off-label" uses—that is, uses not approved by the FDA and therefore not described in the drug's labeling—because the FDA does not regulate the practice of medicine. However, FDA regulations impose stringent restrictions on manufacturers' communications regarding off-label uses. Broadly speaking, a manufacturer may not promote a drug for off-label use, but may engage in non-promotional, balanced communication regarding off-label use under specified conditions. Failure to comply with applicable FDA requirements and restrictions in this area may subject a company to adverse publicity and enforcement action by the FDA, the DOJ, or the Office of the Inspector General of HHS, as well as state authorities. This could subject a company to a range of penalties that could have a significant commercial impact, including civil and criminal fines and agreements that materially restrict the manner in which a company promotes or distributes drug products.

Post-Approval Regulations

After regulatory approval of a drug is obtained, a company is required to comply with a number of post-approval requirements. For example, as a condition of approval of an NDA, the FDA may require post-marketing testing, including Phase 4 clinical trials, and surveillance to further assess and monitor the product's safety and effectiveness after commercialization. In addition, as a holder of an approved NDA, a company would be required to report adverse

reactions and production problems to the FDA, to provide updated safety and efficacy information, and to comply with requirements concerning advertising and promotional labeling for any of its products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval to assure and preserve the long term stability of the drug or biological product. The cGMP requirements apply all stages of the manufacturing process, including the production, processing, sterilization, packaging, labeling, storage and shipment of the drug product. The FDA periodically inspects manufacturing facilities to assess compliance with cGMP, which imposes extensive procedural and substantive record keeping requirements. In addition, changes to the manufacturing process are strictly regulated, and, depending on the significance of the change, may require prior FDA approval before being implemented. FDA regulations also require investigation and correction of any deviations from cGMP and impose reporting and documentation requirements upon a company and any third-party manufacturers that a company may decide to use. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance.

We rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of our product candidates. Future FDA and state inspections may identify compliance issues at our facilities or at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct.

The FDA may withdraw a product approval if compliance with regulatory standards is not maintained or if problems occur after the product reaches the market. Later discovery of previously unknown problems with a product or the failure to comply with applicable requirements may result in restrictions on a product, manufacturer or holder of an approved NDA, including withdrawal or recall of the product from the market or other voluntary, FDA-initiated or judicial action that could delay or prohibit further marketing. Further, the failure to maintain compliance with regulatory requirements may result in administrative or judicial actions, such as fines, warning letters, holds on clinical studies, product recalls or seizures, product detention or refusal to permit the import or export of products, refusal to approve pending applications or supplements, restrictions on marketing or manufacturing, injunctions or civil or criminal penalties.

Newly discovered or developed safety or effectiveness data may require changes to a product's approved labeling, including the addition of new warnings and contraindications, and also may require the implementation of other risk management measures. Also, new government requirements, including those resulting from new legislation, may be established, or the FDA's policies may change, which could delay or prevent regulatory approval of our products under development.

Compliance

During all phases of development (pre- and post-marketing), failure to comply with applicable regulatory requirements may result in administrative or judicial sanctions. These sanctions could include the FDA's imposition of a clinical hold on trials, refusal to approve pending applications, withdrawal of an approval, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, product detention or refusal to permit the import or export of products, injunctions, fines, civil penalties or criminal prosecution. Any agency or judicial enforcement action could have a material adverse effect on us.

Comparable European, Canadian and Other International Government Regulation

In addition to FDA regulations in the United States, we will be subject to a variety of comparable regulations in other jurisdictions governing, among other things, clinical trials and any commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we must obtain the requisite approvals from regulatory authorities in foreign countries prior to the commencement of clinical trials or marketing of the product in those countries.

Some countries outside of the United States have a similar process that requires the submission of a clinical trial application, or CTA, much like the IND prior to the commencement of human clinical trials. In Europe, for example, a CTA must be submitted to each country's national health authority and an independent ethics committee, much like the FDA and IRB, respectively. Once the CTA is approved in accordance with a country's requirements, clinical trial development may proceed. To obtain regulatory approval to commercialize a new drug under European Union regulatory systems, we must submit a marketing authorization application, or MAA. The MAA is similar to the NDA, with the exception of, among other things, country-specific document requirements.

In Canada, biopharmaceutical product candidates are regulated by the Food and Drugs Act and the rules and regulations promulgated thereunder, which are enforced by the Therapeutic Products Directorate of Health Canada, or TPD. Before commencing clinical trials in Canada, an applicant must complete preclinical studies and file a CTA with the TPD. After filing a CTA, the applicant must receive different clearance authorizations to proceed with Phase 1 clinical trials, which can then lead to Phase 2 and Phase 3 clinical trials. To obtain regulatory approval to commercialize a new drug in Canada, a new drug submission, or NDS, must be filed with the TPD. If the NDS demonstrates that the product was developed in accordance with the regulatory authorities' rules, regulations and guidelines and demonstrates favorable safety and efficacy and receives a favorable risk/benefit analysis, the TPD issues a notice of compliance which allows the applicant to market the product.

For other countries outside of the European Union and Canada, such as countries in Eastern Europe, Latin America or Asia, the requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary from country to country. In all cases, again, the clinical trials are conducted in accordance with GCP and the applicable regulatory requirements and the ethical principles that have their origin in the Declaration of Helsinki.

Other Healthcare Laws and Compliance Requirements

In the United States, our activities are potentially subject to additional regulation and oversight under other healthcare laws by various federal, state and local authorities in addition to the FDA, including the Centers for Medicare & Medicaid Services, or CMS, other divisions of the United States Department of Health and Human Services (e.g., the Office of Inspector General), the United States Department of Justice, or the DOJ, and individual U.S. Attorney offices within the DOJ, and state and local governments. These laws include the federal Anti-Kickback Statute, which prohibits, among other things, any person or entity, from knowingly and willfully offering, paying, soliciting or receiving any remuneration, directly or indirectly, overtly or covertly, in cash or in kind, to induce or in return for purchasing, leasing, ordering or arranging for the purchase, lease or order of any item or service reimbursable under Medicare, Medicaid or other federal healthcare programs. The term remuneration has been interpreted broadly to include anything of value. The Anti-Kickback Statute has been interpreted to apply to arrangements between pharmaceutical manufacturers on one hand and prescribers, purchasers, and formulary managers on the other. There are a number of statutory exceptions and regulatory safe harbors protecting some common activities from prosecution. The exceptions and safe harbors are drawn narrowly and practices that involve remuneration that may be alleged to be intended to induce prescribing, purchasing or recommending may be subject to scrutiny if they do not qualify for an exception or safe harbor. Our practices may not in all cases meet all of the criteria for protection under a statutory exception or regulatory safe harbor from federal Anti-Kickback Statute liability. Failure to meet all of the requirements of a particular applicable statutory exception or regulatory safe harbor, however, does not make the conduct per se illegal under the Anti-Kickback Statute. Instead, the legality of the arrangement will be evaluated on a case-by-case basis based on a cumulative review of all of its facts and circumstances. In addition, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act, or collectively, the Affordable Care Act, further strengthened these laws by amending the intent standard under the Anti-Kickback Statute and the criminal health care fraud statutes (discussed below) to a stricter standard such that a person or entity no longer needs to have actual knowledge of the statute or specific intent to violate it in order to have committed a violation. In addition, the Affordable Care Act codified case law that a claim including items or services resulting from a violation of the federal Anti-Kickback Statute constitutes a false or fraudulent claim for purposes of the civil False Claims Act (discussed below).

The federal False Claims Act prohibits, among other things, any person or entity from knowingly presenting, or causing to be presented, a false claim for payment to, or approval by, the federal government or knowingly making, using, or causing to be made or used a false record or statement material to a false or fraudulent claim to the federal government. As a result of a modification made by the Fraud Enforcement and Recovery Act of 2009, a claim includes "any request or demand" for money or property presented to the U.S. government. Recently, several pharmaceutical and other healthcare companies have been prosecuted under these laws for allegedly providing free product to customers with the expectation that the customers would bill federal programs for the product. Other companies have been prosecuted for causing false claims to be submitted because of the companies' marketing of the product for off-label, and thus, non-covered, uses.

The civil monetary penalties statute imposes penalties against any person or entity who, among other things, is determined to have presented or caused to be presented a claim to a federal health program that the person knows or

should know is for an item or service that was not provided as claimed or is false or fraudulent. HIPAA created new federal criminal statutes that prohibit knowingly and willfully executing, or attempting to execute, a scheme to defraud or to obtain, by means of false or fraudulent pretenses, representations or promises, any money or property owned by, or under the control or custody of, any healthcare benefit program, including private third-party payors and knowingly and willfully falsifying, concealing or covering up by trick, scheme or device, a material fact or making any materially false, fictitious or fraudulent statement in connection with the delivery of or payment for healthcare benefits, items or services. Also, many states have similar fraud and abuse statutes or regulations that apply to items and services reimbursed under Medicaid and other state programs, or, in several states, apply regardless of the payor.

We may also be subject to data privacy and security regulation by both the federal government and the states in which we conduct our business. HIPAA, as amended by HITECH, and its implementing regulations, imposes requirements relating to the privacy, security and transmission of individually identifiable health information. Among other things, HITECH makes HIPAA's privacy and security standards directly applicable to business associates—independent contractors or agents of covered entities that receive or obtain protected health information in connection with providing a service on behalf of a covered entity. HITECH also created four new tiers of civil monetary penalties, amended HIPAA to make civil and criminal penalties directly applicable to business associates, and gave state attorneys general new authority to file civil actions for damages or injunctions in federal courts to enforce the federal HIPAA laws and seek attorney's fees and costs associated with pursuing federal civil actions. In addition, state laws govern the privacy and security of health information in specified circumstances, many of which differ from each other in significant ways and may not have the same effect, thus complicating compliance efforts.

Additionally, the federal Physician Payments Sunshine Act within the Affordable Care Act, and its implementing regulations, require that certain manufacturers of drugs, devices, biological and medical supplies for which payment is available under Medicare, Medicaid or the Children's Health Insurance Program (with certain exceptions) report information related to certain payments or other transfers of value made or distributed to physicians and teaching hospitals, or to entities or individuals at the request of, or designated on behalf of, the physicians and teaching hospitals and to report annually certain ownership and investment interests held by physicians and their immediate family members and payments or other "transfers of value" to such physician owners and their immediate family members.

In order to distribute products commercially, we must comply with state laws that require the registration of manufacturers and wholesale distributors of pharmaceutical products in a state, including, in some states, manufacturers and distributors who ship products into the state even if such manufacturers or distributors have no place of business within the state. Some states also impose requirements on manufacturers and distributors to establish the pedigree of product in the chain of distribution, including some states that require manufacturers and others to adopt new technology capable of tracking and tracing product as it moves through the distribution chain. Several states have enacted legislation requiring pharmaceutical companies to, among other things, establish compliance programs, file periodic reports with the state, make periodic public disclosures on sales, marketing, pricing, clinical trials and other activities, and/ or register their sales representatives, as well as to prohibit pharmacies and other healthcare entities from providing specified physician prescribing data to pharmaceutical companies for use in sales and marketing, and to prohibit other specified sales and marketing practices. In addition, our future commercial activities may also be subject to federal and state consumer protection and unfair competition laws.

If our operations are found to be in violation of any of the federal and state healthcare laws described above or any other governmental regulations that apply to us, we may be subject to penalties, including without limitation, civil, criminal and administrative penalties, damages, fines, disgorgement, exclusion from participation in government programs, such as Medicaid and Medicare, injunctions, reputational harm, administrative burdens, diminished profits and future earnings and the curtailment or restructuring of our operations, any of which could adversely affect our ability to operate our business and our results of operations. To the extent that any of our products are sold in a foreign country, we may be subject to similar foreign laws and regulations, which may include, for instance, anti-fraud and abuse laws, and implementation of corporate compliance programs and reporting of payments or transfers of value to healthcare professionals.

Coverage, Reimbursement and Pricing

Significant uncertainty exists as to the coverage and reimbursement status of any drug products for which we obtain regulatory approval. In the United States and markets in other countries, sales of any products for which we receive regulatory approval for commercial sale will depend, in part, on the extent that third-party payors provide coverage, and establish adequate reimbursement levels for such drug products. In the United States, third-party payors include federal healthcare programs, state healthcare programs, managed care providers, private health insurers and other organizations. The process for determining whether a third-party payor will provide coverage for a drug product may be separate from the process for setting the price of a drug product or for establishing the reimbursement rate that such a payor will pay for the drug product. Third-party payors may limit coverage to specific drug products on an approved list, also known as a formulary, which might not include all of the FDA-approved drugs for a particular indication. Third-party payors are increasingly challenging the price, examining the medical necessity and reviewing the cost-effectiveness of drug products and medical services, in addition to questioning their safety and efficacy. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the medical necessity and cost-effectiveness of our products, in addition to the costs required to obtain FDA approvals. AQX-1125 or our future product candidates may not be considered medically necessary or cost-effective. A payor's decision to provide coverage for a drug product does not imply that an adequate reimbursement rate will be approved. Further, one payor's determination to provide coverage for a drug product does not assure that other payors will also provide coverage for the drug product. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development. If a drug product is reimbursed under a governmental healthcare program, such as Medicare, Medicaid or TRICARE, additional laws and program requirements will apply.

Different pricing and reimbursement schemes exist in other countries. In the European Union, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national healthcare systems that fund a large part of the cost of those products to consumers. Some jurisdictions operate positive and negative list systems under which products may only be marketed once a reimbursement price has been agreed upon. To obtain reimbursement or pricing approval, some of these countries may require the completion of clinical trials that compare the cost-effectiveness of a particular product candidate to currently available therapies. Other member states allow companies to fix their own prices for drugs, but monitor and control company profits. The downward pressure on healthcare costs in general, particularly prescription drugs, has become more intense. As a result, increasingly high barriers are being erected to the entry of new products. The European Union provides options for its member states to restrict the range of medicinal products for which their national health insurance systems provide reimbursement and to control the prices of medicinal products for human use. A member state may approve a specific price for the medicinal product or it may instead adopt a system of direct or indirect controls on the profitability of the company placing the medicinal product on the market. We may face competition for our product candidates from lower-priced products in foreign countries that have placed price controls on pharmaceutical products. In addition, in some countries, cross-border imports from low-priced markets exert a commercial pressure on pricing within a country.

The marketability of any products for which we receive regulatory approval for commercial sale may suffer if the government and third-party payors fail to provide adequate coverage and reimbursement. In addition, an increasing emphasis on managed care in the United States has increased and will continue to increase the pressure on pharmaceutical pricing. Coverage policies and third-party reimbursement rates may change at any time. Even if favorable coverage and reimbursement status is attained for one or more products for which we receive regulatory approval, less favorable coverage policies and reimbursement rates may be implemented in the future.

Healthcare Reform

In March 2010, President Obama signed the Affordable Care Act, which has the potential to substantially change healthcare financing and delivery by both governmental and private insurers, and significantly impact the pharmaceutical industry. The Affordable Care Act impacts existing government healthcare programs and requires the development of new programs. For example, the Affordable Care Act provides for Medicare payment for performance initiatives and improvements to the physician quality reporting system and feedback program.

Among the Affordable Care Act's provisions of importance to the pharmaceutical industry are the following:

- an annual, nondeductible fee on any entity that manufactures or imports certain specified branded prescription drugs and biologic agents apportioned among these entities according to their market share in some government healthcare programs, that began in 2011;
- an increase in the statutory minimum rebates a manufacturer must pay under the Medicaid Drug Rebate Program, retroactive to January 1, 2010, to 23.1% and 13% of the average manufacturer price for most branded and generic drugs, respectively and capped the total rebate amount for innovator drugs at 100% of AMP;
- expansion of healthcare fraud and abuse laws, including the False Claims Act and the Anti-Kickback Statute, new government investigative powers, and enhanced penalties for noncompliance;
- a new Medicare Part D coverage gap discount program, in which manufacturers must agree to offer 50% point-of-sale discounts off negotiated prices of applicable brand drugs to eligible beneficiaries during their coverage gap period, as a condition for the manufacturers' outpatient drugs to be covered under Medicare Part D;
- extension of manufacturers' Medicaid rebate liability to covered drugs dispensed to individuals who are enrolled in Medicaid managed care organizations;
- expansion of eligibility criteria for Medicaid programs by, among other things, allowing states to offer Medicaid coverage to additional individuals beginning in 2014 and by adding new mandatory eligibility categories for individuals with income at or below 133% of the Federal Poverty Level, thereby potentially increasing manufacturers' Medicaid rebate liability;
- expansion of the entities eligible for discounts under the Public Health Service pharmaceutical pricing program;
- new requirements to report annually specified financial arrangements with physicians and teaching hospitals, as defined in the Affordable Care Act and its implementing regulations, including reporting information related to "payments or other transfers of value" made to physicians (defined to include doctors, dentists, optometrists, podiatrists and chiropractors) and teaching hospitals, and applicable manufacturers and applicable group purchasing organizations to report annually to HHS ownership and investment interests held by physicians (as defined above) and their immediate family members and payments or other "transfers of value" to such physician owners and their immediate family members; a new requirement to annually report drug samples that manufacturers and distributors provide to licensed practitioners, pharmacies of hospitals and other healthcare entities; and
- a new Patient-Centered Outcomes Research Institute to oversee, identify priorities in, and conduct comparative clinical effectiveness research, along with funding for such research.

The Affordable Care Act also establishes an Independent Payment Advisory Board, or IPAB, to reduce the per capita rate of growth in Medicare spending. Beginning in 2014, IPAB is mandated to propose changes in Medicare payments if it determines that the rate of growth of Medicare expenditures exceeds target growth rates. The IPAB has broad discretion to propose policies to reduce expenditures, which may have a negative impact on payment rates for pharmaceutical products. A proposal made by the IPAB is required to be implemented by CMS unless Congress adopts a proposal with savings greater than those proposed by the IPAB. IPAB proposals may impact payments for physician and free-standing services beginning in 2015 and for hospital services beginning in 2020.

In addition, other legislative changes have been proposed and adopted since the Affordable Care Act was enacted. On August 2, 2011, the President signed into law the Budget Control Act of 2011, which, among other things, created the Joint Select Committee on Deficit Reduction to recommend proposals in spending reductions to Congress. The Joint Select Committee did not achieve its targeted deficit reduction of at least $1.2 trillion for the years 2013 through 2021, triggering the legislation's automatic reductions to several government programs. These reductions include aggregate reductions to Medicare payments to providers of up to 2% per fiscal year, which went into effect on April 1, 2013. On January 2, 2013, President Obama signed into law the American Taxpayer Relief Act of 2012, which, among other things, further reduced Medicare payments to several providers and increased the statute of limitations period for the government to recover overpayments to providers from three to five years. These new laws may result in additional reductions in Medicare and other healthcare funding, which could have a material adverse effect on our future customers and accordingly, our financial operations.

We anticipate that the Affordable Care Act will result in additional downward pressure on coverage and the price that we receive for any approved product, and could seriously harm our business. Any reduction in reimbursement from Medicare and other government programs may result in a similar reduction in payments from private payors. The implementation of cost containment measures or other healthcare reforms may prevent us from being able to generate revenue, attain profitability, or commercialize our products. In addition, it is possible that there will be further legislation or regulation that could harm our business, financial condition, and results of operations.

Anti-Corruption Legislation

The Foreign Corrupt Practices Act, or FCPA, prohibits any U.S. individual or business from paying, offering, or authorizing payment or offering of anything of value, directly or indirectly, to any foreign official, political party or candidate for the purpose of influencing any act or decision of the foreign entity in order to assist the individual or business in obtaining or retaining business. The FCPA also obligates companies whose securities are listed in the United States to comply with accounting provisions requiring us to maintain books and records that accurately and fairly reflect all transactions of the corporation, including international subsidiaries, and to devise and maintain an adequate system of internal accounting controls for international operations.

The Corruption of Foreign Public Officials Act, or CFPOA, prohibits Canadian businesses and individuals from giving or offering to give a benefit of any kind to a foreign public official, or any other person for the benefit of the foreign public official, where the ultimate purpose is to obtain or retain a business advantage. Under the CFPOA, companies may be liable for the actions of their employees or third-party agents, even if such persons operate outside of Canada.

Employees

As of November 1, 2013, we had 14 employees, of whom five hold Ph.D. degrees or M.D. degrees. We have no collective bargaining agreements with our employees and have not experienced any work stoppages. We believe that relations with our employees are good.

Facilities

Our corporate headquarters are located in Richmond, Canada, where we lease approximately 15,000 square feet of office and laboratory space pursuant to a lease agreement which expires in August 2015. Approximately 10,000 square feet of this space has been subleased to other technology companies as we elected to alter our strategy to greater reliance on sub-contracting of activities requiring laboratory facilities. This facility houses our research, clinical, regulatory, commercial and administrative personnel.

We believe that our existing facilities are adequate for our near-term needs. We believe that suitable additional or alternative space would be available if required in the future on commercially reasonable terms.

MANAGEMENT

Executive Officers and Directors

The following table sets forth certain information with respect to our executive officers and directors as of September 30, 2013:

NAME	AGE	POSITION
David J. Main	49	Co-Founder, President and Chief Executive Officer and Director
Thomas MacRury, Ph.D.	69	Chief Operating Officer, Executive Vice President
Kamran Alam	39	Chief Financial Officer, Vice President, Finance
Stephen Shrewsbury, M.B. ChB.	56	Chief Medical Officer, Senior Vice President, Clinical Development
Lloyd Mackenzie	46	Vice President, Technical Operations and Planning Product
Gary Bridger, Ph.D.	50	Director
Elaine Jones	58	Director
Daniel Levitt, M.D., Ph.D.	65	Director
Robert Pelzer	60	Director

(1) Member of the audit committee.
(2) Member of the compensation committee.
(3) Member of the nominating and corporate governance committee.

Executive Officers

David J. Main, one of our co-founders, has served as our President, Chief Executive Officer, and a member of our board of directors since January 2006. From September 1996 to June 2005, Mr. Main held various positions at INEX Pharmaceuticals Corp., a biopharmaceutical company, serving as President and Chief Executive Officer from July 1999 to June 2005 and as Vice President, Corporate Development from September 1996 to July 1999. While President and Chief Executive Officer, Mr. Main led the transformation of INEX from a research driven to a product focused biopharmaceutical company, advancing product development to the NDA stage and securing several significant pharmaceutical partnerships and over $100 million in equity financings. From 1990 to 1996, Mr. Main held various positions at QLT Inc., a pharmaceutical company, most recently serving as Vice President. Mr. Main was formerly a licensed pharmacist at the Royal Columbian Hospital in New Westminster, B.C. Mr. Main holds a B.Sc. in Pharmacy and an M.B.A. from the University of British Columbia. Mr. Main previously served on the board of directors of LifeSciences BC, a non-profit industry association. Mr. Main also serves on the board of directors for BIOTECanada, a Canadian industry association, and Discovery Parks Trust, a not-for-profit association.

Mr. Main was selected to serve on our board of directors because he is a co-founder, our Chief Executive Officer and has extensive experience in the pharmaceutical industry.

Thomas MacRury, Ph.D., has served as our Chief Operating Office and Executive Vice President since February 2006. From 1994 to 2005, Dr. MacRury served as Senior Vice President, Operations at INEX Pharmaceuticals. Prior to 1994, Dr. MacRury served as Senior Vice President and Chief Technology Officer for Pitman-Moore Inc., a mineral and chemical company. Dr. MacRury holds a B.Sc. in Chemistry and a Ph.D. in Physical Chemistry from the University of British Columbia. Dr. MacRury serves on the board of directors of Northern Lipids Inc., a contract research organization. Dr. MacRury is retiring November 15, 2013.

Kamran Alam has served as our Chief Financial Officer and Vice President, Finance since August 2011. From June 2010 to August 2011, Mr. Alam served as Senior Director, Business Development of Sirius Genomics Inc., a biotechnology company. From October 2008 to June 2010, Mr. Alam served as Director, Business Development for the Centre for Drug Research and Development, a drug development and commercialization center. From January 2007 to October 2008, Mr Alam served as Senior Manager, Business Development for Angtiotech Pharmaceuticals, Inc., a pharmaceutical company. From 2004 to 2007, Mr Alam served as Manager, Business Development for AnorMED Inc., a chemistry-based biopharmaceutical company. From 1998 to 2000, Mr. Alam served worked in the life sciences practice group of PriceWaterhouseCoopers LLP, a global accounting and auditing firm where he obtained

his Chartered Accountant designation, and gained valuable experience in the financing, auditing and tax structuring of a number of biotechnology and technology companies. Mr. Alam holds a B.Sc. in Cell Biology and Genetics from the University of British Columbia and an M.B.A. in International Business and Strategy from the University of Victoria and is a Chartered Accountant.

Stephen Shrewsbury, M.B. ChB., has served as our Chief Medical Officer and Senior Vice President, Clinical Development since April 2013. From August 2011 to March 2013, Dr. Shrewsbury served as founder, principal and sole member of Shrewd Consulting LLC, a consulting company. During that time he also served as Acting Chief Medical Officer to LifeSplice Pharma LLC, a biotechnology company. From February 2009 to August 2011, Dr. Shrewsbury served as Senior Vice President, Preclinical & Clinical Development and Chief Medical Officer of Sarepta Therapeutics, Inc., formally known as AVI BioPharma, Inc., a medical research and drug development company. From July 2008 to February 2009, Dr. Shrewsbury served as a consultant in the biotechnology and biopharmaceutical industry. From March to July 2008, Dr. Shrewsbury served as Senior Vice President of Clinical Development and Regulatory Affairs of Adamas Pharmaceuticals, Inc., a clinical stage pharmaceutical company. From 2005 to 2008, Dr. Shrewsbury served as Vice President of Clinical Development and Regulatory Affairs and then Vice President and Chief Medical Officer of MAP Pharmaceuticals, Inc., a pharmaceutical company, which was acquired by Allergan, Inc., a global healthcare company, in 2013. While at MAP, Dr. Shrewsbury lead four inhaled drug programs and took two lead candidates (in asthma and migraine) from preclinical stage to Phase III in 18 months. Prior to his experience in biotechnology, Dr. Shrewsbury spent ten years with Glaxo and Chiron launching notable respiratory programs such as Seretide in Europe and Flovent and Advair in the US. Dr. Shrewsbury holds an M.B. ChB. from the University of Liverpool. Dr. Shrewsbury serves on the board of directors of BioXpertz LLC, an online educational company.

Lloyd Mackenzie has served as our Vice President, Technical Operations and Planning since May 2013 and prior to that had served as our Senior Director, Technical Operations since May 2008. From 2007 to 2008, Mr. Mackenzie served as a Research Scientist for Pharmaceutical Development at QLT. From 1999 to 2007, Mr. Mackenzie served as a Research Scientist for Inflazyme Pharmaceuticals Inc., a biotechnology company. Mr. Mackenzie is the author of 15 scientific publications and is an inventor on four patents. Mr. Mackenzie holds a B.Sc. in Chemistry and Biochemistry from Simon Fraser University.

Non-Employee Directors

Gary Bridger, Ph.D., has served as a member of our board of directors since October 2013. Since January 2013, Dr. Bridger has served as the Executive Vice President of Research and Development at Xenon Pharmaceuticals Inc., a biopharmaceutical company. From June 2010 to June 2012, Dr. Bridger served as a partner at Venture West Capital Management, a venture capital firm. From November 2006 to December 2007, Dr. Bridger served as Senior Vice President of Research and Development at Genzyme Corporation, a biotechnology company, which was acquired by Sanofi, S.A. In June 1996, Dr. Bridger co-founded AnorMED Inc., a biopharmaceutical company, and was its Vice President of Research and Development and Chief Scientific Officer from 2000 until its acquisition by Genzyme in November 2006. Dr. Bridger holds a Ph.D. in Organic Chemistry from the University of Manchester Institute of Science and Technology. Dr. Bridger also serves on the scientific advisory board of Alectos Therapeutics Inc., a biopharmaceutical company.

Dr. Bridger was selected to serve on our board of directors based on his extensive experience with biopharmaceutical companies and the venture capital industry.

Elaine Jones, Ph.D., has served as a member of our board of directors since June 2011. Since December 2008, Dr. Jones has served as Executive Director, Venture Capital at Pfizer Venture Investments, the venture capital arm of Pfizer, Inc., a pharmaceutical company. From 2003 to November 2008, Dr. Jones served as a general partner at Euclid SR Partners, a venture capital firm. From 1999 to 2003, Dr. Jones held various positions at S.R. One, the venture fund of GlaxoSmithKline plc, a global pharmaceuticals company. Dr. Jones holds a B.S. in Biology from Juniata College and a Ph.D. in Microbiology from the University of Pittsburgh.

Dr. Jones was selected to serve on our board of directors based on her extensive experience with the life sciences and pharmaceutical industries, pharmaceutical science and the venture capital industry.

Daniel Levitt, *M.D., Ph.D.,* has served as a member of our board of directors since July 2008. Since October 2009, Dr. Levitt has served as Executive Vice President and Chief Medical Officer at CytRx Corporation, a biopharmaceutical research and development company. From January 2007 to February 2009, Dr. Levitt served as Executive Vice President, Research and Development at Cerimon Pharmaceuticals, Inc., a biopharmaceutical company. From 2003 to 2006, Dr. Levitt served as Chief Medical Officer and Head of Clinical and Regulatory Affairs at Dynavax Technologies Corporation, a biopharmaceutical. Dr. Levitt has received ten major research awards and authored or co-authored nearly 200 papers and abstracts. Dr. Levitt holds a B.A. from Brandeis University and an M.D. and a Ph.D. in Biology from the University of Chicago.

Dr. Levitt was selected to serve on our board of directors based on his extensive experience with biopharmaceutical companies and research and product development.

Robert Pelzer has served as a member of our board of directors since May 2013. From September 2008 to December 2013, Mr. Pelzer served as President of Novartis Corporation, a pharmaceutical company. Prior to 2002, Mr. Pelzer held various positions at DuPont, a chemical company, including serving as General Counsel and Senior Vice President at DuPont Pharmaceuticals from 1998 to 2001. Mr. Pelzer holds a B.A. in Commerce and an LL.B. from the University of Alberta. Mr. Pelzer previously served on the board of directors of Idenix Pharmaceuticals, Inc., a biotechnology company.

Mr. Pelzer was selected to serve on our board of directors based on his extensive experience with the healthcare industry.

Composition of the Board of Directors

Certain members of our board of directors were elected pursuant to the provisions of our shareholder agreement, as amended. Under the shareholder agreement, our stockholders who are party to the shareholder agreement agreed to vote their shares to elect to our board of directors

- one director designated by Ventures West 8 Limited Partnership (Dr. Bridger);
- one director designated by Johnson & Johnson Development Corporation (vacant);
- one director designated by Pfizer, Inc. (Dr. Jones);
- the person serving as Chief Executive Officer (Mr. Main); and
- two directors designated by the holders of our preferred stock and special voting stock, voting together as a single class (Dr. Levitt and Mr. Pelzer).

The shareholder agreement will terminate upon the completion of this offering and none of our stockholders will have any special rights regarding the election or designation of members of our board of directors.

Our amended and restated bylaws provide that the size of our board of directors will be determined from time to time by resolution of our board of members. Our board of directors currently consist of directors, of whom qualify as independent directors under the rules and regulations of the SEC and the NASDAQ Stock Market LLC, or NASDAQ.

Election of Directors

Our board of directors will consist of five members upon completion of this offering. In accordance with our certificate of incorporation to be filed in connection with this offering, immediately after this offering, our board of directors will be divided into three classes with staggered three-year terms. At each annual general meeting of stockholders, the successors to directors whose terms then expire will be elected to serve from the time of election and qualification until the third annual meeting following election. Our directors will be divided among the three classes as follows:

- The Class I directors will be and , and their terms will expire at the annual meeting of stockholders to be held in 2015;
- The Class II directors will be and , and their terms will expire at the annual meeting of stockholders to be held in 2016; and
- The Class III directors will be , and their terms will expire at the annual meeting of stockholders to be held in 2017.

We expect that any additional directorships resulting from an increase in the number of directors will be distributed among the three classes so that, as nearly as possible, each class will consist of one-third of the directors. The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control.

Director Independence

Rule 5605 of the NASDAQ Marketplace Rules, or the NASDAQ Listing Rules, requires that independent directors compose a majority of a listed company's board of directors within one year of listing. In addition, the NASDAQ Listing Rules require that, subject to specified exceptions, each member of a listed company's audit, compensation, and nominating and corporate governance committees be independent and that audit committee members also satisfy independence criteria set forth in Rule 10A-3 under the Exchange Act of 1934, as amended, or the Exchange Act. Under NASDAQ Listing Rule 5605(a)(2), a director will only qualify as an "independent director" if, in the opinion of our board of directors, that person does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In order to be considered independent for purposes of Rule 10A-3 under the Exchange Act, a member of an audit committee of a listed company may not, other than in his or her capacity as a member of the audit committee, the board of directors, or any other board committee: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries; or (2) be an affiliated person of the listed company or any of its subsidiaries. Beginning in 2014, in addition to satisfying general independence requirements under the NASDAQ Listing Rules, members of the compensation committee must also satisfy additional independence requirements set forth in NASDAQ Listing Rule 5605(d)(2). In order to be considered independent for purposes of NASDAQ Listing Rule 5605(d)(2), a member of a compensation committee of a listed company may not, other than in his or her capacity as a member of the compensation committee, the board of directors, or any other board committee, accept, directly or indirectly any consulting, advisory, or other compensatory fee from the listed company or any of its subsidiaries. Additionally, the board of directors of the listed company must consider whether the compensation committee member is an affiliated person of the listed company or any of its subsidiaries and if so, must determine whether such affiliation would impair the director's judgment as a member of the compensation committee.

Under the NASDAQ Listing Rules independent directors must comprise a majority of our board of directors as a listed company within one year of the closing of this offering.

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

Lead Independent Director

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

Role of the Board in Risk Oversight

We face a number of risks, including those described in the section of this prospectus captioned "Risk Factors." Our board of directors believes that risk management is an important part of establishing, updating and executing on our business strategy. Our board of directors, as a whole and at the committee level, has oversight responsibility relating to risks that could affect the corporate strategy, business objectives, compliance, operations, and the financial

condition and our performance. Our board of directors focuses its oversight on our most significant risks and on our processes to identify, prioritize, assess, manage and mitigate those risks. Our board of directors and its committees receive regular reports from members of our senior management on areas of material risk to the company, including strategic, operational, financial, legal and regulatory risks. While our board of directors has an oversight role, management is principally tasked with direct responsibility for management and assessment of risks and the implementation of processes and controls to mitigate their effects on us.

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

Board Committees

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

Audit Committee

Our audit committee will consists of and . Our board of directors will determine that and are independent under the NASDAQ Listing Rules and Rule 10A-3(b)(1) of the Exchange Act. The chair of our audit committee will be , whom our board of directors will determine is an “audit committee financial expert” within the meaning of the SEC regulations. Our board of directors will also determine that each member of our audit committee can read and understand fundamental financial statements in accordance with applicable requirements. In arriving at these determinations, the board of directors will examine each audit committee member’s scope of experience and the nature of their employment in the corporate finance sector. The functions of this committee will include:

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

Compensation Committee

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

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

Nominating and Corporate Governance Committee

Our nominating and corporate governance committee will consist of and . Our board of directors will determine that and are independent under the NASDAQ Listing Rules. The chair of our nominating and corporate governance committee will be . The functions of this committee will include:

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

Code of Business Conduct and Ethics

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

Compensation Committee Interlocks and Insider Participation

None of the members of the compensation committee is currently or has been at any time an officer or an employee of our company. None of our executive officers currently serves, or has served during the last three years, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our board of directors or compensation committee.

Non-Employee Director Compensation

Cash Compensation

Other than as set forth in the table below, in 2012 we did not pay any fees to or pay any other compensation to the members of our board of directors who served as members during 2012. Although we do not have a written policy, we generally reimburse our directors for their reasonable out-of-pocket expenses incurred in attending board of directors and committee meetings.

DIRECTOR NAME	FEES EARNED OR PAID IN CASH ($)
Daniel Levitt	11,500

Equity Incentive Compensation

No equity incentive compensation was paid to our non-employee directors in 2012. The following table provides information regarding outstanding equity awards held by each of our non-employee directors as of December 31, 2012.

NAME	AGGREGATE OPTION AWARDS OUTSTANDING (#)
Daniel Levitt	150,000 (1)

(1) The option securities subject to these stock options vest as follows: 1/3 of the option securities underlying the options vest on the grant date, 1/36th of the option securities vest on the one year anniversary of the grant date and thereafter 1/36th of the option securities vest monthly over the next 24 months, subject to continued service with us through each vesting date. Following the closing of this offering, each option security will be exercisable for one share of our common stock. As of December 31, 2012, 16,667 shares subject to such options were fully vested.

In May 2013, in consideration for Dr. Levitt's service as a director, we granted to Dr. Levitt an option to acquire 75,000 option securities with an exercise price of $0.30 per option security. Following the closing of this offering, each option security will represent a share of common stock. Dr. Levitt's option vests and becomes exercisable over three years; 25,000 shares vested and were exercisable immediately, 2,084 of the remaining shares vest on May 30, 2014 and the remaining shares vest and become exercisable in 24 monthly installments, subject to Dr. Levitt's continued service. For a description of our option securities, please see the section of this prospectus captioned "Executive Compensation—Employee Benefit Plans—Joint Canadian Stock Option Plan."

In May 2013, in consideration for Mr. Pelzer's service as a director, we granted to Mr. Pelzer an option to acquire 125,000 option securities with an exercise price of $0.30 per option security. Following the closing of this offering, each option security will represent a share of common stock. Mr. Pelzer's option vests and becomes exercisable over three years; 41,667 shares vested and were exercisable immediately 3,472 of the remaining shares vest on June 25, 2014 and the remaining shares vest and become exercisable in 24 monthly installments, subject to Mr. Pelzer's continued service. For a description of our option securities, please see the section of this prospectus captioned "Executive Compensation—Employee Benefit Plans—Joint Canadian Stock Option Plan."

Future Director Compensation

Following the closing of this offering, we may implement a formal policy pursuant to which our non-employee directors will be eligible to receive compensation for service on our board of directors and committees of our board of directors.

EXECUTIVE COMPENSATION

Our named executive officers, or NEOs, for 2012, which consist of our principal executive officer and the next two most highly compensated executive officers, are:

- David J. Main, President and Chief Executive Officer;
- Thomas MacRury, Executive Vice President and Chief Operating Officer; and
- Kamran Alam, Vice President, Finance and Chief Financial Officer.

2012 Summary Compensation Table

The following table sets forth all of the compensation awarded to, earned by or paid to our NEOs during the fiscal year ended December 31, 2012.

NAME AND PRINCIPAL POSITION	YEAR	SALARY ($) (1) (2)	BONUS ($) (2) (3)	OPTION AWARDS ($) (2) (4) (5)	ALL OTHER COMPENSATION ($) (2) (6)	TOTAL ($) (2)
David J. Main *President and Chief Executive Officer*	2012	356,659	48,698	106,707	618	512,682
Thomas MacRury *Executive Vice President and Chief Operating Officer*	2012	220,370 (7)	32,884	38,110		291,364
Kamran Alam *Vice President, Finance and Chief Financial Officer*	2012	155,124	—	60,975	618	216,717

(1) Our NEOs are employed and compensated by our affiliate, AQXP Canada.
(2) The dollar amounts shown in these columns reflect the US$ equivalent of the amounts paid to our NEOs. The amounts were converted to U.S. dollars from Canadian dollars using the average of the closing monthly average exchange rates for the 12 months ended December 31, 2012. Applying this formula to fiscal year ended December 31, 2012, Canadian $1.00 was equal to US$1.0008.
(3) Amounts represent annual discretionary bonuses earned pursuant to the NEO's employment agreement.
(4) Amounts shown in this column do not reflect dollar amounts actually received by our NEOs. Instead, these amounts reflect the aggregate grant date fair value of each stock option granted in the fiscal year ended December 31, 2012, computed in accordance with the provisions of FASB ASC Topic 718. Assumptions used in the calculation of these amounts are included in Note 9 to our combined financial statements included in this prospectus. As required by SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Our NEOs will only realize compensation to the extent the trading price of our common stock is greater than the exercise price of such stock options.
(5) For a description of our option awards, please see the "—Employee Benefit Plans—Joint Canadian Stock Option Plan."
(6) Amounts in this column include life insurance premiums paid by us for the benefit of such NEO.
(7) Mr. MacRury provided less than full-time service in 2012.

Outstanding Equity Awards at December 31, 2012

The following table provides information regarding outstanding equity awards held by each of our NEOs as of December 31, 2012.

		OPTION AWARDS [1]			
NAME	VESTING COMMENCEMENT DATE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) EXERCISABLE	NUMBER OF SECURITIES UNDERLYING UNEXERCISED OPTIONS (#) UNEXERCISABLE [2]	PER SHARE OPTION EXERCISE PRICE ($)	OPTION EXPIRATION DATE
David J. Main	6/8/2007	300,000	—	0.50	6/7/2017
	6/11/2010	904,166	495,834 (3)	0.30	6/10/2020
	11/11/2011	525,000	1,275,000 (3)	0.30	11/20/2021
	5/30/2012	—	700,000 (4)	0.30	1/31/2013
Thomas MacRury	— (5)	250,000	—	0.0001 (6)	2/14/2016
	6/21/2006	350,000	—	0.2232 (6)	2/14/2016
	6/21/2006	250,000	—	0.4465 (6)	2/14/2016
	6/11/2010	274,479	150,521 (3)	0.30	2/13/2014
	11/11/2011	145,833	354,167 (3)	0.30	2/13/2014
	5/30/2012	—	250,000 (4)	0.30	1/31/2013
Kamran Alam	8/22/2011	141,666	258,334 (3)	0.30	8/22/2021
	5/30/2012	—	200,000 (3)	0.30	5/29/2022
	5/30/2012	—	200,000 (4)	0.30	1/31/2013

(1) All stock options listed above were granted from our 2006 Plan. For a description of our option awards, please see the "—Employee Benefit Plans—Joint Canadian Stock Option Plan."

(2) The option securities subject to the stock options vest as follows: 25% of the option securities underlying the options vest on the one-year anniversary of the vesting commencement date and thereafter 1/48th of the option securities vest each month, subject to continued service with us through each vesting date. Following the closing of this offering, each option security will be exercisable for one share of our common stock.

(3) Option is subject to accelerated vesting upon a change in control, as described under "—Potential Payments and Benefits upon Termination or Change of Control."

(4) This option was subject to vesting upon the signing of a definitive agreement to effect a transaction meeting certain criteria, including a change in control transaction of us or AQXP Canada, or a license transaction meeting certain criteria, on or prior to January 31, 2013, as approved by our board of directors. This option expired by its terms on January 31, 2013 since no such definitive agreement was signed on or prior to such date.

(5) The option securities subject to this option were fully vested on the date of grant.

(6) Per share option exercise price reflects the US$ equivalent. The amounts were converted to U.S. dollars from Canadian dollars using the closing exchange rate on the date of grant. On the date of grant, Canadian $1.00 was equal to US$0.8929.

Employment Agreements

We have entered into employment agreements with our all of our NEOs. These arrangements set forth the terms and conditions of employment of each executive officer, including base salary, annual bonus opportunity, employee benefit plan participation, and equity awards. Each of our NEOs is also entitled to certain severance and change in control benefits pursuant to their employment agreements, the terms of which are described below under the heading "—Potential Payments and Benefits upon Termination or Change in Control." The following is a summary of the material terms of each employment agreement. For complete terms, please see the respective employment agreements attached as exhibits to the registration statement of which this prospectus forms a part. The salary dollar amounts reflect the US$ equivalent of the amounts paid to our NEOs. For 2012 base salary, the amounts were converted to U.S. dollars as described in footnote 2 under "—2012 Summary Compensation Table." For 2013 base salary, the amounts were converted to U.S. dollars from Canadian dollars using the average of the closing monthly average exchange rates for the nine months ended September 30, 2013. Applying this formula for the nine months ended September 30, 2013, Canadian $1.00 was equal to US$0.9773.

David J. Main

Our affiliate AQXP Canada entered into an employment agreement with Mr. Main, dated March 1, 2007 setting forth the terms of Mr. Main's employment as our President and Chief Executive Officer. Mr. Main's annual base salary for 2012 was $356,659, his current annual base salary for 2013 is $358,661, and he is eligible to receive an annual bonus of up to 20% of such base salary, as determined by our board of directors in its discretion and based on the achievement of corporate and individual performance goals.

Thomas MacRury

Our affiliate AQXP Canada entered into an employment agreement with Dr. MacRury on June 6, 2007 setting forth the terms of Dr. MacRury's employment as our Executive Vice President and Chief Operating Officer. Dr. MacRury's annual base salary for 2012 was $220,370, his current annual base salary for 2013 is $208,988, and he is eligible to receive an annual bonus of up to 20% of such base salary, as determined by our board of directors in its discretion and based on the achievement of corporate and individual performance goals. Dr. MacRury will retire from his position on November 15, 2013.

Kamran Alam

Our affiliate AQXP Canada entered into an employment agreement with Mr. Alam on July 18, 2011 setting forth the terms of Mr. Alam's employment as our Vice President, Finance and Chief Financial Officer. Mr. Alam's annual base salary for 2012 was $155,124, his current annual base salary for 2013 is $156,364, and he is eligible to receive an annual bonus of up to 20% of such base salary, as determined by our board of directors in its discretion and based on the achievement of corporate and individual performance goals.

Potential Payments and Benefits upon Termination or Change in Control

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

In addition, if we terminate one of our NEOs without cause, or if such executive resigns for good reason in connection with a change in control, such executive will be entitled to receive the following benefits:

- If Mr. Main is terminated without cause, he will continue to receive his base salary, benefits and continued vesting and extended exercisability of options for a period of 18 months following his termination date, and 150% of his bonus compensation based on the average annual bonus paid over the prior three-year period. If Mr. Main secures employment prior to the end of such severance period, his salary continuation payments will be reduced by 50% for the remainder of such period. In addition, if Mr. Main resigns his employment for good reason within 12 months following a change in control, he will continue to receive his base salary and benefits for a period of 18 months following his termination date, and 100% of his then-unvested options will vest as of his termination date.
- If Dr. MacRury is terminated without cause, he will continue to receive his base salary, benefits for a period of 12 months following his termination date. In addition, if Dr. MacRury resigns his employment for good reason within 12 months following a change in control, he will continue to receive his base salary and benefits for a period of 12 months following his termination date, and 100% of his then-unvested options will vest as of his termination date.
- If Mr. Alam is terminated without cause, we must either provide Mr. Alam with six months notice, or in lieu of notice, he will be entitled to receive his base salary and benefits for a period of six months following his termination date. In addition, if Mr. Alam resigns his employment for good reason within 12 months following a change in control, he will continue to receive his base salary and benefits for a period of six months following his termination date, and 100% of his then-unvested options will vest as of his termination date.

Employee Benefit Plans

The principal features of our equity incentive plans are summarized below. These summaries are qualified in their entirety by reference to the actual text of the plans, which are filed as exhibits to the registration statement of which this prospectus is a part.

2014 Equity Incentive Plan

We expect that our board of directors will adopt and our stockholders will approve prior to the closing of this offering our 2014 Equity Incentive Plan, or 2014 Plan. The 2014 Plan will become effective on the date the registration statement of which this prospectus forms a part is declared effective by the SEC. The 2014 Plan is the successor to and continuation of our Joint Canadian Stock Option Plan, or 2006 Plan. Once the 2014 Plan becomes effective, no further grants will be made under our 2006 Plan. Our 2014 Plan provides for the grant of stock options, stock appreciation rights, restricted stock awards, restricted stock unit awards, performance stock awards, performance cash awards, and other forms of equity awards to our employees, directors, and consultants.

Authorized Shares. The maximum number of shares of our common stock that may be issued under our 2014 Plan is , which number includes a number of shares of common stock equal to (i) the number of shares reserved for issuance under our 2006 Plan at the time our 2014 Plan became effective and (ii) any shares subject to stock options or other stock awards granted under the 2006 Plan that would have otherwise returned to our 2006 Plan, such as upon the expiration or termination of a stock award prior to vesting, not to exceed shares. Additionally, the number of shares of our common stock reserved for issuance under our 2014 Plan will automatically increase on January 1 of each year for a period of up to 10 years, beginning on January 1, 2015 and ending on and including January 1, 2024, by % of the total number of shares of our capital stock outstanding on December 31 of the preceding calendar year, or a lesser number of shares determined by our board of directors.

Shares subject to stock awards granted under our 2014 Plan that expire or terminate without being exercised in full, or that are paid out in cash rather than in shares, do not reduce the number of shares available for issuance under our 2014 Plan. Additionally, shares issued pursuant to stock awards under our 2014 Plan that we repurchase or that are forfeited, as well as shares used to pay the exercise price of a stock award or to satisfy the tax withholding obligations related to a stock award, become available for future grant under our 2014 Plan.

Plan Administration. Our board of directors, or a duly authorized committee of our board of directors, will administer our 2014 Plan. Our board of directors may also delegate to one or more of our officers the authority to (i) designate employees (other than officers) to receive specified stock awards, and (ii) determine the number of shares subject to such stock awards. Subject to the terms of our 2014 Plan, the board of directors has the authority to determine the terms of awards, including recipients, the exercise, purchase or strike price of stock awards, if any, the number of shares subject to each stock award, the fair market value of a share of our common stock, the vesting schedule applicable to the awards, together with any vesting acceleration, and the form of consideration, if any, payable upon exercise or settlement of the award and the terms of the award agreements for use under our 2014 Plan.

The board of directors has the power to modify outstanding awards under our 2014 Plan. The board of directors has the authority to reprice any outstanding option or stock appreciation right, cancel any outstanding stock award in exchange for new stock awards, cash or other consideration, or take any other action that is treated as a repricing under generally accepted accounting principles, with the consent of any adversely affected participant.

Corporate Transactions. Our 2014 Plan provides that in the event of certain specified significant corporate transactions, as defined under our 2014 Plan, each outstanding award will be treated as the administrator determines. The administrator may (i) arrange for the assumption, continuation or substitution of a stock award by a successor corporation; (ii) arrange for the assignment of any reacquisition or repurchase rights held by us to a successor corporation; (iii) accelerate the vesting, in whole or in part, of the stock award and provide for its termination prior to the transaction; (iv) arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by us; or (v) cancel or arrange for the cancellation of the stock award prior to the transaction in exchange for a cash payment, if any, determined by the board. The plan administrator is not obligated to treat all stock awards or portions of stock awards, even those that are of the same type, in the same manner.

Transferability. A participant may not transfer stock awards under our 2014 Plan other than by will, the laws of descent and distribution, or as otherwise provided under our 2014 Plan.

Plan Amendment or Termination. Our board of directors has the authority to amend, suspend, or terminate our 2014 Plan, provided that such action does not materially impair the existing rights of any participant without such participant's written consent. No awards may be granted after the tenth anniversary of the date our board of directors adopted our 2014 Plan. No stock awards may be granted under our 2014 Plan while it is suspended or after it is terminated.

Joint Canadian Stock Option Plan

The board of directors of AQXP Canada initially adopted, and its shareholders approved, the 2006 Plan in June 2006. The 2006 Plan was amended in June 2007, with the approval of the board of directors and shareholders of each of AQXP Canada and Aquinox Pharmaceuticals (USA) Inc., to be a joint stock option plan of both corporations. Our 2006 Plan was amended most recently in March 2013. The 2006 Plan provides for the discretionary grant of stock options. Each option granted under the 2006 Plan is exercisable for one "option security". Prior to completion of the offering, an option security is comprised of one common exchangeable share and one special voting share of AQXP Canada. Following completion of the offering, an option security will be comprised of one share of our common stock.

The 2006 Plan will be terminated following the date the 2014 Plan becomes effective. However, any outstanding options granted under the 2006 Plan will remain outstanding, subject to the terms of our 2006 Plan and stock option agreements, until such outstanding options are exercised or until they terminate or expire by their terms.

Authorized Shares. The maximum number of shares of our common stock that may be issued directly or indirectly under our 2006 Plan is 12,809,037.

Plan Administration. Our board of directors administers our 2006 Plan. Subject to the terms of our 2006 Plan, the board of directors has the authority to determine, amend and rescind rules and regulations of the Plan.

Corporate Transactions. Our 2006 Plan provides that in the event of certain specified significant corporate transactions, as defined under our 2006 Plan, each outstanding award will become exercisable for securities or other property that the optionholder would have received in the corporate transaction if the optionholder had exercised such holder's option prior to the closing of such transaction.

Plan Amendment or Termination. Our board of directors has the authority to amend, suspend or terminate our 2006 Plan, provided that such action is approved by our stockholders to the extent stockholder approval is necessary and that such action does not impair the existing rights of any participant without such participant's written consent. As described above, our 2006 Plan will be terminated upon the date of the prospectus and no future stock awards will be granted thereunder.

Pension Benefits

Our NEOs did not participate in, or otherwise receive any benefits under, any pension or retirement plan sponsored by us during 2012.

Nonqualified Deferred Compensation

None of our NEOs participate in or have account balances in any nonqualified deferred contribution plan or arrangement maintained by us.

Limitations on Liability and Indemnification Matters

Upon the completion of this offering, our certificate of incorporation will contain provisions that limit the liability of our current and former directors for monetary damages to the fullest extent permitted by Delaware law. Delaware law provides that directors of a corporation will not be personally liable for monetary damages for any breach of fiduciary duties as directors, except liability for:

- any breach of the director's duty of loyalty to the corporation or its stockholders;
- any act or omission not in good faith or that involves intentional misconduct or a knowing violation of law;
- unlawful payments of dividends or unlawful stock repurchases or redemptions; or
- any transaction from which the director derived an improper personal benefit.

These limitations of liability does not apply to liabilities arising under federal securities laws and does not affect the availability of equitable remedies such as injunctive relief or rescission.

Our certificate of incorporation and our bylaws will provide that we are required to indemnify our directors to the fullest extent permitted by Delaware law. Our bylaws will also provide that, upon satisfaction of certain conditions, we shall advance expenses incurred by a director in advance of the final disposition of any action or proceeding, and permit us to secure insurance on behalf of any officer, director, employee or other agent for any liability arising out of his or her actions in that capacity regardless of whether we would otherwise be permitted to indemnify him or her under the provisions of Delaware law. Our certificate of incorporation and bylaws will also provide our board of directors with discretion to indemnify our officers and employees when determined appropriate by the board. We have entered and expect to continue to enter into agreements to indemnify our directors, executive officers and other employees as determined by the board of directors. With certain exceptions, these agreements provide for indemnification for related expenses including, among other things, attorneys' fees, judgments, fines and settlement amounts incurred by any of these individuals in any action or proceeding. We believe that these bylaw provisions and indemnification agreements are necessary to attract and retain qualified persons as directors and officers. We also maintain customary directors' and officers' liability insurance pursuant to which our directors and officers are insured against liability for actions taken in their capacities as directors and officers.

The limitation of liability and indemnification provisions in our certificate of incorporation and bylaws may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. They may also reduce the likelihood of derivative litigation against our directors and officers, even though an action, if successful, might benefit us and other stockholders. Further, a stockholder's investment may be adversely affected to the extent that we pay the costs of settlement and damage awards against directors and officers as required by these indemnification provisions. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions or otherwise, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. At present, there is no pending litigation or proceeding involving any of our directors, officers or employees for which indemnification is sought and we are not aware of any threatened litigation that may result in claims for indemnification.

Rule 10b5-1 Sales Plans

Our directors and executive officers may adopt written plans, known as Rule 10b5-1 plans, in which they will contract with a broker to buy or sell shares of our common stock on a periodic basis. Under a Rule 10b5-1 plan, a broker executes trades pursuant to parameters established by the director or officer when entering into the plan, without further direction from them. The director or officer may amend a Rule 10b5-1 plan in some circumstances and may terminate a plan at any time. Our directors and executive officers also may buy or sell additional shares outside of a Rule 10b5-1 plan when they are not in possession of material nonpublic information subject to compliance with the terms of our insider trading policy. Prior to 180 days after the date of this offering (subject to early termination), the sale of any shares under such plan would be subject to the lock-up agreement that the director or officer has entered into with the underwriters.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The following is a summary of transactions since January 1, 2010 to which we have been a participant in which the amount involved exceeded or will exceed $120,000, and in which any of our directors, executive officers or holders of more than five percent of our capital stock, or any member of the immediate family of the foregoing persons, had or will have a direct or indirect material interest.

Private Placements of Securities

Series B-1 Preferred Stock, Series B-1 Special Voting Stock and Series B-1 Exchangeable Shares

In March 2010, we issued an aggregate of 8,777,361 shares of our Series B-1 preferred stock to five accredited investors at a per share price of $0.55. Purchasers of Series B-1 preferred stock also received one special voting share of AQXP Canada for each share of Series B-1 preferred stock. In connection with this financing, we also issued an aggregate of 8,150,408 Series B-1 exchangeable preferred shares of AQXP Canada to two accredited investors at a per share price of $0.55. Purchasers of Series B-1 exchangeable preferred shares were also issued one share of our Series B-1 special voting stock and one special voting share of AQXP Canada for each Series B-1 exchangeable preferred share. The Series B-1 exchangeable preferred shares are exchangeable into our Series B-1 preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $9.3 million.

In June 2010, we issued an aggregate of 6,420,879 shares of our Series B-1 preferred stock to one accredited investor at a per share price of $0.55, for aggregate consideration of $3.5 million. The purchaser received a corresponding number of special voting shares of AQXP Canada.

Series B-2 Preferred Stock, Series B-2 Special Voting Stock and Series B-2 Exchangeable Shares

In January 2011, we issued an aggregate of 8,589,632 shares of our Series B-2 preferred stock to six accredited investors at a per share price of $0.55. Purchasers of Series B-2 preferred stock also received one special voting share of AQXP Canada for each share of Series B-2 preferred stock. In connection with this financing, we also issued an aggregate of 4,425,348 Series B-2 exchangeable preferred shares of AQXP Canada to two accredited investors at a per share price of $0.55. Purchasers of Series B-2 exchangeable preferred shares were also issued one share of our Series B-2 special voting stock and one special voting share of AQXP Canada for each Series B-2 exchangeable preferred share. The Series B-2 exchangeable preferred shares are exchangeable into our Series B-2 preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $7.1 million.

In September 2011, we issued an aggregate of 6,429,155 shares of our Series B-2 preferred stock at a per share price of $0.55 to six accredited investors. Purchasers of Series B-2 preferred stock also received one special voting share of AQXP Canada for each share of Series B-2 preferred stock. In connection with this financing, we also issued an aggregate of 2,661,752 Series B-2 exchangeable shares of AQXP Canada to one accredited investors at a per share price of $0.55. Purchasers of Series B-2 exchangeable preferred shares were also issued one share of our Series B-2 special voting stock for each Series B-2 exchangeable preferred share. The Series B-2 exchangeable preferred shares are exchangeable into our Series B-2 preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $5.0 million.

Series C Preferred Stock and Series C Special Voting Stock and Class C Exchangeable Shares

In March 2013, we issued an aggregate of 25,454,500 shares of our Series C preferred stock to seven accredited investors at a per share price of $0.55. Purchasers of Series C preferred stock also received one special voting share of AQXP Canada for each share of Series C preferred stock. In connection with this financing, we also issued an aggregate of 7,272,701 Series C exchangeable preferred shares of AQXP Canada to one accredited investor at a per share price of $0.55. Purchasers of Series C exchangeable preferred shares were also issued one share of our Series C special voting stock for each share of Series C exchangeable preferred share. The Series C exchangeable preferred shares are exchangeable into our Series C preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $18.0 million.

In March 2013, we issued a warrant to purchase 339,287 shares of our Series C preferred stock to one accredited investor.

STOCKHOLDER	SERIES B-1 (SHARES)	CLASS B -1 EXCHANGEABLE (SHARES) (1)	SERIES B-2 (SHARES)	CLASS B -2 EXCHANGEABLE (SHARES) (2)	SERIES C (SHARES)	CLASS C EXCHANGEABLE (SHARES) (3)	SERIES C WARRANTS (SHARES)	TOTAL PURCHASE PRICE (4)
Ventures West 8 Limited Partnership (5)	—	6,269,545	—	6,240,691	—	7,272,701	—	$ 10,880,635
Johnson & Johnson Development Corporation (6)	5,642,590	—	5,616,622	—	7,287,227	—	—	$ 10,200,541
Pfizer, Inc (7)	6,420,879	—	6,281,822	—	5,440,023	—	339,287	$ 9,978,498
B.C. Advantage Fund (VCC) Inc.	—	1,880,863	—	846,409	—	—	—	$ 1,500,002
Entities affiliated with Baker Brothers (8)	3,134,771	—	3,120,343	—	3,636,357	—	—	$ 5,440,309
Augment Investments Ltd.	—	—	—	—	9,090,893	—	—	$ 4,999,991

(1) Holders of Series B-1 exchangeable shares also hold an equal number of Series B-1 special voting stock and the Series B-1 exchangeable shares are exchangeable into our Series B-1 preferred stock on a one for one basis.
(2) Holders of Series B-2 exchangeable shares also hold an equal number of Series B-2 special voting stock and the Series B-2 exchangeable shares are exchangeable into our Series B-2 preferred stock on a one for one basis.
(3) Holders of Series C exchangeable shares also hold an equal number of Series C special voting stock and the Series C exchangeable shares are exchangeable into our Series C preferred stock on a one for one basis.
(4) Total purchase price includes the purchase price of the special voting stock described in footnotes (1), (2) and (3) above.
(5) Dr. Bridger, a member of our board of directors, is a managing director of Five Corners Capital Inc., the general partner of Ventures West 8 Limited Partnership. Dr. Bridger may be deemed to voting and investment power with respect to shares held by Ventures West 8 Limited Partnership. Dr. Bridger disclaims beneficial ownership of such shares except to the extent of any pecuniary interest therein.
(6) A member of our board of directors at the time of these transactions was affiliated with Johnson & Johnson Development Corporation.
(7) Dr. Elaine Jones, a member of our board of directors, is affiliated with Pfizer, Inc.
(8) Affiliates of the Baker Brothers holding our securities whose shares are aggregated for purposes of reporting share ownership information include Baker Brothers Life Sciences, L.P., 667, L.P. (successor to Baker Biotech Fund I, L.P.), 14159, L.P. and Baker Bros. Investments II, L.P.

Qualification and Registration Rights Agreement

On March 19, 2013, we entered into an amended and restated qualification and registration rights agreement with the holders of our outstanding preferred stock, including entities with which certain of our directors are affiliated. We expect that this qualification and registration rights agreement will be amended and restated in connection with this offering. As of September 30, 2013, the holders of 111,890,463 shares of our common stock, including common stock issuable upon (1) the exchange of common exchangeable shares of AQXP Canada, and (2) the conversion of our preferred stock (including any preferred stock issuable upon the exchange of preferred exchangeable shares of AQXP Canada), are entitled to rights with respect to the registration of their shares following the completion of this offering. For a more detailed description of these registration rights, see the section of the prospectus captioned “Description of Capital Stock—Stockholder Registration Rights.”

Shareholder Agreement

On March 19, 2013, we entered into an amended and restated shareholder agreement with the holders of our outstanding preferred stock, including entities with which certain of our directors are affiliated. Pursuant to this agreement, certain stockholders have agreed to vote in a certain way on certain matters, including with respect to the election of directors. Upon the closing of this offering, the board election voting provisions contained in the shareholder agreement will be terminated and none of our stockholders will have any special rights regarding the election or designation of members of our board of directors. In addition, this agreement gives the stockholders that are parties thereto the right to participate in new issuances of equity securities by us, subject to certain exceptions. The amended and restated shareholder agreement and all rights thereunder, including the right to participate in new issuances of equity securities, will be terminated upon the completion of this offering.

Exchange Agreement

On March 19, 2013, we entered into an amended and restated exchange agreement with the holders of our outstanding preferred stock, including entities with which certain of our directors are affiliated. Pursuant to the exchange agreement, certain stockholders can require us, upon the occurrence of a liquidation event or in other limited circumstances, to purchase from such stockholder all or any part of the exchangeable shares of AQXP Canada held by such stockholder and deliver to such stockholder the number of corresponding shares of our common stock. We also have a right to redeem at nominal cost, all special preferred voting stock. This agreement will terminate in connection with this offering. For more information regarding the exchange of exchangeable shares of AQXP Canada, see the section of this prospectus captioned “Description of Capital Stock—Exchangeable Shares.”

Indemnification Agreements

Our amended and restated certificate of incorporation, which will be effective upon the completion of this offering, will contain provisions limiting the liability of directors, and our amended and restated bylaws will provide that we will indemnify each of our directors to the fullest extent permitted under Delaware law. Our amended and restated certificate of incorporation and amended and restated bylaws will also provide our board of directors with discretion to indemnify our officers and employees when determined appropriate by the board. In addition, we have entered into an indemnification agreement with each of our directors and our executive officers. For more information regarding these agreements, see the section of this prospectus captioned “Executive Compensation—Limitations on Liability and Indemnification Matters.”

Employment Agreements

We have entered into employment agreements with our executive officers. For more information regarding these agreements, see the section of the prospectus captioned “Executive Compensation—Employment Agreements.”

Policy on Future Related Party Transactions

All future transactions between us and our officers, directors, principal stockholders and their affiliates will be approved by the audit committee, or a similar committee consisting of entirely independent directors, according to the terms of our Code of Business Conduct and Ethics.

PRINCIPAL STOCKHOLDERS

The following table sets forth certain information with respect to the beneficial ownership of our capital stock as of September 30, 2013, as adjusted to reflect the sale of common stock offered by us in this offering, for:

- each of our named executive officers;
- each of our directors;
- all of our directors and executive officers as a group; and
- each person, or group of affiliated persons, known by us to beneficially own more than 5% of our common stock.

We have based our calculation of beneficial ownership prior to this offering on 111,890,463 shares of common stock outstanding on September 30, 2013. We have based our calculation of beneficial ownership after this offering on shares of our common stock outstanding immediately following the completion of this offering, which gives effect to the issuance of shares of common stock in this offering,

Certain of our directors and existing stockholders, or their affiliates, have indicated an interest in purchasing in the aggregate between $ million and $ million of shares of our common stock in this offering. However, since such purchases have been neither confirmed nor allocated, any amounts that may be purchased by these existing stockholders in this offering have not been included in the following table. However, if such stockholders purchase all shares they have indicated interests in purchasing, the number of shares beneficially owned by all directors and executive officers as a group will increase to between and , and the percentage of common stock beneficially owned by them after this offering will increase to between % and %.

Information with respect to beneficial ownership has been furnished to us by each director, executive officer and stockholder who holds more than 5% of any class of our voting securities, as the case may be. Beneficial ownership is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power. Shares of common stock issuable under options or warrants that are exercisable within 60 days after September 30, 2013 are deemed beneficially owned and such shares are used in computing the percentage ownership of the person holding the options or warrants, but are not deemed outstanding for the purpose of computing the percentage ownership of any other person. The information contained in the following table is not necessarily indicative of beneficial ownership for any other purpose, and the inclusion of any shares in the table does not constitute an admission of beneficial ownership of those shares.

Unless otherwise indicated below, to our knowledge, all persons named in the table have sole voting and dispositive power with respect to their shares of common stock, except to the extent authority is shared by spouses under community property laws. Unless otherwise indicated below, the address of each beneficial owner listed in the table below is c/o Aquinox Pharmaceuticals (USA) Inc. 430-5600 Parkwood Way, Richmond, B.C., Canada V6V 2M2.

The number of shares of common stock deemed outstanding after this offering includes the shares of common stock being offered for sale by us in this offering.

NAME OF BENEFICIAL OWNER	SHARES BENEFICIALLY OWNED PRIOR TO THIS OFFERING		SHARES BENEFICIALLY OWNED FOLLOWING THIS OFFERING	
	SHARES	%	SHARES	%
Named Executive Officers and Directors:				
David J. Main (1)	3,950,833	3.5	3,950,833	
Thomas MacRury (2)	1,463,020	1.3	1,463,020	
Kamran Alam (3)	295,833	*	295,833	
Gary Bridger (4)	28,943,845	25.9	28,943,845	
Elaine Jones	—	—	—	
Daniel Levitt (5)	164,583	*	164,583	
Robert Pelzer(6)	41,667	*	41,667	
All executive officers and directors as a group (total of 9 persons) (7)	35,300,405	30.3	35,257,698	
Other 5% Stockholders:				
Ventures West 8 Limited Partnership (4)	28,943,845	25.9	28,943,845	
Johnson & Johnson Development Corporation (8)	26,728,256	23.9	26,728,256	
Pfizer, Inc. (9)	18,482,011	16.5	18,482,011	
B.C. Advantage Fund (VCC) Ltd. (10)	8,213,230	7.3	8,213,230	
Entities affiliated with Baker Brothers, Inc. (11)	14,436,922	12.9	14,436,922	
Augment Investments Ltd. (12)	9,090,893	8.1	9,090,893	

* Represents beneficial ownership of less than one percent (1%) of the outstanding common stock.

(1) Consists of (a) 1,555,000 shares held by David J. Main and (b) 2,395,833 shares issuable pursuant to stock options exercisable within 60 days of September 30, 2013.

(2) Consists of 1,463,020 shares issuable pursuant to stock options exercisable within 60 days of September 30, 2013.

(3) Consists of 295,833 shares issuable pursuant to stock options exercisable within 60 days of September 30, 2013.

(4) Consists of 28,943,845 shares held by Ventures West 8 Limited Partnership. Five Corners Capital Inc., the general partner of Ventures West 8 Limited Partnership, has sole voting and investment power with respect to the shares held by Ventures West 8 Limited Partnership. The directors of Five Corners Capital Inc. are Dr. Bridger and Kenneth Galbraith. Dr. Bridger and Kenneth Galbraith disclaim beneficial ownership of all shares except to the extent of their pecuniary interest. The address for each of these entities is Suite 2500—700 West Georgia Street, Vancouver, BC, V7Y 1B3.

(5) Consists of 164,503 shares issuable pursuant to stock options exercisable within 60 days of September 30, 2013.

(6) Consists of 41,667 shares issuable puruant to stock options exercisable within 60 days of September 30, 2013.

(7) Consists of (a) 30,498,845 shares held by the directors and executive officers as of September 30, 2013 and (b) 4,801,560 shares issuable pursuant to stock options exercisable within 60 days of September 30, 2013.

(8) The address for this entity is 410 George Street, New Brunswick, NJ 08901.

(9) Consists of (a) 18,142,724 shares held by Pfizer, Inc. and (b) 339,287 shares issuable pursuant to warrants exercisable within 60 days of September 30, 2013. The address for this entity is 235 East 42nd Street, New York, NY 10017.

(10) The address for this entity is Suite 1280, 885 W. Georgia St., Vancouver BC, V6C 3E8.

(11) Consists of (a) 10,206,909 shares held by Baker Brothers Life Sciences, L.P., (b) 3,869,095 shares held by 667, L.P. (successor to Baker Biotech Fund I, L.P.), (c) 332,047 shares held by 14159, L.P. and (d) 28,871 shares held by Baker Bros. Investments II, L.P. Baker Bros. Advisor LP is the Investment Advisor of each of these funds and has sole voting and investment power with respect to the shares held by such entities. Baker Bros. Advisors (GP) LLC is the sole general partner of Baker Bros. Advisors LP. The managing members of Baker Bros. Advisors (GP) LLC are Julian C. Baker and Felix J. Baker. Julian C. Baker and Felix J. Baker disclaim beneficial ownership of all shares except to the extent of their pecuniary interest. The address for each of these entities is 667 Madison Avenue, 17th Floor, New York, NY 10021.

(12) The directors of Augment investments Ltd. are Maria Christina Stephanou and Pantelitsa Sofokleous and they have sole voting and investment power with respect to the shares held by Augment Investments Ltd. The directors of Augment investments Ltd. act in accordance with instructions issued by Mr. Viktor Kharitonin. The address for this entity is 15 Dimokritou, Panaretos Eliana Complex, office/flat 104, 4041 Potamos Germasogeias, Limassol, Cyprus.

DESCRIPTION OF CAPITAL STOCK

The description below of our capital stock and provisions of our certificate of incorporation and bylaws that will be in effect upon completion of the offering are summaries and are qualified by reference to the certificate of incorporation and the bylaws, which are filed as exhibits to the registration statement of which this prospectus is part, and by the applicable provisions of Delaware law.

General

Upon the completion of this offering, our amended and restated certificate of incorporation will authorize us to issue up to shares of common stock, $0.000001 par value per share, and shares of preferred stock, $0.000001 par value per share.

Assuming the exchange of all the outstanding exchangeable shares of AQXP Canada for shares of AQXP Pharmaceuticals (USA) Inc., and the conversion of all outstanding shares of our convertible preferred stock (including such preferred stock issuable upon the exchange of the exchangeable preferred shares of AQXP Canada) into shares of common stock, as of September 30, 2013, there were outstanding:

- 111,890,463 shares of common stock held by 43 stockholders; and
- 9,872,184 shares of common stock issuable upon exercise of outstanding options.

Our shares of common stock are not redeemable and, following the completion of this offering, will not have preemptive rights.

As of September 30, 2013, there were warrants outstanding that, after completion of the offering, will be exercisable for an aggregate of 339,287 shares of common stock. For further details regarding outstanding warrants, see the section of this prospectus captioned “—Warrants” below.

Common Stock

Voting Rights

Each holder of our common stock is entitled to one vote for each share on all matters submitted to a vote of the stockholders, including the election of directors. Under our amended and restated certificate of incorporation and amended and restated bylaws, our stockholders will not have cumulative voting rights. Because of this, the holders of a majority of the shares of common stock entitled to vote in any election of directors can elect all of the directors standing for election, if they should so choose.

Dividends

Subject to preferences that may be applicable to any then-outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends, if any, as may be declared from time to time by the board of directors out of legally available funds.

Liquidation

In the event of our liquidation, dissolution or winding up, holders of common stock will be entitled to share ratably in the net assets legally available for distribution to stockholders after the payment of all of our debts and other liabilities and the satisfaction of any liquidation preference granted to the holders of any then-outstanding shares of preferred stock.

Rights and Preferences

Holders of common stock have no preemptive, conversion or subscription rights and there are no redemption or sinking fund provisions applicable to the common stock. The rights, preferences and privileges of the holders of common stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of preferred stock that we may designate in the future.

Preferred Stock

As of September 30, 2013, there were 106,096,687 shares of our preferred stock outstanding, which will be converted into 106,096,687 shares of common stock immediately prior to the completion of this offering.

Upon the completion of this offering, our board of directors may, without further action by our stockholders, fix the rights, preferences, privileges and restrictions of up to an aggregate of shares of preferred stock in one or more series and authorize their issuance. These rights, preferences and privileges could include dividend rights, conversion rights, voting rights, terms of redemption, liquidation preferences, sinking fund terms and the number of shares constituting any series or the designation of such series, any or all of which may be greater than the rights of our common stock. The issuance of our preferred stock could adversely affect the voting power of holders of our common stock and the likelihood that such holders will receive dividend payments and payments upon liquidation. In addition, the issuance of preferred stock could have the effect of delaying, deferring or preventing a change of control or other corporate action. Upon the completion of this offering, no shares of preferred stock will be outstanding, and we have no present plan to issue any shares of preferred stock.

Exchangeable Shares

Prior to the completion of this offering, Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada are related entities that have established an exchangeable share structure which ensures that investors in Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada have equivalent voting and economic rights. As of the date of this prospectus, stockholders resident outside Canada hold series preferred stock of Aquinox Pharmaceuticals (USA) Inc. and stockholders resident in Canada hold common exchangeable shares and exchangeable preferred shares of AQXP Canada. Under this structure, Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada are entities under common control, as each of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada is owned beneficially by identical shareholders having equivalent voting and economic rights in both entities. The purpose of this structure was to facilitate investment from both Canadian and U.S. investors while permitting AQXP Canada to continue to benefit from favorable tax treatment in Canada so long as it remained a “Canadian Controlled Private Corporation” for purposes of Canadian tax law.

The equity ownership of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada prior to the completion of this offering is as follows:

	AQUINOX PHARMACEUTICALS (USA) INC.	AQXP CANADA
Preferred shareholders		
Non-Canadian	68,398,795 shares of Series Preferred Stock(1)	68,398,795 Special Voting Shares
Canadian	37,697,892 shares of Series Special Voting Stock(2)	37,697,892 Exchangeable Preferred Shares(3) 37,697,892 Special Voting Shares
Common shareholders		
Non-Canadian	—	—
Canadian	5,793,776 shares of Common Special Voting Stock	5,793,776 Common Exchangeable Shares(4) 5,793,776 Special Voting Shares

(1) Series preferred stock consists of Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series B-1 Preferred Stock, Series B-2 Preferred Stock and Series C Preferred Stock of Aquinox Pharmaceuticals (USA) Inc. Holders of series preferred stock have voting rights in Aquinox Pharmaceuticals (USA) Inc. In order to ensure that all stockholders have equivalent voting rights in each entity, each holder of one share of series preferred stock also holds one special voting share of AQXP Canada, as indicated in the table above.

(2) Series special voting stock consists of Series A-1 Special Voting Stock, Series A-2 Special Voting Stock, Series B-1 Special Voting Stock, Series B-2 Special Voting Stock and Series C Special Voting Stock of Aquinox Pharmaceuticals (USA) Inc.

(3) Exchangeable preferred shares consist of Series A-1 Exchangeable Shares, Series A-2 Exchangeable Shares, Series B-1 Exchangeable Shares, Series B-2 Exchangeable Shares and Class C Exchangeable Shares of AQXP Canada, each of which is exchangeable for series preferred stock of the corresponding series. While exchangeable preferred shares do not have voting rights, each holder of exchangeable preferred shares also holds an equivalent number of special voting shares of AQXP Canada. In order to ensure that all stockholders have equivalent voting rights in each entity, each holder of exchangeable preferred share also holds an equivalent number of shares of the corresponding series of series special voting Stock of Aquinox Pharmaceuticals (USA) Inc., as indicated in the table above.

(4) While common exchangeable shares do not have voting rights, each holder of common exchangeable shares also holds an equivalent number of special voting shares of AQXP Canada. In order to ensure that all stockholders have equivalent voting rights in each entity, each holder of common exchangeable shares also holds an equivalent number of shares of common special voting stock of Aquinox Pharmaceuticals (USA) Inc., as indicated in the table above.

In addition to the above equity ownership, Aquinox Pharmaceuticals (USA) Inc. holds one new common share and 32,774,029 non-voting preferred shares of AQXP Canada. The 32,774,029 non-voting preferred shares were issued to facilitate the transfer of funds between the two entities.

Immediately prior to the completion of this offering, (i) each common exchangeable share of AQXP Canada will be transferred to Aquinox Pharmaceuticals (USA) Inc. in exchange for one share of common stock of Aquinox Pharmaceuticals (USA) Inc. and (ii) each exchangeable preferred share of AQXP Canada will be transferred to the Aquinox Pharmaceuticals (USA) Inc. in exchange for one share of the corresponding series of preferred stock of Aquinox Pharmaceuticals (USA) Inc. (which, in turn, will be immediately converted into one share of common stock of Aquinox Pharmaceuticals (USA) Inc.). Following completion of such exchange and conversion, (a) all special voting shares of AQXP Canada and all special voting stock of Aquinox Pharmaceuticals (USA) Inc. will be redeemed for a nominal amount and (b) all exchangeable preferred shares of AQXP Canada (all of which will be held by Aquinox Pharmaceuticals (USA) Inc.) will be converted into common exchangeable shares of AQXP Canada.

Following completion of such exchange and conversion, and the subsequent redemption of the special voting shares of AQXP Canada and special voting stock of Aquinox Pharmaceuticals (USA) Inc., AQXP Canada will be a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc. and the equity ownership of Aquinox Pharmaceuticals (USA) Inc. and AQXP Canada (without giving effect to the sale of shares in this offering) will be as follows:

	AQUINOX PHARMACEUTICALS (USA) INC.	AQXP CANADA
Former preferred shareholders		
Non-Canadian	68,398,795 shares of Common Stock	—
Canadian	37,697,892 shares of Common Stock	—
Common shareholders		—
Non-Canadian	—	—
Canadian	5,793,776 shares of Common Stock	—

In addition, Aquinox Pharmaceuticals (USA) Inc. will hold one new common share, 32,744,029 non-voting preferred shares and 43,491,668 common exchangeable shares of AQXP Canada, (after completing the conversion of all exchangeable preferred shares of AQXP Canada for common exchangeable shares of AQXP Canada) which will represent all of the outstanding equity of AQXP Canada.

Options

As of September 30, 2013, options to purchase an aggregate of 9,872,184 option securities were outstanding under the 2006 Plan. An additional 2,976,853 option securities were available for future grants. For additional information regarding the terms of the 2006 Plan, see the section of this prospectus captioned “Management — Employee Benefit Plans.”

Warrants

As of September 30, 2013, we had the following warrants outstanding:

- Warrant to purchase an aggregate of 339,287 option securities, at an exercise price of $0.01 per option security, with an expiration date of March 19, 2023. Prior to completion of this offering, the warrant is

exercisable for 339,287 shares of our Series C preferred stock and one special voting share of AQXP Canada. After completion of the offering, the warrant will be exercisable for 339,287 shares of our common stock.

Stockholder Registration Rights

After our initial public offering, certain holders of shares of our common stock, including certain holders of 5% of our capital stock and entities affiliated with certain of our directors, will be entitled to certain rights with respect to registration of such shares under the Securities Act. These shares are referred to as registrable securities. The holders of these registrable securities possess registration rights pursuant to the terms of the qualification and registration rights agreement and are described in additional detail below.

The registration of shares of our common stock pursuant to the exercise of registration rights described below would enable the holders to trade these shares without restriction under the Securities Act when the applicable registration statement is declared effective. We will pay the registration expenses, other than underwriting discounts, selling commissions and stock transfer taxes, of the shares registered pursuant to the demand, piggyback and Form S-3 registrations described below.

Generally, in an underwritten offering, the managing underwriter, if any, has the right, subject to specified conditions, to limit the number of shares the holders may include. The demand, piggyback and Form S-3 registration rights described below will expire three years after the effective date of the registration statement, of which this prospectus forms a part, or, with respect to any particular holder, at such time that such holder can sell its shares under Rule 144 of the Securities Act during any three month period.

Demand Registration Rights

The holders of the registrable securities will be entitled to certain demand registration rights. At any time beginning on the earlier of March 19, 2016 and 180 days following the completion of this offering, the holders of at least 20% of the registrable securities, on not more than two occasions, may request that we register all or a portion of their shares, subject to certain specified exceptions. Such request for registration must cover securities the aggregate offering price of which, before payment of underwriting discounts and commissions, exceeds $7,500,000.

Piggyback Registration Rights

In connection with this offering, the holders of the registrable securities were entitled to, and the necessary percentage of holders waived, their rights to notice of this offering and to include their shares of registrable securities in this offering. If we propose to register for offer and sale any of our securities under the Securities Act in another offering, either for our own account or for the account of other security holders, the holders of these shares will be entitled to certain “piggyback” registration rights allowing them to include their shares in such registration, subject to certain marketing and other limitations. As a result, whenever we propose to file a registration statement under the Securities Act, including a registration statement on Form S-3 as discussed below, other than with respect to a demand registration or a registration statement on Forms S-4 or S-8 or related to stock issued upon conversion of debt securities, the holders of these shares are entitled to notice of the registration and have the right, subject to limitations that the underwriters may impose on the number of shares included in the registration, to include their shares in the registration.

Form S-3 Registration Rights

The holders of the registrable securities will be entitled to certain Form S-3 registration rights. Any holder of these shares can make a request that we register for offer and sale their shares on Form S-3 if we are qualified to file a registration statement on Form S-3, subject to certain specified exceptions. Such request for registration on Form S-3 must cover securities the aggregate offering price of which, before payment of the underwriting discounts and commissions, equals or exceeds $500,000. We will not be required to effect more than six registrations on Form S-3.

Anti-Takeover Provisions

Section 203 of the Delaware General Corporation Law

We are subject to Section 203 of the Delaware General Corporation Law, which prohibits a Delaware corporation from engaging in any business combination with any interested stockholder for a period of three years after the date that such stockholder became an interested stockholder, with the following exceptions:

- before such date, the board of directors of the corporation approved either the business combination or the transaction that resulted in the stockholder becoming an interested stockholder;
- upon completion of the transaction that resulted in the stockholder becoming an interested stockholder, the interested stockholder owned at least 85% of the voting stock of the corporation outstanding at the time the transaction began, excluding for purposes of determining the voting stock outstanding (but not the outstanding voting stock owned by the interested stockholder) those shares owned (1) by persons who are directors and also officers and (2) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer; or
- on or after such date, the business combination is approved by the board of directors and authorized at an annual or special meeting of the stockholders, and not by written consent, by the affirmative vote of at least 66²/₃% of the outstanding voting stock that is not owned by the interested stockholder.

In general, Section 203 defines a “business combination” to include the following:

- any merger or consolidation involving the corporation and the interested stockholder;
- any sale, transfer, pledge or other disposition of 10% or more of the assets of the corporation involving the interested stockholder;
- subject to certain exceptions, any transaction that results in the issuance or transfer by the corporation of any stock of the corporation to the interested stockholder;
- any transaction involving the corporation that has the effect of increasing the proportionate share of the stock or any class or series of the corporation beneficially owned by the interested stockholder; or
- the receipt by the interested stockholder of the benefit of any loans, advances, guarantees, pledges or other financial benefits by or through the corporation.

In general, Section 203 defines an “interested stockholder” as an entity or person who, together with the person’s affiliates and associates, beneficially owns, or within three years prior to the time of determination of interested stockholder status did own, 15% or more of the outstanding voting stock of the corporation.

Certificate of Incorporation and Bylaws to be in Effect upon the Completion of this Offering

Our certificate of incorporation to be in effect upon the completion of this offering will provide for our board of directors to be divided into three classes with staggered three-year terms. Only one class of directors will be elected at each annual meeting of our stockholders, with the other classes continuing for the remainder of their respective three-year terms. Because our stockholders do not have cumulative voting rights, stockholders holding a majority of the shares of common stock outstanding will be able to elect all of our directors. Our certificate of incorporation and our bylaws to be effective upon the completion of this offering will also provide that directors may be removed by the stockholders only for cause upon the vote of a majority of our outstanding common stock. Furthermore, the authorized number of directors may be changed only by resolution of the board of directors, and vacancies and newly created directorships on the board of directors may, except as otherwise required by law or determined by the board, only be filled by a majority vote of the directors then serving on the board, even though less than a quorum.

Our certificate of incorporation and bylaws will also provide that all stockholder actions must be effected at a duly called meeting of stockholders and will eliminate the right of stockholders to act by written consent without a meeting. Our bylaws will also provide that only our chairman of the board, chief executive officer or the board of directors pursuant to a resolution adopted by a majority of the total number of authorized directors may call a special meeting of stockholders.

Our bylaws will also provide that stockholders seeking to present proposals before a meeting of stockholders to nominate candidates for election as directors at a meeting of stockholders must provide timely advance notice in writing, and will specify requirements as to the form and content of a stockholder's notice.

Our certificate of incorporation and bylaws will provide that the stockholders cannot amend many of the provisions described above except by a vote of 66 2/3% or more of our outstanding common stock.

The combination of these provisions will make it more difficult for our existing stockholders to replace our board of directors as well as for another party to obtain control of us by replacing our board of directors. Since our board of directors has the power to retain and discharge our officers, these provisions could also make it more difficult for existing stockholders or another party to effect a change in management. In addition, the authorization of undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to change our control.

These provisions are intended to enhance the likelihood of continued stability in the composition of our board of directors and its policies and to discourage coercive takeover practices and inadequate takeover bids. These provisions are also designed to reduce our vulnerability to hostile takeovers and to discourage certain tactics that may be used in proxy fights. However, such provisions could have the effect of discouraging others from making tender offers for our shares and may have the effect of delaying changes in our control or management. As a consequence, these provisions may also inhibit fluctuations in the market price of our stock that could result from actual or rumored takeover attempts. We believe that the benefits of these provisions, including increased protection of our potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure our company, outweigh the disadvantages of discouraging takeover proposals, because negotiation of takeover proposals could result in an improvement of their terms.

Choice of Forum

Our certificate of incorporation will provide that the Court of Chancery of the State of Delaware will be the exclusive forum for any derivative action or proceeding brought on our behalf; any action asserting a breach of fiduciary duty; any action asserting a claim against us arising pursuant to the Delaware General Corporation Law, our certificate of incorporation or our bylaws; or any action asserting a claim against us that is governed by the internal affairs doctrine.

Listing

We intend to apply to list our common stock on the NASDAQ Global Market under the trading symbol "AQXP."

Transfer Agent and Registrar

The transfer agent and registrar for our common stock is . The transfer agent's address is .

SHARES ELIGIBLE FOR FUTURE SALE

Prior to this offering, no public market existed for our common stock. Future sales of shares of our common stock in the public market after this offering, and the availability of shares for future sale, could adversely affect the market price of our common stock prevailing from time to time. As described below, only a limited number of shares will be available for sale shortly after this offering due to contractual and legal restrictions on resale. Nonetheless, sales of substantial amounts of our common stock, or the perception that these sales could occur, could adversely affect prevailing market prices for our common stock and could impair our future ability to raise equity capital.

Based on the number of shares outstanding on September 30, 2013, upon completion of this offering, shares of common stock will be outstanding, assuming no outstanding options or warrants are exercised. All of the shares of common stock sold in this offering will be freely tradable without restrictions or further registration under the Securities Act, except for any shares sold to our "affiliates," as that term is defined under Rule 144 under the Securities Act. The remaining shares of common stock held by existing stockholders are "restricted securities," as that term is defined in Rule 144 under the Securities Act. Restricted securities may be sold in the public market only if registered or if their resale qualifies for exemption from registration described below under Rule 144 or 701 promulgated under the Securities Act.

Additionally, of the options to purchase 9,872,184 shares and warrants to purchase 339,287 shares of our common stock outstanding as of September 30, 2013, options and warrants exercisable for approximately shares of common stock will be vested and eligible for sale 180 days after the date of this prospectus, which period is subject to potential extension under specified circumstances.

Under the lock-up and market stand-off agreements described below and the provisions of Rules 144 and 701 under the Securities Act, and assuming no extension of the lock-up period and no exercise of the underwriters' option to purchase additional shares of common stock, these restricted securities will be available for sale in the public market as follows:

- no shares of common stock will be eligible for immediate sale on the date of this prospectus; and
- shares of our common stock will be eligible for sale upon the expiration of the lock-up and market stand-off agreements 180 days after the date of this prospectus, provided that shares held by our affiliates will remain subject to volume, manner of sale, and other resale limitations set forth in Rule 144, as described below.

We may issue shares of common stock from time to time as consideration for future acquisitions, investments or other corporate purposes. In the event that any such acquisition, investment or other transaction is significant, the number of shares of common stock that we may issue may in turn be significant. We may also grant registration rights covering those shares of common stock issued in connection with any such acquisition and investment.

Rule 144

In general, persons who have beneficially owned restricted shares of our common stock for at least six months, and any affiliate of ours who owns either restricted or unrestricted shares of our common stock, are entitled to sell their securities without registration with the SEC under an exemption from registration provided by Rule 144 under the Securities Act.

In general, a person who has beneficially owned restricted shares of our common stock for at least six months would be entitled to sell their securities provided that (i) such person is not deemed to have been one of our affiliates at the time of, or at any time during the 90 days preceding, a sale and (ii) we have been subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Persons who have beneficially owned restricted shares of our common stock for at least six months, but who are our affiliates at the time of, or any time during the 90 days preceding, a sale, would be subject to additional restrictions, by which such person would be entitled to sell within any three-month period only a number of securities that does not exceed the greater of either of the following:

- 1% of the number of shares of our common stock then outstanding, which will equal approximately shares immediately after the completion of this offering based on the number of common shares outstanding as of September 30, 2013; or

- the average weekly trading volume of our common stock on the NASDAQ Global Market during the four calendar weeks preceding the filing of a notice on Form 144 with respect to the sale;

provided, in each case, that we have been subject to the Exchange Act periodic reporting requirements for at least 90 days before the sale. Such sales both by affiliates and by non-affiliates must also comply with the manner of sale, current public information and notice provisions of Rule 144.

Rule 701

Rule 701 under the Securities Act, as in effect on the date of this prospectus, permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144, including the holding period requirement. Most of our employees, executive officers or directors who purchased shares under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the date of this prospectus before selling their shares. However, all Rule 701 shares are subject to lock-up agreements as described below and in the section of this prospectus captioned “Underwriting” and will become eligible for sale upon the expiration of the restrictions set forth in those agreements.

Form S-8 Registration Statements

As soon as practicable after the completion of this offering, we intend to file with the SEC one or more registration statements on Form S-8 under the Securities Act to register the shares of our common stock that are issuable pursuant to our 2006 Plan and 2014 Plan. These registration statements will become effective immediately upon filing. Shares covered by these registration statements will then be eligible for sale in the public markets, subject to vesting restrictions, any applicable lock-up agreements described below and Rule 144 limitations applicable to affiliates.

Lock-Up Agreements

We and all of our directors and officers, as well as holders of substantially all our common stock, have agreed with the underwriters that, for a period of 180 days following the date of this prospectus, subject to certain exceptions, we and they will not, directly or indirectly, offer, sell, contract to sell, pledge, grant any option to purchase, make any short sale, or otherwise dispose of or hedge any of our shares of common stock, any options or warrants to purchase shares of our common stock, or any securities convertible into, or exchangeable for or that represent the right to receive shares of our common stock. Jefferies LLC and Cowen and Company, in their sole discretion, may at any time release all or any portion of the shares from the restrictions in such agreements.

The lock-up agreements do not contain any pre-established conditions to the waiver by the representatives on behalf of the underwriters of any terms of the lock-up agreements. Any determination to release shares subject to the lock-up agreements would be based on a number of factors at the time of determination, including but not necessarily limited to the market price of the common stock, the liquidity of the trading market for the common stock, general market conditions, the number of shares proposed to be sold, contractual obligations to release certain shares subject to the lock-up agreements in the event any such shares are released, subject to certain specific limitations and thresholds, and the timing, purpose and terms of the proposed sale.

Registration Rights

Upon the completion of this offering, the holders of 111,890,463 shares of our common stock (including 339,287 shares of our common stock issuable upon the exercise of outstanding warrants as of September 30, 2013), or their transferees, will be entitled to certain rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act immediately upon the effectiveness of the registration. See the section of this prospectus captioned “Description of Capital Stock—Stockholder Registration Rights” for additional information.

MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES TO NON-U.S. HOLDERS

The following is a discussion of the material U.S. federal income tax considerations applicable to non-U.S. holders (as defined below) with respect to their ownership and disposition of shares of our common stock issued pursuant to this offering, but does not purport to be a complete analysis of all potential tax effects. All prospective non-U.S. holders of our common stock should consult their own tax advisors with respect to the U.S. federal income tax consequences of the purchase, ownership and disposition of our common stock, as well as any consequences arising under the laws of any other taxing jurisdiction, including any state, local and non-U.S. tax consequences and any U.S. federal non-income tax consequences. In general, a non-U.S. holder means a beneficial owner of our common stock (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or an entity treated as a corporation for U.S. federal income tax purposes, created or organized in the United States or under the laws of the United States or of any state thereof or the District of Columbia;
- an estate, the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if (1) a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all of the trust's substantial decisions or (2) the trust has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This discussion is based on current provisions of the U.S. Internal Revenue Code of 1986, as amended, which we refer to as the Code, existing U.S. Treasury Regulations promulgated thereunder, published administrative rulings and judicial decisions, all as in effect as of the date of this prospectus. These laws are subject to change and to differing interpretation, possibly with retroactive effect. Any change or differing interpretation could alter the tax consequences to non-U.S. holders described in this prospectus.

This discussion is limited to non-U.S. holders that hold shares of our common stock as a capital asset within the meaning of Section 1221 of the Code (generally, for investment). This discussion does not address all aspects of U.S. federal income taxation that may be relevant to a particular non-U.S. holder in light of that non-U.S. holder's individual circumstances, nor does it address any aspects of U.S. estate or gift tax, or any state, local or non-U.S. taxes. This discussion also does not consider any specific facts or circumstances that may apply to a non-U.S. holder and does not address the special tax rules applicable to particular non-U.S. holders, such as holders that own, or are deemed to own, more than 5% of our capital stock (except to the extent specifically set forth below), corporations that accumulate earnings to avoid U.S. federal income tax, tax-exempt organizations, banks, financial institutions, insurance companies, brokers, dealers or traders in securities, commodities or currencies, tax-qualified retirement plans, holders subject to the alternative minimum tax or Medicare contribution tax, holders who hold or receive our common stock pursuant to the exercise of employee stock options or otherwise as compensation, holders holding our common stock as part of a hedge, straddle or other risk reduction strategy, conversion transaction or other integrated investment, holders deemed to sell our common stock under the constructive sale provisions of the Code, controlled foreign corporations, passive foreign investment companies and U.S. expatriates and certain former citizens or long-term residents of the United States.

In addition, this discussion does not address the tax treatment of partnerships (or entities or arrangements that are treated as partnerships for U.S. federal income tax purposes) or persons that hold their common stock through such partnerships or such entities or arrangements. If a partnership, including any entity or arrangement treated as a partnership for U.S. federal income tax purposes, holds shares of our common stock, the U.S. federal income tax treatment of a partner in such partnership will generally depend upon the status of the partner, the activities of the partnership and certain determinations made at the partner level. Such partners and partnerships should consult their own tax advisors regarding the tax consequences of the purchase, ownership and disposition of our common stock.

There can be no assurance that the Internal Revenue Service, which we refer to as the IRS, will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling with respect to the U.S. federal income tax consequences with respect to the matters discussed below.

Distributions on Our Common Stock

Distributions, if any, on our common stock generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. If a distribution exceeds our current and accumulated earnings and profits, the excess will be treated as a tax-free return of the non-U.S. holder's investment, up to such holder's adjusted tax basis in the common stock. Any remaining excess will be treated as capital gain from the sale or exchange of such common stock, subject to the tax treatment described below in "Gain on Sale, Exchange or Other Disposition of Our Common Stock."

Subject to the discussion below regarding backup withholding and foreign accounts, dividends paid to a non-U.S. holder will generally be subject to withholding of U.S. federal income tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty. A non-U.S. holder that is eligible for a reduced rate of U.S. withholding tax under an income tax treaty may obtain a refund or credit of any excess amounts withheld by timely filing an appropriate claim for refund with the IRS. A non-U.S. holder of our common stock who claims the benefit of an applicable income tax treaty generally will be required to provide a properly executed IRS Form W-8BEN (or successor form) and satisfy relevant certification and other requirements. Non-U.S. holders are urged to consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

Dividends that are treated as effectively connected with a trade or business conducted by a non-U.S. holder within the United States and, if an applicable income tax treaty so provides, that are attributable to a permanent establishment or a fixed base maintained by the non-U.S. holder within the United States, are generally exempt from the 30% withholding tax if the non-U.S. holder satisfies applicable certification and disclosure requirements. To claim the exemption, the non-U.S. holder must furnish to us or our paying agent a valid IRS Form W-8ECI (or applicable successor form), certifying that the dividends are effectively connected with the non-U.S. holder's conduct of a trade or business within the United States. However, such U.S. effectively connected income, net of specified deductions and credits, is taxed at the same graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code), unless a specific treaty exemption applies. Any U.S. effectively connected income received by a non-U.S. holder that is a corporation may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Gain on Sale, Exchange or Other Disposition of Our Common Stock

Subject to the discussion below regarding backup withholding and foreign accounts, in general, a non-U.S. holder will not be subject to any U.S. federal income tax on any gain realized upon such holder's sale, exchange or other disposition of shares of our common stock unless:

- the gain is effectively connected with a U.S. trade or business of the non-U.S. holder and, if an applicable income tax treaty so provides, is attributable to a permanent establishment or a fixed base maintained in the United States by such non-U.S. holder, in which case the non-U.S. holder generally will be taxed at the graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code) and, if the non-U.S. holder is a foreign corporation, the branch profits tax described above in "Distributions on Our Common Stock" may also apply;
- the non-U.S. holder is a nonresident alien individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met, in which case the non-U.S. holder will be subject to a 30% tax (or such lower rate as may be specified by an applicable income tax treaty) on the net gain derived from the disposition, which may be offset by U.S. source capital losses of the non-U.S. holder, if any (even though the individual is not considered a resident of the United States) provided the non-U.S. holder has timely filed U.S. federal income tax returns with respect to such losses; or
- our common stock constitutes a U.S. real property interest because we are, or have been, at any time during the five-year period preceding such disposition (or the non-U.S. holder's holding period, if shorter) a "U.S. real property holding corporation." Even if we are or become a U.S. real property holding corporation, provided that our common stock is regularly traded on an established securities market, our common stock will be treated as a U.S. real property interest only with respect to a non-U.S. holder that holds more than 5% of our outstanding common stock, directly or indirectly, actually or constructively, during the shorter of

the 5-year period ending on the date of the disposition or the period that the non-U.S. holder held our common stock. In such case, such non-U.S. holder generally will be taxed on its net gain derived from the disposition at the graduated U.S. federal income tax rates applicable to U.S. persons (as defined in the Code). Generally, a corporation is a U.S. real property holding corporation only if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests plus its other assets used or held for use in a trade or business. Although there can be no assurance, we do not believe that we are, or have been, a U.S. real property holding corporation, or that we are likely to become one in the future. No assurance can be provided that our common stock will be regularly traded on an established securities market for purposes of the rules described above.

Backup Withholding and Information Reporting

We must report annually to the IRS and to each non-U.S. holder the gross amount of the dividends on our common stock paid to such holder and the tax withheld, if any, with respect to such dividends. Non-U.S. holders will have to comply with specific certification procedures to establish that the holder is not a U.S. person (as defined in the Code) in order to avoid backup withholding at the applicable rate with respect to dividends on our common stock. U.S. backup withholding generally will not apply to a Non-U.S. holder who provides a properly executed IRS Form W-8BEN or otherwise establishes an exemption.

Information reporting and backup withholding will generally apply to the proceeds of a disposition of our common stock by a non-U.S. holder effected by or through the U.S. office of any broker, U.S. or foreign, unless the holder certifies its status as a non-U.S. holder and satisfies certain other requirements, or otherwise establishes an exemption. Generally, information reporting and backup withholding will not apply to a payment of disposition proceeds to a non-U.S. holder where the transaction is effected outside the United States through a non-U.S. office of a broker. However, for information reporting purposes, dispositions effected through a non-U.S. office of a broker with substantial U.S. ownership or operations generally will be treated in a manner similar to dispositions effected through a U.S. office of a broker. Non-U.S. holders should consult their own tax advisors regarding the application of the information reporting and backup withholding rules to them.

Copies of information returns may be made available to the tax authorities of the country in which the non-U.S. holder resides or is incorporated under the provisions of a specific treaty or agreement.

Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a non-U.S. holder may be allowed as a credit against the non-U.S. holder’s U.S. federal income tax liability, if any, and may entitle such holder to a refund, provided that the required information is timely furnished to the IRS.

Foreign Accounts

The Code generally imposes a U.S. federal withholding tax of 30% on dividends and the gross proceeds of a disposition of our common stock paid to a “foreign financial institution” (as specifically defined for this purpose), unless such institution enters into an agreement with the U.S. government to, among other things, withhold on certain payments and to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which may include certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). Foreign financial institutions located in jurisdictions that have an intergovernmental agreement with the United States governing these withholding and reporting requirements may be subject to different rules. This U.S. federal withholding tax of 30% also applies to dividends and the gross proceeds of a disposition of our common stock paid to a non-financial foreign entity, unless such entity provides the withholding agent with either a certification that it does not have any substantial direct or indirect U.S. owners or provides information regarding substantial direct and indirect U.S. owners of the entity. The withholding tax described above will not apply if the foreign financial institution or non-financial foreign entity otherwise qualifies for an exemption from the rules. The withholding provisions described above will generally apply to dividends on our common stock paid on or after July 1, 2014 and with respect to gross proceeds of a sale or other disposition of our common stock on or after January 1, 2017. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. Non-U.S. holders are encouraged to consult with their own tax advisors regarding the possible implications of the legislation on their investment in our common stock.

EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF OUR COMMON STOCK, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGE IN APPLICABLE LAW, AS WELL AS TAX CONSEQUENCES ARISING UNDER ANY STATE, LOCAL, NON-U.S. OR U.S. FEDERAL NON-INCOME TAX LAWS.

UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement, dated , 2013, among us and Jefferies LLC and Cowen and Company LLC, as the representatives of the underwriters named below and the joint book-running managers of this offering, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the respective number of shares of common stock shown opposite its name below:

UNDERWRITERS	NUMBER OF SHARES
Jefferies LLC	
Cowen and Company, LLC	
Canaccord Genuity Inc.	
Total	

The underwriting agreement provides that the obligations of the several underwriters are subject to certain conditions precedent such as the receipt by the underwriters of officers' certificates and legal opinions and approval of certain legal matters by their counsel. The underwriting agreement provides that the underwriters will purchase all of the shares of common stock if any of them are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated. We have agreed to indemnify the underwriters and certain of their controlling persons against certain liabilities, including liabilities under the Securities Act, and to contribute to payments that the underwriters may be required to make in respect of those liabilities.

The underwriters have advised us that, following the completion of this offering, they currently intend to make a market in the common stock as permitted by applicable laws and regulations. However, the underwriters are not obligated to do so, and the underwriters may discontinue any market-making activities at any time without notice in their sole discretion. Accordingly, no assurance can be given as to the liquidity of the trading market for the common stock, that you will be able to sell any of the common stock held by you at a particular time or that the prices that you receive when you sell will be favorable.

The underwriters are offering the shares of common stock subject to their acceptance of the shares of common stock from us and subject to prior sale. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part. In addition, the underwriters have advised us that they do not intend to confirm sales to any account over which they exercise discretionary authority.

Although our common stock will not be offered to the public in Canada, certain of our directors and existing stockholders, including directors and stockholders resident in Canada, have expressed an interest in participating in this offering. As our shares of common stock have not been and will not be qualified for distribution pursuant to a prospectus filed with securities regulatory authorities in any of the provinces or territories in Canada, shares of our common stock may not be offered or sold in Canada except pursuant to an exemption from the prospectus requirements of applicable Canadian securities laws. The underwriters have agreed that, except as permitted by the underwriting agreement and as expressly permitted by applicable Canadian securities laws, they will not offer or sell any shares of our common stock within Canada. This registration statement does not constitute an offer to sell any shares of our common stock in an province or territory of Canada.

Commission and Expenses

The underwriters have advised us that they propose to offer the shares of common stock to the public at the initial public offering price set forth on the cover page of this prospectus and to certain dealers, which may include the underwriters, at that price less a concession not in excess of $ per share of common stock. The underwriters may allow, and certain dealers may reallow, a discount from the concession not in excess of $ per share of

common stock to certain brokers and dealers. After the offering, the initial public offering price, concession and reallowance to dealers may be reduced by the representatives. No such reduction will change the amount of proceeds to be received by us as set forth on the cover page of this prospectus.

The following table shows the public offering price, the underwriting discounts and commissions that we are to pay the underwriters and the proceeds, before expenses, to us in connection with this offering. Such amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares.

	PER SHARE		TOTAL	
	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES	WITHOUT OPTION TO PURCHASE ADDITIONAL SHARES	WITH OPTION TO PURCHASE ADDITIONAL SHARES
Public offering price	$	$	$	$
Underwriting discounts and commissions paid by us	$	$	$	$
Proceeds to us, before expenses	$	$	$	$

We estimate expenses payable by us in connection with this offering, other than the underwriting discounts and commissions referred to above, will be approximately $.

Determination of Offering Price

Prior to this offering, there has not been a public market for our common stock. Consequently, the initial public offering price for our common stock will be determined by negotiations between us and the representatives. Among the factors to be considered in these negotiations will be prevailing market conditions, our financial information, market valuations of other companies that we and the underwriters believe to be comparable to us, estimates of our business potential, the present state of our development and other factors deemed relevant.

We offer no assurances that the initial public offering price will correspond to the price at which the common stock will trade in the public market subsequent to the offering or that an active trading market for the common stock will develop and continue after the offering.

Listing

We intend to have our common stock approved for listing on NASADAQ Global Market under the trading symbol "AQXP".

Option to Purchase Additional Shares

We have granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase, from time to time, in whole or in part, up to an aggregate of shares from us at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions. If the underwriters exercise this option, each underwriter will be obligated, subject to specified conditions, to purchase a number of additional shares proportionate to that underwriter's initial purchase commitment as indicated in the table above. This option may be exercised only if the underwriters sell more shares than the total number set forth on the cover page of this prospectus.

No Sales of Similar Securities

We, our officers, directors and holders of all or substantially all our outstanding capital stock and other securities have agreed, subject to specified exceptions, not to directly or indirectly:

- sell, offer, contract or grant any option to sell (including any short sale), pledge, transfer, establish an open "put equivalent position" within the meaning of Rule 16a-l(h) under the Securities Exchange Act of 1934, as amended, or

- otherwise dispose of any shares of common stock, options or warrants to acquire shares of common stock, or securities exchangeable or exercisable for or convertible into shares of common stock currently or hereafter owned either of record or beneficially, or
- publicly announce an intention to do any of the foregoing for a period of 180 days after the date of this prospectus without the prior written consent of the representatives.

This restriction terminates after the close of trading of the common stock on and including the 180th day after the date of this prospectus.

The representatives may, in their sole discretion and at any time or from time to time before the termination of the 180-day period release all or any portion of the securities subject to lock-up agreements. There are no existing agreements between the underwriters and any of our shareholders who will execute a lock-up agreement, providing consent to the sale of shares prior to the expiration of the lock-up period.

Stabilization

The underwriters have advised us that, pursuant to Regulation M under the Securities Exchange Act of 1934, as amended, certain persons participating in the offering may engage in short sale transactions, stabilizing transactions, syndicate covering transactions or the imposition of penalty bids in connection with this offering. These activities may have the effect of stabilizing or maintaining the market price of the common stock at a level above that which might otherwise prevail in the open market. Establishing short sales positions may involve either “covered” short sales or “naked” short sales.

“Covered” short sales are sales made in an amount not greater than the underwriters’ option to purchase additional shares of our common stock in this offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares of our common stock or purchasing shares of our common stock in the open market. In determining the source of shares to close out the covered short position, the underwriters will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase shares through the option to purchase additional shares.

“Naked” short sales are sales in excess of the option to purchase additional shares of our common stock. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the shares of our common stock in the open market after pricing that could adversely affect investors who purchase in this offering.

A stabilizing bid is a bid for the purchase of shares of common stock on behalf of the underwriters for the purpose of fixing or maintaining the price of the common stock. A syndicate covering transaction is the bid for or the purchase of shares of common stock on behalf of the underwriters to reduce a short position incurred by the underwriters in connection with the offering. Similar to other purchase transactions, the underwriter’s purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market. A penalty bid is an arrangement permitting the underwriters to reclaim the selling concession otherwise accruing to a syndicate member in connection with the offering if the common stock originally sold by such syndicate member are purchased in a syndicate covering transaction and therefore have not been effectively placed by such syndicate member.

Neither we,nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of our common stock. The underwriters are not obligated to engage in these activities and, if commenced, any of the activities may be discontinued at any time.

The underwriters may also engage in passive market making transactions in our common stock on The NASDAQ Global Market in accordance with Rule 103 of Regulation M during a period before the commencement of offers or sales of shares of our common stock in this offering and extending through the completion of distribution. A passive market maker must display its bid at a price not in excess of the highest independent bid of that security. However,

if all independent bids are lowered below the passive market maker's bid, that bid must then be lowered when specified purchase limits are exceeded.

Electronic Distribution

A prospectus in electronic format may be made available by e-mail or on the web sites or through online services maintained by one or more of the underwriters or their affiliates. In those cases, prospective investors may view offering terms online and may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares of common stock for sale to online brokerage account holders. Any such allocation for online distributions will be made by the underwriters on the same basis as other allocations. Other than the prospectus in electronic format, the information on the underwriters' web sites and any information contained in any other web site maintained by any of the underwriters is not part of this prospectus, has not been approved and/or endorsed by us or the underwriters and should not be relied upon by investors.

Other Activities and Relationships

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

In the ordinary course of their various business activities, the underwriter and certain of its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and such investment and securities activities may involve securities and/or instruments issued by us and our affiliates. If the underwriters or their respective affiliates have a lending relationship with us, they routinely hedge their credit exposure to us consistent with their customary risk management policies. The underwriters and their respective affiliates may hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in our securities or the securities of our affiliates, including potentially the common stock offered hereby. Any such short positions could adversely affect future trading prices of the common stock offered hereby. The underwriters and certain of their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such securities or instruments and may at any time hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Disclaimers About Non-U.S. Jurisdictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State") an offer to the public of any shares which are the subject of the offering contemplated by this prospectus may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of the shares shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person in a Relevant Member State who receives any communication in respect of, or who acquires any shares under, the offers contemplated in this prospectus will be deemed to have represented, warranted and agreed to and with each underwriter and us that:

- it is a qualified investor within the meaning of the law in that Relevant Member State implementing Article 2(1)(e) of the Prospectus Directive; and
- in the case of any shares acquired by it as a financial intermediary, as that term is used in Article 3(2) of the Prospectus Directive, (i) the shares acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State, other than qualified investors, as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the representatives has been given to the offer or resale; or (ii) where shares have been acquired by it on behalf of persons in any Relevant Member State other than qualified investors, the offer of those shares to it is not treated under the Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to any shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any shares to be offered so as to enable an investor to decide to purchase any shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each underwriter has represented, warranted and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or the FSMA) to persons who are investment professionals falling within Article 19(5) of the FSMA (Financial Promotion) Order 2005 or in circumstances in which Section 21(1) of the FSMA does not apply to us; and
- it has complied with and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the shares in, from or otherwise involving the United Kingdom.

Canada

The common stock has not been and will not be qualified under the securities laws of any province or territory of Canada. The common stock is not being offered or sold, directly or indirectly, in Canada to or for the account of any resident of Canada in contravention of the securities laws of any province or territory thereof. The common stock may be sold in Canada only to purchasers purchasing as principal that are "accredited investors" as defined in National Instrument 45-106 – Prospectus and Registration Exemptions and in accordance with the requirements of National Instrument 31-103 – Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the common stock must be made in accordance with an exemption from the prospectus requirements and in compliance with the registration requirements of applicable securities laws.

LEGAL MATTERS

The validity of the shares of common stock offered hereby will be passed upon for us by Cooley LLP, Seattle, Washington. Latham & Watkins LLP is acting as counsel to the underwriters.

EXPERTS

The combined financial statements of Aquinox Pharmaceuticals (USA) Inc. and Aquinox Pharmaceuticals Inc. as of December 31, 2012 and December 31, 2011, and for the years then ended and for the period from December 26, 2003 (inception) to December 31, 2012, included in this prospectus and registration statement have been audited by Deloitte LLP, independent registered chartered accountants, as stated in their report appearing herein. Such financial statements have been so included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-1 under the Securities Act with respect to the shares of our common stock offered under this prospectus. This prospectus, which constitutes a part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits. For further information about us and our common stock, you should refer to the registration statement and the exhibits and schedules filed with the registration statement. With respect to the statements contained in this prospectus regarding the contents of any agreement or any other document, in each instance, the statement is qualified in all respects by the complete text of the agreement or document, a copy of which has been filed as an exhibit to the registration statement.

Upon completion of this offering, we will be required to file annual, quarterly and current reports, proxy statements and other information with the SEC pursuant to the Exchange Act. You may read and copy this information at the SEC at its public reference facilities located at 100 F Street N.E., Room 1580, Washington, D.C. 20549, at prescribed rates. You may obtain information on the operation of the public reference rooms by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains periodic reports, proxy statements and other information about issuers, like us, that file electronically with the SEC. The address of that site is www.sec.gov.

We intend to furnish our stockholders with annual reports containing audited financial statements and to file with the SEC quarterly reports containing unaudited interim financial data for the first three quarters of each fiscal year. We also maintain a website on the Internet at www.aqxpharma.com. However, the information contained in or accessible through our website is not part of this prospectus or the registration statement of which this prospectus forms a part, and investors should not rely on such information in making a decision to purchase our common stock in this offering.

INDEX TO COMBINED FINANCIAL STATEMENTS

Deloitte LLP
2800 - 1055 Dunsmuir Street
4 Bentall Centre
P.O. Box 49279
Vancouver BC V7X 1P4
Canada

www.deloitte.ca

REPORT OF INDEPENDENT REGISTERED CHARTERED ACCOUNTANTS

To the Boards of Directors and Stockholders of
Aquinox Pharmaceuticals (USA) Inc. and Aquinox Pharmaceuticals Inc.
(the development stage companies)

We have audited the accompanying combined balance sheets of Aquinox Pharmaceuticals (USA) Inc. and Aquinox Pharmaceuticals Inc. (the development stage companies) (the “Companies”) as of December 31, 2012 and 2011, and the related combined statements of operations and comprehensive loss, convertible preferred stock and stockholders’ deficit, and cash flows for the years then ended, and for the period from December 26, 2003 (inception) to December 31, 2012. These financial statements are the responsibility of the Companies’ management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Companies are not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Companies’ internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of the Companies as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the years then ended, and for the period from December 26, 2003 (inception) to December 31, 2012, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the combined financial statements, the Companies are a development stage enterprise and successful completion of the Companies’ development program and, ultimately, the attainment of profitable operations, are dependent upon future events, including obtaining adequate financing to fulfill the Companies’ development activities, obtaining regulatory approval, and achieving a level of revenues adequate to support the Companies’ cost structure.

/s/ Deloitte LLP

Independent Registered Chartered Accountants
November 15, 2013

AQUINOX PHARMACEUTICALS (USA) INC. AND
AQUINOX PHARMACEUTICALS INC.
(the development stage companies)

Combined statements of operations and comprehensive loss
(Expressed in U.S. dollars)

	YEAR ENDED DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2012	DECEMBER 26, 2003 (INCEPTION) TO DECEMBER 31, 2012	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012 (unaudited)	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013 (unaudited)	DECEMBER 26, 2003 (INCEPTION) TO SEPTEMBER 30, 2013 (unaudited)
Operating expenses						
Research and development	$ 8,578,596	$ 5,914,611	$ 33,759,261	$ 5,093,292	$ 4,802,078	$ 38,561,338
General and administrative	1,725,073	1,635,623	7,729,683	1,085,119	1,209,939	8,939,622
Amortization	125,598	130,784	551,601	99,823	45,198	596,799
Total operating expenses	10,429,267	7,681,018	42,040,545	6,278,234	6,057,215	48,097,759
Other income (expenses)						
Bank charges and financing costs	(9,404)	(9,470)	(93,292)	(7,509)	(5,246)	(98,535)
Interest income	19,747	10,804	336,724	9,003	17,845	354,569
Sale of equipment	—	—	—	—	124,353	124,352
Change in fair value of derivative liabilities	—	—	226,624	—	972,757	1,199,381
Amortization of discount on preferred stock	(45,325)	(45,448)	(124,922)	(34,025)	(265,650)	(390,574)
Foreign exchange gain (loss)	(197,227)	53,228	4,511	64,258	18,856	23,367
	(232,209)	9,114	349,645	31,727	862,915	1,212,560
Net loss before income taxes	(10,661,476)	(7,671,904)	(41,690,900)	(6,246,507)	(5,194,300)	(46,885,199)
Income tax (provision) recovery	154,468	(42,294)	3,145,362	(42,294)	5,044	3,150,406
Net loss and comprehensive loss incurred in the development stage	$ (10,507,008)	$ (7,714,198)	$ (38,545,538)	$ (6,288,801)	$ (5,189,256)	$ (43,734,793)
Accretion for liquidation preference on preferred stock	(3,303,200)	(3,860,140)	(12,081,657)	(2,895,102)	(3,953,595)	(16,035,252)
Accretion for share issuance costs on preferred stock	(163,483)	(168,702)	(872,045)	(126,430)	(96,039)	(968,084)
Tax expense on preferred stock	(345,587)	(394,908)	(1,059,488)	(296,182)	(421,974)	(1,481,462)
Total loss attributable to common stockholders	$ (14,319,278)	$ (12,137,948)	$ (52,558,728)	$ (9,606,515)	$ (9,660,864)	$ (62,219,591)
Basic and diluted loss per common stock	$ (2.47)	$ (2.09)	$ (9.07)	$ (1.66)	$ (1.67)	$ (10.74)
Basic and diluted weighted average common stock outstanding	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776
Net loss attributable to common stockholders—pro forma (unaudited, Note 11)		$ (7,668,873)			$ (6,048,894)	
Pro forma net loss per common stock (unaudited, Note 11):						
Basis and diluted		$ (0.10)			$ (0.05)	
Weighted average shares outstanding used to compute pro forma net loss per common stock (unaudited, Note 11):		79,163,262			111,890,463	

The accompanying notes form an integral part of these combined financial statements

AQUINOX PHARMACEUTICALS (USA) INC. AND AQUINOX PHARMACEUTICALS INC.
(the development stage companies)
Combined statements of convertible preferred stock and stockholders' deficit
(Expressed in U.S. dollars)

	AQXP CANADA EXCHANGEABLE PREFERRED SHARES		AQUINOX USA PREFERRED STOCK		AQXP CANADA NEW COMMON SHARES		AQXP CANADA EXCHANGEABLE COMMON SHARES		AQXP CANADA SPECIAL VOTING COMMON SHARES		AQUINOX USA SERIES SPECIAL COMMON STOCK		AQUINOX USA COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT			
Issued for cash on inception, net of share issue costs	—	$ —	—	$ —	8,000,000	$ 800	—	$ —	—	$ —	—	$ —	—	$ —	$ —	$ —	$ 800
Net loss and comprehensive loss incurred in the development stage for the period from December 26, 2003 (inception) to December 31, 2004	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(12,188)	(12,188)
Balances, December 31, 2004	—	—	—	—	8,000,000	800	—	—	—	—	—	—	—	—	—	(12,188)	(11,388)
Repurchase of common stock	—	—	—	—	(3,500,000)	(350)	—	—	—	—	—	—	—	—	—	—	(350)
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(19,275)	(19,275)
Balances, December 31, 2005	—	—	—	—	4,500,000	450	—	—	—	—	—	—	—	—	—	(31,463)	(31,013)
Issued for cash, net of share issue costs	—	—	—	—	1,193,776	489,451	—	—	—	—	—	—	—	—	—	—	489,451
Issued for intangible assets	—	—	—	—	100,000	44,834	—	—	—	—	—	—	—	—	—	—	44,834
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	50,488	—	50,488
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(543,052)	(543,052)
Balances, December 31, 2006					5,793,776	534,735	—	—	—	—	—	—	—	—	50,488	(574,515)	10,708
Share reorganization					(5,793,775)	(534,735)	5,793,776	534,729	5,793,776	—	5,793,776	6	—	—	—	—	—
Issued for cash, net of share issue costs	9,733,139	4,992,710	7,636,361	3,886,892	—	—	—	—	17,369,500	—	9,733,139	10	—	—	—	—	10
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	78,255	—	78,255
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(2,008,534)	(2,008,534)
Accretion for liquidation preference on preferred stock	—	245,162	—	196,000	—	—	—	—	—	—	—	—	—	—	(128,743)	(312,419)	(441,162)
Accretion for deferred share issuance costs on preferred stock	—	34,800	—	30,224	—	—	—	—	—	—	—	—	—	—	—	(65,024)	(65,024)
Balances, December 31, 2007	9,733,139	5,272,672	7,636,361	4,113,116	1	—	5,793,776	534,729	23,163,276	—	15,526,915	16	—	—	—	(2,960,492)	(2,425,747)
Issued for cash, net of share issue costs	2,727,271	1,482,936	2,545,453	1,384,073	—	—	—	—	5,272,724	—	2,727,271	3	—	—	—	—	3
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	103,518	—	103,518
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(5,459,460)	(5,459,460)
Accretion for liquidation preference on preferred stock	—	553,807	—	454,346	—	—	—	—	—	—	—	—	—	—	(103,518)	(904,635)	(1,008,153)

The accompanying notes form an integral part of these combined financial statements

	AQXP CANADA EXCHANGEABLE PREFERRED SHARES		AQUINOX USA PREFERRED STOCK		AQXP CANADA NEW COMMON SHARES		AQXP CANADA EXCHANGEABLE COMMON SHARES		AQXP CANADA SPECIAL VOTING COMMON SHARES		AQUINOX USA SERIES SPECIAL COMMON STOCK		AQUINOX USA COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT			
Accretion for deferred share issuance costs on preferred stock	—	$ 74,650	—	$ 65,108	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	$ —	$ (139,758)	$ (139,758)
Balances, December 31, 2008	12,460,410	7,384,066	10,181,814	6,016,643	1	—	5,793,776	534,729	28,436,000	—	18,254,186	19	—	—	—	(9,464,345)	(8,929,597)
Issued for cash, net of share issue costs	2,727,273	1,467,508	2,545,454	1,369,675	—	—	—	—	5,272,727	—	2,727,273	3	—	—	—	—	3
Stock-based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	111,673	—	111,673
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(3,752,070)	(3,752,070)
Accretion for liquidation preference on preferred stock	—	708,037	—	593,363	—	—	—	—	—	—	—	—	—	—	(111,673)	(1,189,727)	(1,301,400)
Accretion for deferred share issuance costs on preferred stock	—	84,954	—	74,657	—	—	—	—	—	—	—	—	—	—	—	(159,611)	(159,611)
Accrual of tax payable on preferred stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(74,743)	(74,743)
Balances, December 31, 2009	15,187,683	9,644,565	12,727,268	8,054,338	1	—	5,793,776	534,729	33,708,727	—	20,981,459	22	—	—	—	(14,640,496)	(14,105,745)
Issued for cash, net of share issue costs	8,150,408	4,335,318	15,198,240	8,084,158	—	—	—	—	23,348,648	—	8,150,408	8	—	—	—	—	8
Warrant discount of $226,624 on issuance of preferred shares	—	(109,115)	—	(117,509)													—
Stock based compensation	—	—	—	—		—	—	—	—	—	—	—	—	—	109,256	—	109,256
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(8,529,753)	(8,529,753)
Accretion for liquidation preference on preferred stock	—	1,053,645	—	1,113,956	—	—	—	—	—	—	—	—	—	—	(109,256)	(2,058,345)	(2,167,601)
Accretion for deferred share issuance costs on preferred stock	—	78,179	—	97,288	—	—	—	—	—	—	—	—	—	—	—	(175,467)	(175,467)
Amortization of warrant discount on preferred stock	—	16,442	—	17,706	—	—	—	—	—	—	—	—	—	—	—	—	—
Accrual of tax payable on preferred stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(244,251)	(244,251)
Balances, December 31, 2010	23,338,091	15,019,034	27,925,508	17,249,937	1	—	5,793,776	534,729	57,057,375	—	29,131,867	30	—	—	—	(25,648,312)	(25,113,553)
Issued for cash, net of share issue costs	7,087,100	3,885,636	15,018,787	8,234,333	—	—	—	—	22,105,887	—	7,087,100	7	—	—	—	—	7
Stock based compensation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	118,243	—	118,243
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(10,507,008)	(10,507,008)
Accretion for liquidation preference on preferred stock	—	1,445,120	—	1,858,080	—	—	—	—	—	—	—	—	—	—	(118,243)	(3,184,957)	(3,303,200)
Accretion for deferred share issuance costs on preferred stock	—	70,509	—	92,974	—	—	—	—	—	—	—	—	—	—	—	(163,483)	(163,483)
Amortization of warrant discount on preferred stock	—	21,823	—	23,502													—
Accrual of tax payable on preferred stock	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(345,587)	(345,587)
Balances, December 31, 2011	30,425,191	20,442,122	42,944,295	27,458,826	1	—	5,793,776	534,729	79,163,262	—	36,218,967	37	—	—	—	(39,849,347)	(39,314,581)

The accompanying notes form an integral part of these combined financial statements

	AQXP CANADA EXCHANGEABLE PREFERRED SHARES		AQUINOX USA PREFERRED STOCK		AQXP CANADA NEW COMMON SHARES		AQXP CANADA EXCHANGEABLE COMMON SHARES		AQXP CANADA SPECIAL VOTING COMMON SHARES		AQUINOX USA SERIES SPECIAL COMMON STOCK		AQUINOX USA COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED DEFICIT	TOTAL STOCKHOLDERS' DEFICIT
	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT	NUMBER	AMOUNT			
Stock based compensation	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	—	$ —	$ 351,322	$ —	$ 351,322
Net loss and comprehensive loss incurred in the development stage	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(7,714,198)	(7,714,198)
Accretion for liquidation preference on preferred stock	—	1,647,432	—	2,212,708	—	—	—	—	—	—	—	—	—	—	(351,322)	(3,508,818)	(3,860,140)
Accretion for deferred share issuance costs on preferred stock	—	72,296	—	96,406	—	—	—	—	—	—	—	—	—	—	—	(168,702)	(168,702)
Accrual of tax payable on preferred stock	—	21,882	—	23,566	—	—	—	—	—	—	—	—	—	—	—	(394,908)	(394,908)
Balances, December 31, 2012	30,425,191	22,183,732	42,944,295	29,791,506	1	—	5,793,776	534,729	79,163,262	—	36,218,967	37	—	—	—	(51,635,973)	(51,101,207)
Issued for cash, net of share issue costs (unaudited)	7,272,701	3,950,228	25,454,500	13,825,822	—	—	—	—	32,727,201	—	7,272,701	7	—	—	—	—	7
Warrant discount of $68,920 on issuance of Aquinox USA preferred shares (unaudited)	—	—	—	(68,920)	—	—	—	—	—	—	—	—	—	—	—	—	—
Redemption discount of $466,673 for AQXP Canada and $1,633,358 for Aquinox USA on issuance of preferred shares (unaudited)	—	(466,673)	—	(1,633,357)	—	—	—	—	—	—	—	—	—	—	—	—	—
Stock based compensation (unaudited)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	255,318	—	255,318
Net loss and comprehensive loss incurred in the development stage (unaudited)	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	(5,189,255)	(5,189,255)
Accretion for liquidation preference on preferred stock (unaudited)	—	1,513,996	—	2,439,599	—	—	—	—	—	—	—	—	—	—	(255,318)	(3,698,277)	(3,953,595)
Accretion for deferred share issuance costs on preferred stock (unaudited)	—	36,522	—	59,517	—	—	—	—	—	—	—	—	—	—	—	(96,039)	(96,039)
Amortization of warrant discount on preferred stock (unaudited)	—	16,322	—	24,942	—	—	—	—	—	—	—	—	—	—	—	—	—
Amortization of redemption option on preferred stock (unaudited)	—	49,863	—	174,523	—	—	—	—	—	—	—	—	—	—	—	—	—
Accrual of tax payable on preferred stock (unaudited)	—		—	—	—	—	—	—	—	—	—	—	—	—	—	(421,974)	(421,974)
Balances, September 30, 2013 (unaudited)	37,697,892	$ 27,283,990	68,398,795	$ 44,613,632	1	$ —	5,793,776	534,729	111,890,463	$ —	43,491,668	$ 44	—	$ —	$ —	$ (61,041,518)	$ (60,506,745)
Conversion of preferred stock into Aquinox USA common stock (unaudited)	(37,697,892)	$ (27,283,990)	(68,398,795)	$ (44,613,632)	—	—	(5,793,776)	(534,729)	(111,890,463)	—	(43,491,668)	(44)	111,890,463	72	72,432,317	2,456,204	$ 74,353,820
Pro Forma Stockholders' Deficit, September 30, 2013 (unaudited)	—	$ —	—	$ —	1	$ —	—	$ —	—	$ —	—	$ —	111,890,463	$ 72	$ (72,432,317	$ (58,585,314)	$ 13,847,075

The accompanying notes form an integral part of these combined financial statements

AQUINOX PHARMACEUTICALS (USA) INC. AND
AQUINOX PHARMACEUTICALS INC.
(the development stage companies)

Combined balance sheets
(Expressed in U.S. dollars)

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013 (unaudited)	PRO FORMA (NOTE 2) SEPTEMBER 30, 2013 (unaudited)
Assets				
Current assets				
Cash and cash equivalents (Note 3)	$ 9,239,188	$ 2,000,539	$ 15,867,885	$ 15,867,885
Accounts and other amounts receivable (Note 4)	39,736	28,545	34,092	34,092
Investment tax credit receivable	179,814	—	—	—
Prepayments	27,629	34,998	51,568	51,568
Total current assets	9,486,367	2,064,082	15,953,545	15,953,545
Intangible assets (Note 6)	108,022	85,264	68,195	68,195
Property and equipment (Note 5)	259,381	157,801	79,639	79,639
Other	30,135	34,843	54,074	54,074
Total assets	$ 9,883,905	$ 2,341,990	$ 16,155,453	$ 16,155,453
Liabilities				
Current liabilities				
Accounts payable and accrued liabilities (Note 7)	598,487	371,428	2,054,660	2,054,660
Other	9,402	13,959	16,909	16,909
Total current liabilities	607,889	385,387	2,071,569	2,071,569
Warrant liabilities (Note 9)	—	—	221,450	221,450
Redemption option on preferred stock (Note 8)	—	—	974,742	—
Accrued tax payable on preferred stock (Note 12)	664,579	1,059,487	1,481,462	—
Other	25,070	23,085	15,359	15,359
Total liabilities	$ 1,297,538	$ 1,467,959	$ 4,764,582	$ 2,308,378
Redeemable convertible preferred stock (Note 8)				
AQXP Canada, Series A exchangeable preferred shares, no par value - authorized unlimited as of all dates presented (unaudited as of September 30, 2013 and as of September 30, 2013 Pro Forma); issued and outstanding, 15,187,683 as of December 31, 2011, December 31, 2012, September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited)	11,365,296	12,320,298	13,078,888	—
Aquinox USA, Series A preferred stock, $0.000001 par value - authorized 28,213,224 as of December 31, 2011, December 31, 2012, September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited); issued and outstanding, 12,727,628 as of December 31, 2011, December 31, 2012, September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited)	9,503,860	10,308,032	10,946,254	—
AQXP Canada, Series B exchangeable preferred shares, no par value - authorized unlimited as of all dates presented (unaudited as of September 30, 2013 and September 30, 2013 Pro Forma); issued and outstanding, 15,237,508 as of December 31, 2011, December 31, 2012, September 30, 2013 (unaudited), 0 as of September 30, 2013 Pro Forma (unaudited)	9,076,826	9,863,434	10,480,142	—
Aquinox USA, Series B preferred stock, $0.000001 par value - authorized 46,912,440 as of December 31, 2011 and December 31, 2012, 45,454,535 as of September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited); issued and outstanding, 30,217,027 as of December 31, 2011, December 31, 2012, September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited)	17,954,966	19,483,474	20,691,549	—

The accompanying notes form an integral part of these combined financial statements

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013 (unaudited)	PRO FORMA (NOTE 2) SEPTEMBER 30, 2013 (unaudited)
AQXP Canada, Series C exchangeable preferred shares, no par value - authorized 0 as of December 31, 2011 and December 31, 2012, unlimited as of September 30, 2013 (unaudited), September 30, 2013 Pro Forma (unaudited); issued and outstanding, 0 as of December 31, 2011, December 31, 2012, 7,272,701 as of September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited)	—	—	3,724,960	—
Aquinox USA, Series C preferred stock, $0.000001 par value - authorized 0 as of December 31, 2011, December 31, 2012, 45,793,738 as of September 30, 2013 (unaudited), and 0 as of September 30, 2013 Pro Forma (unaudited); issued and outstanding, 0 as of December 31, 2011, December 31, 2012, 25,454,500 as of September 30, 2013 (unaudited), 0 as of September 30, 2013 Pro Forma (unaudited)	—	—	12,975,829	—
	$ 47,900,948	$ 51,975,238	$ 71,897,622	$ —
Commitments and contingencies (Notes 6 and 14)				
Subsequent events (Note 15)				
Stockholders' deficit				
Share capital				
Common stock (Note 10)				
AQXP Canada, new common shares, no par value; authorized, 10 as of all dates presented (unaudited as of September 30, 2013 and as of September 30, 2013 Pro Forma); issued and outstanding, 1 as of all dates presented (unaudited as of September 30, 2013 and as of September 30, 2013 Pro Forma)	—	—	—	—
AQXP Canada, exchangeable common stock, no par value; authorized, unlimited as of all dates presented (unaudited as of September 30, 2013 and as of September 30, 2013 Pro Forma); issued and outstanding 5,793,776 as of December 31, 2011, December 31, 2012, and September 30, 2013 (unaudited), 0 as of September 30, 2013 Pro forma (unaudited)	534,729	534,729	534,729	—
AQXP Canada, special voting common shares no par value; authorized, unlimited as of all dates presented (unaudited as of September 30, 2013 and as of September 30, 2013 Pro Forma); issued and outstanding 79,163,262 as of December 31, 2011, December 31, 2012, 111,890,463 as of September 30, 2013 (unaudited), 0 as of September 30, 2013 Pro Forma (unaudited)	—	—	—	—
Aquinox USA, special voting common stock, $0.000001 par value; authorized, 69,027,955 as of December 31, 2011, December 31, 2012, September 30, 2013, 0 (unaudited) as of September 30, 2013 Pro Forma (unaudited); issued and outstanding 36,218,966 as of December 31, 2011, December 31, 2012, 43,491,667 as of September 30, 2013 (unaudited), 0 as of September 30, 2013 Pro Forma (unaudited)	37	37	44	—
Aquinox USA, common stock, $0.000001 par value - authorized, 139,266,077 as of December 31, 2011, December 31, 2012, September 30, 2013 (unaudited), and as of September 30, 2013 Pro Forma (unaudited); issued and outstanding, 0 as of December 31, 2011, December 31, 2012, and September 30, 2013 (unaudited), 111,890,463 as of September 30, 2013 Pro Forma (unaudited)	—	—	—	72
Additional paid-in capital	—	—	—	72,432,317
Deficit accumulated in the development stage	(39,849,347)	(51,635,973)	(61,041,518)	(55,585,314)
Total stockholders' deficit	(39,314,581)	(51,101,207)	(60,506,745)	13,847,075
Balance	$ 9,883,905	$ 2,341,990	$ 16,155,453	$ 16,155,453

The accompanying notes form an integral part of these combined financial statements

AQUINOX PHARMACEUTICALS (USA) INC. AND
AQUINOX PHARMACEUTICALS INC.
(the development stage companies)

Combined statements of cash flows
(Expressed in U.S. dollars)

	YEAR ENDED DECEMBER 31, 2011	YEAR ENDED DECEMBER 31, 2012	DECEMBER 26, 2003 (INCEPTION) TO DECEMBER 31, 2012	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2012 (unaudited)	NINE MONTH PERIOD ENDED SEPTEMBER 30, 2013 (unaudited)	DECEMBER 26, 2003 (INCEPTION) TO SEPTEMBER 30, 2013 (unaudited)
Operating activities						
Net loss and comprehensive loss incurred in the development stage	$ (10,507,008)	$ (7,714,198)	$ (38,545,538)	$ (6,288,801)	$ (5,189,256)	$ (43,734,793)
Non-cash items						
Amortization	125,598	130,784	551,601	99,823	45,198	596,799
Gain on sale of equipment	—	—	—	—	(124,353)	(124,352)
Amortization of discount on preferred stock	45,325	45,448	124,922	34,025	265,650	390,574
Change in fair value of derivative liabilities	—	—	(226,624)	—	(972,757)	(1,199,381)
Stock-based compensation	118,243	351,322	922,755	72,477	255,318	1,178,073
Change in non-cash working capital						
Accounts and other amounts receivable	120,699	10,831	(28,543)	6,988	(5,547)	(34,093)
Investment tax credit receivable	523,987	179,814	—	174,877	—	—
Prepayments	3,860	(12,076)	(69,726)	(106,562)	(35,801)	(105,527)
Accounts payable and accrued liabilities	(229,005	(224,307)	408,551	(106,564)	1,678,451	2,087,179
Cash (used in) operating activities	(9,798,301)	(7,232,382)	(36,862,602)	(6,113,737)	(4,083,097)	(40,945,521)
Investing activities						
Purchase of property and equipment	(62,845)	(6,447)	(532,799)	(3,901)	(7,233)	(539,748)
Sale of property and equipment	—	—	—	—	181,618	181,618
Purchase of intangible assets	—	—	(183,629)	—	—	(183,629)
Cash (used in) provided by investing activities	(62,845)	(6,447)	(716,428)	(3,901)	174,385	(541,759)
Financing activities						
Bank indebtedness	—	—	(289)	—	—	(289)
Issuance of promissory notes	—	—	720,863	—	—	720,863
Repayment of promissory notes	—	—	(255,775)	—	—	(255,775)
Common stock issued	—	—	490,176	—	—	490,176
Repurchase of common stock	—	—	(350)	—	—	(350)
Preferred stock issued	12,158,238	—	39,832,555	—	17,999,961	57,832,516
Special voting common stock issued	7	—	37	—	7	44
Share issue costs	(38,269)	—	(1,207,648)	—	(223,910)	(1,432,020)
Cash provided by financing activities	12,119,976	—	39,579,569	—	17,776,058	57,355,165
Increase (decrease) in cash and cash equivalents during the period	2,258,830	(7,238,829)	2,000,539	(6,117,638)	13,867,346	15,867,885
Cash and cash equivalents, beginning of period	6,980,358	9,239,188	—	9,239,188	2,000,539	—
Cash and cash equivalents, end of period	$ 9,239,188	$ 2,000,359	$ 2,000,539	$ 3,121,550	$ 15,867,885	$ 15,867,885

The accompanying notes form an integral part of these combined financial statements

AQUINOX PHARMACEUTICALS (USA) INC. AND
AQUINOX PHARMACEUTICALS INC.
(the development stage companies)

Notes to the combined financial statements
(Expressed in U.S. dollars)

1. Nature of operations

Aquinox Pharmaceuticals (USA) Inc. and Aquinox Pharmaceuticals Inc. (combined the "Companies"—see note 2 basis of presentation) are a clinical stage pharmaceutical company discovering and developing oral drug candidates to treat inflammation and cancer. The Companies' primary focus is anti-inflammatory product candidates targeting SHIP1 which is a key regulator of a cellular signaling pathway in immune cells.

2. Basis of presentation and summary of significant accounting policies

The accompanying financial statements are presented in United States ("U.S.") dollars and have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Aquinox Pharmaceuticals Inc. ("AQXP Canada"), formerly 6175813 Canada Inc. was incorporated under the Canada Business Corporations Act on December 26, 2003 and operates in Richmond, British Columbia, Canada. Aquinox Pharmaceuticals (USA) Inc. ("Aquinox USA") was incorporated on May 31, 2007 in the State of Delaware, United States. On June 8, 2007, AQXP Canada implemented a restructuring plan to facilitate investment in either AQXP Canada or Aquinox USA. Management has determined that AQXP Canada and Aquinox USA are entities under common control as each of AQXP Canada and Aquinox USA is owned beneficially by identical shareholders and as such the basis of presentation of these financial statements is on a combined basis. These combined financial statements reflect the operations of both Aquinox USA and AQXP Canada and the historical results of Aquinox USA and AQXP Canada since inception. All intercompany transactions have been eliminated.

For the period from inception on December 26, 2003 through September 30, 2013, the Companies are a development stage enterprise, as planned principal operations had not yet begun to generate revenues. In its development stage, all pre-operating costs are being expensed as incurred. The statements of operations and comprehensive loss, convertible preferred stock and stockholders' deficit, and cash flows present the cumulative combined financial information of the Companies for the period from inception on December 26, 2003 through December 31, 2012, and for the period from inception on December 26, 2003 through September 30, 2013 (unaudited).

These combined financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business for a reasonable period of time. Successful completion of the Companies' development program and, ultimately, the attainment of profitable operations, are dependent upon future events, including obtaining adequate financing to fulfill the Companies' development activities, obtaining regulatory approval, and achieving a level of revenues adequate to support the Companies' cost structure. Since inception, the Companies have not been profitable and have incurred operating losses each year. The Companies have not generated revenue from any product sales or partnerships to date and expect operating losses and negative cash flows to continue as costs and expenses are incurred during clinical trials and product development. The Companies have funded their operations primarily through the sale and issuance of preferred stock (see note 8 redeemable convertible preferred stock) and the issuance of debt (see note 15); the preferred stock is redeemable in 2018 or automatically converts in the event of a qualified IPO or upon preferred shareholder approval.

The accompanying combined balance sheet as of September 30, 2013, the combined statements of operations and comprehensive loss, and cash flows for the nine months period ended September 30, 2012, September 30, 2013 and for the period from December 26, 2003 (inception) to September 30, 2013, and the combined statement of convertible preferred stock and stockholders' deficit for the nine months ended September 30, 2013 are unaudited. The unaudited interim combined financial statements have been prepared on the same basis as the annual combined financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Companies' combined financial position as of September 30, 2013 and results of operations and cash flows for the nine months ended September 30, 2012,

September 30, 2013 and for the period from December 26, 2003 (inception) to September 30, 2013. The financial data and the other information disclosed in these notes to the combined financial statements related to these nine month periods are unaudited.

The unaudited pro forma balance sheet gives effect to the share exchange to take place prior to the consummation of the initial public offering contemplated by the Companies. Each outstanding exchange common share of AQXP Canada will be exchanged for one common share of Aquinox USA and each outstanding preferred stock of AQXP Canada will be exchanged for one redeemable convertible preferred stock of Aquinox USA. Immediately following this exchange, all of the outstanding shares of redeemable convertible preferred stock of Aquinox USA will convert to shares of common stock of Aquinox USA. This exchange will also result in the non-cash accrued tax payable and the redemption option on preferred stock being derecognized. The September 30, 2013 unaudited pro forma balance sheet gives effect to these exchanges as if they had occurred on September 30, 2013. As a result of the exchange, AQXP Canada will become a 100% owned subsidiary of Aquinox USA.

The following is a summary of significant accounting policies used in the preparation of these combined financial statements.

(a) Foreign currency translation and transactions

The functional currency of the Companies is the U.S. dollar. As such, monetary assets and liabilities of the Companies' operations denominated in a currency other than the U.S. dollar are re-measured into U.S. dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are re-measured at the average exchange rates prevailing during the period, with the exception of amortization which is translated at historical exchange rates. Exchange gains and losses on translation are included the statement of operations and comprehensive loss.

(b) Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting period. Significant areas requiring management estimates are assessment that the going concern assumption is appropriate, valuation of intangible assets, valuation of redeemable preferred stock, valuation of stock options and warrants, amortization and depreciation, valuation allowance for deferred income taxes, and contingencies. Actual results could differ from those estimates.

(c) Cash equivalents

Cash equivalents are comprised of general investment certificates, money market funds, and term deposits purchased with an original maturity of three months or less.

(d) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization of property and equipment has been provided using the straight-line basis over a range of five to seven years, except for leasehold improvements which are amortized over the lesser of useful life and term of lease.

The Companies review the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on management's assessment there was no impairment of property and equipment as of December 31, 2011 and 2012, and September 30, 2013.

(e) Intangible assets

License costs represent the fair value of the consideration paid to acquire the exclusive rights to certain technology and is being amortized on a straight-line basis over their estimated useful lives which range between 10 and 20 years. Intangible assets with finite lives are tested for impairment whenever events or circumstances indicate that their carrying amounts may not be recoverable.

(f) Taxes

The Companies account for income taxes using *ASC 740, Income Taxes* which is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Companies' financial statements or tax returns. In estimating future tax consequences, ASC 740 generally considers all expected future events other than enactments of and changes in the tax law or rates. The measurement of deferred tax assets is reduced, if necessary, by the amount of any tax benefits that, based on available evidence, are not expected to be realized. Valuation allowances are provided if, after considering other available evidence it is more likely than not that deferred tax assets will not be realized. ASC 740 clarifies the criteria that must be met prior to recognition of the financial statement benefit of a position taken in a tax return. ASC 740 provides a benefit recognition model with a two-step approach consisting of a "more-likely-than-not" recognition criteria, and a measurement attribute that measures a given tax position as the largest amount of tax benefits that are more than 50% likely of being realized upon ultimate settlement. ASC 740 also requires the recognition of liabilities created by differences between tax positions taken in a tax return and amounts recognized in the financial statements.

Investment tax credits relating to scientific research and experimental development are accounted for in operations. To the extent there is reasonable assurance the credits will be realized, they are recorded in the period the related expenditure is made as an income tax (provision) recovery. If investment tax credit amounts subsequently received are less or more than originally recorded, the difference is treated as a change in estimate.

Canadian tax rules impose a tax with respect to Canadian corporation taxable preferred stock and their liquidation rights. AQXP Canada records this tax on preferred stock as a non-current accrued tax payable on its balance sheet and also records it as part of total loss attributable to common stockholders, the same basis as it records the accretion of preferred stock.

(g) Derivative liabilities and fair value of financial instruments

The Companies account for currently outstanding detachable warrants to purchase preferred stock or common stock as liabilities as they are freestanding derivative financial instruments. The warrants are recorded as liabilities at fair value, estimated using a Black-Scholes option pricing model, and marked to market at each balance sheet date, with changes in the fair value of the derivative liabilities recorded in the combined statements of operations. The Companies allocate the total consideration received for issuing preferred stock and warrants based on the relative fair value of each security at the date of issuance. This allocation results in a discount to the initial carrying amount of the preferred stock at the date of issuance. This discount is amortized over the life of the preferred stock and is recorded as "amortization of discount of preferred stock" in the combined statements of operations.

The Companies also evaluate and account for conversion and redemption options embedded in convertible instruments as they can be free standing derivative financial instruments depending on certain criteria. If they are determined to be free standing derivative financial instruments, the Companies record these as preferred stock embedded derivatives on their combined balance sheets at fair value with changes in the fair values of these derivatives recorded in the combined statements of operations.

ASC 820, Fair Value Measurements requires disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. It also clarifies existing fair value disclosures regarding the level of disaggregation and the inputs and valuation techniques used to measure fair value. ASC 820 defines fair value as the amounts that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The guidance also established a fair value hierarchy that prioritizes the use of inputs used in valuation techniques into the following three levels:

Level 1—Quoted prices in active markets for identical assets or liabilities.

Level 2—Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(h) Redeemable convertible preferred stock

The Companies classify redeemable convertible preferred stock that is redeemable outside of the Companies' control as mezzanine equity. The Companies record such redeemable convertible preferred stock at fair value upon issuance (see note 2(g)), net of any issuance costs or discounts. The carrying value of the redeemable convertible preferred stock is increased by periodic accretion to its redemption value.

In the absence of retained earnings, the Companies accretion is recorded within additional paid-in capital to the extent there is a sufficient balance, rather than accumulated deficit. Only after exhausting the balance of accumulated paid-in capital, is the accretion recorded to accumulated deficit.

(i) Research and development costs

Research and development costs are charged to expense as incurred and include, but are not limited to, employee related expenses, including salaries and benefits, expenses incurred under agreements with contract research organizations and investigative sites that conduct clinical trials and preclinical studies, the cost of acquiring, developing and manufacturing clinical trial materials, facilities, and other expenses, which include direct and allocated expenses for rent and maintenance of facilities, and other supplies and costs associated with clinical trials, preclinical activities, and regulatory operations.

Development costs are expensed in the period incurred unless management believes a development project meets generally accepted accounting criteria for deferral and amortization. No product development expenditures have been deferred to date. The Companies record costs for certain development activities, such as clinical trials, based on management's evaluation of the progress to completion of specific tasks using data such as patient enrollment, clinical site activations, or information provided to the Companies by vendors on their actual costs incurred. Payments for these activities are based on the terms of the individual arrangements, which may differ from the pattern of costs incurred, and are reflected in the combined financial statements as prepaid or accrued expense, as the case may be.

(j) Accounting for stock-based compensation

The Companies measure the cost of services received in exchange for an award of equity instruments based on the grant-date fair value of the award. The cost of such award will be recognized over the period during which services are provided in exchange for the award, generally the vesting period. All share-based payments to employees are recognized in the financial statements based upon their respective grant date fair values.

The Companies estimate the fair value of options granted using the Black-Scholes option pricing model. This approximation uses assumptions regarding a number of inputs that requires management to make significant estimates and judgments. Since prior to the completion of this offering, the Companies' common stock was not publicly traded, the expected volatility assumption was based on industry peer information. Additionally, because the Companies have no significant history to calculate the expected term, the simplified method calculation was used.

(k) Segment reporting

Management has determined that the Companies' operation, and how they manage the business, is one segment being the identification and development of therapeutics for inflammatory diseases and cancer. All of the Companies' operations are performed in Canada. Total assets held in the U.S., comprised primarily of cash and cash equivalents, are $689,666 as of December 31, 2011, $691,122 as of December 31, 2012 and $4,196,556 as of September 30, 2013.

(l) Loss per share

The Companies present their loss per share on a combined basis. Aquinox USA may not issue dividends, shares, rights, options or warrants without the prior approval of AQXP Canada, or engage in subdivisions, consolidations, reclassifications, or the like, without equivalent economic provisions for AQXP Canada shares, therefore a combined basis of presentation is used.

Basic and diluted net loss per common share is presented using the two-class method required for participating securities. If a dividend is paid on common stock, the holders of preferred stock are entitled to a proportionate

share of any such dividend as if they were holders of common stock (on an if-converted basis). The Companies consider their preferred stock to be participating securities and, in accordance with the two-class method, earnings allocated to participating securities and the related number of outstanding shares of participating securities have been excluded from the computation of basic and diluted net loss per common share.

Basic loss per common share is computed by dividing loss by the weighted-average number of common shares outstanding during the period. Diluted net earnings per common share is determined using the weighted-average number of common shares outstanding during the period, adjusted for the dilutive effect of common stock equivalents, consisting of shares that might be issued upon exercise of common stock options, warrants, and preferred stock. In periods where losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents because their inclusion would be anti-dilutive.

The unaudited pro forma net loss per share, and the unaudited pro forma basic and diluted net loss per share for the year ended December 31, 2012 and for the nine month period ended September 30, 2013 reflects the effective conversion as described above, of all outstanding shares into common stock of Aquinox USA. The unaudited pro forma basic and diluted net loss per share has been presented in accordance with SEC Staff Accounting Bulletin Topic I.B.3. The numerator in the pro forma basic and diluted net loss per share calculation has been adjusted to remove gains and losses resulting from the exchange.

(m) Recently adopted accounting standards

In May 2011, the Financial Accounting Standards Board (“FASB”) issued amendments to disclosure requirements for common fair value measurement. These amendments were effective for the Companies for the year ended December 31, 2012.

In February 2013, the FASB issued ASU 2013-02 to improve the reporting of reclassifications out of accumulated other comprehensive income (loss). This ASU provides that companies must report the effect of significant reclassifications out of accumulated comprehensive income (loss) on the respective line items in net income (loss). For other amounts that are not required to be reclassified in their entirety to net income (loss), an entity may cross reference to the relevant note disclosure. The Companies adopted this ASU on January 1, 2013.

In June 2011, the FASB issued amendments to disclosure requirements for the presentation of comprehensive income. These amendments were effective retrospectively for the Companies for the year ended December 31, 2012 and it requires the presentation of total comprehensive income (loss), the components of net income (loss), and the components of other comprehensive income (loss) either in a single continuous statement of comprehensive income (loss) or in two separate but consecutive statements.

(n) Recent accounting pronouncements

In March 2013, the FASB issued ASU 2013-05 to provide guidance on releasing cumulative translation adjustments when a reporting entity parent ceases to have a controlling financial interest in a subsidiary or group of assets that is a non-profit activity or a business within a foreign entity. The Companies are required to adopt this ASU effective January 1, 2014.

In July 2013, the FASB issued ASU 2013-11 to clarify that an unrecognized tax benefit, or a portion thereof, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except to the extent that a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date to settle any additional income taxes that would result from disallowance of a tax position, or the tax law does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, then the unrecognized tax benefit should be presented as a liability. The Companies are required to adopt this ASU effective January 1, 2014.

The adoption of the ASUs described above is not expected to have a significant impact on the Companies’ disclosure, financial position, and results of operations.

3. Cash and cash equivalents

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013
Cash	$ 8,550,527	$ 1,330,322	$ 2,315,199
Cash equivalents	688,661	670,217	13,552,686
	$ 9,239,188	$ 2,000,539	$ 15,867,885

4. Accounts and other amounts receivable

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013
Refundable goods and services tax	$ 39,736	$ 28,302	$ 33,091
Other	—	243	1,001
	$ 39,736	$ 28,545	$ 34,092

5. Property and equipment

	DECEMBER 31, 2011		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Laboratory equipment	$295,409	$ 168,547	$126,862
Leasehold improvements	94,217	28,220	65,997
Office computers and operating systems	81,809	40,409	41,400
Office furniture and equipment	74,456	49,334	25,122
	$545,891	$ 286,510	$259,381

	DECEMBER 31, 2012		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Laboratory equipment	$295,409	$ 226,923	$ 68,486
Leasehold improvements	94,217	46,257	47,960
Office computers and operating systems	88,256	59,514	28,742
Office furniture and equipment	74,456	61,843	12,613
	$552,338	$ 394,537	$157,801

	SEPTEMBER 30, 2013		
	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Laboratory equipment	$ 59,523	$ 48,302	$ 11,221
Leasehold improvements	94,217	59,785	34,432
Office computers and operating systems	95,489	70,074	25,415
Office furniture and equipment	74,456	65,885	8,571
	$323,685	$ 244,046	$ 79,639

AQXP Canada sold laboratory equipment during the 9 month period ended September 30, 2013 for proceeds of $181,628. The laboratory equipment had historical costs of $235,898, and accumulated amortization of $178,623. A gain of $124,353 was recognized and recorded under Sale of equipment on the combined statement of operations and comprehensive loss for the nine months period ended September 30, 2013.

6. Intangible assets

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013
License costs	$ 228,464	$ 228,464	$ 228,464
Less: Accumulated amortization	(120,442)	(143,200)	(160,269)
	$ 108,022	$ 85,264	$ 68,195

Intangible assets relating to SHIP1 product candidates

In June 2006, AQXP Canada entered into an exclusive license agreement with the University of British Columbia (“UBC”), which was subsequently amended in October 2006, June 2007, September 2008, April 2010, and June 2010. Pursuant to this agreement, UBC granted AQXP Canada a worldwide license to certain small molecule compounds and pharmaceutical compositions that are modulators of SHIP1 activity. The agreement expires at the earlier of the last expiry of any patent obtained related to the technology or through enactment of one of the termination clauses stipulated in the agreement.

The terms of the agreement required AQXP Canada to pay an initial license fee of Canadian $50,000 which was settled by the issuance of 100,000 of common exchangeable shares of AQXP Canada as consideration. Under the terms of the agreement, UBC will be paid low single-digit royalties in respect to any future revenues on aggregate worldwide net sales of products covered by the licensed patents, a percentage of sublicensing revenue, reimbursement of patent costs incurred by UBC related to the technology, an annual maintenance fee, and contingent payments subject to achieving certain development milestones totaling up to Canadian $2,200,000 for the first drug product and Canadian $1,500,000 for each subsequent drug product paid in cash or shares. AQXP Canada paid annual maintenance fees of Canadian $1,000 related to this agreement during the years ended December 31, 2011 and 2012 and $1,000 for the nine month periods ended September 30, 2012 and 2013. AQXP Canada does not currently have any product candidates under development that are covered by the UBC license agreement.

Intangible assets relating to the SHIP1 enzyme and screening of product candidates

In May 2005, AQXP Canada entered into an assignment agreement, which was subsequently amended in December 2005 and March 2006, with the British Columbia Cancer Agency (“BCCA”) and StemCell Technologies, Inc. (“STI”), for the assignment to AQXP Canada of the 2002 exclusive license agreement between BCCA and STI to certain patents relating to technology relating to SHIP1. The license agreement between AQXP Canada and BCCA was amended and restated on August 9, 2006 and on June 8, 2007. This agreement has subsequently been amended in June 2008 to revise the schedule of the technology licensed under this agreement, and further amended in February 2013. Pursuant to this agreement, as amended, BCCA has granted AQXP Canada an exclusive worldwide license to certain of its intellectual property relating to core SHIP1 technology, and screening of compounds for activity using SHIP1, including the C2 binding domain. The agreement is to expire at the later of 20 years from the effective date of the agreement or upon the expiration of the last patent covered by the license. The terms of the assignment agreement among STI, BCCA and AQXP Canada required AQXP Canada to pay an assignment license fee of Canadian $150,000, paid in stages beginning May 2005 and ending March 2006. AQXP Canada does not currently have any product candidates under development that are covered by the BCCA license agreement, nor have AQXP Canada sublicensed its rights under the licensed patents. However, if AQXP Canada develops products covered by the BCCA technology in the future, AQXP Canada will be required to pay BCCA low single-digit royalties based on aggregate worldwide net sales of products covered by the licensed patents, and if AQXP Canada sublicenses any rights to the technology, a low double digit percentage of sublicensing revenue. AQXP Canada is also required to reimburse BCCA’s patent costs incurred in relation to the licensed technology, and pay an annual maintenance fee in the amount of Canadian $5,000. The AQXP Canada license with BCCA will terminate

automatically upon the Companies' insolvency, and may be terminated by either party for material breach by the other party. There were annual maintenance fees of Canadian $5,000 related to this agreement during the twelve-month periods ended December 31, 2011 and December 31, 2012 and Canadian $5,000 for the nine months ended September 30, 2012 and September 30, 2013.

Intangible assets relating to patent rights

In August 2009, AQXP Canada entered into an asset purchase agreement with Biolipox AB of Sweden for the purchase of certain assets, including patent rights relating exclusively or principally to a specific class of compounds, which include AQX-1125.

The terms of the agreement required AQXP Canada to pay Canadian $50,000 immediately. Upon the first submission to the FDA of an IND for a compound from the acquired class of compounds, AQXP Canada will be required to pay an additional Canadian $250,000 in common exchangeable shares, Canadian special voting shares, and U.S. common special voting shares. A further one-time Canadian $3,000,000 milestone payment is payable within 30 days of the commitment of financial resources by the Boards of Directors to advance one of the compound from the acquired class of compounds into a Phase 3 clinical trial. Certain other milestone payments, totaling Canadian $1,500,000 are payable upon the first commercial sale following regulatory approval of the first compound in each of the United States, Europe and Japan. The development of the technology is actively proceeding. There are no royalty payments due under this agreement. There were no expenses incurred by AQXP Canada relating to this agreement during the years ended December 31, 2011 and 2012 and the nine months periods ended September 30, 2012 and 2013.

7. Accounts payable and accrued liabilities

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013
Trade accounts payable	$ 317,498	$ 188,541	$ 1,138,717
Accrued clinical study fees	—	—	872,068
Accrued compensation and vacation	117,134	80,585	5,565
Accrued professional fees	40,000	40,000	25,000
Other accruals	123,855	62,302	13,310
	$ 598,487	$ 371,428	$ 2,054,660

8. Redeemable convertible preferred stock

Authorized

Aquinox USA is authorized to issue the following preferred stock as of December 31, 2012 and September 30, 2013 with $0.000001 par value as follows:

TYPE	DECEMBER 31, 2011 AND 2012 NUMBER	SEPTEMBER 30, 2013 NUMBER
Series A Preferred Stock	28,213,224	27,914,951
Series B Preferred Stock	46,912,440	45,454,535
Series C Preferred Stock	—	45,793,738

AQXP Canada is authorized to issue the following preferred stock as of December 31, 2012 and September 30, 2013 with no par value as follows:

TYPE	DECEMBER 31, 2011 AND 2012 NUMBER	SEPTEMBER 30, 2013 NUMBER
Series A Exchangeable Preferred Shares	Unlimited	Unlimited
Series B Exchangeable Preferred Shares	Unlimited	Unlimited
Series C Exchangeable Preferred Shares	None	Unlimited
Non-Voting Preferred Shares	Unlimited	Unlimited

The Series A, B and C preferred stock have the following attributes:

(i) Dividends: Preferred stock will receive a dividend simultaneously to common stockholders on an as-converted to common stock basis. These are non-cumulative and at the discretion of directors.

(ii) Voting rights: Series preferred and common stockholders vote together as a single class on an as-converted to common stock basis.

(iii) Liquidation preference: The Series C preferred stock is senior to Series A and Series B preferred stock with respect to dividend and redemption rights. In voluntary or involuntary liquidation, dissolution, change of control or winding up of the Companies, the Series C preferred stockholders will receive two times the original issue price of the preferred stock, plus 8% per annum of the original issue price compounded annually, and all declared but unpaid dividends on preferred stock. After payment of the Series C preference, the Series A and Series B stockholders will receive the original issue price per share of such series of preferred stock, plus 8% per annum of the original issue price compounded annually, and all declared but unpaid dividends on preferred stock. Assets and funds are then distributed pro rata to preferred stockholders and common stockholders until the holders of preferred stock have received total payments equal to three times the applicable original issue price. Any remaining assets and funds are distributed to the common stockholders.

(iv) Conversion options:

a. Optional Conversion: Preferred stock are convertible at any time at the option of the holder at a per share conversion price of $0.55 per share; or

b. Automatic Conversion: automatic conversion occurs in the event of (1) a qualified IPO; or (2) upon preferred stockholder approval.

(v) Redemption options:

a. Optional redemption: Preferred stock can be redeemed at the written request of holders of at least 65% of the preferred stock and preferred special voting stock at the liquidation preference as defined above. Redemption must be at least 5 years after the closing date of each Series. Upon any subsequent issuance of Series A, B, or C the redemption date of all issued series is automatically reset to 5 years from the latest issuance date. If shares subject to redemption are not redeemed due to funds being unavailable, these continue to be outstanding and entitled to all dividends, liquidation, conversion, and other preferences of series preferred shares until converted or redeemed; and

b. Mandatory redemption: Preferred stock shall be redeemed in the case of a liquidating event such as voluntary or involuntary liquidation, dissolution, or sale of the Companies.

On June 8, 2007, AQXP Canada implemented a share reorganization to facilitate investment in either AQXP Canada or Aquinox USA. As a result of the reorganization, the holders of 5,793,776 AQXP Canada new common shares exchanged these shares for 5,793,776 AQXP Canada common exchangeable shares, and an equal number of Aquinox USA common special voting stock and AQXP Canada special voting shares.

Issuances of Series A preferred stock

In June and July 2007, AQXP Canada issued 9,733,139 of Series A preferred stock at $0.55 and $0.495 per share, respectively, for total consideration of $5,353,227 before issue costs of $360,515. In addition to the Series A preferred stock, in June and July 2007 Aquinox USA also issued 9,733,139 of Series A Aquinox USA special voting stock and AQXP Canada also issued 9,733,139 of Series A AQXP Canada special voting shares.

In June and July 2007, Aquinox USA issued 7,636,361 of Series A preferred stock at $0.55 and $0.495 per share, respectively, for total consideration of $4,200,000 before issue costs of $313,068. In addition to the Series A preferred stock, in June and July 2007 AQXP also issued 7,636,361 of Series A AQXP Canada special voting shares.

In February 2008, AQXP Canada issued 2,727,271 of Series A preferred stock at $0.55 per share for total consideration of $1,500,000 before issue costs of $17,064. In addition to the Series A preferred stock, in February 2008 Aquinox USA also issued 2,727,271 of Series A Aquinox USA special voting stock and AQXP Canada also issued 2,727,271 of Series A AQXP Canada special voting shares.

In February 2008, Aquinox USA issued 2,545,453 of Series A preferred stock at $0.55 per share for total consideration of $1,400,000 before issue costs of $15,927. In addition to the Series A preferred stock, in February 2008 AQXP Canada also issued 2,545,453 of Series A AQXP Canada special voting shares.

In February 2009, AQXP Canada issued 2,727,723 of Series A preferred stock at $0.55 per share for total consideration of $1,500,000 before issue costs of $32,492. In addition to the Series A preferred stock, in February 2009 Aquinox USA also issued 2,727,273 of Series A Aquinox USA special voting stock and AQXP Canada also issued 2,727,273 of Series A AQXP Canada special voting shares.

In February 2009, Aquinox USA issued 2,545,454 of Series A preferred stock at $0.55 per share for total consideration of $1,400,000 before issue costs of $30,325. In addition to the Series A preferred stock, in February 2009 AQXP Canada also issued 2,545,454 of Series A AQXP Canada special voting shares.

Issuances of Series B preferred stock

In March and June 2010, AQXP Canada issued 8,150,408 of Series B preferred stock at $0.55 per share for total consideration of $4,482,726 before issue costs of $147,408. In addition to the Series B preferred stock, in 2010 Aquinox USA also issued 8,150,408 of Series B Aquinox USA special voting stock and AQXP Canada also issued 8,150,408 of Series B AQXP Canada special voting shares.

In March and June 2010, Aquinox USA issued 15,198,240 of Series B preferred stock at $0.55 per share for total consideration of $8,359,033 before issue costs of $274,875. In addition to the Series B preferred stock, in 2010 AQXP Canada also issued 15,198,240 of Series B AQXP Canada special voting shares.

In January and September 2011, AQXP Canada issued 7,087,100 of Series B preferred stock at $0.55 per share for total consideration of $3,897,905 before issue costs of $12,269. In addition to the Series B preferred stock, in 2011 Aquinox USA also issued 7,087,100 of Series B Aquinox USA special voting stock and AQXP Canada also issued 7,0871,00 of Series B AQXP Canada special voting shares.

In January and September 2011, Aquinox USA issued 15,018,787 of Series B preferred stock at $0.55 per share for total consideration of $8,260,333 before issue costs of $26,000. In addition to the Series B preferred stock, in 2011 AQXP Canada also issued 15,018,787 of Series B AQXP Canada special voting shares.

Issuances of warrants associated with the issuances of Series B preferred stock

Concurrent with the issuance of Series B preferred stock in March 2010, the Companies also issued warrants to holders of the Series B preferred stock. The warrants were exercisable into the Companies' common stock and were recorded as liabilities with their fair value estimated using a Black-Scholes option-pricing model which was recorded in the combined financial statements as change in fair value of derivative liabilities. The warrants expired in June 2010.

Issuances of Series C preferred stock

On March 19, 2013, AQXP Canada issued 7,272,701 of Series C preferred stock at $0.55 per share for total consideration of $3,999,986 before issue costs of $49,758. In addition to the Series C preferred stock, in 2013 Aquinox USA also issued 7,272,701 of Series C Aquinox USA special voting stock, and AQXP Canada also issued 7,272,701 of Series C AQXP Canada special voting shares. Upon issuance of Series C the redemption date of Series A and B was reset to March 19, 2018.

On March 19, 2013, Aquinox USA issued 25,454,500 of Series C preferred stock at $0.55 per share for total consideration of $13,999,975 before issue costs of $174,153. In addition to the Series C preferred stock, in 2013 AQXP Canada also issued 25,454,500 of Series C AQXP Canada special voting shares. Upon issuance of Series C the redemption date of Series A and B was reset to March 19, 2018. Concurrent with the issuance of Series C preferred stock in March 2013, Aquinox USA also issued 339,287 warrants to holders of the Series C preferred stock. The warrants are exercisable into Series C preferred stock and the expiration date of the warrants is the earliest of the date of conversion of Series C preferred stock or March 2023.

Accounting for Series A, B and C preferred stock

The Series A, Series B and Series C preferred stock and Series A, Series B and Series C exchangeable preferred shares, collectively, the "preferred stock" are redeemable convertible preferred stock which are convertible into the Companies' common stock and are classified as mezzanine equity for accounting purposes as they are redeemable on contingent events, and are redeemable at the option of the holder. The preferred stock are labeled within the convertible preferred stock and stockholders' deficit as AQXP Canada non-voting exchangeable preferred shares, and Aquinox USA exchangeable preferred stock.

The special voting shares associated with the preferred stock and the "special voting stock" do not in management's judgment meet the definition of mezzanine equity and accordingly are labeled within the combined statements of convertible preferred stock and stockholders' deficit as AQXP Canada special voting shares and Aquinox USA special voting shares.

The common exchangeable shares associated with the preferred stock the “non-voting shares” do not in management’s judgment meet the definition of mezzanine equity and accordingly are labeled within the combined statements of convertible preferred stock and stockholders’ deficit as AQXP Canada common exchangeable shares.

Management evaluated the Series A and Series B preferred stock agreements and determined that there are no embedded conversion features and redemption options that are required to be bifurcated and accounted for separately as derivative financial instruments in the combined financial statements. The Companies recorded the Series A, Series B and Series C preferred stock at fair value upon issuance, with their carrying value increased by periodic accretion to their redemption value. The accretion is calculated using the liquidation preference of 8% per annum of the original issue price compounded annually over the period through the respective redemption dates.

Concurrent with the issuance of Series C preferred stock in March 2013, the Companies also amended their respective certificates of incorporation, revising the terms, rights, and liquidation preferences for Series A and B preferred stock which required management to re-assess their previous embedded derivative analyses with respect to previous preferred stock offerings. As a result the Companies bifurcated the embedded mandatory redemption option based on contingent events in Series A, Series B and Series C preferred stock as it was determined the redemption option was no longer clearly and closely related to preferred stock host contract on March 19, 2013. The Companies recorded the fair value of the embedded redemption options for Series A, Series B and Series C as derivative liabilities with changes in fair value of the liabilities reflected in the combined statement of operations as changes in fair value of derivative liabilities.

The table below discloses the accounting values assigned to the Series A, Series B and Series C preferred stock from their respective inceptions to September 30, 2013. The Companies recorded the Series A, Series B and Series C redeemable convertible stock at fair value upon issuance, with their carrying value increased by periodic accretion to their redemption value.

	SERIES A PREFERRED STOCK			
	AQXP CANADA EXCHANGEABLE PREFERRED SHARES		AQUINOX USA PREFERRED STOCK	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BALANCES—December 31, 2006	—	$ —	—	$ —
Issuance of preferred stock, net of issuance costs of $360,517 for AQXP Canada and $313,108 for Aquinox USA	8,792,634	4,472,042	7,636,361	3,886,892
Issuance of preferred stock on conversion of convertible promissory note	940,505	520,668	—	—
Accretion for liquidation preference on preferred stock	—	245,162	—	196,000
Accretion for share issuance costs on preferred stock	—	34,800	—	30,224
BALANCES—December 31, 2007	9,733,139	5,272,672	7,636,361	4,113,116
Issuance of preferred stock, net of issuance costs of $17,064 for AQXP Canada and $15,927 for Aquinox USA	2,727,271	1,482,936	2,545,453	1,384,073
Accretion for liquidation preference on preferred stock	—	553,808	—	454,346
Accretion for share issuance costs on preferred stock	—	74,650	—	65,108
BALANCES—December 31, 2008	12,460,410	7,384,066	10,181,814	6,016,643
Issuance of preferred stock, net of issuance costs of $32,492 for AQXP Canada and $30,325 for Aquinox USA	2,727,273	1,467,508	2,545,454	1,369,675
Accretion for liquidation preference on preferred stock	—	708,037	—	593,363
Accretion for share issuance costs on preferred stock	—	84,954	—	74,657
BALANCES—December 31, 2009	15,187,683	9,644,566	12,727,268	8,054,338
Accretion for liquidation preference on preferred stock	—	784,681	—	659,500
Accretion for share issuance costs on preferred stock	—	49,090	—	43,046
BALANCES—December 31, 2010	15,187,683	10,478,337	12,727,268	8,756,884
Accretion for liquidation preference on preferred stock	—	847,455	—	712,256
Accretion for share issuance costs on preferred stock	—	39,504	—	34,720
BALANCES—December 31, 2011	15,187,683	11,365,296	12,727,268	9,503,860
Accretion for liquidation preference on preferred stock	—	915,252	—	769,236
Accretion for share issuance costs on preferred stock	—	39,751	—	34,936
BALANCES—December 31, 2012	15,187,683	$ 12,320,298	12,727,268	$ 10,308,032
Accretion for liquidation preference on preferred stock	—	741,354	—	623,079
Accretion for share issuance costs on preferred stock	—	17,236	—	15,143
BALANCES—September, 2013	15,187,683	$ 13,078,888	12,727,268	$ 10,946,254

	SERIES B PREFERRED STOCK			
	AQXP CANADA EXCHANGEABLE PREFERRED SHARES		AQUINOX USA PREFERRED STOCK	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BALANCES—December 31, 2009	—	—	—	—
Issuance of preferred stock, net of issuance costs of $147,408 for AQXP Canada and $274,875 for Aquinox USA	8,150,408	$ 4,335,318	15,198,240	$ 8,084,158
Warrant discount of $226,624	—	(109,115)	—	(117,509)
Accretion for liquidation preference on preferred stock	—	268,964	—	454,456
Accretion for share issuance costs on preferred stock	—	29,089	—	54,242
Amortization of warrant discount	—	16,442	—	17,706
BALANCES—December 31, 2010	8,150,408	4,540,698	15,198,240	8,493,053
Issuance of preferred stock, net of issuance costs of $12,269 for AQXP Canada and $26,000 for Aquinox USA	7,087,100	3,885,636	15,018,787	8,234,333
Accretion for liquidation preference on preferred stock	—	597,665	—	1,145,824
Accretion for share issuance costs on preferred stock	—	31,005	—	58,254
Amortization of warrant discount	—	21,822	—	23,501
BALANCES—December 31, 2011	15,237,508	9,076,826	30,217,027	17,954,966
Accretion for liquidation preference on preferred stock	—	732,180	—	1,443,472
Accretion for share issuance costs on preferred stock	—	32,545	—	61,470
Amortization of warrant discount	—	21,882	—	23,566
BALANCES—December 31, 2012	15,237,508	$ 9,863,434	30,217,027	$ 19,483,474
Accretion for liquidation preference on preferred stock	—	585,975	—	1,163,187
Accretion for share issuance costs on preferred stock	—	14,411	—	27,310
Amortization of warrant discount	—	16,322	—	17,578
BALANCES—September 30, 2013	15,237,508	$ 10,480,142	30,217,027	$ 20,691,549

	SERIES C PREFERRED STOCK			
	AQXP CANADA EXCHANGEABLE PREFERRED SHARES		AQUINOX USA PREFERRED STOCK	
	NUMBER	AMOUNT	NUMBER	AMOUNT
BALANCES—December 31, 2012	—	$ —	—	$ —
Issuance of preferred stock, net of issuance costs of $49,758 for AQXP Canada and $174,153 for Aquinox USA	7,272,701	3,950,228	25,454,500	13,825,822
Warrant discount of $68,920 for Aquinox USA	—	—	—	(68,920)
Redemption discount of $466,673 for AQXP Canada and $1,633,358 for Aquinox USA	—	(466,673)	—	(1,633,357)
Accretion for liquidation preference on preferred stock	—	186,667	—	653,333
Accretion for share issuance costs on preferred stock	—	4,875	—	17,064
Amortization of warrant discount	—	—	—	7,364
Amortization of redemption option discount	—	49,863	—	174,523
BALANCES—September 30, 2013	7,272,701	$ 3,724,960	25,454,500	$ 12,975,829

9. Warrants

The Companies issued 339,287 preferred stock purchase warrants in their Series C offering, exercisable at $0.01 per warrant. The companies account for these warrants to purchase preferred stock or common stock as liabilities. The warrants are recorded at fair value, estimated using the Black-Scholes option pricing model, and marked to market at each combined balance sheet date with changes in the fair value of the liability recorded in the combined statements of operations. These warrants expire in 2023. A summary of warrants as at December 31, 2011, 2012 and September 30, 2013 is as follows:

	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2013
Derivative warrant liabilities	$ —	$ —	$ 68,919
Changes in fair value of warrant liabilities	—	—	152,501
	$ —	$ —	$ 221,420

10. Common shares

(a) Authorized

On June 8, 2007, AQXP Canada implemented a share reorganization to facilitate investment in either AQXP Canada or Aquinox USA. As a result of the reorganization, there is one new common share issued by AQXP Canada and common stock and special voting stock of AQXP Canada were exchanged for non-voting exchangeable common stock of AQXP Canada and special voting stock of Aquinox USA.

AQXP CANADA	AUTHORIZED	AQUINOX USA	AUTHORIZED
(1) New Common Shares	10	(1) Common stock	139,266,037
(2) Exchangeable Common Shares	unlimited	(2) Special Voting common stock	69,027,955
(3) Special Voting Common Shares	unlimited	(3) Series A Special Voting common stock	15,187,683
		(4) Series B Special Voting common stock	15,237,508
		(5) Series C Special Voting common stock	19,999,951

(b) Stock option plan

In June 2006, the shareholders of AQXP Canada approved a stock option plan ("Original Plan") providing for the granting of options to directors, employees, and consultants. Under the terms of the Original Plan, AQXP Canada was authorized to grant options to purchase up to 1,500,000 common shares. Upon closing of a private placement on June 8, 2007, the Original Plan was amalgamated into the newly implemented Joint Canadian Stock Plan ("2006 Plan") and the number of shares that may be reserved for issuance increased to 2,750,000.

In conjunction the first closing of Series B financing on March 31, 2010, the Companies increased the maximum number of common shares which may be directly or indirectly issuable pursuant to options granted under the 2006 Plan to 7,233,785. Furthermore, the Companies provided that the maximum number of common shares be automatically increased on (a) each date on which additional Series B shares are issued, in each case by the number of common shares necessary to ensure that, immediately following the issuance of Series B, the maximum number of common shares directly or indirectly issuable upon exercise of the options granted pursuant to the 2006 Plan equal the product of X times Y, where:

X = 0.125 divided by 0.875; and
Y = the number of common shares issued and outstanding on a fully converted basis (as defined in the Subscription Agreement) following such issuance.

As at December 31, 2012 the maximum number of common shares which may be directly or indirectly issuable pursuant to options granted under the 2006 Plan is 11,309,037. As part of the Series C financing closed in March 2013, 1,500,000 additional common shares, which may be directly or indirectly issuable pursuant to options granted under the 2006 Plan, were added to the pool. As at September 30, 2013 the maximum number of common shares which may be directly or indirectly issuable pursuant to options granted under the 2006 Plan is 12,809,037.

The terms of the options issued may not exceed ten years. Each option granted generally vests over a four-year period, unless otherwise approved by the Boards of Directors and may be subject to certain additional terms and conditions. At December 31, 2012, the number of options available to be granted is 718,621 (December 31, 2011—2,046,121). At September 30, 2013, the number of options available to be granted is 2,936,853.

On May 30, 2012, pursuant to the 2006 Plan, 1,500,000 stock options were issued to certain employees as bonus options that vest upon the occurrence of a triggering transaction approved by the Board of Directors. These stock options resulted in a compensation expense of $51,654 for the year ended December 31, 2012. These bonus stock options expired on January 31, 2013.

Stock option transactions and the number of stock options outstanding are summarized below:

	NUMBER OF OPTIONED COMMON SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING VESTING PERIOD	REMAINING CONTRACTUAL LIFE IN YEARS	NUMBER OF OPTIONED COMMON SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE REMAINING VESTING PERIOD	REMAINING CONTRACTUAL LIFE IN YEARS
	Cdn	Cdn	Cdn	Cdn	US	US	US	US
December 31, 2005 and prior	—	$ —	—		—	$ —	—	
Options Granted	1,330,000	0.31	2.08		—	—		
December 31, 2006	1,330,000	0.31	2.08	9.13	—	—	—	—
Options Granted	—	—			360,000	0.50		
Options Forfeited	(75,000)	0.40			—	—		
December 31, 2007	1,255,000	0.30	1.08	8.13	360,000	0.50	2.46	9.48
Options Granted	—	—			575,000	0.55		
Options Forfeited	—	—			(100,000)	0.55		
December 31, 2008	1,255,000	0.30	0.41	7.13	835,000	0.53	3.05	7.07
Options Granted	—	—			85,000	0.55		
December 31, 2009	1,255,000	0.30	—	6.13	920,000	0.54	2.46	6.92
Options Granted	—	—			2,775,000	0.30		
Options Forfeited	—	—			(107,188)	0.43		
December 31, 2010	1,255,000	0.30	—	5.13	3,587,812	0.35	3.34	6.55
Options Granted	—	—			4,710,000	0.30		
Options Forfeited	—	—			(289,896)	0.35		
December 31, 2011	1,255,000	0.30	—	4.13	8,007,916	0.32	3.48	7.40
Options Granted	—	—			1,745,000	0.30		
Options Forfeited	—	—			(417,500)	0.30		
December 31, 2012	1,255,000	0.30	—	3.12	9,335,416	0.32	2.82	5.74
Options Granted					1,205,000	0.30		
Options Forfeited					(1,923,232)	0.30		
September 30, 2013	1,255,000	$ 0.30	—	2.38	8,617,184	$ 0.32	2.42	6.83

The following table summarizes information about options outstanding and exercisable as of December 31, 2012:

	CANADIAN DOLLAR DENOMINATED OPTIONS				
	OUTSTANDING			OUTSTANDING AND VESTED	
		WEIGHTED AVERAGE			
RANGE OF EXERCISE PRICE	OPTIONS	EXERCISE PRICE	REMAINING CONTRACTUAL LIFE (IN YEARS)	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
0.0001-0.25	600,000	$0.15	3.12	600,000	$0.15
0.26-0.5	655,000	$0.44	3.12	655,000	$0.44

	U.S. DOLLAR DENOMINATED STOCK OPTIONS				
	OUTSTANDING			OUTSTANDING AND VESTED	
		WEIGHTED AVERAGE			
RANGE OF EXERCISE PRICE	OPTIONS	EXERCISE PRICE	REMAINING CONTRACTUAL LIFE (IN YEARS)	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
0.30-0.50	8,935,416	$ 0.31	5.77	3,293,438	$ 0.32
0.51-0.55	400,000	$ 0.55	5.11	389,583	$ 0.55

The following table summarizes information about options outstanding at September 30, 2013:

	CANADIAN DOLLAR DENOMINATED STOCK OPTIONS				
	OUTSTANDING			OUTSTANDING AND VESTED	
		WEIGHTED AVERAGE			
RANGE OF EXERCISE PRICE	OPTIONS	EXERCISE PRICE	REMAINING CONTRACTUAL LIFE (IN YEARS)	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
0.0001-0.25	600,000	$ 0.15	2.38	600,000	$ 0.15
0.26-0.5	655,000	$ 0.44	2.37	655,000	$ 0.44

	U.S. DOLLAR DENOMINATED STOCK OPTIONS				
	OUTSTANDING			OUTSTANDING AND VESTED	
		WEIGHTED AVERAGE			
RANGE OF EXERCISE PRICE	OPTIONS	EXERCISE PRICE	REMAINING CONTRACTUAL LIFE (IN YEARS)	OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
0.30-0.50	8,217,184	$ 0.31	6.95	4,395,623	$ 0.30
0.51-0.55	400,000	$ 0.55	4.36	398,959	$ 0.55

(c) Stock-based compensation

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

	DECEMBER 31, 2012	DECEMBER 31, 2011	DECEMBER 26, 2003 (INCEPTION) TO DECEMBER 31, 2012	SEPTEMBER 30, 2012	SEPTEMBER 30, 2013	DECEMBER 26, 2003 (INCEPTION) TO SEPTEMBER 30, 2013
Expected volatility	90%	89%	89%	90%	93%	89%
Expected dividends	0	0	0	0	0	0
Expected terms (years)	6.25	6.25	6.25	6.25	6.25	6.25
Risk free rate	1.79%	2.51%	2.93%	1.79%	2.21%	3.12%
Weighted average grant-date fair value of stock options	0.14	0.14	0.14	0.14	0.14	0.14

Fair Value of Common Stock. Stock options are granted with exercise prices as determined by the Boards of Directors at the date of grant. In the absence of a public trading market for the Companies' common stock, on each grant date, the Companies developed an estimate of the fair value of the common stock utilizing methodologies, approaches, and assumptions consistent with the framework of the American Institute of Certified Public Accountants Technical Practice Aid, *Valuation of Privately-Held Company Equity Securities Issued as Compensation*. These valuations were performed with the assistance of a third-party valuation specialist. In conducting these valuations, management and the Boards of Directors considered all objective and subjective factors that it believed to be relevant in each valuation conducted, including external market conditions affecting the pharmaceutical industry, trends within the pharmaceutical industry, the prices at which the Companies sold shares of different series of preferred stock, the superior rights and preferences of each series of preferred stock relative to common stock at the time of each grant, results of operations and financial position, the status of research and development efforts, stage of development and business strategy, the lack of an active public market for the common and preferred stock, and the likelihood of achieving a liquidity event such as an initial public offering or sale of the business in light of prevailing market conditions. Significant changes to the key assumptions used in the valuations could result in different fair values of common stock at each valuation date.

Expected Term. The expected term represents the period that the Companies' stock-based awards are expected to be outstanding. As the Companies do not have sufficient historical experience for determining the expected term of the stock option awards granted, the Companies have based its expected term for awards issued to employees on the simplified method, which represents the average period from vesting to the expiration of the stock option

Expected Volatility. As the Companies have been private Companies and do not have a trading history for the Companies' common stock, the expected stock price volatility for the Companies' common stock was estimated by taking the average historical price volatility for industry peers, which the Companies have designated, based on daily price observations over a period equivalent to the expected term of the stock option grants. Industry peers, which the Companies have designated, consist of several public companies in the industry similar in size, stage of life cycle and financial leverage. These industry peers were also utilized in the Companies' common stock valuations.

Expected Dividend Yield. The Companies have never declared or paid any cash dividends to common stockholders and does not presently plan to pay cash dividends in the foreseeable future. Consequently, the Companies used an expected dividend yield of zero.

Risk-free Interest Rate. The risk-free interest rate is based on the yields of treasury securities with maturities similar to the expected term of the options for each option group.

During 2006, the Companies granted options to purchase 245,000 shares of common stock to non-employees for services provided. Such options were fully vested on the date of grant and had an exercise price ranging from $0.40 to $0.50 per share, which was greater than the estimated fair market value of the underlying stock on the date of grant, as determined by the Board of Directors. The resulting stock-based compensation expense was measured at the date when the performance obligation was met, which was on the date of grant, and was immediately recognized as expense within operating expenses in the amount of $64,000.

In April 2008, the Companies granted an option to purchase 150,000 shares of common stock to one non-employee for services provided. This option fully vested on the date of grant and had an exercise price of $0.55 per share, which was greater than the estimated fair market value of the underlying stock on the date of grant, as determined by the Board of Directors. The resulting stock-based compensation expense was measured at the date when the performance obligation was met, which was on the date of grant, and was immediately recognized as expense within operating expenses in the amount of $28,000.

In November 2011, the Companies granted an option to purchase 150,000 shares of common stock to one non-employee for services provided. This option fully vested on the date of grant and had an exercise price of $0.30 per share, which was greater than the estimated fair market value of the underlying stock on the date of grant, as determined by the Board of Directors. The resulting stock-based compensation expense was measured at the date when the performance obligation was met, which was on the date of grant, and was immediately recognized as expense within operating expenses in the amount of $21,000.

The Companies amortize the fair value of the stock options on a straight-line basis over the applicable requisite service periods of the awards, which is generally the vesting period. The weighted average grant date fair value of stock options granted for the years ended December 31, 2011 was $0.14, December 31, 2012 was $0.14 and for the nine months period ended September 30, 2012 was $0.14 and September 30, 2013 was $0.14 per option.

As of December 31, 2012 and September 30, 2013, the Companies had total unrecognized compensation costs related to unvested stock options for the 2006 Plan of $970,330, and $715,018, respectively.

11. Net loss per share

Basic and diluted net loss per common share is presented using the two-class method required for participating securities. If a dividend is paid on common stock, the holders of preferred stock are entitled to a proportionate share of any such dividend as if they were holders of common stock (on an if-converted basis). The Companies consider its preferred stock to be participating securities and, in accordance with the two-class method, earnings allocated to participating securities and the related number of outstanding shares of participating securities have been excluded from the computation of basic and diluted net loss per common share.

The Companies consider their AQXP Canada exchangeable common shares to be their participating stock that is subordinate to all other stock or shares of the Companies. These shares are used by the Companies when computing their loss per share. Upon the exchange, as discussed within the unaudited pro forma net loss per common share, see below, the AQXP Canada exchangeable common shares will be converted along with our preferred stock into new common shares. The Companies do not consider their AQXP Canada special voting shares and Aquinox USA series special stock to be participating securities as these shares do not have any rights to participate in the any undistributed earnings, either through liquidation or any form of dividend.

Under the two-class method, net loss attributable to common stockholders is determined by allocating undistributed loss between common stock and participating securities. Undistributed loss is calculated as net loss less distributed loss, accretion of liquidation preference on preferred stock, accretion of share issuance costs on preferred stock, and tax expense on preferred stock. As holders of preferred stock, holders of stock options and holders of common stock warrants do not have contractual obligations to share in the losses of the Companies, the net loss attributable to common stockholders for each period is not allocated between common stock and participating securities. Accordingly, outstanding stock options, common stock warrants and preferred stock are excluded from the calculation of basic and diluted net loss per share as the effect would have been antidilutive.

	YEAR ENDED		DECEMBER 26, 2003 (INCEPTION) TO DECEMBER 31 2012	NINE MONTHS ENDED		DECEMBER 26, 2003 (INCEPTION) TO SEPTEMBER 30 2013
	DECEMBER 31, 2011	DECEMBER 31, 2012		SEPTEMBER 30 2012	SEPTEMBER 30 2013	
Numerator						
Net loss and comprehensive loss incurred in the development stage	$ (10,507,008)	$ (7,714,198)	$ (38,545,538)	$ (6,288,801)	$ (5,189,256)	$ (43,734,793)
Less: Accretion of liquidation preference on preferred stock	(3,303,200)	(3,860,140)	(12,081,657)	(2,895,102)	(3,953,595)	(16,035,252)
Less: Accretion of share issuance costs on preferred stock	(163,483)	(168,702)	(872,045)	(126,430)	(96,039)	(968,084)
Less: Tax expense on preferred stock	(345,587)	(394,908)	(1,059,488)	(296,182)	(421,974)	(1,481,462)
Net loss attributable to common stockholders	$ (14,319,278)	$ (12,137,948)	$ (52,558,728)	$ (9,606,515)	$ (9,660,864)	$ (62,219,591)
Denominator						
Weighted average shares used to compute basic net loss per common share	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776
Effect of potentially dilutive securities:						
Stock options	—	—	—	—	—	—
Common stock warrants	—	—	—	—	—	—
Convertible preferred stock	—	—	—	—	—	—
Weighted average shares used to compute diluted net loss per common share	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776	5,793,776
Net loss per share attributable to common stockholders—basic	$ (2.47)	$ (2.09)	$ (9.07)	$ (1.66)	$ (1.67)	$ (10.74)
Net loss per share attributable to common stockholders—diluted	$ (2.47)	$ (2.09)	$ (9.07)	$ (1.66)	$ (1.67)	$ (10.74)

The following have been excluded from the computation of basic and diluted net loss per share attributable to common stockholders as their effect would have been antidilutive:

	YEAR ENDED		NINE MONTHS ENDED	
	DECEMBER 31, 2011	DECEMBER 31, 2012	SEPTEMBER 30, 2012	SEPTEMBER 30, 2013
Convertible preferred stock	73,369,486	73,369,486	73,369,486	106,096,687
Outstanding stock options	9,262,916	10,590,416	10,607,082	9,872,184
Common stock warrants	—	—	—	339,287
Total	82,632,402	83,959,902	83,976,568	116,308,158

Unaudited pro forma net loss per common share

Pro forma basic and diluted net loss per common share were computed to give effect to the conversion of the preferred stock using the if-converted method into common shares as though the conversion had occurred as of the beginning of the first period presented or the original date of issuance, if later. After giving effect to the conversion of the preferred stock, only stock options and common stock warrants are considered participating securities in applying the two-class method to calculate basic and diluted net loss per share.

For the year ended December 31, 2012, as the participating securities do not have a contractual obligation to share in the losses of the Companies, the net loss attributable to common stockholders is not allocated between the common stock and the participating securities. Accordingly, outstanding stock options and common stock warrants are excluded from the calculation of basic and diluted net loss per share as the effect would have been antidilutive.

For the nine months ended September 30, 2013, as the participating securities do not have a contractual obligation to share in the losses of the Companies, the net loss attributable to common stockholders is not allocated between the common stock and the participating securities. Accordingly, outstanding stock options and common stock warrants are excluded from the calculation of basic and diluted net loss per share as the effect would have been antidilutive.

For the year ended December 31, 2012 and the nine months ended September 30, 2013, common stock warrants amounting to zero and 339,287, respectively, and outstanding stock options totaling 10,590,416 and 9,872,184 respectively, were excluded from the computation of diluted net loss per common share attributable to common stockholders because their effect would have been antidilutive.

	PRO FORMA YEAR ENDED DECEMBER 31, 2012 (unaudited)	PRO FORMA NINE MONTHS ENDED SEPTEMBER 30, 2013 (unaudited)
Numerator		
Total loss attributable to common stockholders	$ (12,137,948)	$ (9,660,864)
Less: Accretion for liquidation preference on preferred stock	3,860,140	3,953,595
Less: Accretion for share issuance costs on preferred stock	168,702	96,039
Less: Tax expense on preferred stock	394,908	421,974
Less: Amortization taken of discount on preferred stock expensed, in period	45,325	265,650
Less: Change in fair value of derivative liabilities associated with preferred stock (Note 13)	—	(1,125,288)
Net loss attributable to common stockholders—pro forma	$ (7,668,873)	$ (6,048,894)
Denominator		
Basic and diluted weighted average common stock outstanding	5,793,776	5,793,776
Pro forma adjustment to reflect assumed conversion of preferred stock to occur upon consummation of the Companies' expected initial per common stock	73,369,486	106,096,687
Weighted average stock outstanding used to compute basic pro forma net loss per common stock	79,163,262	111,890,463
Pro forma net loss per common stock—basic and diluted	$ (0.10)	$ (0.05)

12. Income taxes

a) Income tax expense (recovery) varies from the amounts that would be computed by applying the expected combined Canadian and U.S. income tax rates of 25.1% (2011—25.1%) to loss before income taxes as shown in the following table:

	2012	2011
Computed taxes at combined Canadian and U.S. tax rates	$ (1,936,264)	$ (2,637,259)
Non-deductible expenses	119,829	40,731
Investment tax credits (i)	42,294	(154,468)
Change in valuation allowance	1,719,347	2,734,985
Other reconciling items	97,088	(138,457)
Income tax expense (recovery)	$ 42,294	$ (154,468)

(i) For periods prior to June 2010, AQXP Canada was able to claim Canadian refundable investment tax credits. As described in note 2(f), when investment tax credits subsequently received are less or more than originally recorded, the difference is treated as a change in estimate and recorded as part of current income tax expense (recovery); in 2012 claims received were less than originally recorded and accordingly AQXP Canada recognized an income tax expense for this difference.

b) Deferred income tax assets and liabilities result from the temporary differences between the amount of assets and liabilities recognized for financial statement and income tax purposes. The significant components of the deferred income tax assets are as follows:

	DECEMBER 31, 2012	DECEMBER 31, 2011
Canadian net operating losses	$ 7,985,817	$ 6,273,618
U.S. net operating losses	396,827	320,765
Research and development deductions and credits	3,909,680	3,033,666
Other	323,528	320,639
Less: valuation allowance	(12,615,852)	(9,948,688)
Net deferred income tax assets	$ —	$ —

c) At December 31, 2012, AQXP Canada has net operating losses carried forward for tax purposes which are available to reduce taxable income of future years of approximately $27,300,000 (December 31, 2011—approximately $21,900,000) expiring commencing in 2026 through 2032. Aquinox U.S. has net operating losses carried forward for tax purposes which are available to reduce taxable income of future years of approximately $1,133,000 (December 31, 2011—approximately $916,000).

At December 31, 2012, AQXP Canada also has unclaimed tax deductions for scientific research and experimental development expenditures of approximately $9,300,000 (December 31, 2011–approximately $7,700,000) with no expiry. At December 31, 2012, AQXP Canada has approximately $2,200,000 (December 31, 2011—approximately $1,400,000) of investment tax credits available to offset Canadian federal and provincial taxes payable expiring commencing in 2027 through 2032.

d) At December 31, 2012, AQXP Canada has accrued a non-current tax payable on preferred stock of $1,100,000 (December 31, 2011—$700,000). Canadian tax rules impose a tax with respect to Canadian corporation taxable preferred shares and their liquidation rights (note 8). Upon the stock converting into common shares in the event of a qualified IPO or preferred shareholder approval, this accrued tax payable amount would be derecognized in the financial statements.

e) Under ASC No. 740, the benefit of an uncertain tax position that is more likely than not of being sustained upon audit by the relevant taxing authority must be recognized at the largest amount that is more likely than not to be sustained. No portion of the benefit of an uncertain tax position may be recognized if the position

has less than a 50% likelihood of being sustained. The Companies currently do not have any unrecognized tax benefits of uncertain tax positions. The Companies do not expect any significant increases to their unrecognized tax benefits within twelve months of the reporting date.

The Companies currently file income tax returns in the United States and Canada, the jurisdictions in which the Companies believe that they are subject to tax. Further, while the statute of limitations in each jurisdiction where an income tax return has been filed generally limits the examination period, as a result of loss carry-forwards, the limitation period for examination generally does not expire until several years after the loss carry-forwards are utilized. Other than routine audits by tax authorities for tax credits and tax refunds that the Companies have claimed, management is not aware of any other material income tax examination currently in progress by any taxing jurisdiction.

13. Financial instruments

Fair value of financial instruments

The carrying amounts of certain of the Companies' financial instruments including cash, cash equivalents, accounts and other amounts receivable, prepayments, and accounts payable and accrued liabilities, approximate their fair values because of their short maturities.

The Companies preferred stock embedded feature and warrants are accounted for as derivative liabilities. The Companies used Level 3 inputs for the valuation methodology of the derivative liabilities. The estimated fair values were computed using Black-Scholes option pricing model. The derivative liabilities are adjusted to reflect estimated fair value at each period end, with any decrease or increase in the estimated fair value being recorded in other income (expense):

Fair value of significant unobservable inputs (Level 3)

	DERIVATIVE WARRANT LIABILITIES	PREFERRED STOCK EMBEDDED DERIVATIVE LIABILITIES	TOTAL
Balance at December 31, 2011 and 2012	$ —	—	$ —
Issuances in 2013	68,920	2,100,030	2,168,950
Adjustments to estimated fair value	152,501	(1,125,288)	(972,787)
Balance as of September 30, 2013	$ 221,421	974,742	$ 1,196,163

14. Other commitments and contingencies

AQXP Canada has combined its office and research laboratory into one location and entered into a lease agreement expiring August 31, 2015. Future minimum annual lease payments under the leases are as follows as at December 31, 2012:

2013	$232,000
2014	240,000
2015	160,000
	$632,000

Legal Proceedings – In the ordinary course of business, the Companies may be subject from time to time to various proceedings, lawsuits, disputes, or claims. Although the Companies cannot predict with assurance the outcome of any litigation, they do not believe there are currently any such actions that, if resolved unfavorable, would have a material impact on the Companies' financial condition, results of operations or cash flows.

15. Subsequent events

On October 23, 2013, AQXP Canada entered into a term loan facility with Silicon Valley Bank (“SVB”) for up to $4 million, of which $2.5 million was received on October 30, 2013 and a further $1.5 million is available to AQXP Canada through December 31, 2014 upon AQXP Canada receiving certain agreed-upon Phase 2 top-line data results from its COPD or BPS/IC clinical trials. Aquinox USA is a guarantor of AQXP Canada’s obligations under the term loan facility. In addition to principal, interest and other related payments due to SVB, Aquinox USA and AQXP Canada issued SVB warrants to purchase 218,181 shares of Series C preferred stock and a corresponding number of shares in Canadian special voting of AQXP Canada. Following the completion of the offering, the warrant will be exercisable for 218,181 shares of our common stock. The term loan has an interest rate of the greater of (i) the prime rate in effect on the funding date plus 2.00% or (ii) 5.25%, and is collateralized by the Companies’ corporate assets, excluding intellectual property, but including all proceeds thereof.

In October 2013, the Board of Directors approved the issuance of 2,512,000 options under the Joint Canadian Stock Plan to certain employees at an exercise price of $0.66 per share.

The Companies have evaluated all events that occurred after the balance sheet date through November 15, 2013, the date when the combined financial statements were issued, to determine if they must be reported. Management determined that the subsequent events noted in Note 15 represents a complete list of subsequent events.

Shares

Aquinox Pharmaceuticals (USA) Inc.

Common Stock

PRELIMINARY PROSPECTUS

Joint Book-Running Managers

Jefferies
Cowen and Company

Co-Manager

Canaccord Genuity

, 2013

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth all expenses, other than the underwriting discounts and commissions, payable by us in connection with the sale of the common stock being registered. All the amounts shown are estimates except the SEC registration fee, the FINRA filing fee and the NASDAQ listing fee.

	AMOUNT TO BE PAID
SEC registration fee	$ *
FINRA filing fee	*
NASDAQ listing fee	*
Printing and engraving	*
Legal fees and expenses	*
Accounting fees and expenses	*
Transfer agent and registrar fees	*
Miscellaneous fees and expenses	*
Total	$ *

* To be filed by Amendment.

Item 14. Indemnification of Directors and Officers

Section 145 of the Delaware General Corporation Law authorizes a court to award, or a corporation's board of directors to grant, indemnity to directors and officers in terms sufficiently broad to permit such indemnification under certain circumstances for liabilities, including reimbursement for expenses incurred, arising under the Securities Act of 1933, as amended, or the Securities Act.

Our amended and restated certificate of incorporation that will be in effect upon the completion of this offering provides for indemnification of our directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law, and our amended and restated bylaws that will be in effect upon the completion of this offering provide for indemnification of our directors, officers, employees and other agents to the maximum extent permitted by the Delaware General Corporation Law.

We have entered into indemnification agreements with our directors and officers whereby we have agreed to indemnify our directors and officers to the fullest extent permitted by law, including indemnification against expenses and liabilities incurred in legal proceedings to which the director or officer was, or is threatened to be made, a party by reason of the fact that such director or officer is or was a director, officer, employee or agent of Aquinox, provided that such director or officer acted in good faith and in a manner that the director or officer reasonably believed to be in, or not opposed to, the best interest of Aquinox. At present, there is no pending litigation or proceeding involving a director or officer of Aquinox regarding which indemnification is sought, nor is the registrant aware of any threatened litigation that may result in claims for indemnification.

We maintain insurance policies that indemnify our directors and officers against various liabilities arising under the Securities Act and the Exchange Act of 1934, as amended, that might be incurred by any director or officer in his capacity as such.

The underwriters are obligated, under certain circumstances, pursuant to the underwriting agreement to be filed as Exhibit 1.1 hereto, to indemnify us, our officers, directors against liabilities under the Securities Act.

Item 15. Recent Sales of Unregistered Securities

Since January 1, 2010, we have made sales of the following unregistered securities:

(1) From January 1, 2010 to date, we have granted stock options under our 2006 Plan to purchase an aggregate of 12,997,500 option securities at an exercise price ranging between $0.30 and $0.66 per share to a total of 30 employees, directors and consultants. Of these, option securities to purchase an aggregate of 2,737,816 have been cancelled without being exercised, none have been exercised and 10,259,684 option securities remain outstanding. The offers, sales and issuances of the securities described in this paragraph were exempt from registration under (a) Section 4(2) of the Securities Act in that the transactions were by an issuer not involving any public offering; (b) compensatory benefit plans and contracts relating to compensation as provided under Rule 701 promulgated under the Securities Act; or (c) Regulation S promulgated under the Securities Act.

(2) In March 2010, we issued an aggregate of 8,777,361 shares of our Series B-1 preferred stock to five accredited investors at a per share price of $0.55. In connection with this financing, we also issued an aggregate of 8,150,408 shares of our Series B-1 exchangeable shares of AQXP Canada to two accredited investors at a per share price of $0.55. Purchasers of Series B-1 exchangeable shares were also issued one share of Series B-1 special voting stock for each share of Series B-1 exchangeable stock. The Series B-1 exchangeable shares are exchangeable into our Series B-1 preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $9.3 million. These shares were issued in reliance on Rule 506 of Regulation D promulgated under the Securities Act.

(3) In June 2010, we issued an aggregate of 6,420,879 shares of our Series B-1 preferred stock to one accredited investor at a per share price of $0.55, for aggregate consideration of $3.5 million. These shares were issued in reliance on Rule 506 of Regulation D promulgated under the Securities Act.

(4) In January 2011, we issued an aggregate of 8,589,632 shares of our Series B-2 preferred stock to six accredited investors at a per share price of $0.55. In connection with this financing, we also issued an aggregate of 4,425,348 shares of our Series B-2 exchangeable shares of AQXP Canada to two accredited investors at a per share price of $0.55. Purchasers of Series B-2 exchangeable shares were also issued one share Series B-2 special voting stock for each share of Series B-2 exchangeable stock. The Series B-2 exchangeable shares are exchangeable into our Series B-2 preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $7.1 million. These shares were issued in reliance on Rule 506 of Regulation D promulgated under the Securities Act.

(5) In September 2011, we issued an aggregate of 6,429,155 shares of our Series B-2 preferred stock at a per share price of $0.55 to six accredited investors. In connection with this financing, we also issued an aggregate of 2,661,752 shares of our Series B-2 exchangeable shares of AQXP Canada to one accredited investors at a per share price of $0.55. Purchasers of Series B-2 exchangeable shares were also issued one share of Series B-2 special voting stock for each share of Series B-2 exchangeable stock. The Series B-2 exchangeable shares are exchangeable into our Series B-2 preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $5.0 million. These shares were issued in reliance on Rule 506 of Regulation D promulgated under the Securities Act.

(6) In March 2013, we issued an aggregate of 25,454,500 shares of our Series C preferred stock to seven accredited investors at a per share price of $0.55. In connection with this financing, we also issued an aggregate of 7,272,701 shares of our Series C exchangeable shares of AQXP Canada to one accredited investors at a per share price of $0.55. Purchasers of Series C exchangeable shares were also issued one share of Series C special voting stock for each share of Series C exchangeable stock. The Series C exchangeable shares are exchangeable into our Series C preferred stock on a one for one basis. In connection with the foregoing, we received aggregate consideration of $18.0 million. These shares were issued in reliance on Rule 506 of Regulation D promulgated under the Securities Act.

(7) In March 2013, we issued a warrant to purchase an aggregate of 339,287 option securities, at an exercise price of $0.01 per option security, with an expiration date of March 19, 2023. Prior to the exchange time, which will occur in connection with this offering when there are no more exchangeable shares outstanding other than exchangeable shares held by us or AQXP Canada, an option security consisted of units, comprised of one share of Series C Preferred Stock and one special voting share of AQXP Canada. After the exchange time, an option security would be exercisable for our common stock. These shares were issued in reliance on Rule 506 of Regulation D promulgated under the Securities Act.

(8) In October 2013, we issued a warrant to purchase an aggregate of 218,181 units, at an exercise price of $0.55 per unit, with an expiration date of October 23, 2023. Prior to the conversion date, which will occur in connection with this offering, a unit is comprised of one share of Series C Preferred Stock and one special voting share of AQXP Canada. After the conversion, an option security would be exercisable for our common stock. These shares were issued in reliance on Section 4(2) of the Securities Act in that the transactions were by an issuer not involving any public offering.

The recipients of the securities in each of these transactions represented their intentions to acquire the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were placed upon the stock certificates issued in these transactions. All recipients had adequate access, through their relationships with us, to information about us. The sales of these securities were made without any general solicitation or advertising.

Item 16. Exhibits and Financial Statement Schedule

(a) Exhibits.

The following exhibits are included herein or incorporated herein by reference:

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation of the Registrant, as presently in effect.
3.2	Amended and Restated Bylaws of the Registrant, as presently in effect.
3.3*	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be in effect upon completion of this offering.
3.4*	Form of Amended and Restated Bylaws of the Registrant, to be in effect upon completion of this offering.
4.1	Qualification and Registration Rights Agreement of the Registrant, dated March 19, 2013.
4.2	Shareholders' Agreement of the Registrant, dated March 19, 2013.
4.3	Exchange Agreement of the Registrant, dated March 19, 2013.
5.1*	Opinion of Cooley LLP regarding legality.
10.1+	Joint Canadian Stock Option Plan.
10.2+	Forms of Option Agreement for Registrant's Joint Canadian Stock Option Plan.
10.3+*	2014 Equity Incentive Plan, to be in effect upon completion of this offering.
10.4+*	Forms of Option Agreement and Option Grant Notice for Registrant's 2014 Equity Incentive Plan.
10.5+*	Form of Indemnity Agreement entered into between the Registrant and each of its directors and its executive officers.
10.6+	Employment Agreement by and between the Registrant and David Main, dated March 1, 2007.
10.7+	Employment Agreement by and between the Registrant and Tom MacRury, dated June 6, 2007.
10.8+	Employment Agreement by and between the Registrant and Kamran Alam, dated July 18, 2011.
10.9+	Employment Agreement by and between the Registrant and Stephen Shrewsbury, dated March 2, 2013.
10.10+	Employment Agreement by and between the Registrant and Lloyd Mackenzie, dated May 30, 2013.
10.11	Offer to Lease by and between the Registrant and Sun Life Assurance Company of Canada, dated February 15, 2010.
10.12*	Asset Purchase Agreement by and between the Registrant and Biolipox, dated August 19, 2009.

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
21.1	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte LLP, Independent Registered Chartered Accountants.
23.2*	Consent of Cooley LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included in signature pages).

* To be filed by Amendment.
\+ Indicates a management contract or compensatory plan.

(b) Financial Statement Schedules.

See index to Combined Financial Statements on page F-1. All other schedules have been omitted because they are not required or are not applicable.

Item 17. Undertakings

The undersigned Registrant hereby undertakes to provide to the underwriters at the closing specified in the underwriting agreement, certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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

The undersigned Registrant hereby undertakes that:

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

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

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the Registrant has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Richmond, Province of British Columbia on the day of , 2013.

AQUINOX PHARMACEUTICALS (USA) INC.

By: _____
Name: David J. Main
Title: President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints David J. Main and Kamran Alam, and each of them, as his true and lawful attorneys-in-fact and agents, each with the full power of substitution, for him and in his name, place or stead, in any and all capacities, to sign any and all amendments to this Registration Statement (including post-effective amendments), and to sign any registration statement for the same offering covered by this Registration Statement that is to be effective upon filing pursuant to Rule 462(b) promulgated under the Securities Act of 1933, and all post-effective amendments thereto, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or their, his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
David J. Main	President, Chief Executive Officer and Director *(Principal Executive Officer)*	
Kamran Alam	Chief Financial Officer *(Principal Financial and Accounting Officer)*	
Gary Bridger	Director	
Elaine Jones	Director	
Daniel Levitt	Director	
Robert Pelzer	Director	

Table of Contents

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION OF DOCUMENT
1.1*	Form of Underwriting Agreement.
3.1	Amended and Restated Certificate of Incorporation of the Registrant, as presently in effect.
3.2	Amended and Restated Bylaws of the Registrant, as presently in effect.
3.3*	Form of Amended and Restated Certificate of Incorporation of the Registrant, to be in effect upon completion of this offering.
3.4*	Form of Amended and Restated Bylaws of the Registrant, to be in effect upon completion of this offering.
4.1	Qualification and Registration Rights Agreement of the Registrant, dated March 19, 2013.
4.2	Shareholders' Agreement of the Registrant, dated March 19, 2013.
4.3	Exchange Agreement of the Registrant, dated March 19, 2013.
5.1*	Opinion of Cooley LLP regarding legality.
10.1+	Joint Canadian Stock Option Plan.
10.2+	Forms of Option Agreement for Registrant's Joint Canadian Stock Option Plan.
10.3+*	2014 Equity Incentive Plan, to be in effect upon completion of this offering.
10.4+*	Forms of Option Agreement and Option Grant Notice for Registrant's 2014 Equity Incentive Plan.
10.5+*	Form of Indemnity Agreement entered into between the Registrant and each of its directors and its executive officers.
10.6+	Employment Agreement by and between the Registrant and David Main, dated March 1, 2007.
10.7+	Employment Agreement by and between the Registrant and Tom MacRury, dated June 6, 2007.
10.8+	Employment Agreement by and between the Registrant and Kamran Alam, dated July 18, 2011.
10.9+	Employment Agreement by and between the Registrant and Stephen Shrewsbury, dated March 2, 2013.
10.10+	Employment Agreement by and between the Registrant and Lloyd Mackenzie, dated May 30, 2013.
10.11	Offer to Lease by and between the Registrant and Sun Life Assurance Company of Canada, dated February 15, 2010.
10.12*	Asset Purchase Agreement by and between the Registrant and Biolipox AB, dated August 19, 2009.
21.1	Subsidiaries of the Registrant.
23.1*	Consent of Deloitte LLP, Independent Registered Chartered Accountants.
23.2*	Consent of Cooley LLP (included in Exhibit 5.1).
24.1	Power of Attorney (included in signature pages).

* To be filed by Amendment.
\+ Indicates a management contract or compensatory plan.

Exhibit 3.1

SIXTH AMENDED AND RESTATED

CERTIFICATE OF INCORPORATION

OF

AQUINOX PHARMACEUTICALS (USA) INC.

Pursuant to Sections 242 and 245 of the
General Corporation Law of the State of Delaware

Aquinox Pharmaceuticals (USA) Inc., a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware (the "**Corporation**"), does hereby certify that:

This Sixth Amended and Restated Certificate of Incorporation is filed pursuant to Sections 242 and 245 of the General Corporation Law of the State of Delaware.

This Sixth Amended and Restated Certificate of Incorporation, which restates and further amends the certificate of incorporation of the Corporation filed with the Delaware Secretary of State on May 25, 2007, and which has been approved and adopted by the board of directors and stockholders of the Corporation in accordance with Sections 228, 242 and 245 of the General Corporation Law of the State of Delaware, amends and restates the certificate of incorporation of the Corporation in its entirety as follows:

"**FIRST:** The name of the Corporation is Aquinox Pharmaceuticals (USA) Inc. (the "**Corporation**").

SECOND: The address of the registered office of the Corporation in the State of Delaware is The Corporation Trust Company, Corporation Trust Center, 1209 Orange Street, Wilmington, DE 19801, County of New Castle, and the name of the registered agent of the Corporation in the State of Delaware at such address is The Corporation Trust Company.

THIRD: The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the "**General Corporation Law**").

FOURTH:

A. Authorized Capital, etc. The Corporation is authorized to issue two classes of stock to be designated, respectively, Preferred Stock ("**Preferred Stock**") and Common Stock ("**Common Stock**"). The total number of shares of capital stock that the Corporation is authorized to issue is 377,882,358. The total number of shares of Preferred Stock the Corporation is authorized to issue is 238,616,321. The total number of shares of Common Stock the Corporation is authorized to issue is 139,266,037. The Preferred Stock shall have a par value of $0.000001 per share and the Common Stock shall have a par value of $0.000001 per share.

B. Preferred Stock. The Preferred Stock shall be divided into eleven series. The first series shall consist of 17,369,500 shares and is designated "**Series A-1 Preferred Stock**". The second series shall consist of 10,545,451 shares and is designated "**Series A-2 Preferred Stock**" and together with the Series A-1 Preferred Stock are referred to collectively herein as the "**Series A Preferred Stock**". The third series shall consist of 9,733,139 shares and is designated "**Series A-1 Special Voting Stock**". The fourth series shall consist of 5,454,544 shares and is designated "**Series A-2 Special Voting Stock**" and together with the Series A-1 Special Voting Stock are referred to collectively herein as the "**Series A Special Voting Stock**". The fifth series shall consist of 69,027,955 shares and is designated "**Common Special Voting Stock**". The sixth series shall consist of 23,348,648 shares and is designated "**Series B-1 Preferred Stock**". The seventh series shall consist of 22,105,887 shares and is designated "**Series B-2 Preferred Stock**" and together with the Series B-1 Preferred Stock are referred to collectively herein as the "**Series B Preferred Stock"**. The eighth series shall consist of 8,150,408 shares and is designated "**Series B-1 Special Voting Stock**". The ninth series shall consist of 7,087,100 shares and is designated "**Series B-2 Special Voting Stock**" and together with the Series B-1 Special Voting Stock are referred to collectively herein as the "**Series B Special Voting Stock**". The tenth series shall consist of 45,793,738 shares and is designated "**Series C Preferred Stock**". The eleventh series shall consist of 19,999,951 shares and is designated "**Series C Special Voting Stock**". The Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock are referred to collectively herein as the "**Series Preferred Stock**". The Series A Special Voting Stock, Series B Special Voting Stock and Series C Special Voting Stock are referred to collectively herein as the "**Series Special Voting Stock**". The Series Special Voting Stock and the Common Special Voting Stock are referred to collectively herein as the "**Special Voting Stock**".

C. Series Preferred Stock. The powers, preferences, rights, restrictions, and other matters relating to each series of the Series Preferred Stock are as set forth below. Unless otherwise indicated, references to "Section" or "Sections" in this Part C of this Article FOURTH refer to section and sections of this Part C of this Article FOURTH.

1. Dividends

(a) The Corporation shall not declare, pay or set aside any dividends on shares of any other class or series of capital stock of the Corporation (other than

dividends on shares of Common Stock payable in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Corporation's certificate of incorporation) the holders of the Series C Preferred Stock then outstanding shall first receive, or simultaneously receive, a dividend on each outstanding share of Series C Preferred Stock. Any Series C Preferred Stock dividends shall not be cumulative and shall be payable only when, as and if declared by the Board of Directors of the Corporation (the "**Board of Directors**").

(b) After payment of any such dividend on shares of Series C Preferred Stock pursuant to Section 1(a) (a "**Series C Dividend**"), the Corporation shall not declare, pay or set aside any dividends on shares of Common Stock (other than dividends on shares of Common Stock payable in shares of Common Stock) unless (in addition to the obtaining of any consents required elsewhere in the Corporation's certificate of incorporation) the holders of the Series A Preferred Stock and Series B Preferred Stock then outstanding shall, on a *pari passu* basis, first receive, or simultaneously receive, a dividend on each outstanding share of Series A Preferred Stock and Series B Preferred Stock in an amount equal to the same percentage of the Original Series A Issue Price and the Original Series B Issue Price, as applicable, as such Series C Dividend represents relative to the Original Series C Issue Price. Any Series A Preferred Stock and Series B Preferred Stock dividends shall not be cumulative and shall be payable only when, as and if declared by the Board of Directors.

(c) No dividend shall be declared or paid on shares of Common Stock unless the provisions of Section 1(a) and Section 1(b) are satisfied. After payment of such Series Preferred Stock dividends, any additional dividends or distributions (other than a dividend payable solely in Common Stock and other than a distribution pursuant to Section 2 below) shall be distributed among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Common Stock *pro rata* based on the number of shares of Common Stock then held by each holder (assuming conversion of all such Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock into Common Stock). Such dividends shall be payable only when, as and if declared by the Board of Directors and shall be non-cumulative.

2. Liquidation Preference / Change of Control

(a) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Corporation (a "**Liquidation Event**"):

(i) The holders of shares of Series C Preferred Stock then outstanding shall be paid out of the assets of the Corporation available for distribution to its stockholders, prior and in preference to any payment with respect to any shares of Series A Preferred Stock, Series B Preferred Stock, Common Stock or any other class or series of stock ranking on liquidation junior to the Series C Preferred Stock, an amount per share equal to the Series C Liquidation Preference (as defined below). Each holder of shares of Series C Preferred Stock shall be entitled to receive in respect of each such share, upon a Liquidation Event, an amount equal to two (2) times the Original Series C Issue Price plus (A) an amount calculated as eight percent (8%) per annum of the

Original Series C Issue Price, which amount shall begin accruing on a daily basis as of (i) with respect to any share of Series C Preferred Stock issued on the exchange of a Series C Exchangeable Share (as defined hereinafter), the original date of issuance of the underlying Series C Exchangeable Share, and (ii) with respect to any share of Series C Preferred Stock other than a share referred to in clause (i), the original date of issuance of such share, and shall compound annually on each anniversary date of the date in (i) or (ii) above, as applicable, and (B) all declared but unpaid dividends on such share of Series C Preferred Stock (collectively, the "**Series C Liquidation Preference**"). The "**Original Series C Issue Price**" shall be $0.55 per share, as adjusted for stock dividends, stock splits, combinations or other similar recapitalizations affecting such shares. For the purposes of the Corporation's certificate of incorporation, "**Series C Exchangeable Shares**" means the Series C Exchangeable Preferred Shares of Aquinox Pharmaceuticals Inc., the terms of which are defined in the articles of Aquinox Pharmaceuticals Inc., a corporation incorporated under the laws of Canada (the "**Canadian Entity**"). If, upon any such Liquidation Event, the assets of the Company shall be insufficient to make payment in full to all holders of Series C Preferred Stock of the liquidation preference set forth in this Section 2(a)(i), then such assets (or consideration) shall be distributed among the holders of Series C Preferred Stock at the time outstanding, *pro rata* in proportion to the full amounts to which they would otherwise be respectively entitled.

(ii) After the payment of all preferential amounts required to be paid to the holders of shares of Series C Preferred Stock, the holders of shares of Series A Preferred Stock and Series B Preferred Stock then outstanding shall be paid out of the remaining assets of the Corporation available for distribution to its stockholders, if any, prior and in preference to any payment with respect to any shares of Common Stock or any other class or series of stock ranking on liquidation junior to the Series A Preferred Stock or Series B Preferred Stock, an amount per share equal to the Series A Liquidation Preference or Series B Liquidation Preference (each, as defined below), as applicable, on a pari passu basis. Each holder of shares of Series A Preferred Stock shall be entitled to receive in respect of each such share, upon a Liquidation Event, the Original Series A Issue Price (as defined below) plus (A) an amount calculated as eight percent (8%) per annum of the Original Series A Issue Price, which amount shall begin accruing on a daily basis as of (i) with respect to any share of Series A Preferred Stock issued on the exchange of a Series A Exchangeable Share (as defined hereinafter), the original date of issuance of the underlying Series A Exchangeable Share, and (ii) with respect to any share of Series A Preferred Stock other than a share referred to in clause (i), the original date of issuance of such share, and shall compound annually on each anniversary date of the date in (i) or (ii) above, as applicable, and (B) all declared but unpaid dividends on such share of Series A Preferred Stock (collectively, the "**Series A Liquidation Preference**"). The "**Original Series A Issue Price**" shall be $0.55 per share in the case of the Series A-1 Preferred Stock and $0.55 per share in the case of the Series A-2 Preferred Stock, each as adjusted for stock dividends, stock splits, combinations or other similar recapitalizations affecting such shares. For

greater certainty, the Series A-1 Preferred Stock and Series A-2 Preferred Stock will have different Series A Liquidation Preferences. For the purposes of the Corporation's certificate of incorporation, "**Series A Exchangeable Shares**" means the Series A-1 Exchangeable Preferred Shares and Series A-2 Exchangeable Preferred Shares of the Canadian Entity, the terms of which are defined in the articles of the Canadian Entity. Each holder of shares of Series B Preferred Stock shall be entitled to receive in respect of each such share, upon a Liquidation Event, the Original Series B Issue Price (as defined below) plus (A) an amount calculated as eight percent (8%) per annum of the Original Series B Issue Price, which amount shall begin accruing on a daily basis as of (i) with respect to any share of Series B Preferred Stock issued on the exchange of a Series B Exchangeable Share (as defined hereinafter), the original date of issuance of the underlying Series B Exchangeable Share, and (ii) with respect to any share of Series B Preferred Stock other than a share referred to in clause (i), the original date of issuance of such share, and shall compound annually on each anniversary date of the date in (i) or (ii) above, as applicable, and (B) all declared but unpaid dividends on such share of Series B Preferred Stock (collectively, the "**Series B Liquidation Preference**"). The "**Original Series B Issue Price**" shall be $0.55 per share in the case of the Series B-1 Preferred Stock and $0.55 per share in the case of the Series B-2 Preferred Stock, each as adjusted for stock dividends, stock splits, combinations or other similar recapitalizations affecting such shares. For greater certainty, the Series B-1 Preferred Stock and Series B-2 Preferred Stock will have different Series B Liquidation Preferences. For the purposes of the Corporation's certificate of incorporation, "**Series B Exchangeable Shares**" means the Series B-1 Exchangeable Preferred Shares and Series B-2 Exchangeable Preferred Shares of the Canadian Entity, the terms of which are defined in the articles of the Canadian Entity. If, upon any such Liquidation Event, the assets of the Company shall be insufficient to make payment in full to all holders of Series A Preferred Stock and Series B Preferred Stock of the liquidation preference set forth in this Section 2(a)(ii), then such assets (or consideration) shall be distributed among the holders of Series A Preferred Stock and Series B Preferred Stock at the time outstanding, *pro rata* in proportion to the full amounts to which they would otherwise be respectively entitled.

(b) Upon completion of the distributions required by Section C.2(a) above, the remaining assets and funds of the Corporation available for distribution to its stockholders, if any, shall be distributed among the holders of shares of Common Stock and the holders of shares of Series Preferred Stock, *pro rata* based on the number of shares of Common Stock held by each holder (for purposes of such calculations, the distributions payable to holders of Series Preferred Stock shall be determined as if such holders had converted all shares of Series Preferred Stock into Common Stock) until the holders of the Series Preferred Stock have received payments pursuant to Section C.2(a) and this Section C.2(b) in the aggregate amount equal to three (3) times the Series A Liquidation Preference, Series B Liquidation Preference or Series C Liquidation Preference, as applicable, with respect to the shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock.

(c) Upon completion of the distributions required by Sections C.2(a) and (b) above, the remaining assets and funds of the Corporation available for distribution to its stockholders shall be distributed among the holders of shares of Common Stock based on the number of shares of Common Stock held by each holder.

(d) Notwithstanding the foregoing, in the event of a Liquidation Event, at any time prior to the close of business on the last full day preceding the date fixed for the payment of any such amounts distributable on such event to the holders of Series Preferred Stock, each holder of Series Preferred Stock may exercise their right of conversion under Section C.5 hereof and receive upon such conversion that number of fully paid and non-assessable shares of Common Stock determined in accordance with Section C.5. Without limiting the right of holders of Series Preferred Stock to specify conditions to the exercise of their right of conversion as provided for in Section C.5(a), such conversion may, at the option of the holder, be conditioned upon the completion of the distributions described in the next sentence of this Section C.2(d). Any such holder of Series Preferred Stock that elects to convert shares of Series Preferred Stock into shares of Common Stock shall receive, in connection with such Liquidation Event, in respect of each share of Common Stock so held, the distributions payable to holders of shares of Common Stock. For purposes of clarity, such holders shall not receive, in respect of any Series Preferred Stock so converted, any distribution payable to holders of Series Preferred Stock pursuant to Section C.2(a) and Section C.2(b).

(e) For purposes of this Section C.2:

(i) any acquisition of the Corporation by means of merger, share exchange or other form of corporate reorganization in which the stockholders of the Corporation immediately prior to such event do not hold a majority of the outstanding shares or interest of (1) the surviving corporation or entity or (2) if the surviving or resulting corporation is a wholly owned subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation or entity, and in which outstanding shares of the Corporation are exchanged for securities or other consideration issued (or caused to be issued) by the acquiring corporation or its subsidiary (other than a mere reincorporation transaction), or any transaction or series of related transactions to which the Corporation is a party in which in excess of fifty percent (50%) of voting power in the Corporation is transferred;

(ii) any sale or other disposition (or series of related sales or dispositions) of the outstanding stock of the Corporation, in any transaction or series of transactions not contemplated by the preceding subparagraph (i), in which the stockholders immediately prior to such event do not hold a majority of the outstanding stock of the Corporation immediately after such event;

(iii) any sale, license, lease or disposition of all or substantially all of the assets of the Corporation;

(iv) any discontinuance of the business activities of the Corporation, and its affiliates, of a substantial and material extent and duration, provided that the determination of such discontinuance has been confirmed by the affirmative vote or written consent of the Preferred Shareholders (defined below) by Preferred Shareholder Approval (defined below) (the date of such Preferred Shareholder Approval shall be deemed to be the effective date of such discontinuance for purposes of the Corporation’s certificate of incorporation); or

(v) any similar transaction or event as described in clauses (i) through (iv) above as to the Canadian Entity;

(each, a "**Change of Control**") shall be treated as a Liquidation Event and shall entitle the holders of shares of the Series Preferred Stock and Common Stock to receive at the closing of such transaction or, in respect of a Change of Control described above in Section C.2(e)(iv), on the effective date of such discontinuance, such amounts and in such priority as are specified in this Section C.2 (whether in cash, securities or other property); provided that, Preferred Shareholders may, by Preferred Shareholder Approval, waive the application of the liquidation provisions of this Section C.2(e) upon a Change of Control.

(f) For the purposes of Section C, the following terms shall have the following meanings:

(i) "**Preferred Shareholder Approval**", in respect of a matter, means that Preferred Shareholders holding at least 60% of the votes attaching to the Series Preferred Stock and Series Special Voting Stock then outstanding (voting together as a single class and not as separate series of stock) have approved of the matter by instrument in writing which describes the matter approved and refers to the Section which requires the approval;

(ii) "**Preferred Shareholders**" shall mean the registered holders of the Series Preferred Stock, Series Special Voting Stock, Series A Exchangeable Shares, Series B Exchangeable Shares and Series C Exchangeable Shares then outstanding;

(iii) "**Series A Holders**" shall mean the registered holders of the Series A Preferred Stock and Series A Special Voting Stock then outstanding;

(iv) "**Series B Holders**" shall mean the registered holders of the Series B Preferred Stock and Series B Special Voting Stock then outstanding;

(v) "**Series B-1 Holders**" shall mean the registered holders of the Series B-1 Preferred Stock and Series B-1 Special Voting Stock then outstanding;

(vi) "**Series B-2 Holders**" shall mean the registered holders of the Series B-2 Preferred Stock and Series B-2 Special Voting Stock then outstanding; and

(vii) "**Series C Holders**" shall mean the registered holders of the Series C Preferred Stock and Series C Special Voting Stock then outstanding.

3. Redemption

(a) **Redemption of Series C Preferred Stock at Election of Preferred Shareholders.** Upon the written request of Preferred Shareholders by Preferred Shareholder Approval (a "**Series C Redemption Notice**"), the Corporation shall redeem, from any source of funds legally available therefor, at the redemption price

described in this Section C.3(a), on a date (the "**Series C Redemption Date**") which is no later than thirty (30) days after the date of delivery of the Series C Redemption Notice to the Corporation, but in any event not earlier than the date that is one day after the fifth anniversary of the Closing Date ("**Closing Date**" having the meaning ascribed thereto in the stock subscription agreement dated March 18, 2013 among the Corporation, the Canadian Entity and certain Series C Holders, as amended or supplemented from time to time (the "**Series C Subscription Agreement**")), such Series C Holders' shares of Series C Preferred Stock prior and in preference to any redemptions contemplated by Section C.3(b) below. Within seven (7) days of receiving the Series C Redemption Notice, the Corporation shall deliver a written notice (the "**Corporation Series C Notice**") to all other Series C Holders, Series A Holders, and Series B Holders of the Series C Redemption Notice. Within ten (10) days after receiving the Corporation Series C Notice, the other Series C Holders shall have the right to notify the Corporation in writing that they also wish to exercise their right to have their shares of Series C Preferred Stock redeemed on the Series C Redemption Date. The Corporation shall, in the case of any redemption contemplated by this Section C.3(a), redeem shares of Series C Preferred Stock *pro rata* from the holders of the shares of Series C Preferred Stock called for redemption based on the number of shares held by each holder thereof on the Series C Redemption Date. The redemption price for each share of Series C Preferred Stock (the "**Series C Redemption Price**") shall be equal to the Series C Liquidation Preference of such share as of the relevant Series C Redemption Date. Shares of Series C Preferred Stock which are subject to redemption hereunder but which have not been redeemed due to insufficient legally available funds and assets of the Corporation shall continue to be outstanding and shall remain entitled to all dividend, liquidation, conversion and other rights, preferences, privileges and restrictions of the Series C Preferred Stock until such shares have been converted or redeemed.

(b) **Redemption of Series A Preferred Stock and Series B Preferred Stock at Election of Preferred Shareholders.** After redemption of all Series C Preferred Stock called for redemption pursuant to C.3(a) above, and upon the written request of Preferred Shareholders by Preferred Shareholder Approval (a "**Series A and B Redemption Notice**"), the Corporation shall redeem, from any source of funds legally available therefor, at the redemption price described in this Section C.3(b), on a date (the "**Series A and B Redemption Date**") which is no later than thirty (30) days after the date of delivery of the Series A and B Redemption Notice to the Corporation, but in any event not earlier than the date that is one day after the fifth anniversary of the Closing Date, such Preferred Shareholders' shares of Series A Preferred Stock and Series B Preferred Stock. Within seven (7) days of receiving the Series A and B Redemption Notice, the Corporation shall deliver a written notice (the "**Corporation Series A-B Notice**") to all other Series A Holders and Series B Holders of the Series A and B Redemption Notice. Within ten (10) days after receiving the Corporation Series A-B Notice, the other Series A Holders and Series B Holders shall have the right to notify the Corporation in writing that they also wish to exercise their right to have their shares of Series A Preferred Stock and Series B Preferred Stock redeemed on the Series A and B Redemption Date. The Corporation shall, in the case of any redemption contemplated by this Section C.3(b), redeem shares of Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series B-1 Preferred Stock and Series B-2 Preferred Stock

pro rata from the holders of the shares of each of the Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series B-1 Preferred Stock and Series B-2 Preferred Stock called for redemption based on the number of shares held by each holder thereof on the Series A and B Redemption Date. The redemption price for each share of Series A Preferred Stock and Series B Preferred Stock (the "**Series A and B Redemption Price**") shall be equal to the Series A Liquidation Preference and Series B Liquidation Preference, as applicable, of such share as of the relevant Series A and B Redemption Date. Shares of Series A Preferred Stock and Series B Preferred Stock which are subject to redemption hereunder but which have not been redeemed due to insufficient legally available funds and assets of the Corporation shall continue to be outstanding and shall remain entitled to all dividend, liquidation, conversion and other rights, preferences, privileges and restrictions of the Series A Preferred Stock and Series B Preferred Stock, as applicable, until such shares have been converted or redeemed.

(c) **Determination of Number of Redeemed Shares; Exchange of Exchangeable Shares.** For the purposes of calculating the number of shares of Series Preferred Stock outstanding pursuant to Section C.3, the number of shares of Series Preferred Stock issuable on the exchange of the Series A Exchangeable Shares, Series B Exchangeable Shares and Series C Exchangeable Shares then outstanding shall be deemed outstanding. A holder of Series A Exchangeable Shares, Series B Exchangeable Shares or Series C Exchangeable Shares who wishes to exercise redemption rights pursuant to Section C.3 must exchange such shares for shares of Series Preferred Stock in accordance with their terms and hold Series Preferred Stock prior to the relevant Series C Redemption Date or Series A and B Redemption Date, provided that the exchange may, at the option of the holder, be conditioned upon the redemption of the Series Preferred Stock into which such shares are exchangeable occurring, in which event the person(s) entitled to receive shares of Series A Preferred Stock upon exchange of shares of Series A Exchangeable Shares, Series B Preferred Stock upon exchange of shares of Series B Exchangeable Shares or Series C Preferred Stock upon exchange of shares of Series C Exchangeable Shares shall not be deemed to have exchanged such Series A Exchangeable Shares, Series B Exchangeable Shares or Series C Exchangeable Shares until immediately prior to the relevant Series C Redemption Date or Series A and B Redemption Date.

(d) **Partial Redemption.** If funds of the Corporation legally available for redemption of shares of Series Preferred Stock on the Series C Redemption Date or Series A and B Redemption Date, as applicable, pursuant to Section C.3 are insufficient to redeem the total number of shares of Series Preferred Stock to be redeemed on such date, the Corporation shall use those funds that are legally available to effect such redemption *pro rata* among the holders of shares of Series C Preferred Stock, Series A Preferred Stock or Series B Preferred Stock called for redemption, as applicable, based on the number of shares held by each holder thereof on the Series C Redemption date or Series A and B Redemption Date, as applicable. If and to the extent that any shares of Series Preferred Stock are not redeemed on the Series C Redemption Date or Series A and B Redemption Date in the manner required pursuant to this Section C.3, the amount that would otherwise have been paid to the holder of the unredeemed shares of Series Preferred Stock on account of such redemption shall bear interest at the rate of twelve percent (12%) per annum (the "**Interest Amount**") until, and will be paid to the holder

of such shares of Series Preferred Stock on, the earlier of: (i) the date that such previously unredeemed shares of Series Preferred Stock are actually redeemed by the Corporation, and (ii) the conversion of such unredeemed shares of Series Preferred Stock into shares of Common Stock in accordance with Section C.5. Any shares of Series Preferred Stock not redeemed on a Series C Redemption Date or Series A and B Redemption Date as a result of insufficient funds being legally available for such redemption shall be redeemed by the Corporation as and when such funds become available.

(e) **Surrender of Certificates.** On the Series C Redemption Date or Series A and B Redemption Date, as applicable, each holder of shares of Series Preferred Stock being redeemed hereunder shall surrender the certificate(s) representing such shares of Series Preferred Stock to be redeemed to the Corporation, in the manner and at the place designated by the Corporation, and thereupon the Series C Redemption Price or Series A and B Redemption Price, as applicable, for such shares shall be payable to the order of the person whose name appears on such certificate(s) as the owner thereof, and each surrendered certificate shall be canceled and retired. If less than all of the shares represented by such certificate are redeemed, then the Corporation shall promptly issue a new certificate representing the unredeemed shares.

(f) **Effect of Redemption.** If, on a Series C Redemption Date or a Series A and B Redemption Date, the full redemption price is either paid or made available for payment through the deposit arrangements specified in Section C.3(g) then, notwithstanding that the certificates evidencing any of the shares of Series Preferred Stock so called for redemption shall not have been surrendered, such shares shall not thereafter be transferred on the Corporation's books and the rights of all the holders of such shares with respect to such shares shall terminate after the Series C Redemption Date or Series A and B Redemption Date, except only the right of the holders to receive the Series C Redemption Price or Series A and B Redemption Price, as applicable, without interest upon surrender of their certificate(s) evidencing their shares of Series Preferred Stock.

(g) **Deposit of Redemption Price.** On or prior to a Series C Redemption Date or a Series A and B Redemption Date, the Corporation may, at its option, deposit as a trust fund with a bank or trust corporation having capital and surplus of at least one hundred million dollars (U.S.$100,000,000), a sum equal to the aggregate redemption price for all shares of Series Preferred Stock called for redemption and not yet redeemed, with irrevocable instruction and authority to the bank or trust corporation to pay, on or after the Series C Redemption Date or Series A and B Redemption Date, as applicable, the Series C Redemption Price or Series A and B Redemption Price, as applicable, to the respective holders upon the surrender of their share certificate(s). Provided that such deposit is made, from and after the Series C Redemption Date or Series A and B Redemption Date, as applicable, the shares so called for redemption shall be redeemed. The deposit shall constitute full payment of the shares to their holders, and from and after the Series C Redemption Dater or Series A and B Redemption Date, as applicable, the shares shall be deemed to be no longer outstanding, and the holders will cease to be stockholders with respect to such shares and shall have no rights with respect thereto except the right to receive from the bank or trust

corporation payment of the Series C Redemption Price or Series A and B Redemption Price, as applicable, without interest, upon surrender of their certificates therefor, and the right to convert such shares as provided in Section C.5 (in which case, upon conversion of the shares of Series Preferred Stock before redemption, such shares shall not be redeemed) provided that if shares of Series Preferred Stock are not redeemed due to a default in payment by the Corporation or because the Corporation does not have sufficient legally available funds, such shares of Series Preferred Stock shall remain outstanding and shall be entitled to all of the rights and preferences provided herein. Any funds so deposited and unclaimed at the end of six (6) months from the Series C Redemption Dater or Series A and B Redemption Date, as applicable, shall be released or repaid to the Corporation, after which time the holders of shares of Series Preferred Stock called for redemption who have not claimed such funds shall be entitled to receive payment of the Series C Redemption Price or Series A and B Redemption Price, as applicable, only from the Corporation.

4. Voting Rights

Each holder of outstanding shares of Series Preferred Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which the shares of Series Preferred Stock held by such holder are then convertible, at each meeting of stockholders of the Corporation (and written actions of stockholders in lieu of meetings) with respect to any and all matters presented to the stockholders of the Corporation for their action or consideration. Except as provided by law or the provisions of the Corporation's certificate of incorporation, holders of Preferred Stock and Common Stock shall vote together as a single class, on an as-converted to Common Stock basis, on any actions to be taken by the stockholders of the Corporation.

5. Conversion

(a) **Right To Convert.** Subject to Section C.5(d), each share of Series Preferred Stock shall be convertible, at the option of, and on the conditions (provided such conditions are readily ascertainable by the Corporation on or prior to the time for conversion), if any, specified by the holder thereof, at any time after the date of issuance of such share, at the office of the Corporation or any transfer agent for such Series Preferred Stock, into such number of fully paid and non-assessable shares of Common Stock as is determined by dividing the applicable original issue price of such share (as set forth in Section C.2(a) above) by the applicable conversion price (each, a "**Conversion Price**") of such share, each as in effect on the date the certificate is surrendered for conversion. The initial per share Conversion Price for each series of the Series Preferred Stock shall be $0.55; provided, however, that the Conversion Price for each series of the Series Preferred Stock shall be subject to adjustment as set forth below.

(b) **Automatic Conversion.**

(i) Each share of Series Preferred Stock shall automatically be converted into that number of shares of Common Stock into which it would convert at that time pursuant to Section C.5(a) immediately upon the date of the closing of a sale of shares of Common Stock in an underwritten public offering

pursuant to a registration statement under the United States Securities Act of 1933, as amended (the "**Securities Act**"), (other than a registration relating solely to a transaction under Rule 145 under the Securities Act (or any successor thereto) or a registration relating solely to an employee benefit plan of the Corporation) that (A) is at a per share public offering price (before underwriters' discounts and expenses) of at least four (4) times the Original Series C Issue Price (as adjusted for any stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares), (B) is conducted with a lead underwriter satisfactory to Preferred Shareholders by Preferred Shareholder Approval, (C) has aggregate gross proceeds to the Corporation of at least thirty-five million dollars ($35,000,000) (a "**Qualified IPO**") and (D) will result in the registration and trading of the Corporation's Common Stock on The NASDAQ Capital Market, The NASDAQ Global Market, The NASDAQ Global Select Market or the New York Stock Exchange.

(ii) Upon receipt of Preferred Shareholder Approval (the "**Preferred Election**"), all outstanding shares of Series Preferred Stock shall automatically be converted into that number of shares of Common Stock into which it would convert at that time pursuant to Section C.5(a).

(iii) Each of the date of the closing of the Qualified IPO and, where relevant (as described in Section C.5(b)(ii)), the date of the Preferred Election, shall be referred to as an "**Automatic Conversion Date**".

(c) **Mechanics of Conversion.**

(i) Before any holder of shares of Series Preferred Stock shall be entitled to voluntarily convert the same into shares of Common Stock, such holder shall surrender the certificate or certificates therefor, duly endorsed, at the office of the Corporation or of any transfer agent for such stock, and shall give written notice to the Corporation at such office that such holder elects to convert the same and shall state therein the number of shares to be converted and the name or names in which such holder wishes the certificate or certificates for shares of Common Stock to be issued. The Corporation shall, as soon as practicable thereafter, issue and deliver to such holder of Series Preferred Stock, a certificate or certificates for the number of shares of Common Stock to which such holder shall be entitled and shall promptly pay in cash or, to the extent sufficient funds are not then legally available therefor, in shares of Common Stock (at the Common Stock's fair market value determined in good faith by the Board of Directors as of the date of conversion) the value of any fractional share of Common Stock otherwise issuable to any holder of Series Preferred Stock. Such conversion shall be deemed to have been made immediately prior to the close of business on the date of surrender of the shares of Series Preferred Stock to be converted or, in the case of an automatic conversion of shares of Series Preferred Stock pursuant to Section C.5(b)(i) or (ii), on the Automatic Conversion Date, and the person or persons entitled to receive the shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder or holders of such shares of Common Stock on such date. No written notice of election to convert shall be necessary in the event of an automatic conversion pursuant to Section C.5(b).

(ii) Without limiting the right of holders of Series Preferred Stock to specify conditions to the exercise of their right of conversion as provided for in Section C.5(a), if the conversion is in connection with an underwritten offering of securities pursuant to a registration statement under the Securities Act (other than a Qualified IPO), the conversion may, at the option of any holder tendering shares of Series Preferred Stock for conversion, be conditioned upon the closing with the underwriters of the sale of securities pursuant to such offering, in which event the person(s) entitled to receive shares of Common Stock upon conversion of shares of Series Preferred Stock shall not be deemed to have converted such shares of Series Preferred Stock until immediately prior to the closing of such sale of securities.

(iii) In the case of an automatic conversion of shares of Series Preferred Stock pursuant to Section C.5(b)(i) or (ii), the person(s) entitled to receive shares of Common Stock issuable upon such conversion shall be treated for all purposes as the record holder(s) of such shares of Common Stock as and from the Automatic Conversion Date. Until certificates for shares of Series Preferred Stock which have been converted pursuant to Section C.5(b)(i) or (ii) have been delivered to the Corporation for exchange for certificates representing shares of Common Stock, such certificates shall be deemed to represent the shares of Common Stock into which such shares of Series Preferred Stock have been converted.

(d) **Adjustments to Applicable Conversion Prices for Stock Dividends and for Combinations or Subdivisions of Common Stock.** If the Corporation at any time or from time to time after the Closing Date shall declare or pay, without consideration, any dividend on the shares of Common Stock payable in shares of Common Stock or in any right to acquire shares of Common Stock for no consideration, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by stock split, reclassification or otherwise than by payment of a dividend in Common Stock or in any right to acquire shares of Common Stock), or in the event the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, then each applicable Conversion Price in effect immediately prior to such event shall, concurrently with the effectiveness of such event, be proportionately decreased or increased, as appropriate. For the purposes of this Section C.5(d), if the Corporation shall declare or pay, without consideration, any dividend on the shares of Common Stock payable in any right to acquire shares of Common Stock for no consideration, then the Corporation shall be deemed to have declared and paid a dividend payable in shares of Common Stock in an amount of shares equal to the maximum number of shares issuable upon exercise of such rights to acquire shares of Common Stock.

(e) **Adjustments for Reclassification and Reorganization.** If at any time or from time to time after the Closing Date, the shares of Common Stock issuable upon

conversion of the shares of Series Preferred Stock shall be changed into the same or a different number of shares of any other class or classes of stock, whether by capital reorganization, reclassification or otherwise (other than a subdivision or combination of shares provided for in Section C.5(d)), each applicable Conversion Price then in effect shall, concurrently with the effectiveness of such reorganization or reclassification, be proportionately adjusted so that the shares of Series Preferred Stock shall be convertible into, in lieu of the number of shares of Common Stock which the holders would have been entitled to receive, that number of shares of such other class or classes of stock that the holders would have been entitled to receive as a result of that change if the holders had been the registered holders of that number of shares of Common Stock into which their shares of Series Preferred Stock were convertible immediately before such reorganization, reclassification or other similar event.

(f) **Mergers or Consolidations.** If at any time or from time to time after the Closing Date, there is a capital reorganization of the Common Stock or the merger or consolidation of the Corporation with or into another corporation or another entity or person (other than a Change of Control as defined in Section C.2(e) or a recapitalization, subdivision, combination, reclassification, exchange or substitution of shares provided for elsewhere in this Section C.5), as a part of such capital reorganization, merger or consolidation, provision shall be made so that the holders of shares of Series Preferred Stock shall thereafter be entitled to receive upon conversion of such shares of Series Preferred Stock the number of shares of stock or other securities or property of the Corporation, or of the corporation, entity or person resulting from such event, that the holders would have received as a result of that event if the holders had been the holders of that number of shares of Common Stock into which their shares of Series Preferred Stock were convertible immediately before that event. In any such case, appropriate adjustment shall be made in the application of the provisions of this Section C.5 with respect to the rights of the holders of shares of Series Preferred Stock after the capital reorganization, merger or consolidation, to the end that the provisions of this Section C.5 (including adjustment of each applicable Conversion Price then in effect and the number of shares issuable upon conversion of the Series Preferred Stock) shall be applicable after that event and be as nearly equivalent as practicable.

(g) **Adjustments to Applicable Conversion Price for Certain Dilutive Issuances.**

(i) **Special Definitions.** For purposes of this Section C.5(g), the following definitions apply:

(A) "**Options**" shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire Common Stock or Convertible Securities (as such term is defined below);

(B) "**Convertible Securities**" shall mean any evidences of indebtedness or any other securities convertible into or exchangeable for shares of Common Stock, including without limitation securities

convertible or exchangeable into shares of Common Stock (either directly or through more than one conversion or exchange) issued by the Corporation, any subsidiary of the Corporation or by the Canadian Entity;

(C) "**Additional Shares of Common Stock**" shall mean all shares of Common Stock issued or, pursuant to Section C.5(g)(ii), deemed to be issued by the Corporation after the Closing Date, other than shares of Common Stock issued or issuable:

(1) upon exercise of Options outstanding on the Closing Date;

(2) to officers, directors or employees of, or consultants to, the Corporation or the Canadian Entity or a subsidiary or parent of the Corporation or the Canadian Entity pursuant to the Corporation and Canadian Entity's Joint Stock Option Plans (the "**Plans**"), or any other option or purchase plans or agreements on terms approved by the Board of Directors (collectively, the "**Stock Option Plans**") provided that the maximum number of shares of Common Stock directly or indirectly issuable upon the exercise of Options granted pursuant to the Stock Option Plans will be equal to 12,809,037 immediately after the Closing Date (as adjusted for stock dividends, stock splits, combinations or other similar recapitalizations affecting such shares);

(3) pursuant to a recapitalization or as a dividend or distribution on shares of Common Stock or shares of Preferred Stock approved by the Board of Directors;

(4) upon the issuance of shares of Common Stock or Series Preferred Stock pursuant to the amended and restated exchange agreement dated on or about March 18, 2013 (the "**Exchange Agreement**"), or the amended and restated support agreement dated on or about March 18, 2013 between the Corporation and the Canadian Entity (the "**Support Agreement**");

(5) upon the issuance of shares of Common Stock issued in connection with a Qualified IPO;

(6) to banks, equipment lessors or other financial institutions, or to real property lessors, pursuant to a debt financing, equipment leasing or real property leasing transaction, or in connection with business combinations or business partnering arrangements, in each case which are not part of a financing transaction and are approved by the Board of Directors and the Preferred Shareholders by Preferred Shareholder Approval;

(7) upon conversion, after the Closing Date, of Common Exchangeable Shares of the Canadian Entity issued by the Canadian Entity prior to the Closing Date; or

(8) upon the issuance of (i) shares of Preferred Stock or Convertible Securities or warrants to purchase Preferred Stock or Convertible Securities issued pursuant to the Series C Subscription Agreement; (ii) shares of Preferred Stock or Convertible Securities issued upon exercise of warrants issued pursuant to the Series C Subscription Agreement, (iii) shares of Preferred Stock pursuant to the exchange of Series A Exchangeable Shares, Series B Exchangeable Shares or Series C Exchangeable Shares issued pursuant to the subscription agreement dated on or about June 8, 2007 among the Corporation, the Canadian Entity and certain Series A Holders (the "**Series A Subscription Agreement**"), the subscription agreement dated March 31, 2010 among the Corporation, the Canadian Entity and certain Series B Holders, as amended or supplemented from time to time (the "**Series B Subscription Agreement**") or the Series C Subscription Agreement; (iv) the issuance of Common Stock pursuant to the exchange of Common Exchangeable Shares of the Canadian Entity issued pursuant to the conversion of the Series A Exchangeable Shares, Series B Exchangeable Shares and Series C Exchangeable Shares referred to in (iii) above; or (v) upon the conversion of the shares of Preferred Stock referred to in (i), (ii) or (iii) above into Common Stock;

(ii) **Deemed Issue of Additional Shares of Common Stock.** If the Corporation at any time or from time to time after the Closing Date shall issue any Options or Convertible Securities or shall fix a record date for the determination of holders of any class of securities then entitled to receive any Options or Convertible Securities, then the maximum number of shares of Common Stock (as set forth in the instrument relating thereto without regard to any provisions contained therein designed to protect against dilution) issuable upon the exercise of such Options or, in the case of Convertible Securities, the conversion or exchange of such Convertible Securities, shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue or, in case such a record date shall have been fixed, as of the close of business on such record date, provided that Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to Section C.5(g)(iv)) of such Additional Shares of Common Stock would be less than the applicable Conversion Price in effect on the date of and immediately prior to such issue, or such record date, as the case may be, provided further that in any such case in which Additional Shares of Common Stock are deemed to be issued:

(A) no further adjustments in the applicable Conversion Price shall be made upon the subsequent issue of Convertible Securities or shares of Common Stock upon the exercise of such Options or conversion or exchange of such Convertible Securities;

(B) if Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any increase in the consideration payable to the Corporation, or decrease in the number of shares of Common Stock issuable, upon the exercise, conversion or exchange thereof, the applicable Conversion Price computed upon the original issue thereof (or upon the occurrence of a record date with respect thereto) and any subsequent adjustments based thereon, shall, upon any such increase or decrease becoming effective, be recomputed to reflect such increase or decrease insofar as it affects such Options or the rights of conversion or exchange under such Convertible Securities (provided, however, that no such adjustment of the applicable Conversion Price shall affect shares of Common Stock previously issued upon conversion of the shares of Series Preferred Stock);

(C) upon the expiration of any Options or Convertible Securities, the termination of any Options or the termination of rights to convert or exchange Convertible Securities, the applicable Conversion Price, to the extent in any way affected by or computed using such Options or Convertible Securities, shall be recomputed to reflect the issuance of only the number of shares of Common Stock actually issued upon the exercise of such Options, or upon the conversion or exchange of such Convertible Securities, and the Options and Convertible Securities that continue to be outstanding after giving effect to such expiration or termination (provided, however, that no such adjustment of the applicable Conversion Price shall affect shares of Common Stock previously issued upon conversion of the shares of Series Preferred Stock);

(D) no readjustment pursuant to clause (B) or (C) above shall have the effect of increasing any Conversion Price to an amount that exceeds the lower of (a) the applicable Conversion Price on the original adjustment date, and (b) the applicable Conversion Price that would have resulted from any issuance of Additional Shares of Common Stock between the original adjustment date and such readjustment date.

(iii) **Adjustment of Applicable Conversion Price Upon Issuance of Additional Shares of Common Stock.**

(A) **Series A Preferred Stock.** If the Corporation shall, at any time after the Closing Date issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section C.5(g)(ii)), without consideration or for a consideration per share less than the Conversion Price of the Series A Preferred Stock in effect on the date of and immediately prior to such issue, then, and in such event, the Conversion Price of the Series A Preferred Stock shall be reduced, concurrently with such issue, to a price (calculated to the nearest tenth of a cent) equal to the number obtained by dividing the "**Numerator**" by the "**Denominator**". The Numerator shall be equal to (A) plus (B), where (A) is the product of (1) the number of shares of Common Stock outstanding immediately prior to such issue multiplied by (2) the then applicable Conversion Price of the Series A Preferred Stock, and where (B) is the product of (1) the number of Additional Shares of Common Stock issued, multiplied by (2) the price at which such Additional Shares of Common Stock were issued or deemed to be issued. The Denominator shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock;

(B) **Series B Preferred Stock.** If the Corporation shall, at any time after the Closing Date, issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section C.5(g)(ii)), without consideration or for a consideration per share less than the Conversion Price of the Series B Preferred Stock in effect on the date of and immediately prior to such issue, then, and in such event, the Conversion Price of the Series B Preferred Stock shall be reduced, concurrently with such issue, to a price (calculated to the nearest tenth of a cent) equal to the number obtained by dividing the "**Numerator**" by the "**Denominator**". The Numerator shall be equal to (A) plus (B), where (A) is the product of (1) the number of shares of Common Stock outstanding immediately prior to such issue multiplied by (2) the then applicable Conversion Price of the Series B Preferred Stock, and where (B) is the product of (1) the number of Additional Shares of Common Stock issued, multiplied by (2) the price at which such Additional Shares of Common Stock were issued or deemed to be issued. The Denominator shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock;

(C) **Series C Preferred Stock.** If the Corporation shall, at any time after the Closing Date, issue Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section C.5(g)(ii)), without consideration or for a consideration per share less than the Conversion Price of the Series C Preferred Stock in effect on the date of and immediately prior to such issue, then, and in such event, the Conversion Price of the Series C Preferred Stock shall be reduced, concurrently with such issue, to a price

(calculated to the nearest tenth of a cent) equal to the number obtained by dividing the "**Numerator**" by the "**Denominator**". The Numerator shall be equal to (A) plus (B), where (A) is the product of (1) the number of shares of Common Stock outstanding immediately prior to such issue multiplied by (2) the then applicable Conversion Price of the Series C Preferred Stock, and where (B) is the product of (1) the number of Additional Shares of Common Stock issued, multiplied by (2) the price at which such Additional Shares of Common Stock were issued or deemed to be issued. The Denominator shall be the number of shares of Common Stock outstanding immediately prior to such issue plus the number of such Additional Shares of Common Stock; and

(D) **Calculation.** For the purpose of the calculations in this Section C.5(g)(iii), the number of shares of Common Stock outstanding immediately prior to such issue shall be calculated as if (i) all shares of Preferred Stock had been fully converted into Common Stock (including the conversion of shares of Preferred Stock issuable pursuant to the Exchange Agreement or the Support Agreement) and (ii) shares of Common Stock issuable upon the exercise of outstanding Options or conversion or exchange of outstanding Convertible Securities had been issued pursuant to the exercise of such Options or the conversion or exchange of such Convertible Securities. In addition, all adjustments provided for in this Section C.5(g)(iii) shall occur simultaneously, and no further adjustments will be made to any series of Series Preferred Stock as a result of any adjustment made hereunder to any other series of Series Preferred Stock;

(iv) **Determination of Consideration.** For purposes of this Section C.5(g), the consideration recognized by the Corporation for the issue of any Additional Shares of Common Stock shall be computed as follows:

(A) **Cash and Property.** Such consideration shall:

(1) insofar as it consists of cash, be computed at the aggregate amount of cash received by the Corporation excluding amounts paid or payable for accrued interest or unpaid dividends;

(2) insofar as it consists of property other than cash, be computed at the fair market value thereof at the time of such issue, as determined in good faith by the Board of Directors; and

(3) in the event Additional Shares of Common Stock are issued together with other stock or securities or other assets of the Corporation for consideration that covers both, be the proportion of such consideration so received applicable to the Additional Shares of Common Stock so issued, computed as provided in clauses (1) and (2) above, as determined in good faith by the Board of Directors.

(B) **Options and Convertible Securities.** The consideration per share received by the Corporation for Additional Shares of Common Stock deemed to have been issued pursuant to Section C.5(g)(ii), relating to Options and Convertible Securities shall be determined by dividing:

(1) the total amount, if any, received or receivable by the Corporation as consideration for the issue of such Options or Convertible Securities, plus the minimum aggregate amount of additional consideration (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Corporation upon the exercise of such Options or the conversion or exchange of such Convertible Securities, or in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities by

(2) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or conversion or exchange of such Convertible Securities.

(h) **No Impairment.** The Corporation will not, by amendment of the Corporation's certificate of incorporation (unless such amendment is in accordance with the terms hereof) or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in the carrying out of all the provisions of this Section C.5 and in the taking of all such action as may be necessary or appropriate in order to protect the conversion rights of the holders of the Series Preferred Stock against impairment.

(i) **Certificates as to Adjustment.** Adjustments made under this Section C.5 shall be successive and each resulting new Conversion Price shall continue in effect until the next adjustment (if any) is made thereunder. Upon the occurrence of each adjustment or readjustment of the Conversion Price of any series of Series Preferred Stock pursuant to this Section C.5, the Corporation, at its expense, shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to each holder of shares of series of Series Preferred Stock affected, a certificate executed by the Corporation's president or chief financial officer setting forth such adjustment or readjustment and showing in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, at its expense and upon the written request at any time of any holder of shares of such affected series of Series Preferred Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the Conversion Price for the shares of the series of Series Preferred Stock held by such holder at the time in effect, and (iii) the

number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of shares of the series of Series Preferred Stock held by such holder.

(j) **Notices of Record Date.** If the Corporation shall propose at any time: (i) to declare any dividend or distribution upon its Common Stock, whether in cash, property, stock or other securities, whether or not a regular cash dividend and whether or not out of earnings or earned surplus; (ii) to offer for subscription *pro rata* to the holders of any class or series of its stock any additional shares of stock of any class or series or other rights; (iii) to effect any reclassification or recapitalization of its shares of Common Stock outstanding; or (iv) to merge or consolidate with or into any other corporation, or sell, lease or convey all or substantially all of its assets or otherwise effect a Change of Control, or to liquidate, dissolve or wind up; then, in connection with each such event, the Corporation shall send to the holders of shares of Series Preferred Stock and Special Voting Stock:

(A) at least fourteen (14) calendar days prior written notice of the date on which a record shall be taken for such dividend, distribution or subscription rights (and specifying the date on which holders of shares of Common Stock shall be entitled thereto) or for determining rights to vote, if any, in respect of the matters referred to in (iii) and (iv) above; and

(B) in the case of the matters referred to in (iii) and (iv) above, at least fourteen (14) calendar days prior written notice of the date when the same shall take place (and specifying the date on which holders of Common Stock shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon the occurrence of such event).

(k) **Issue Taxes.** The Corporation shall pay any and all issue taxes that may be payable only in respect of any issue or delivery of shares of Common Stock on conversion of shares of Series Preferred Stock pursuant hereto; provided, however, that the Corporation shall not be obligated to pay any transfer taxes resulting from any transfer requested by any holder in connection with any such conversion.

(l) **Reservation of Common Stock Issuable Upon Conversion of Series Preferred Stock.** The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of shares of Series Preferred Stock, such number of shares of Common Stock as shall from time to time be sufficient to effect the conversion of all outstanding shares of Series Preferred Stock and Series Preferred Stock issuable upon the exchange of outstanding Exchangeable Shares (as defined in the Exchange Agreement, the "**Exchangeable Shares**"); and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of Series Preferred Stock and all shares of Series Preferred Stock issuable upon the exchange of outstanding Exchangeable Shares, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Corporation's certificate of incorporation.

(m) **Fractional Shares.** No fractional share shall be issued upon the conversion of any share or shares of Series Preferred Stock. All shares of Common Stock (including fractions thereof) issuable upon conversion of more than one share of Series Preferred Stock by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the date of conversion (as determined in good faith by the Board of Directors).

(n) **Notices.** Any notice required by the provisions of this Section C.5 to be given to the holders of shares of Series Preferred Stock shall be (i) mailed, postage prepaid, to the post office address last shown on the records of the Corporation and shall be deemed given five (5) days after having been deposited in the United States mail or Canada Post or (ii) given by electronic communication to the electronic mail address last shown on the records of the Corporation in compliance with the provisions of the General Corporation Law and shall be deemed sent upon such electronic transmission.

6. Restrictions and Limitations.

(a) So long as twenty-five percent (25%) or more of the Series Preferred Stock and Series Special Voting Stock issued under the Series A Subscription Agreement, the Series B Subscription Agreement (as supplemented by the Series B Subscription Agreement Supplement) and the Series C Subscription Agreement (or Series Preferred Stock issued pursuant to the exchange of Series A Exchangeable Shares, Series B Exchangeable Shares or Series C Exchangeable Shares issued pursuant to such stock subscription agreements) remain outstanding, the Corporation shall not, and shall not permit any subsidiary (which shall mean any corporation, association or other business entity of which the Corporation and/or any of its other subsidiaries directly or indirectly owns at the time fifty percent (50%) or more of the outstanding voting securities) to, in each case either directly or indirectly by amendment, merger, consolidation or otherwise, without the vote or written consent by the Preferred Shareholders by Preferred Shareholder Approval:

(i) redeem, purchase or otherwise acquire for value (or pay into or set aside for a sinking fund for such purpose) any share or shares of Preferred Stock other than by conversion in accordance with Section C.5, pursuant to a redemption of any series of Preferred Stock in accordance with the terms of the Corporation’s certificate of incorporation or pursuant to the Exchange Agreement or the Support Agreement;

(ii) redeem, purchase or otherwise acquire (or pay into or set aside for a sinking fund for such purpose) any shares of Common Stock except pursuant the terms of the Stock Option Plans and related agreements thereto approved by the Board of Directors;

(iii) take any action that results in the payment or declaration of any dividend on any equity securities of the Corporation or in the distribution of any cash (other than in the normal course of business), securities or assets of the Corporation (except pursuant to the Exchange Agreement or the Support Agreement);

(iv) authorize or issue, or obligate itself to issue, any equity security (including any security convertible into or exercisable for any equity security) senior to or on parity with the Series C Preferred Stock, including any shares of Series C Preferred Stock not issued pursuant to the Series C Subscription Agreement (except for issuance pursuant to the Exchange Agreement or the Support Agreement);

(v) effect a public offering of securities of the Corporation;

(vi) amend, alter or repeal any of the provisions of its certificate of incorporation, by-laws or equivalent organizational documents;

(vii) take any action which effects a liquidation, dissolution or winding up of the Corporation or any subsidiary of the Corporation;

(viii) make any loans or monetary advances to employees of the Corporation or of any subsidiary of the Corporation (or any relative of such persons) other than in the ordinary course of business, unless unanimously approved by the Board of Directors;

(ix) incur or guarantee any indebtedness, or permit any subsidiary of the Corporation to incur or guarantee any such indebtedness, except in the ordinary course of business, unless unanimously approved by the Board of Directors;

(x) create any mortgage, pledge, or other security interest in all or substantially all of the property of the Corporation, or a subsidiary of the Corporation, unless unanimously approved by the Board of Directors;

(xi) own, or permit any subsidiary of the Corporation to own, any stock or other securities of any other corporation, partnership or entity, unless such entity is wholly-owned by the Corporation or unless unanimously approved by the Board of Directors;

(xii) increase or decrease the authorized size of the Board of Directors from five (5) directors;

(xiii) effect a Change of Control or enter into any agreement relating to the same, unless such Change of Control has been approved by the holders of two-thirds (2/3) of then outstanding shares of the Preferred Stock and Common Stock (voting together as a single class on an as-converted to Common Stock basis);

(xiv) make a material change in the line of business of the Corporation; or

(xv) increase, or authorize the increase of, the number of shares of Common Stock available under the Stock Option Plans, provided, however, that Preferred Shareholder Approval shall not be necessary with respect to any such increase if (a) the number of shares of Common Stock available under the Stock Option Plans after such increase is not greater than 15% of the Corporation's outstanding capital stock on a Fully Converted Basis (as defined below) and (b) such increase is unanimously approved by the Board of Directors. "**Fully Converted Basis**" at any time means that all shares of any class or series in the share capital of the Corporation or the Canadian Entity from time to time then outstanding which are convertible or exchangeable (directly or indirectly) (including pursuant to the Exchange Agreement) into shares of Common Stock at that time shall be deemed to have been fully converted and exchanged into shares of Common Stock, in accordance with the rights, privileges, restrictions and conditions attached thereto, and the shares of Common Stock issuable as a result thereof shall be deemed to have been issued and to form part of the holdings of the person(s) entitled to receive such shares of Common Stock and assuming the redemption of all Special Voting Stock and all special voting shares in the capital of the Canadian Entity in accordance with the rights, privileges, restrictions and conditions attached thereto.

(b) So long as any shares of Series A Preferred Stock or Series A Special Voting Stock remain outstanding, the Corporation shall not, and shall not permit any subsidiary to, without the vote or written consent by the holders of at least a majority of the votes attaching to the then outstanding shares of the Series A Preferred Stock and Series A Special Voting Stock (voting together as a single class on an as-converted to Common Stock basis and not as separate series) amend, alter or repeal any of the provisions of its certificate of incorporation or by-laws so as to materially and adversely affect the Series A Preferred Stock.

(c) So long as any shares of Series B Preferred Stock or Series B Special Voting Stock remain outstanding, the Corporation shall not, and shall not permit any subsidiary to, without the vote or written consent by the holders of at least a majority of the votes attaching to the then outstanding shares of the Series B Preferred Stock and Series B Special Voting Stock (voting together as a single class on an as-converted to Common Stock basis and not as separate series) amend, alter or repeal any of the provisions of its certificate of incorporation or by-laws so as to materially and adversely affect the Series B Preferred Stock.

(d) So long as any shares of Series C Preferred Stock or Series C Special Voting Stock remain outstanding, the Corporation shall not, and shall not permit any subsidiary to, without the vote or written consent by the holders of at least a majority of the votes attaching to the then outstanding shares of the Series C Preferred Stock and Series C Special Voting Stock (voting together as a single class on an as-converted to

Common Stock basis and not as separate series) amend, alter or repeal any of the provisions of its certificate of incorporation or by-laws so as to materially and adversely affect the Series C Preferred Stock.

7. No Reissuance of Series Preferred Stock.

No share or shares of Series Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued, and all such shares shall be canceled, retired and eliminated from the shares which the Corporation shall be authorized to issue.

D. Special Voting Stock. In addition to those powers, preferences, rights, restrictions and other matters expressly relating to the Special Voting Stock contemplated in Part C, the powers, preferences, rights, restrictions and other matters relating to the Special Voting Stock are as follows.

1. Voting Rights. Except as provided by law or the provisions of the Corporation's certificate of incorporation, holders of Preferred Stock and Common Stock shall vote together as a single class, on an as-converted to Common Stock basis, on any actions to be taken by the stockholders of the Corporation. Where the Corporation's certificate of incorporation provides that the voting rights of the Special Voting Stock shall be determined on an "as-converted to Common Stock basis", such term shall mean that each holder of outstanding shares of Special Voting Stock shall be entitled to the number of votes equal to the number of whole shares of Common Stock into which such shares of Special Voting Stock would convert pursuant to the procedures set forth below (if such shares were so convertible) at each meeting of stockholders of the Corporation (and written actions of stockholders in lieu of meetings) with respect to any and all matters presented to the stockholders of the Corporation for their action or consideration. For the purposes of determining the number of votes that each share of Special Voting Stock would be entitled to pursuant to the first sentence of this paragraph, each share of Common Special Voting Stock shall be deemed to be convertible into one (1) share of Common Stock and shares of other series of Special Voting Stock shall be deemed to be convertible into Common Stock on the same terms as the corresponding series of Series Preferred Stock (e.g., the Series A-1 Special Voting Stock shall be deemed to convert into Common Stock on the same terms as the Series A-1 Preferred Stock, taking into account all previous adjustments to the Conversion Price of the Series A-1 Preferred Stock). For greater certainty, however, the shares of Special Voting Stock are not convertible into Common Stock.

2. Certificates, Notices and Delivery of Notices.

(a) **Certificates as to Adjustments.** Upon the occurrence of each adjustment or readjustment of the Conversion Price for any series of Series Preferred Stock pursuant to Section C.5, the Corporation at its expense shall promptly compute such adjustment or readjustment in accordance with the terms hereof and prepare and furnish to the holders of the corresponding series of Special Voting Stock, a certificate executed by the Corporation's president or chief financial officer setting forth such adjustment or readjustment and showing

in detail the facts upon which such adjustment or readjustment is based. The Corporation shall, at its expense, upon the written request at any time of the holder of shares of Special Voting Stock, furnish or cause to be furnished to such holder a like certificate setting forth (i) such adjustments and readjustments, (ii) the relevant Conversion Price at the time in effect for the corresponding series of Series Preferred Stock, and (iii) the number of shares of Common Stock and the amount, if any, of other property which at the time would be received upon the conversion of the shares of Series Preferred Stock issuable pursuant to the Exchange Agreement or the Support Agreement.

(b) **Notices.** Each holder of shares of Special Voting Stock shall be entitled to notice of any stockholders' meeting in accordance with the by-laws of the Corporation and any other notice (in addition to the certificate referred in subsection (a)) delivered or required to be delivered at any time or from time to time to all of the holders of the Series Preferred Stock or Common Stock, respectively.

3. No Preference. The holders of shares of Special Voting Stock shall not be entitled to receive dividends, and on any liquidation, dissolution or winding up of the Corporation shall not be entitled to any payment or any distribution from the assets and funds of the Corporation. On and as of the date when there are no shares of any series of Special Voting Stock outstanding, such series of Special Voting Stock shall be cancelled, retired and eliminated from the shares which the Corporation is authorized to issue.

4. Automatic Redemption.

(a) The Corporation shall, upon the acquisition by the Canadian Entity of Exchangeable Shares pursuant to Articles 5.1, 6.1 or 7.1 of the articles of the Canadian Entity, or upon the exchange by the Corporation, or an affiliate of the Corporation, of shares of Preferred Stock or Common Stock for Exchangeable Shares pursuant to Articles 5.3, 6.3 or 7.4 of the articles of the Canadian Entity or pursuant to Article 2 of the Exchange Agreement (the date of such acquisition or exchange being the "**SVS Automatic Redemption Date**"):

(i) redeem one (1) share of Series A-1 Special Voting Stock from the holdings of the holder of such Exchangeable Shares for each Series A-1 Exchangeable Share acquired from the holdings of such holder by the Canadian Entity, or the Corporation or affiliate of the Corporation, as the case may be;

(ii) redeem one (1) share of Series A-2 Special Voting Stock from the holdings of the holder of such Exchangeable Shares for each Series A-2 Exchangeable Share acquired from the holdings of such holder by the Canadian Entity, or the Corporation or affiliate of the Corporation, as the case may be;

(iii) redeem one (1) share of Series B-1 Special Voting Stock from the holdings of the holder of such Exchangeable Shares for each Series B-1 Exchangeable Share acquired from the holdings of such holder by the Canadian Entity, or the Corporation or affiliate of the Corporation, as the case may be;

(iv) redeem one (1) share of Series B-2 Special Voting Stock from the holdings of the holder of such Exchangeable Shares for each Series B-2 Exchangeable Share acquired from the holdings of such holder by the Canadian Entity, or the Corporation or affiliate of the Corporation, as the case may be;

(v) redeem one (1) share of Series C Special Voting Stock from the holdings of the holder of such Exchangeable Shares for each Series C Exchangeable Share acquired from the holdings of such holder by the Canadian Entity, or the Corporation or affiliate of the Corporation, as the case may be; and

(vi) redeem one (1) share of Common Special Voting Stock from the holdings of the holder of such Exchangeable Shares for each Common Exchangeable Share acquired from the holdings of such holder by the Canadian Entity, or the Corporation or affiliate of the Corporation, as the case may be; and

in each case for an amount equal to $0.000001 per share (the "**SVS Redemption Price**") as set forth below.

(b) In any case of a redemption of shares of Special Voting Stock pursuant to Section D.4(a), the Corporation shall give notice in writing of the automatic redemption of such shares of Special Voting Stock to the holders thereof. The notice shall set out the total SVS Redemption Price for the shares redeemed.

(c) On or after the SVS Automatic Redemption Date, each holder of shares of Special Voting Stock redeemed shall surrender the certificate(s) representing such shares of Special Voting Stock to the Corporation, in the manner and at the place designated by the Corporation, and thereupon the SVS Redemption Price for such shares shall be payable to the order of the person whose name appears on such certificates as the owner thereof, and each surrendered certificate shall be cancelled and retired. If less than all of the shares represented by such certificate are redeemed, then the Corporation shall promptly issue a new certificate representing the unredeemed shares.

(d) On or after the SVS Automatic Redemption Date, the Corporation may, at its option, deposit with a bank or trust corporation having capital and surplus of at least one hundred million dollars ($100,000,000), a sum equal to the aggregate redemption price for all shares of Special Voting Stock redeemed, with irrevocable instruction and authority to the bank or trust corporation to pay, on or after the SVS Automatic Redemption Date, the SVS

Redemption Price to the respective holders upon the surrender of their share certificate(s). The deposit shall constitute full payment of the shares to their holders and the holders will be entitled to receive from the bank or trust corporation payment of the SVS Automatic Redemption Price, without interest, upon surrender of their certificates therefor. Any funds so deposited and unclaimed at the end of six (6) months from the SVS Redemption Date shall be released or repaid to the Corporation, after which time the holders of shares of Special Voting Stock redeemed who have not claimed such funds shall be entitled to receive payment of the SVS Redemption Price only from the Corporation.

(e) From and after the SVS Automatic Redemption Date, any holder of shares of Special Voting Stock redeemed as set forth above shall cease to be entitled to exercise any of the rights of a shareholder in respect thereof, unless payment of the SVS Redemption Price of the shares of Special Voting Stock redeemed shall not be made upon presentation of the certificates in accordance with the foregoing provisions, in which case the rights of the holder shall remain unaffected.

5. Increase in Authorized Common Special Voting Stock. Notwithstanding the provisions of Section 242(b)(2) of the General Corporation Law but subject to Section C.6, the number of authorized shares of Common Special Voting Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Corporation, with each such share being entitled to such number of votes per share as is provided in the Corporation's certificate of incorporation.

E. Common Stock. The powers, preferences, rights, restrictions, and other matters relating to the Common Stock are as follows:

1. Dividends. After payment of Series Preferred Stock dividends pursuant to Sections C.1(a) and C.1(b), any additional dividends or distributions (other than a dividend payable solely in Common Stock and other than a distribution pursuant to Section C.2) shall be distributed among the holders of Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Common Stock pro rata based on the number of shares of Common Stock then held by each holder (assuming conversion of all such Preferred Stock into Common Stock). Such dividends shall be payable only when, as and if declared by the Board of Directors and shall be non-cumulative.

2. Liquidation Rights. In the event of any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, after payment to the holders of the Series Preferred Stock of their respective liquidation preferences provided for in Section C.2, and all other amounts required to be distributed to the holders of any other class or series of stock of the Corporation ranking on liquidation prior to and in preference to the holders of shares of Common Stock, if any, the remaining assets and funds of the Corporation legally available for distribution, if any, shall be distributed among the holders of shares of Common Stock *pro rata* based on the number of shares of Common Stock held by each immediately prior to such distribution.

3. Voting Rights. Each holder of shares of Common Stock shall be entitled to receive notice of and to attend any meeting of the stockholders of the Corporation and shall be entitled to one (1) vote in respect of each share of Common Stock held at such meetings (or written actions in lieu of meetings), except a meeting of holders of shares of a particular class or series of stock other than the Common Stock (or written action in lieu of a meeting) who are entitled to vote separately as a class or series.

4. Reservation of Common Stock Issuable Upon Conversion of Exchangeable Common Shares. The Corporation shall at all times reserve and keep available out of its authorized but unissued shares of Common Stock, solely for the purpose of effecting the conversion of Exchangeable Common Shares of the Canadian Entity ("**Exchangeable Common Shares**"), such number of its shares of Common Stock as shall from time to time be sufficient to effect the exchange of outstanding Exchangeable Common Shares; and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the exchange of all then outstanding Exchangeable Common Shares, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purpose, including, without limitation, engaging in best efforts to obtain the requisite stockholder approval of any necessary amendment to the Corporation's certificate of incorporation.

5. Increase in Authorized Common Stock. Notwithstanding the provisions of Section 242(b)(2) of the General Corporation Law but subject to Section C.6, the number of authorized shares of Common Stock may be increased or decreased (but not below the number of shares then outstanding) by the affirmative vote of the holders of a majority of the outstanding shares of capital stock of the Corporation, with each such share being entitled to such number of votes per share as is provided in the Corporation's certificate of incorporation.

FIFTH: The books of the Corporation may be kept at such place within or without the State of Delaware as the by-laws of the Corporation may provide or as may be designated from time to time by the Board of Directors of the Corporation.

SIXTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to adopt, amend, or repeal the by-laws of the Corporation, subject to Section C.6(a) of Article FOURTH hereof.

SEVENTH: Notwithstanding the provisions of Section C.5(h), the Corporation reserves the right to adopt, repeal, rescind or amend in any respect any provisions contained in the Corporation's certificate of incorporation in the manner now or hereafter prescribed by applicable law.

EIGHTH: A director of the Corporation shall, to the fullest extent permitted by the General Corporation Law as it now exists or as it may hereafter be amended, not be personally liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the directors' duty of loyalty to the Corporation or its stockholders, (ii) for acts and omissions not in

good faith or that involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the General Corporation Law, or (iv) for any transaction from which the director derived any improper personal benefit. If the General Corporation Law is amended, after approval by the stockholders of this Article EIGHTH, to authorize corporate action further eliminating or limiting the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the General Corporation Law, as so amended.

Any amendment, repeal or modification of this Article EIGHTH, or the adoption of any provision of the Corporation's certificate of incorporation inconsistent with this Article EIGHTH, by the stockholders of the Corporation shall not apply to adversely affect any right or protection of a director of the Corporation existing at the time of such amendment, repeal, modification or adoption.

NINTH:

(a) **Right to Indemnification.** Each person who was or is made a party or is threatened to be made a party to or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (hereinafter a "**proceeding**"), by reason of the fact that he or she is or was a director or officer of the Corporation or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, including service with respect to an employee benefit plan (hereinafter an "**indemnitee**"), whether the basis of such proceeding is alleged action in an official capacity as a director, officer, employee or agent or in any other capacity while serving as a director, officer, employee or agent, shall be indemnified and held harmless by the Corporation to the fullest extent authorized by the General Corporation Law, as the same exists or may hereafter be amended (but, in the case of any such amendment, only to the extent that such amendment permits the Corporation to provide broader indemnification rights than permitted prior thereto), against all expense, liability and loss (including attorneys' fees, judgments, fines, ERISA excise taxes or penalties and amounts paid in settlement) reasonably incurred or suffered by such indemnitee in connection therewith and such indemnification shall continue as to an indemnitee who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the indemnitee's heirs, executors and administrators; provided, however, that, except as provided in paragraph (c) of this Article NINTH with respect to proceedings to enforce rights to indemnification, the Corporation shall indemnify any such indemnitee in connection with a proceeding (or part thereof) initiated by such indemnitee only if such proceeding (or part thereof) was authorized by the Board of Directors.

(b) **Right to Advancement of Expenses.** The right to indemnification conferred in paragraph (a) of this Article NINTH shall include the right to be paid by the Corporation the expenses incurred in defending any proceeding for which such right to indemnification is applicable in advance of its final disposition (hereinafter an "**advancement of expense**"); provided, however, that, if the General Corporation Law requires, an advancement of expenses incurred by an indemnitee in his or her capacity as a director or officer (and not in any other capacity in which service was or is rendered by such indemnitee, including, without limitation, service to an employee

benefit plan) shall be made only upon delivery to the Corporation of an undertaking (hereinafter an "**undertaking**"), by or on behalf of such indemnitee, to repay all amounts so advanced if it should ultimately be determined by final judicial decision from which there is no further right to appeal (hereinafter a "**final adjudication**") that such indemnitee is not entitled to be indemnified for such expenses under this Article NINTH or otherwise.

(c) **Right of Indemnitee to Bring Suit.** The rights to indemnification and to the advancement of expenses conferred in paragraphs (a) and (b) of this Article NINTH shall be contract rights. If a claim under paragraph (a) or (b) of this Article NINTH is not paid in full by the Corporation within sixty (60) days after a written claim has been received by the Corporation, except in the case of a claim for an advancement of expenses, in which case the applicable period shall be twenty (21) days, the indemnitee may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim. If successful in whole or in part in any such suit, or in a suit brought by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the indemnitee shall be entitled to be paid also the expense of prosecuting or defending such suit. In (i) any suit brought by the indemnitee to enforce a right to indemnification hereunder (but not in a suit brought by the indemnitee to enforce a right to an advancement of expenses) it shall be a defense that, and (ii) in any suit by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking the Corporation shall be entitled to recover such expenses upon a final adjudication that, the indemnitee has not met any applicable standard for indemnification set forth in the General Corporation Law. Neither the failure of the Corporation (including its board of directors, independent legal counsel, or its stockholders) to have made a determination prior to the commencement of such suit that indemnification of the indemnitee is proper in the circumstances because the indemnitee has met the applicable standard of conduct set forth in the General Corporation Law, nor an actual determination by the Corporation (including its board of directors, independent legal counsel, or its stockholders) that the indemnitee has not met such applicable standard of conduct, shall create a presumption that the indemnitee has not met the applicable standard of conduct or, in the case of such a suit brought by the indemnitee, be a defense to such suit. In any suit brought by the indemnitee to enforce a right to indemnification or to an advancement of expenses hereunder, or by the Corporation to recover an advancement of expenses pursuant to the terms of an undertaking, the burden of proving that the indemnitee is not entitled to be indemnified, or to such advancement of expenses, under this Article NINTH or otherwise shall be on the Corporation.

(d) **Non-Exclusivity of Rights.** The rights to indemnification and to the advancement of expenses conferred in this Article NINTH shall not be exclusive of any right which any person may have or hereafter acquire under any statute, the Corporation's certificate of incorporation, or any by-law, agreement, vote of stockholders or disinterested directors or otherwise.

(e) **Insurance.** The Corporation may maintain insurance, at its expense, to protect itself and any director, officer, employee or agent of the Corporation or another corporation, partnership, joint venture, trust or other enterprise against any expense, liability or loss, whether or not the Corporation would have the power to indemnify such person against such expense, liability or loss under the General Corporation Law.

(f) **Indemnification of Employees and Agents of the Corporation.** The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification, and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article NINTH with respect to the indemnification and advancement of expenses of directors and officers of the Corporation.

(g) **Amendment.** Neither any amendment nor repeal of this Article NINTH, nor the adoption of any provision of the Corporation's certificate of incorporation inconsistent with this Article NINTH, shall eliminate or reduce the effect of this Article NINTH in respect of any matter occurring, or action or proceeding accruing or arising or that, but for this Article NINTH, would accrue or arise, prior to such amendment, repeal or adoption of an inconsistent provision.

TENTH: Subject to Section 6(a)(xii), the number of directors of this Corporation shall be determined in the manner provided by the by-laws and may be increased or decreased from time to time in the manner provided therein. Election of the directors of the Corporation need not be by written ballot unless the by-laws of the Corporation shall so provide.

ELEVENTH: To the maximum extent permitted under the laws of the State of Delaware, the Corporation renounces any interest or expectancy of the Corporation in, or being offered an opportunity to participate in, any business opportunities that are from time to time presented to its officers, directors or stockholders, other than (i) those officers, directors or stockholders who are employees of the Corporation and (ii) those opportunities demonstrated by the Corporation to have been presented to such officers, directors or stockholders as a result of their activities as a director, officer or stockholder of the Corporation. No amendment or repeal of this Article Eleventh shall apply to or have any effect on the liability of alleged liability of any officer, director or stockholder of the Corporation for or with respect to any opportunities which such officer, director or stockholder becomes aware prior to such amendment or repeal."

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK.]

¿ ¿ ¿ ¿ ¿ ¿ ¿ ¿ ¿

This Sixth Amended and Restated Certificate of Incorporation herein certified, insofar as the provisions of the General Corporation Law govern such effective date, shall be effective on the date of filing with the Secretary of State of this Sixth Amended and Restated Certificate of Incorporation.

IN WITNESS WHEREOF, the Corporation has caused this Sixth Amended and Restated Certificate of Incorporation to be signed by David Main, its President as of this 15th day of March 2013.

AQUINOX PHARMACEUTICALS (USA) INC.

By: /s/ David Main
David Main
President and Chief Executive Officer

Exhibit 3.2

AQUINOX PHARMACEUTICALS (USA) INC.

SECOND AMENDED AND RESTATED BYLAWS

June 11, 2010

Table of Contents

BYLAWS

OF

AQUINOX PHARMACEUTICALS (USA) INC.

Adopted on June 11, 2010.

Article 1. Stockholders' Meetings

1.1. Place of Meetings. Meetings of the stockholders shall be held at such place, either within or without the State of Delaware, as the board of directors shall determine. Rather than holding a meeting at any place, the board of directors may determine that a meeting shall be held solely by means of remote communications, which means shall meet the requirements of the General Corporation Law of the State of Delaware.

1.2. Annual Meeting. The annual meeting of the stockholders for the election of the directors and the transaction of such other business as may properly be brought before the meeting shall be held on the date and at the time designated by the board of directors.

1.3. Special Meetings. Special meetings of the stockholders for any purpose or purposes may be called by the board of directors. No other person or persons may call a special meeting. The business to be transacted at any special meeting shall be limited to the purposes stated in the notice.

1.4. Remote Communications. The board of directors may permit the stockholders and their proxy holders to participate in meetings of the stockholders (whether such meetings are held at a designated place or solely by means of remote communication) using one or more methods of remote communication that satisfy the requirements of the General Corporation Law of the State of Delaware. The board of directors may adopt such guidelines and procedures applicable to participation in stockholders' meetings by means of remote communication as it deems appropriate. Participation in a stockholders' meeting by means of a method of remote communication permitted by the board of directors shall constitute presence in person at the meeting.

1.5. Notice of Meetings. Notice of the place, if any, date and hour of any stockholders' meeting shall be given to each stockholder entitled to vote. The notice shall state the means of remote communications, if any, by which stockholders and proxy holders may be deemed present in person and vote at the meeting. If the voting list for the meeting is to be made available by means of an electronic network or if the meeting is to be held solely by remote communication, the notice shall include the information required to access the reasonably accessible electronic network on which Aquinox Pharmaceuticals (USA) Inc. (the "Company") will make its voting list available either prior to the meeting or, in the case of a meeting held solely by remote communication, during the meeting. Notice of a special meeting shall also state the purpose or purposes for which the meeting has been called. Unless otherwise provided in the General Corporation Law of the State of Delaware, notice shall be given at least 10 days but not more than 60 days before the date of the meeting. Without limiting the manner by which notice may otherwise be given, notice may be given by a form of electronic transmission that satisfies

the requirements of the General Corporation Law of the State of Delaware and has been consented to by the stockholder to whom notice is given. If mailed, notice shall be deemed given when deposited in the U.S. mail, postage prepaid, directed to the stockholder's address as it appears in the Company's records. If given by a form of electronic transmission consented to by the stockholder to whom notice is given, notice shall be deemed given at the times specified with respect to the giving of notice by electronic transmission in the General Corporation Law of the State of Delaware. An affidavit of the Company's secretary, an assistant secretary or an agent of the Company that notice has been given shall, in the absence of fraud, be prima facie evidence of the facts stated in the affidavit.

1.6. Quorum. The presence, in person or by proxy, of the holders of a majority of the voting power of the stock entitled to vote at a meeting shall constitute a quorum. Where a separate vote by a class or series or classes or series of stock is required at a meeting, the presence, in person or by proxy, of the holders of a majority of the voting power of each such class or series shall also be required to constitute a quorum. In the absence of a quorum, either the chairperson of the meeting or the holders of a majority of the voting power of the stock present, in person or by proxy, and entitled to vote at the meeting may adjourn the meeting in the manner provided in Article 1.7 until a quorum shall be present. A quorum, once established at a meeting, shall not be broken by the withdrawal of the holders of enough voting power to leave less than a quorum. If a quorum is present at an original meeting, a quorum need not be present at an adjourned session of that meeting.

1.7. Adjournment of Meetings. Either the chairperson of the meeting or the holders of a majority of the voting power of the stock present, in person or by proxy, and entitled to vote at the meeting may adjourn any meeting of stockholders from time to time. At any adjourned meeting the stockholders may transact any business that they might have transacted at the original meeting. Notice of an adjourned meeting need not be given if the time and place, if any, or the means of remote communications to be used rather than holding the meeting at any place are announced at the meeting so adjourned, except that notice of the adjourned meeting shall be required if the adjournment is for more than 30 days or if after the adjournment a new record date is fixed for the adjourned meeting.

1.8. Voting List. At least 10 days before every meeting of the stockholders, the secretary of the Company shall prepare a complete alphabetical list of the stockholders entitled to vote at the meeting showing each stockholder's address and number of shares. This voting list does not need to include electronic mail addresses or other electronic contact information for any stockholder nor need it contain any information with respect to beneficial owners of the shares of stock owned, although it may do so. For a period of at least 10 days before the meeting, the voting list shall be open to the examination of any stockholder for any purpose germane to the meeting either on a reasonably accessible electronic network (provided that the information required to gain access to the list is provided with the notice of the meeting) or during ordinary business hours at the Company's principal place of business. If the list is made available on an electronic network, the Company may take reasonable steps to ensure that it is available only to stockholders. If the stockholders' meeting is held at a place, the voting list shall be produced and kept at that place during the whole time of the meeting. If the stockholders' meeting is held solely by means of remote communications, the voting list shall be made available for inspection on a reasonably accessible electronic network during the whole time of the meeting. In either case, any stockholder may inspect the voting list at any time during the meeting.

1.9. Stockholders' Designated Attendees. Each stockholder may from time to time designate up to two individuals who are employees of or counsel to the stockholders to attend at meetings of the stockholders of the Company and those individuals shall be permitted to attend meetings of the stockholders of the Company. The Company shall provide each stockholder with a copy of the minutes of each meeting of the stockholders of the Company within 60 days thereof.

1.10. Deposit of Proxies. To the extent permitted by the General Corporation Law of the State of Delaware, a stockholder may deposit a proxy and the power of attorney, appointment of authorized representative or other authority, if any, under which it is signed at any time before the proper commencement of the stockholders' meeting to which the proxy relates and any such proxy may be so deposited with the chairperson of such meeting. To the extent permitted by the General Corporation Law of the State of Delaware, a proxy deposited in accordance with this section shall be accepted as valid.

1.11. Vote Required. Subject to the provisions of the General Corporation Law of the State of Delaware requiring a higher level of votes to take certain specified actions and to the terms of the Company's Third Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation") that set special voting requirements, the stockholders shall take action on all matters other than the election of directors by a majority of the voting power of the stock present, in person or by proxy, at the meeting and entitled to vote on the matter. The stockholders shall elect directors by a plurality of the voting power of the stock present, in person or by proxy, at the meeting and entitled to vote on the matter.

1.12. Chairperson; Secretary. The following people shall preside over any meeting of the stockholders: the chairperson of the board of directors, if any, or, in the chairperson's absence, the vice chairperson of the board of directors, if any, or in the vice chairperson's absence, the chief executive officer, or, in the absence of all of the foregoing persons, a chairperson designated by the board of directors, or, in the absence of a chairperson designated by the board of directors, a chairperson chosen by the stockholders at the meeting. In the absence of the secretary and any assistant secretary, the chairperson of the meeting may appoint any person to act as secretary of the meeting.

1.13. Rules of Conduct. The board of directors may adopt such rules, regulations and procedures for the conduct of any meeting of the stockholders as it deems appropriate including rules, regulations and procedures regarding participation in the meeting by means of remote communication. Except to the extent inconsistent with any applicable rules, regulations or procedures adopted by the board of directors, the chairperson of any meeting may adopt such rules, regulations and procedures for the meeting, and take such actions with respect to the conduct of the meeting, as the chairperson of the meeting deems appropriate. The rules, regulations and procedures adopted may include, without limitation, ones that (i) establish an agenda or order of business, (ii) are intended to maintain order and safety at the meeting, (iii) restrict entry to the meeting after the time fixed for its commencement and (iv) limit the time allotted to stockholder questions or comments. Unless otherwise determined by the board of directors or the chairperson of the meeting, meetings of the stockholders need not be held in accordance with the rules of parliamentary procedure.

1.14. Inspectors of Elections. The board of directors or the chairperson of a stockholders' meeting may appoint one or more inspectors of election and any substitute inspectors to act at the meeting or any adjournment thereof Inspectors may be officers, employees or agents of the Company. Each inspector, before entering on the discharge of the inspector's duties, shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of the inspector's ability. Inspectors shall have the duties prescribed by the General Corporation Law of the State of Delaware. At the request of the chairperson of the meeting, the inspector or inspectors shall prepare a written report of the results of the votes taken and of any other question or matter that that inspector or inspectors determined.

1.15. Record Date. If the Company proposes to take any action for which the General Corporation Law of the State of Delaware would permit it to set a record date, the board of directors may set such a record date as provided under the General Corporation Law of the State of Delaware.

1.16. Written Consent. Any action required or permitted to be taken at a meeting of the stockholders may be taken without a meeting, without prior notice and without a vote by means of a stockholder written consent meeting the requirements of the General Corporation Law of the State of Delaware. Prompt notice of the taking of action without a meeting by less than a unanimous written consent shall be given to those stockholders who have not consented as required by the General Corporation Law of the State of Delaware.

Article 2. Directors

2.1. Number. The board of directors shall consist of seven (7) directors. Directors need not be stockholders.

2.2. Term of Office. Each director shall hold office until his or her successor is elected or until his or her earlier death, resignation or removal.

2.3. Resignation. A director may resign, as a director or as a committee member or both, at any time by giving notice in writing or by electronic transmission to the Company addressed to the board of directors, the chairperson of the board of directors, the president or the secretary. A resignation will be effective upon its receipt by the Company unless the resignation specifies that it is to be effective at some later time or upon the occurrence of some specified later event.

2.4. Vacancies. Any vacancy in the board of directors caused by the death, resignation or removal of a director shall be filled only by a vote of the stockholders of the Company.

2.5. Regular Meetings. The board of directors shall meet at least five times per year (until such time as the board of directors determines to alter this schedule) at such place as the board of directors may determine from time to time.

2.6. Special Meetings. Special meetings of the board of directors may be called by the chairperson of the board of directors, the chief executive officer or by any director. Notice of any special meeting shall be given to each director and shall state the time and place for the special meeting.

2.7. Notice. Unless otherwise waived in writing by all of the directors, the Company shall give each director written notice of all meetings, together with an agenda of items to be discussed and a brief description of each item, at least three business days in advance of the meeting. Written notice may be accomplished by (i) personally delivering written notice to the director's last known business or home address, (ii) delivering an electronic transmission (including, without limitation, via telefacsimile or electronic mail) to the director's last known number or address for receiving electronic transmissions of that type, (iii) depositing written notice with a reputable delivery service or overnight carrier addressed to the director's last known business or home address for delivery to that address no later than three business days preceding the date of the meeting. Notice of a meeting need not be given to any director who attends a meeting without protesting prior to the meeting or at its commencement to the lack of notice to that director. The Company shall provide each director with copies of the minutes of each meeting within 60 days of each such meeting.

2.8. Observers. Any holder that has purchased Series Preferred Stock (as such term is defined by the Certificate of Incorporation) with an aggregate purchase price equal to or greater than $4,000,000, shall have the right to appoint one person to act as an observer at all meetings of the board of directors of the Company; provided, however, that any holder of Series Preferred Stock who has appointed a director shall not have the right to appoint an observer pursuant to this Section 2.8. Each observer will have the right to receive notice of all meetings of the Company's board of directors and the right to speak thereat and will receive all information and material presented to the board of directors as would a director. For purposes of this Section 2.8, "fully-diluted basis" means that all options, warrants or other rights of any kind to acquire shares of Common Stock and all securities of the Company and Aquinox Pharmaceuticals Inc. convertible or exchangeable (directly or indirectly) into shares of Common Stock outstanding at that time shall be deemed to have been fully exercised, converted or exchanged, as the case may be, and the shares of Common Stock issuable as a result thereof shall be deemed to have been fully issued and to form part of the holdings of the person(s) entitled to receive such shares of Common Stock and assuming the redemption of all special voting stock in accordance with the rights, privileges, restrictions and conditions attached thereto.

2.9. Additional Information. Subject to the General Corporation Law of the State of Delaware, each director of the Company shall have the right to request such additional information concerning the affairs of the Company and its subsidiaries as the director reasonably considers necessary in order to understand and assess the affairs of the Company or its subsidiaries, and the Company shall in response to each such request provide or cause to be provided to the director or observer as promptly as possible the additional information reasonably requested.

2.10. Quorum. Except as may be otherwise provided by law, by the Certificate of Incorporation or these bylaws, at any meeting of the directors a majority of the directors then in office shall constitute a quorum, provided that three of such number includes directors nominated

by Johnson & Johnson Development Corporation, Ventures West 8 Limited Partnership and Pfizer, Inc. If a quorum is not present at the commencement of a board meeting, then the directors present may not transact any business and such directors shall be deemed to have adjourned such meeting to the same time and place on the same day the following week. At such reconvened meeting, a quorum for the transaction of business shall be a majority of the directors then in office, one of whom shall be a director nominated by Johnson & Johnson Development Corporation, Ventures West 8 Limited Partnership or Pfizer, Inc. A quorum shall not in any case be less than one-third of the total number of directors constituting the whole board.

2.11. Vote Required. The board of directors shall act by the vote of a majority of the directors present at a meeting at which a quorum is present.

2.12. Chairperson; Secretary. If the chairperson and the vice chairperson are not present at any meeting of the board of directors, or if no such officers have been elected, then the board of directors shall choose a director who is present at the meeting to preside over it. In the absence of the secretary and any assistant secretary, the chairperson may appoint any person to act as secretary of the meeting.

2.13. Use of Communications Equipment. Directors may participate in meetings of the board of directors or any committee of the board of directors by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting in this manner shall constitute presence for the purpose of quorum and voting at such meeting.

2.14. Action Without a Meeting. Any action required or permitted to be taken at any meeting of the board of directors may be taken without a meeting if all of the directors consent to the action in writing or by electronic transmission. The writing or writings or electronic transmission or transmissions shall be filed with the minutes of the proceedings of the board of directors or of the relevant committee.

2.15. Compensation of Directors. The board of directors shall from time to time determine the amount and type of compensation to be paid to directors for their service on the board of directors and its committees.

2.16. Committees. There will be an audit committee and a compensation committee of the board of directors and such other committees as the board of directors may form. The audit committee and the compensation committee will be composed of independent directors who are not members of the Company's management. The audit committee and compensation committee shall each be composed of at least three members, one of whom shall be a director nominated by Ventures West 8 Limited Partnership, Johnson & Johnson Development Corporation or Pfizer Inc. The members of both the audit committee and the compensation committee shall be selected by a simple majority vote of the board of directors. Any committee shall, to the extent provided in a resolution of the board of directors and subject to the limitations contained in the General Corporation Law of the State of Delaware, have and may exercise all the powers and authority of the board of directors in the management of the business and affairs of the Company. Each committee shall keep such records and report to the board of directors in such manner as the board of directors may from time to time determine. Except as the board of directors may

otherwise determine, any committee may make rules for the conduct of its business. Unless otherwise provided in a resolution of the board of directors or in rules adopted by the committee, each committee shall conduct its business as nearly as possible in the same manner as is provided in these bylaws for the board of directors.

2.17. Chairperson and Vice Chairperson of the Board. The board of directors may elect from its members a chairperson of the board and a vice chairperson. If a chairperson has been elected and is present, the chairperson shall preside at all meetings of the board of directors and the stockholders. The chairperson shall have such other powers and perform such other duties as the board of directors may designate. If the board of directors elects a vice chairperson, the vice chairperson shall, in the absence or disability of the chairperson, perform the duties and exercise the powers of the chairperson and have such other powers and perform such other duties as the board of directors may designate.

Article 3. Officers

3.1. Offices Created; Qualifications; Election. The Company shall have a chief executive officer, a president, a secretary, a treasurer and such other officers, if any, as the board of directors from time to time may appoint. Any officer may be, but need not be, a director or stockholder. The same person may hold any two or more offices. The board of directors may elect officers at any time.

3.2. Term of Office. Each officer shall hold office until his or her successor has been elected, unless a different term is specified in the resolution electing the officer, or until his or her earlier death, resignation or removal.

3.3. Removal of Officers. Any officer may be removed from office at any time, with or without cause, by the board of directors.

3.4. Resignation. An officer may resign at any time by giving notice in writing or by electronic transmission to the Company addressed to the board of directors, the chairperson of the board of directors, the president or the secretary. A resignation will be effective upon its receipt by the Company unless the resignation specifies that it is to be effective at some later time or upon the occurrence of some specified later event.

3.5. Vacancies. A vacancy in any office may be filled by the board of directors.

3.6. Compensation. Officers shall receive such amounts and types of compensation for their services as shall be fixed by the board of directors.

3.7. Powers. Unless otherwise specified by the board of directors, each officer shall have those powers and shall perform those duties that are (i) set forth in these bylaws (if any are so set forth), (ii) set forth in the resolution of the board of directors electing that officer or any subsequent resolution of the board of directors with respect to that officer’s duties or (iii) commonly incident to the office held.

3.8. Chief Executive Officer. The chief executive officer shall, subject to the direction and control of the board of directors, have general control and management of the business,

affairs and policies of the Company and over its officers and shall see that all orders and resolutions of the board of directors are carried into effect. The chief executive officer shall have the power to sign all certificates, contracts and other instruments on behalf of the Company.

3.9. President. The president shall be subject to the direction and control of the chief executive officer and the board of directors and shall have general active management of the business, affairs and policies of the Company. The president shall have the power to sign all certificates, contracts and other instruments on behalf of the Company. If the board of directors has not elected a chief executive officer, the president shall be the chief executive officer. If the board of directors has elected a chief executive officer and that officer is absent, disqualified from acting, unable to act or refuses to act, then the president shall have the powers of, and shall perform the duties of, the chief executive officer.

3.10. Vice Presidents. The vice presidents, if any, shall be subject to the direction and control of the board of directors, the chief executive officer and the president and shall have such powers and duties as the board of directors, the chief executive officer or the president may assign to them. If the board of directors elects more than one vice president, then it shall determine their respective titles, seniority and duties. If the president is absent, disqualified from acting, unable to act or refuses to act, the most senior in rank of the vice presidents (as determined by the board of directors) shall have the powers of, and shall perform the duties of, the president.

3.11. Chief Financial Officer. The chief financial officer, if any, shall be subject to the direction and control of the board of directors and the chief executive officer, shall have primary responsibility for the financial affairs of the Company and shall perform such other duties as the chief executive officer may assign.

3.12. Chief Operating Officer. The chief operating officer, if any, shall be subject to the direction and control of the board of directors and the chief executive officer, shall have primary responsibility for the management and supervision of the day-to-day operations of the Company and shall perform such other duties as the chief executive officer may assign.

3.13. Treasurer. The treasurer shall have charge and custody of and be responsible for all funds, securities and valuable papers of the Company. The treasurer shall deposit all funds in the depositories or invest them in the investments designated or approved by the board of directors or any officer or officers authorized by board of directors to make such determinations. The treasurer shall disburse funds under the direction of the board of directors or any officer or officers authorized by the board of directors to make such determinations. The treasurer shall keep full and accurate accounts of all funds received and paid on account of the Company and shall render a statement of these accounts whenever the board of directors or the chief executive officer shall so request. If the board of directors has not elected a chief financial officer, the treasurer shall be the chief financial officer. If the board of directors has not elected a controller, the treasurer shall be the controller.

3.14. Assistant Treasurers. The assistant treasurers, if any, shall have such powers and duties as the board of directors, the chief executive officer, the president or the treasurer may assign to them. If the board of directors elects more than one assistant treasurers, then it shall

determine their respective titles, seniority and duties. If the treasurer is absent, disqualified from acting, unable to act or refuses to act, the most senior in rank of the assistant treasurers (as determined by the board of directors) shall have the powers of, and shall perform the duties of, the treasurer.

3.15. Controller. The controller, if any, shall be the chief accounting officer of the Company and shall be in charge of its books of account, accounting records and accounting procedures.

3.16. Secretary. The secretary shall, to the extent practicable, attend all meetings of the stockholders and the board of directors. The secretary shall record the proceedings of the stockholders and the board of directors, including all actions by written consent, in a book or series of books to be kept for that purpose. The secretary shall perform like duties for any committee of the board of directors if the committee so requests. The secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the board of directors. Unless the Company has appointed a transfer agent, the secretary shall keep or cause to be kept the stock and transfer records of the Company. The secretary shall have such other powers and duties as the board of directors, the chief executive officer or the president may determine.

3.17. Assistant Secretaries. The assistant secretaries, if any, shall have such powers and duties as the board of directors, the chief executive officer, the president or the secretary may assign to them. If the board of directors elects more than one assistant secretary, then it shall determine their respective titles, seniority and duties. If the secretary is absent, disqualified from acting, unable to act or refuses to act, the most senior in rank of the assistant secretaries (as determined by the board of directors) shall have the powers of, and shall perform the duties of, the secretary.

Article 4. Capital Stock

4.1. Stock Certificates. The Company's shares of stock shall be represented by certificates, provided that the board of directors may, subject to the limits imposed by law, provide by resolution or resolutions that some or all of any or all classes or series shall be uncertificated shares. Notwithstanding the adoption of such a resolution, every holder of shares of stock represented by certificates and every holder of uncertificated shares, upon request, shall be entitled to have a certificate representing such shares in such form as shall be approved by the board of directors. Stock certificates shall be numbered in the order of their issue and shall be signed by or in the name of the Company by (i) the chairperson or vice chairperson, if any, of the board of directors, the president or a vice president and (ii) the treasurer, an assistant treasurer, the secretary or an assistant secretary. Any or all of the signatures on a certificate may be a facsimile. In case any officer, transfer agent or registrar who signed or whose facsimile signature has been placed upon a certificate shall have ceased to be an officer, transfer agent or registrar before such certificate is issued, it may be issued by the Company with the same effect as if such person were such officer, transfer agent or registrar at the date of issue. Each certificate that is subject to any restriction on transfer shall have conspicuously noted on its face or back either the full text of the restriction or a statement of the existence of the restriction. Each certificate shall have on its face or back a statement that the Company will furnish without charge to each

stockholder who so requests the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences or rights.

4.2. Registration; Registered Owners. The name of each person owning a share of the Company's capital stock shall be entered on the books of the Company together with the number of shares owned, the number or numbers of the certificate or certificates covering such shares and the dates of issue of each certificate. The Company shall be entitled to treat the record holder of stock as shown on its books as the owner of such stock for all purposes regardless of any transfer, pledge or other disposition of such stock until the shares have been properly transferred on the books of the Company.

4.3. Stockholder Addresses. It shall be the duty of each stockholder to notify the Company of the stockholder's address.

4.4. Transfer of Shares. Registration of transfer of shares of the Company's stock shall be made only on the books of the Company at the request of the registered holder or of the registered holder's duly authorized attorney (as evidenced by a duly executed power of attorney provided to the Company) and upon surrender of the certificate or certificates representing those shares properly endorsed or accompanied by a duly executed stock power. The Company shall refuse to register any transfer of shares or other securities of the Company that were issued by the Company to persons outside the United States who were not U.S. persons in reliance upon Rule 903 of Regulation S under the United States Securities Act of 1933, as amended (the "Securities Act"), unless the transfer of such securities is made in accordance with Regulation S under the Securities Act, pursuant to registration under the Securities Act or pursuant to an available exemption from registration under the Securities Act. The terms "United States" and "U.S. person" have the meanings attributed thereto in Regulation S under the Securities Act. The board of directors may make further rules and regulations concerning the transfer and registration of shares of stock and the certificates representing them and may appoint a transfer agent or registrar or both and may require all stock certificates to bear the signature of either or both.

4.5. Lost, Stolen, Destroyed or Mutilated Certificates. The Company may issue a new stock certificate of stock in the place of any certificate theretofore issued by it alleged to have been lost, stolen, destroyed or mutilated. The board of directors may require the owner of the allegedly lost, stolen or destroyed certificate, or the owner's legal representatives, to give the Company such bond or such surety or sureties as the board of directors, in its sole discretion, deems sufficient to indemnify the Company against any claim that may be made against it on account of the alleged loss, theft or destruction or the issuance of such new certificate and, in the case of a certificate alleged to have been mutilated, to surrender the mutilated certificate.

Article 5. General Provisions

5.1. Waiver of Notice. Any stockholder or director may execute a written waiver or give a waiver by electronic transmission of notice of the meeting, either before or after such meeting. Any such waiver shall be filed with the records of the Company. If any stockholder or director shall be present at any meeting it shall constitute a waiver of notice of the meeting,

except when that stockholder or director attends for the express purpose of objecting at the beginning of the meeting to the transaction of any business because the meeting is not lawfully called or convened. A waiver of notice of meeting need not specify the purposes of the meeting.

5.2. Electronic Transmissions. For purposes of these bylaws, "*electronic transmission*" shall mean a form of communication not directly involving the physical transmission of paper that satisfies the requirements with respect to such communications contained in the General Corporation Law of the State of Delaware.

5.3. Fiscal Year. The fiscal year of the Company shall be fixed by resolution of the board of directors.

5.4. Voting Stock of Other Organizations. Except as the board of directors may otherwise designate, each of the chief executive officer and the treasurer may waive notice of, and act as, or appoint any person or persons to act as, proxy or attorney-in-fact for the Company (with power of substitution) at any meeting of the stockholders, members or other owners of any other company or organization the securities or ownership interests of which are owned by the Company.

5.5. Corporate Seal. The Company shall have no seal.

5.6. Amendment of Bylaws. These bylaws, including any bylaws adopted or amended by the stockholders, may be amended or repealed by the board of directors.

5.7. Dividends. Dividends upon the capital stock of the Company, subject to the applicable provisions of the Certificate of Incorporation, may be declared by the board of directors at any regular or special meeting.

Article 6. Indemnification

6.1. Indemnification. The Company shall, to the fullest extent permitted by law, indemnify every person who is or was a party or is or was threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (an "*Action*"), by reason of the fact that such person is or was a director or officer of the Company or is or was serving at the request of the Company as a director, officer, trustee, plan administrator or plan fiduciary of another corporation, partnership, limited liability company, trust, employee benefit plan or other enterprise (an "Indemnified Person"), against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement or other disposition that the Indemnified Person actually and reasonably incurs in connection with the Action and shall reimburse each such person for all legal fees and expenses reasonably incurred by such person in seeking to enforce its rights to indemnification under this Article (by means of legal action or otherwise).

6.2. Advancement of Expenses. Upon written request from an Indemnified Person, the Company shall pay the expenses (including attorneys' fees) incurred by such Indemnified Person in connection with any Action in advance of the final disposition of such Action. The Company's obligation to pay expenses pursuant to this Section shall be contingent upon the Indemnified Person providing the undertaking required by the General Corporation Law of the State of Delaware.

6.3. Non-Exclusivity. The rights of indemnification and advancement of expenses contained in this Article shall not be exclusive of any other rights to indemnification or similar protection to which any Indemnified Person may be entitled under any agreement, vote of stockholders or disinterested directors, insurance policy or otherwise.

6.4. Heirs and Beneficiaries. The rights created by this Article shall inure to the benefit of each Indemnified Person and each heir, executor and administrator of such Indemnified Person.

6.5. Effect of Amendment. Neither the amendment, modification or repeal of this Article nor the adoption of any provision in these bylaws inconsistent with this Article shall adversely affect any right or protection of an Indemnified Person with respect to any act or omission that occurred prior to the time of such amendment, modification, repeal or adoption.

Exhibit 4.1

AMENDED AND RESTATED QUALIFICATION AND REGISTRATION RIGHTS AGREEMENT

This Amended and Restated Qualification and Registration Rights Agreement (the "**Agreement**") is made as of March 19, 2013,

BETWEEN:

Aquinox Pharmaceuticals (USA) Inc., a corporation incorporated under the laws of Delaware (the "**Company**")

- and -

Each of the Persons Listed on Schedule A (the "**Investors**")

RECITALS:

WHEREAS, the Company and certain of the Investors are parties to that certain Amended and Restated Qualification and Registration Rights Agreement made as of March 31, 2010 (the "**Prior Agreement**");

WHEREAS, in connection with the execution and delivery of that certain Stock Subscription Agreement dated as of March 19, 2013 by and among the Company, the Canadian Company (as defined below) and certain of the Investors (the "**Subscription Agreement**"), the Company shall issue and sell shares of Series C Preferred Stock (as defined below) to certain of the Investors and the Canadian Company shall issue and sell Class C Exchangeable Shares (as defined below) to certain of the Investors;

WHEREAS, it is a condition precedent to the transactions contemplated by the Subscription Agreement that the Prior Agreement be amended and restated as provided herein;

WHEREAS, Section 12.2(a) of the Prior Agreement provides that any modification or amendment of the Prior Agreement may be made if the Company agrees to such modification or amendment and the Company obtains the consent in writing of Holders (as defined in the Prior Agreement) holding or having the right to acquire in the aggregate at least 65% of the Registrable Securities (as defined in the Prior Agreement);

WHEREAS, the undersigned Investors hold or have the right to acquire in the aggregate at least 65% of the Registrable Securities (as defined in the Prior Agreement);

THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement agree as follow:

ARTICLE 1
DEFINITIONS AND PRINCIPLES OF INTERPRETATION

1.1 Definitions

In this Agreement, the following words and terms have the meanings set out below:

"**1933 Act**" means the United States *Securities Act of 1933*, as amended;

"**1934 Act**" means the United States *Securities Exchange Act of 1934*, as amended;

"**Affiliate**" has the meaning given to it in the 1933 Act;

"**Business Day**" means any day except a Saturday or Sunday, on which the Royal Bank of Canada in Vancouver, British Columbia and the Bank of America in Seattle, Washington are both open for commercial banking business during normal banking hours;

"**Canadian Company**" means Aquinox Pharmaceuticals Inc., a corporation incorporated under the laws of the Canada;

"**Canadian Demand Qualification**" means the qualification of Registrable Securities by the Company pursuant to Section 2.3;

"**Canadian IPO**" means the filing by the Company of a final prospectus, including a non-offering prospectus, with the securities regulatory authority in any jurisdiction in Canada;

"**Canadian Piggy-Back Qualification**" means the filing of a prospectus by the Company pursuant to Section 2.1 or the qualification of Registrable Securities by the Company pursuant to Section 2.4;

"**Canadian Securities Laws**" means all applicable securities laws, the respective regulations, rules and orders made thereunder, and all applicable policies and notices issued by the securities regulatory authorities in the Qualifying Jurisdictions;

"**Class A Exchangeable Shares**" means the Series A-1 exchangeable preferred shares and the Series A-2 exchangeable preferred shares in the capital of the Canadian Company;

"**Class B Exchangeable Shares**" means the Series B-1 exchangeable preferred shares and the Series B-2 exchangeable preferred shares in the capital of the Canadian Company;

"**Class C Exchangeable Shares**" means the Series C exchangeable preferred shares in the capital of the Canadian Company;

"**Common Exchangeable Shares**" means the common exchangeable shares in the capital of the Canadian Company;

"**Common Shares**" means the shares of common stock in the capital of the Company;

"**Control Block Holder**" means any Holder if the sale of such Holder's Registrable Securities would be a control distribution under NI 45-102;

"**Exchangeable Shares**" means the Class A Exchangeable Shares, the Class B Exchangeable Shares and the Class C Exchangeable Shares;

"**Form S-1**", "**Form S-3**" and "**Form S-4**" mean such respective forms under the 1933 Act or any successor registration forms to such forms under the 1933 Act subsequently adopted by the SEC;

"**Holder**" means any of the Investors, any purchaser or permitted transferee of Preferred Shares and/or of Exchangeable Shares who agrees to become party to and bound by the provisions of this Agreement by executing the form of counterpart attached hereto as Schedule B or any assignee to whom Registrable Securities (or securities or rights convertible into Registrable Securities or exchangeable for securities or rights convertible into Registrable Securities) are transferred in accordance with Section 10.1, for so long as they continue to hold Registrable Securities (or securities or rights convertible into Registrable Securities or exchangeable for securities or rights convertible into Registrable Securities);

"**Holder Approval**" means the written approval of the Holders of Registrable Securities holding not less than 60% of the Registrable Securities (calculated for this purpose as if all securities convertible into or exchangeable for Common Shares, directly or indirectly, are so converted or exchanged); provided, however, if at the time the approval is sought one shareholder (or a group of non-arm's length shareholders) holds at least 60% of the Registrable Securities, then the approval must include at least two Holders of Registrable Securities who are arm's length to each other;

"**Initiating Holders**" means:

a) with respect to the exercise of any U.S. registration right under this Agreement, Holders holding at least 51% of the aggregate of (i) the outstanding Series A Preferred Stock (including Common Shares issued on conversion of the Series A Preferred Stock); (ii) the outstanding Class A Exchangeable Shares; (iii) the outstanding Series B Preferred Stock (including Common Shares issued on conversion of the Series B Preferred Stock); (iv) the outstanding Class B Exchangeable Shares; (v) the outstanding Series C Preferred Stock (including Common Shares issued on conversion of the Series C Preferred Stock); and (vi) the outstanding Class C Exchangeable Shares; and

b) with respect to the exercise of any Canadian qualification right under this Agreement, the Control Block Holder(s) requesting qualification;

"**IPO**" means a U.S. IPO or a Canadian IPO;

"**MRRS Receipt**" means in relation to any final prospectus, a receipt for such prospectus issued by the securities regulatory authority or regulator in any province or territory of Canada:

(a) that is deemed to be issued if a receipt is issued for such prospectus by a securities regulatory authority or regulator of another province or territory; or

(b) which is evidenced by a receipt for such prospectus issued by a securities regulatory authority or regulator of another province or territory;

which evidences or represents, or has the same legal effect as, or is deemed to be, a receipt issued by the securities regulatory authority or regulator in the province or territory, pursuant to a passport system or mutual reliance review system contemplated by a memorandum of understanding among the governments of various provinces or provinces and territories or a rule, regulation, instrument or policy statement of, or adopted by, the province or territory;

"**NI 45-102**" means National Instrument 45-102 – Resale of Securities, of the Canadian Securities Administrators, as adopted in British Columbia;

"**Preferred Shares**" means the shares of Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock (including any Preferred Shares issuable upon the exchange of the Exchangeable Shares);

"**prospectus**" includes a preliminary prospectus, final prospectus and any amendments thereto, as the context requires;

"**Qualified IPO**" has the meaning given to it in the Company's Sixth Amended & Restated Certificate of Incorporation, as amended from time to time;

"**Qualifying Jurisdictions**" means British Columbia, Alberta and Ontario;

"**Receipt Date**" means the date on which a final receipt (or an MRRS Receipt decision document or an equivalent document) has been issued or deemed to have been issued in respect of a prospectus in each of the Qualifying Jurisdictions;

"**Recognized Stock Exchange**" means The NASDAQ Capital Market, The NASDAQ Global Market, The NASDAQ Global Select Market, the American Stock Exchange or the New York Stock Exchange, and such other securities exchange as may be approved by the Board of Directors of the Company;

"**register**", "**registered**", and "**registration**" refer to a registration effected by preparing and filing a registration statement or similar document in compliance with the 1933 Act which is declared effective in accordance with the provisions of the 1933 Act;

"**Registrable Securities**" means:

(i) any Common Shares issued or issuable upon conversion of the Preferred Shares or as a dividend or other distribution with respect to, in exchange for or in replacement of the Preferred Shares;

(ii) any Common Shares issued or issuable upon the exchange of Common Exchangeable Shares which were themselves obtained upon conversion of Exchangeable Shares; and

(iii) any Common Shares issued in connection with a stock dividend, stock split, recapitalization, conversion or other similar distribution with respect to, in exchange for, or in replacement of any of the Common Shares that are Registrable Securities pursuant to (i) or (ii) above;

but excludes:

(A) any Common Shares sold by a Person in a transaction in which its rights under this Agreement are not assigned;

(B) other than for purposes of a Canadian Demand Qualification or a Canadian Piggy-Back Qualification, (I) Common Shares registered pursuant to an effective registration statement and disposed of in accordance with the registration statement covering them or (II) Common Shares that have been publicly sold pursuant to Rule 144 of the 1933 Act; and

(C) other than for purposes of a U.S. Demand Registration or a U.S. Piggy-Back Registration, Common Shares held by Holders who have the right (subject to any contractual commitments to the contrary) to freely sell such Common Shares without a prospectus or resort to a prospectus exemption under applicable Canadian Securities Laws and without registration under the 1933 Act;

"**Related Group**" means, in relation to a Holder that is not an individual, the Holder's general or limited partners, members, retired members, any subsidiaries, Affiliates or successor funds of, or any entity or fund managed by or under common control or management with, the Holder or managed by an Affiliate of the manager of the Holder, any Affiliate of the general partner or manager of the Holder and, in the case of a trust, any beneficiary of the trust;

"**SEC**" means the United States Securities and Exchange Commission;

"**Series A Preferred Stock**" means the Series A-1 Preferred Stock and Series A-2 Preferred Stock in the capital of the Company;

"**Series B Preferred Stock**" means the Series B-1 Preferred Stock and Series B-2 Preferred Stock in the capital of the Company;

"**Series C Preferred Stock**" means the Series C Preferred Stock in the capital of the Company;

"**Special Registration Statement**" means a registration statement relating to any employee benefit plan or with respect to any corporate reorganization or other transaction under Rule 145 of the 1933 Act or other transaction registered in Form S-4 (or substantially similar form under the 1933 Act);

"**Underwriter Cutback**" means the right of the underwriters to exclude Registrable Securities in an underwritten offering pursuant to Section 7.4;

"**U.S. IPO**" means the Company's first public offering of Common Shares pursuant to a registration statement on Form S-1, or filed with the SEC;

"**U.S. Long-Form Demand Registration**" means the registration of Registrable Securities by the Company pursuant to Section 3.1;

"**U.S. Piggy-Back Registration**" means the registration of Registrable Securities by the Company pursuant to Section 3.3; and

"**U.S. Short-Form Demand Registration**" means the registration of Registrable Securities by the Company pursuant to Section 3.2.

1.2 Certain Rules of Interpretation

In this Agreement:

(a) **Consent** – Whenever a provision of this Agreement requires an approval or consent and such approval or consent is not delivered within the applicable time limit then, unless otherwise specified, the party whose consent or approval is required is conclusively deemed to have withheld its approval or consent.

(b) **Governing Law; Venue –** This Agreement shall be construed and enforced in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein, provided, however, that to the extent the application of such laws would be inconsistent with or result in a violation of any applicable provisions of the 1933 Act or the 1934 Act, this Agreement shall be construed and enforced in accordance with such provisions of the 1933 Act or 1934 Act, as applicable. Any action, suit or proceeding arising out of or relating to this Agreement shall be brought in the Courts of the Province of British Columbia, and each of the parties hereby irrevocably submits to the jurisdiction of such courts.

(c) **Headings** – Headings of Articles and Sections are inserted for convenience of reference only and do not affect the construction or interpretation of this Agreement.

(d) **Including** – Where the word "including" or "includes" is used in this Agreement, it means "including (or includes) without limitation".

(e) **Number and Gender** – Unless the context otherwise requires, words importing the singular include the plural and vice versa and words importing gender include all genders.

(f) **Severability** – If, in any jurisdiction, any provision of this Agreement or its application to any party or circumstance is restricted, prohibited or unenforceable, such provision is, as to such jurisdiction, ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other parties or circumstances.

(g) **Statutory References** – A reference to a statute includes all regulations made pursuant to such statute and, unless otherwise specified, the provisions of any statute or regulation that amends, supplements or supersedes any such statute or any such regulation.

(h) **Time** – Time is of the essence in the performance of the parties' respective obligations.

(i) **Time Periods** – Unless otherwise specified, time periods within or following which any act is to be done are calculated by excluding the day on which the period commences and including the day on which the period ends and by extending the period to the next Business Day if the last day of the period is not a Business Day.

(j) **No Strict Construction** – The language used in this Agreement is the language chosen by the parties to express their mutual intent, and no rule of strict construction shall be applied against any party.

1.3 Entire Agreement

This Agreement, the Subscription Agreement and the documents contemplated in the Subscription Agreement constitute the entire understanding of the parties with respect to the subject matter of this Agreement and thereof and supersede any and all prior understandings and agreements, whether written or oral, with respect to such subject matter.

1.4 Schedules

Schedules A and B are an integral part of this Agreement.

ARTICLE 2
CANADIAN QUALIFICATION RIGHTS

2.1 Canadian Piggy-Back Qualification upon an IPO

The Company will not complete an IPO unless the Company obtains a receipt or MRRS Receipt for a final prospectus (which may, at the Company's option, be the same prospectus pursuant to which a Qualified IPO is effected in Canada) filed in the Qualifying Jurisdictions that qualifies the

distribution of all of the Registrable Securities issuable upon conversion of the Preferred Shares or exchange of the Common Exchangeable Shares at the time of the IPO. In preparing for and completing an IPO, the Company will keep each Holder whose Registrable Securities are being qualified reasonably advised of the status of such qualification.

2.2 Canadian Piggy-Back Qualification Notice

If the Company intends to complete an IPO, the Company will, at least 25 Business Days prior to filing a preliminary prospectus or a registration statement in respect of such IPO, give each Holder written notice of such proposed filing.

2.3 Canadian Demand Qualification

Subject to the limits set out in Section 3.4 and Article 4, if at any time after 180 days after the closing of an IPO (including a Qualified IPO), the Company receives a written request from a Control Block Holder that such Control Block Holder wishes to require the Company to file a prospectus in the Qualifying Jurisdictions, then the Company will, within 10 Business Days following receipt of the request, give written notice of the request to all other Control Block Holders. Each Control Block Holder that wishes to require the Company to file a prospectus in the Qualifying Jurisdictions and to include in any such prospectus all or part of its Registrable Securities must send a written notice to the Company within 15 Business Days after receipt of the Company's notice, stating the number and intended manner of disposition of the Registrable Securities to be included in the prospectus. Following this 15 Business Day period, the Company will, subject to the Underwriter Cutback, as soon as practicable and in any event within 90 days following the end of such 15 Business Day period, prepare and file in the Qualifying Jurisdictions a prospectus in order to qualify the distribution of all of the Registrable Securities of the Control Block Holders specified in their respective requests and will use its reasonable best efforts to receive a final receipt or an MRRS Receipt or equivalent document in respect of such prospectus.

2.4 Additional Canadian Piggy-Back Qualification

If the Company proposes to file a preliminary prospectus under any Canadian Securities Laws in connection with the sale of any of its Common Shares or other equity securities (or securities convertible into equity securities) in connection with the public offering of such securities solely for cash (including the public sale of securities held by shareholders other than the Holders, but not including a sale of securities effected pursuant to a Canadian Demand Qualification), the Company will, at all such times, promptly give each Control Block Holder written notice of such filing. Upon the written request of any Control Block Holder, given within 20 Business Days after such Control Block Holder's receipt of such notice, the Company will, subject to the Underwriter Cutback, use its reasonable best efforts to cause to be included in and sold pursuant to the prospectus all of the Registrable Securities which each such Control Block Holder has requested be included in the filing.

ARTICLE 3
U.S. REGISTRATION RIGHTS

3.1 U.S. Long-Form Demand Registration

Subject to the limits set out in Article 4, if, at any time after the earlier of (i) three years after the date of this Agreement; and the date that is 180 days after the closing of an IPO (including a Qualified IPO), the Company receives a written request from Initiating Holders requesting registration of greater than 20 percent of the Registrable Securities, which would result in gross proceeds to Holders of at least U.S.$7,500,000, then the Company will, within 15 Business Days following receipt of the request, give written notice of the request to all Holders and will afford each Holder an opportunity to include in such registration statement all or any part of the Registrable Securities issuable to Holders. Each Holder other than Initiating Holders that wishes to include in any such registration statement all or part of such Registrable Securities must send a written notice to the Company within 15 Business Days after receipt of the Company's notice, stating the number and intended manner of disposition of the Registrable Securities to be included in the registration statement. Following this 15 Business Day period, the Company will, subject to the provisions of Article 4 and the Underwriter Cutback, use its reasonable best efforts to effect such a registration as soon as practicable and, in any event, file within 90 days of the end of such 15 Business Day period a registration statement under the 1933 Act covering all the Registrable Securities that the Initiating Holders and the other Holders, if any, specified in their respective requests and to use its reasonable best efforts to have such registration statement become effective.

Subject to the limits set out in Article 4, if, on the 180th day after the closing of the Company's first IPO, any Holders of Registrable Securities that were issued to such Holders upon conversion or exchange of Exchangeable Shares are unable to resell such Registrable Securities pursuant to Rule 144 under the 1933 Act due to the failure of such Holders to satisfy the hold period requirements of Rule 144(d) (such Registrable Securities being referred to in this paragraph as the "**Ineligible Securities**", and the Holders of such Ineligible Securities being referred to in this paragraph as the "**Ineligible Holders**"), then, if, at any time after the date that is 180 days after the closing of the Company's first IPO and prior to the date that is 210 days after the closing of the Company's first IPO, the Company receives a written request from Ineligible Holders holding at least sixty percent (60%) of the aggregate Ineligible Securities requesting registration of greater than one-third of the aggregate Ineligible Securities, then the Company will, within 15 Business Days following receipt of the request, give written notice of the request to all Holders and will afford each Holder an opportunity to include in such registration statement all or any part of the Registrable Securities issuable to Holders upon the exchange or conversion of Preferred Shares held by them. Each Holder other than initiating Ineligible Holders that wishes to include in any such registration statement all or part of such Registrable Securities must send a written notice to the Company within 15 Business Days after receipt of the Company's notice, stating the number and intended manner of disposition of the Registrable Securities to be included in the registration statement. Following this 15 Business Day period, the Company will, subject to the provisions of Article 4 and the Underwriter Cutback, use its reasonable best efforts to effect such a registration as soon as practicable and, in any event, file within 90 days of the end of such 15 Business Day period a registration statement under the 1933 Act covering all the Registrable Securities that the initiating Ineligible Holders and the other Holders, if any, specified in their respective requests and to use its reasonable best efforts to have such registration statement become effective. If the Company effects a U.S. Long-Form Demand

Registration pursuant to this paragraph and the registration statement does not register any securities other than Ineligible Securities, then such registration shall not count toward the limit of two U.S. Long-Form Demand Registrations as set forth in Section 4.1(b) of this Agreement.

3.2 U.S. Short-Form Demand Registration

Subject to the limits set out in Article 4, if, at any time after the date that is 180 days after the closing of an IPO (including a Qualified IPO), the Company receives a written request from one or more Holders who hold, collectively, Preferred Shares and/or Exchangeable Shares which were issued for aggregate subscription proceeds of at least U.S.$500,000 (or who hold Common Shares issued on the conversion of such Preferred Shares or Common Exchangeable Shares issued on the conversion of such Exchangeable Shares) that the Company file a registration statement on Form S-3 and the Company qualifies for the use of Form S-3 (and any related qualification or compliance documents or information) covering the registration of all or part of the Registrable Securities held by such Holders, then the Company will, within 15 Business Days following receipt of the request, give written notice of the request to all Holders (and any related qualification or compliance documents or information) and will afford each Holder an opportunity to include in such registration statement all or any part of the Registrable Securities held by such Holder. Each Holder other than the Holders who delivered the written request pursuant to this Section 3.2 that wishes to include in any such registration statement all or part of the Registrable Securities held by it must send a written notice to the Company within 15 Business Days after receipt of the Company's notice, stating the number and intended manner of disposition of the Registrable Securities to be included in the registration statement. Following this 15 Business Day period, the Company will, subject to the Underwriter Cutback and the provisions of Article 4, use its reasonable best efforts to effect, as soon as practicable, a registration on, at the Company's option, the appropriate form (and to keep such registration effective for 6 months or such earlier time as all such Registrable Securities are sold pursuant to such registration) and such qualification or compliance documents or information as may be so requested and as would permit or facilitate the sale and distribution of all or such portion of the Registrable Securities as specified by the Holders.

3.3 U.S. Piggy-Back Registration

If the Company proposes to register any of its Common Shares or other equity securities (or securities convertible into equity securities) under the 1933 Act in connection with the public offering of such securities solely for cash (other than a Special Registration Statement or pursuant to a U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration), the Company will, at all such times, promptly give each Holder written notice of such registration. Upon the written request of any Holder, given within 20 Business Days after receipt of such notice by the Holder, the Company will, subject to the Underwriter Cutback, use its reasonable best efforts to cause a registration statement that covers all of the Registrable Securities that each such Holder has requested to be registered to become effective under the 1933 Act.

3.4 U.S. Registration on Canadian IPO

The Company will not complete a Canadian IPO unless the Company provides notice to all Holders at least 25 Business Days prior to filing the preliminary prospectus. Each Holder who is a resident of the United States may, within 10 Business Days of receipt of such notice, send a written notice to

the Company requiring that the Company register all or a part of the Registrable Securities issuable to such Holder upon the exchange or conversion of Preferred Shares held by such Holder. Following such 10 Business Day period, the Company will use its reasonable best efforts to effect such a registration as soon as practicable, and in any event shall file, prior to or concurrently with the completion of the Canadian IPO, a registration statement under the 1933 Act covering all of the Registrable Securities that the Holders specified in their respective requests and will use its reasonable best efforts to have such registration statement become effective.

ARTICLE 4
LIMITS ON QUALIFICATION AND REGISTRATION RIGHTS

4.1 Number of Demand Qualifications and Registrations

During the term of this Agreement, the Company is obligated to effect (as may be determined by the Holders):

(a) two Canadian Demand Qualifications; and

(b) two U.S. Long-Form Demand Registrations and six U.S. Short-Form Demand Registrations.

4.2 Exceptions to Qualification and Registration Rights

The Company:

(a) is not required to effect a Canadian Demand Qualification, a U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration:

(i) for a period :

(A) that is sixty (60) days before the Company's good faith estimate of the date of filing of, and ending on a date that is one hundred eighty (180) days after the effective date of, a firm commitment underwritten public offering of Common Shares in which the Holders of Registrable Securities are entitled to include (subject to the Underwriter Cutback) Registrable Securities pursuant to a Canadian Piggy-Back Qualification or a U.S. Piggy-Back Registration, provided that the Company can rely on this Section 4.2(a)(i)(A) no more than once in any twelve-month period; or

(B) of up to 90 days if, at the time of the request of such qualification or registration, the Company is engaged in a self-tender or exchange offer, and the filing of a registration statement would cause a violation of the 1934 Act;

(ii) during the 90-day period following the closing by the Company of a firm commitment underwritten public offering of Common Shares in which the Holders of Registrable Securities were entitled to include (subject to the Underwriter Cutback) Registrable Securities pursuant to a Canadian Piggy-Back Qualification or a U.S. Piggy-Back Registration; or

(iii) in the case of:

(A) a U.S. Long-Form Demand Registration, if the Registrable Securities that the Initiating Holders wish to have registered may be immediately registered by means of a U.S. Short-Form Demand Registration; or

(B) a U.S. Short-Form Demand Registration, if an appropriate form for a U.S. Short-Form Demand Registration is not available for such offering;

(b) is not required to effect a U.S. Short-Form Demand Registration if the anticipated aggregate net proceeds of the offering to such Holders are less than U.S.$500,000 (net of discounts and commissions) or if the Company at the request of Holders has effected a U.S. Short-Form Demand Registration within the previous six months;

(c) may defer a Canadian Demand Qualification, a U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration for a period of not more than 90 days, but only if:

(i) the Company furnishes to the Holders requesting the qualification or registration a certificate signed by the President and Chief Executive Officer of the Company stating that, in the good faith judgment of the board of directors of the Company, effecting the qualification or registration would materially impede the ability of the Company to consummate a significant transaction (the 90-day deferral period beginning on the date that such certificate is sent to the Holders) or render the Company unable to comply with requirements under the 1933 Act or 1934 Act; and

(ii) the Company has not deferred a filing in reliance on this section during the previous 12-month period; and

(d) may defer a Canadian Demand Qualification, a U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration if the board of directors of the Company determines in good faith that such qualification or registration would require the disclosure of material information that the Company has a *bona fide* business purpose for preserving as confidential, until the earlier of:

(i) 10 days following the date upon which such material information is disclosed to the public or ceases to be material; and

(ii) 90 days after the date of the request of the Holders.

4.3 Notices of Conversion

In order to exercise any of its registration or qualification rights relating to Registrable Securities pursuant to this Agreement, each Holder shall, concurrently with their required notice to the Company, provide notices of conversion or exchange, if applicable, in respect of such Registrable Securities effective at any time prior to or at the time of filing of the final prospectus or registration statement, as the case may be.

ARTICLE 5
EXPENSES

5.1 Expenses

Subject to Section 5.2 and Section 5.3, to the fullest extent permitted by applicable law, the Company will bear all expenses relating to the qualification or registration of Registrable Securities pursuant to the terms hereof, including reasonable legal fees and expenses of one counsel to the Holders, and all registration, filing, printing, accounting and translation fees, fees and disbursements of counsel and independent public accountants for the Company, fees and expenses (including counsel fees) incurred in connection with complying with Canadian Securities Laws, state securities or "blue sky" laws, fees of the National Association of Securities Dealers, Inc., transfer taxes, fees of transfer agents and registrars, and costs of insurance incurred in connection with all Canadian Demand Qualifications, U.S. Long-Form Demand Registrations, U.S. Short-Form Demand Registrations, all Canadian Piggy-Back Qualifications, and all U.S. Piggy-Back Registrations.

5.2 Expenses upon Withdrawal of Request

The Company is not required to pay for any expenses pursuant to Section 5.1 of any Canadian Demand Qualification, any U.S. Long-Form Demand Registration or any U.S. Short-Form Demand Registration if the qualification or registration request is subsequently withdrawn at any time at the request of the Holders of a majority of the Registrable Securities to be qualified or registered (in which case all participating Holders will bear such expenses), unless:

(a) in the case of a U.S. Long-Form Demand Registration, the Company has not previously effected a U.S. Long-Form Demand Registration at the request of Holders of Registrable Securities, and the Holders of a majority of the Registrable Securities to be qualified or registered agree to forfeit their right to one U.S. Long-Form Demand Registration; or

(b) at the time of any such withdrawal, the Holders have learned of a material adverse change in the condition, business or prospects of the Company (other than a change in market demand for its Common Shares or in the market price of the Common Shares) from that known to the Holders of a majority of the Registrable Securities to be qualified or registered at the time of their request, that makes the proposed offering unreasonable in the good faith judgment of a majority of the Holders of the Registrable Securities to be qualified or registered (in which case the withdrawn qualification or registration is deemed not to be a Canadian Demand Registration or a U.S. Long-Form Demand Registration for purposes of Section 4.1).

5.3 Underwriting Discounts and Commissions

All underwriting discounts and selling commissions relating to Registrable Securities included in any Canadian Demand Qualification, U.S. Long-Form Demand Registration, U.S. Short-Form Demand Registration, Canadian Piggy-Back Qualification or U.S. Piggy-Back Registration will be borne and paid ratably by the Holders whose Registrable Securities are so included.

ARTICLE 6
LOCK-UP AGREEMENTS

6.1 Lock-Up Agreements

If requested by the Company and the lead underwriter(s) in connection with a Qualified IPO, the Holders will enter into lock-up agreements pursuant to which they will not, for a period of not more than 180 days following the earlier of the effective date of the registration statement or the Receipt Date for a Qualified IPO, (i) lend; offer; pledge; sell; contract to sell; sell any option or contract to purchase; purchase any option or contract to sell; grant any option, right, or warrant to purchase; or otherwise transfer or dispose of, directly or indirectly, any shares of Registrable Securities or other equity securities of the Company, except the Registrable Securities, if any, sold pursuant to Section 2.4 or Section 3.3 (whether such shares or any such securities are then owned by the Holder or are thereafter acquired) or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such securities, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Common Shares or other securities, in cash, or otherwise, without the prior consent of the Company and the underwriter, but only if the officers, directors and all holders of more than 1% of the Common Shares (calculated for this purpose as if all securities convertible into or exercisable for Common Shares, directly or indirectly, are so converted or exercised) of the Company enter into lock-up agreements for the same or a longer period and on the same terms.

6.2 Permitted Transfers

Any lock-up agreement entered into pursuant to Section 6.1 will permit the transfer by a Holder of Registrable Securities to a member of such Holder’s Related Group so long as such transferee also agrees to enter into and be bound by a lock-up agreement pursuant to this Article 6.

6.3 Discretionary Waivers

Any discretionary waiver by the lead underwriter(s) of any lock-up agreement entered into with any holder of Common Shares will release each Holder from the provisions of such Holder’s lock-up agreement to the same extent.

ARTICLE 7
UNDERWRITING

7.1 Underwriting in Demand Qualification or Registration

If the Initiating Holders intend to distribute the Registrable Securities covered by their request for a Canadian Demand Qualification, a U.S. Long-Form Demand Registration or a U.S. Short-Form

Demand Registration by means of an underwriting, they will so advise the Company as part of their request for such qualification or registration, and the Company will include such information in the written notice to be provided to all other Holders. The right of any Holder to include its Registrable Securities in such qualification or registration is conditional upon such Holder's participation in such underwriting (unless otherwise mutually agreed upon by the Initiating Holders (or requesting Holders in the case of a U.S. Short-Form Demand Registration)) to the extent provided in this Agreement. All parties proposing to distribute their securities through such underwriting will (together with the Company as required under this Agreement) enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company and acceptable to the Initiating Holders (or initial Holders in the case of a U.S. Short-Form Demand Registration). If such underwriter is not reasonably acceptable to the Initiating Holders (or initial Holders in the case of a U.S. Short-Form Demand Registration), such Holders may select an underwriter or underwriters which is reasonably acceptable to the Company.

7.2 Underwriting in Piggy-Back Qualification or Registration

In connection with any offering pursuant to Section 2.4 or Section 3.3 involving an underwriting of Common Shares being issued by the Company, the Company will include in such underwriting any Registrable Securities that Holders wish to include, but only if such Holders accept the terms of the underwriting as agreed upon between the Company and the underwriter(s) selected by it.

7.3 Limitations

No Holder is required, in connection with any underwriting agreement entered into pursuant to Section 7.1 or Section 7.2, to make any representations or warranties or provide indemnification except as they relate to such Holder's ownership of shares and authority to enter into the underwriting agreement and to such Holder's intended method of distribution, or except as may be required by the 1933 Act or the rules promulgated thereunder, or the rules and policies of an Recognized Stock Exchange on which the Company's securities may be listed. The liability of any Holder in connection with such underwriting agreement is to be limited to an amount equal to the net proceeds received by such Holder from the offering (after deduction of all underwriters' discounts and commissions paid by the Holder in connection with the offering).

7.4 Underwriter Cutback

If the underwriter for the offering in connection with:

(a) a Canadian Demand Qualification, a U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration advises the Initiating Holders (or requesting Holders, in the case of a U.S. Short-Form Demand Registration), advises (in writing) that it is of the opinion that inclusion of certain Registrable Securities would adversely affect the marketing of Common Shares to be underwritten, then the Initiating Holders (or requesting Holders, in the case of a U.S. Short-Form Demand Registration) will so advise the Company and all Holders of Registrable Securities that would otherwise be underwritten pursuant to this Agreement, and the Company is required to include in the qualification or registration only the number of Common Shares that the underwriter believes marketing factors allow; or

(b) any offering pursuant to Section 2.4 or Section 3.3, advises (in writing) that it is of the opinion that inclusion of certain Registrable Securities would adversely affect the marketing of Common Shares to be underwritten, then the Company is required to include in the qualification or registration only the number of Common Shares that the underwriter believes marketing factors allow;

provided, however, that in each case ((a) and (b)), (i) the number of Registrable Securities included in the offering may not be reduced unless all other securities (other than securities to be sold by the Company) are first entirely excluded from the offering, and (ii) the number of Registrable Securities included in the offering may not be reduced below 33% of the total number of securities included in such offering, unless such offering is the IPO, in which case the selling Holders may be excluded further if the underwriters make the determination described above and no other stockholder's securities are included in such offering.

7.5 Allocation of Cutback

(a) If the number of Common Shares to be included in a Canadian Demand Qualification, a U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration is subject to an Underwriter Cutback pursuant to Section 7.4(a), the Common Shares that would otherwise be included will be reduced in the following order:

(i) first, all Common Shares held by shareholders other than the Holders will be excluded from the offering to the extent required;

(ii) second, if further limitation is required, then the number of Common Shares other than those issued on the conversion of Preferred Shares, or the exchange of Common Exchangeable Shares issued on conversion of Exchangeable Shares, will be reduced *pro rata* in accordance with the number of such shares held by each Holder of such shares; and

(iii) third, if further limitation is required, then the number of Common Shares issued on the conversion of Preferred Shares, or the exchange of Common Exchangeable Shares issued on conversion of Exchangeable Shares, will be reduced *pro rata* in accordance with the number of such shares held by each Holder of such shares.

(b) If the number of Common Shares to be included in a Canadian Piggy-Back Qualification or a U.S. Piggy-Back Registration is subject to an Underwriter Cutback pursuant to Section 7.4(b), the Common Shares that would otherwise be included will be reduced in the following order:

(i) first, all Common Shares held by shareholders other than the Company and the Holders will be excluded from the offering to the extent required;

(ii) second, if further limitation is required, then the number of Common Shares other than those issued on the conversion of Preferred Shares, or the exchange of Common Exchangeable Shares issued on conversion of Exchangeable Shares, will be reduced *pro rata* in accordance with the number of such shares held by each Holder of such shares; and

(iii) third, if further limitation is required, then, subject to the 33% limitation set forth in Subsection 7.4(b), the number of Common Shares issued on the conversion of Preferred Shares, or the exchange of Common Exchangeable Shares issued on conversion of Exchangeable Shares, will be reduced *pro rata* in accordance with the number of such shares held by each Holder of such shares.

ARTICLE 8
OBLIGATIONS OF THE COMPANY

8.1 Effecting a Qualification or Registration

If the Company is required under this Agreement to use its reasonable best efforts to effect a:

(a) Canadian Demand Qualification, the Company will, as expeditiously as reasonably possible, prepare and file with the Qualifying Jurisdictions a preliminary prospectus and a final prospectus with respect to such Registrable Securities and use, subject to the other provisions of this Agreement, its reasonable best efforts to obtain a receipt (or MRRS Receipt or similar document) in respect of the final prospectus and, upon the request of the Holders of a majority of the Registrable Securities qualified by the final prospectus, keep such final prospectus effective for up to 120 days or until such earlier time at which such Holders have informed the Company in writing that the distribution of their Common Shares has been completed;

(b) U.S. Long-Form Demand Registration or a U.S. Short-Form Demand Registration, the Company will, as expeditiously as reasonably possible, prepare and file with the SEC a registration statement with respect to such Registrable Securities and use, subject to the other provisions of this Agreement, its reasonable best efforts to cause such registration statement to become effective and, upon the request of the Holders of a majority of the Registrable Securities registered under the registration statement, keep such registration statement effective for up to 120 days or until such earlier time at which such Holders have informed the Company in writing that the distribution of their Common Shares has been completed (such 120-day or shorter period, the "**Effectiveness Period**").

8.2 Additional Obligations for Canadian Qualifications

In addition to its obligations under Section 8.1, if the Company is required to effect a Canadian Demand Qualification, the Company will:

(a) use its reasonable best efforts to resolve any regulatory comments and satisfy any regulatory deficiencies in respect of the preliminary prospectus and, as soon as reasonably practicable after such comments or deficiencies have been resolved or

satisfied, prepare and file, and use its reasonable best efforts to obtain a receipt (or MRRS Receipt or similar document) in the Qualifying Jurisdictions for, the final prospectus, and take all other steps and proceedings necessary in order to qualify the distribution of the Registrable Securities to the public as freely tradable securities in the Qualifying Jurisdictions;

(b) ensure that the preliminary prospectus and final prospectus contain the disclosure required by, and conform in all material respects to the requirements of, the applicable provisions of Canadian Securities Laws and furnish to the Holders copies of each of the preliminary prospectus and final prospectus and such other documents as they may reasonably request to facilitate the disposition of Registrable Securities by them;

(c) prepare and file with the securities regulatory authorities in the Qualifying Jurisdictions any amendments and supplements to the preliminary prospectus and final prospectus that may be necessary to comply with Canadian Securities Laws with respect to the distribution of all securities qualified by the preliminary prospectus and final prospectus;

(d) in the case of an underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter of such offering;

(e) furnish, at the request of any Holder requesting qualification of Registrable Securities pursuant to this Agreement, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with an offering pursuant to this Agreement, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the Receipt Date:

(i) an opinion or opinions, dated such date, of counsel representing the Company for the purposes of such offering, in form and substance as is customarily given by company counsel to the underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting qualification of Registrable Securities; and

(ii) a letter dated such date, from the auditors of the Company, in form and substance as is customarily given by auditors to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting qualification of Registrable Securities, but only if such Holders have made such representations and furnished such undertakings as such auditors reasonably require providing such letter;

(f) keep each Holder whose Registrable Securities are being qualified reasonably advised of the status of such qualification; and

(g) apply for listing and use its reasonable best efforts to list the Registrable Securities being registered on any national securities exchange on which a class of the Company's equity securities is listed or, if the Company does not have a class of equity securities listed on a national securities exchange, apply for qualification and use its reasonable best efforts to qualify the Registrable Securities being registered for inclusion on a Recognized Stock Exchange.

8.3 Additional Obligations for U.S. Registrations

In addition to its obligations under Section 8.1, if the Company is required under this Agreement to use its reasonable best efforts to effect the registration of any Registrable Securities, the Company will:

(a) use its reasonable best efforts to resolve any regulatory comments and satisfy any regulatory deficiencies in respect of the registration statement and the prospectus used in connection with such registration statement and, as soon as reasonably practicable after such comments or deficiencies have been resolved or satisfied, prepare and file with the SEC such amendments and supplements to the registration statement and the prospectus used in connection with such registration statement, and use its reasonable best efforts to cause each such amendment and supplement to become effective, as may be necessary to comply with the provisions of the 1933 Act with respect to the disposition of all Common Shares covered by such registration statement during the Effectiveness Period;

(b) (i) not take any action that would cause Rule 172 of the 1933 Act ("**Rule 172**") to be unavailable, (ii) advise the Holders promptly of any failure by the Company to satisfy the conditions of Rule 172 and (iii) promptly furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the 1933 Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them;

(c) use its reasonable best efforts to register or qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such states and jurisdictions as is reasonably requested by the Holders except that the Company is not required in connection therewith or as a condition thereto to qualify to do business, subject itself to taxation or file a general consent to service of process in any such state or jurisdiction;

(d) upon any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the lead underwriter(s) of such offering;

(e) notify each Holder covered by such registration statement, at any time:

(i) of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing; or

(ii) upon the occurrence or existence of any pending corporate development that, in the reasonable discretion of the Company, makes it appropriate to suspend the availability of the registration statement and the related prospectus.

In either of such cases, the Company will give written notice to the Holders that the availability of the registration is suspended (which notice need not specify the nature of the event giving rise to such suspension) and the Holders will immediately suspend any further sale of Registrable Securities pursuant to the registration. The Company will use its reasonable best efforts to amend or supplement as expeditiously as possible such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. Each Holder agrees that, upon receipt of any notice from the Company of the happening of any event of the kind described in this Section 8.3(e) (a "**Suspension**"), such Holder will discontinue its distribution of Registrable Securities until such Holder is advised in writing by the Company that such Suspension is no longer effective. For clarity, the Company will provide such written notice at such time when the Suspension is no longer effective. Provided that a Suspension is not in effect, any Holder may sell Registrable Securities under such registration statement upon compliance with such Holders' obligations under this Section 8.3;

(f) notify each Holder whose Registrable Securities are covered by such registration statement:

(i) when the registration statement has become effective;

(ii) when any post-effective amendment to the registration statement becomes effective; and

(iii) of any request by the SEC for any amendment or supplement to the registration statement or prospectus or for additional information;

(g) furnish, at the request of any Holder requesting registration of Registrable Securities pursuant to this Agreement, on the date that such Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Agreement, if such securities are being sold through underwriters, or, if such securities are not being sold through underwriters, on the date that the registration statement with respect to such securities becomes effective:

(i) an opinion or opinions, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given by company counsel to the underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities; and

(ii) a letter dated such date, from the auditors of the Company, in form and substance as is customarily given by auditors to underwriters in an underwritten public offering, addressed to the underwriters, if any, and to the Holders requesting registration of Registrable Securities, provided that such Holders have made such representations and furnished such undertakings as such accountants may reasonably require therefor;

(h) apply for listing and use its reasonable best efforts to list the Registrable Securities being registered on any national securities exchange on which a class of the Company's equity securities is listed or, if the Company does not have a class of equity securities listed on a national securities exchange, apply for qualification and use its reasonable best efforts to qualify the Registrable Securities being registered for inclusion on a Recognized Stock Exchange; and

(i) without in any way limiting the types of registrations to which this Agreement applies, if the Company effects a "shelf registration" on Form S-1 or Form S-3 under Rule 415 promulgated under the 1933 Act, take all necessary action, including the filing of post-effective amendments, to permit the Holders to include their Registrable Securities in such registration in accordance with the terms of this Agreement.

8.4 Resales Under Rule 144

With a view to making available to the Holders the benefits of Rule 144 promulgated under the 1933 Act ("**Rule 144**") and any other rule or regulation of the SEC that may at any time permit a Holder to sell Common Shares of the Company to the public without registration, and with a view to making it possible for Holders to have the resale of the Registrable Securities registered pursuant to a U.S. Short-Form Registration, the Company will:

(a) use its reasonable best efforts to make and keep public information available, as those terms are understood and defined in Rule 144, at all times after 90 days following the effective date of the first registration statement filed by the Company under the 1933 Act for the offering of its Common Shares to the general public;

(b) as soon as practicable after a U.S. IPO, take such action, including the voluntary registration of its Common Shares under Section 12 of the 1934 Act or compliance with the reporting requirements of the 1934 Act, as is necessary to enable the Holders to utilize Form S-3 for the sale of their Registrable Securities;

(c) use its reasonable best efforts, after a U.S. IPO, to file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act; and

(d) furnish to any Holder, so long as the Holder owns any Registrable Securities, forthwith upon written request:

(i) a written statement by the Company as to its compliance with the reporting requirements of Rule 144, the 1933 Act and the 1934 Act (at any time after it has become subject to such reporting requirements), or as to its qualification as a registrant whose securities may be resold pursuant to Form S-3 (at any time after it so qualifies);

(ii) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company; and

(iii) such other documents as may be reasonably requested in availing any Holder of any rule or regulation of the SEC that permits the selling of any such Common Shares without registration or pursuant to such form.

8.5 Furnish Information

The obligations of the Company to take any action pursuant to this Agreement in respect of the Registrable Securities of any Holder is conditional upon such Holder furnishing to the Company such information regarding itself, the Registrable Securities and the intended method of disposition of such securities, as is required to effect the registration or qualification of Registrable Securities.

8.6 No Obligation to Complete Offering

The Company is under no obligation to complete any offering of its securities it proposes to make in connection with a Canadian Piggy-Back Qualification or a U.S. Piggy-Back Qualification and will incur no liability to any Holder for its failure to do so.

ARTICLE 9
INDEMNIFICATION

9.1 Indemnification by Company

(a) If any Registrable Securities are included in a prospectus or a registration statement under this Agreement, the Company will indemnify and hold harmless each Holder, the officers, directors, partners, limited partners, members, Affiliates, agents and employees of each Holder, any underwriter (within the meaning of the 1933 Act or the 1934 Act or under Canadian Securities Laws) for such Holder and each person, if any, that controls such Holder or underwriter (within the meaning of the 1933 Act or the 1934 Act or under Canadian Securities Laws), against any losses (other than loss of profit), claims, damages or liabilities (joint or several) to which they may become subject under the 1933 Act, the 1934 Act, Canadian Securities Laws or any other federal, provincial or state law, insofar as such losses, claims, damages or liabilities (or actions in respect of them) arise out of or are based upon any of the following statements, omissions or violations (each a "**Violation**"):

(i) any untrue statement or alleged untrue statement of a material fact contained in such prospectus or registration statement (including any preliminary prospectus or final prospectus contained in the registration statement) or any amendments or supplements to them;

(ii) the omission or alleged omission to state in the prospectus or registration statement (including any preliminary or final prospectus contained in the registration statement) a material fact required to be stated in it or necessary to make the statements in it, in light of the circumstances in which they were made, not misleading; or

(iii) any violation or alleged violation by the Company of the 1933 Act, the 1934 Act, any state securities law, any rule or regulation promulgated under the 1933 Act, the 1934 Act or any state securities law or Canadian Securities Laws in connection with any matter relating to such prospectus or registration statement.

(b) The Company will reimburse each such Holder, officer, director, partner, limited partner, member, Affiliate, agent, employee, underwriter or controlling person for any legal or other out-of-pocket expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability, or action.

(c) The Company is not liable under the indemnity contained in this Section 9.1:

(i) in respect of amounts paid in settlement of any loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent may not be unreasonably withheld, delayed or conditioned);

(ii) to the extent that it arises out of or is based upon a Violation that occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such qualification or registration by or on behalf of such Holder, underwriter or controlling person; or

(iii) in the case of a sale effected directly by a Holder of Registrable Securities (including a sale of such Registrable Securities through any underwriter retained by such Holder engaging in a distribution solely on behalf of such Holder), where:

(A) such untrue statement or alleged untrue statement or omission or alleged omission was contained in a preliminary prospectus and corrected in a final or amended prospectus; and

(B) in the event the Company has advised such Holder in writing that the Company does not meet the conditions for using Rule 172 and the Company has provided such Holder with a copy of a corrected final or amended prospectus and such Holder failed to deliver a copy of such final or amended prospectus at or prior to the confirmation of the sale of the Registrable Securities to the person asserting any such loss, claim, damage or liability.

9.2 Indemnification by Holder

(a) Each Holder that includes any Registrable Securities in any prospectus or registration statement will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the prospectus or registration statement, each person, if any, who controls the Company within the meaning of the 1933 Act or Canadian Securities Laws, each employee, agent, and any underwriter for the Company, and any other Holder selling securities in such prospectus or registration statement or any of its directors, officers, partners, limited partners, members, agents or employees or any person who controls such Holder or such other shareholder or such underwriter, against any losses (other than loss of profits), claims, damages, or liabilities (joint or several) to which the Company or any such director, officer, controlling person, employee, agent, underwriter or controlling person, or other such Holder, shareholder, director, officer or controlling person may become subject, under the 1933 Act, the 1934 Act, Canadian Securities Laws or other federal, provincial or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case only to the extent that such Violation occurs in reliance upon and in conformity with written information furnished by or on behalf of such Holder expressly for use in connection with such qualification or registration.

(b) Each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, agent, underwriter or controlling person, other Holder, officer, director, partner, limited partner, member, agent, employee, or controlling person in connection with investigating or defending any such loss, claim, damage, liability, or action.

(c) The liability of any Holder under this indemnity is limited to the amount of net proceeds (after deduction of all underwriters' discounts and commissions paid by such Holder in connection with the qualification or registration in question) received by such Holder in the offering giving rise to the Violation, except in the case of fraud or willful misconduct by such Holder.

(d) A Holder is not liable under the indemnity contained in this Section 9.2:

(i) in respect of amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder (which consent may not be unreasonably withheld, delayed or conditioned);

(ii) in the case of a sale effected directly by the Company of its Common Shares (including a sale of such Common Shares through any underwriter retained by the Company to engage in a distribution solely on behalf of the Company), where:

(A) such untrue statement or alleged untrue statement or omission or alleged omission was contained in a preliminary prospectus and corrected in a final or amended prospectus; and

(B) the Company failed to deliver a copy of the final or amended prospectus at or prior to the confirmation of the sale of the securities to the person asserting any such loss, claim, damage or liability in any case in which such delivery is required by the 1933 Act or Canadian Securities Laws.

(e) The obligations of the Holders under this indemnity are several, not joint or joint and several.

9.3 Indemnification Procedure

(a) Promptly after receipt by an indemnified party under this Article of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect of such action is to be made against any indemnifying party under this Article, deliver to the indemnifying party a written notice of the commencement of the action, and the indemnifying party may participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, assume and control the defense of such action with counsel mutually satisfactory to the parties.

(b) An indemnified party may retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests, as reasonably determined by either party, between such indemnified party and any other party represented by such counsel in such proceeding.

(c) The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, will relieve such indemnifying party of any liability to the indemnified party under this Article to the extent of such prejudice, but the omission to deliver written notice to the indemnifying party does not relieve it of any liability that it may have to any indemnified party otherwise than under this Article.

9.4 Contribution

If the indemnification provided for in this Article 9 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any loss, liability, claim, damage or expense referred to in this Agreement, then the Company and such Holder will contribute to the aggregate losses, claims, damages or liabilities to which they may be subject (after contribution from others) in such proportion so that such Holder is responsible for the portion represented by the percentage that the public offering price of its Registrable Shares offered by the registration statement bears to the public offering price of all securities offered by such registration statement, and the Company is

responsible for the remaining portion; *provided*, *however*, that, in any such case, (A) no such Holder will be required to contribute any amount in excess of the amount of net proceeds (after deduction of all underwriters' discounts and commissions paid by such Holder in connection with the qualification or registration in question) received by such Holder in the offering giving rise to the events described in this Section 9.4, except in the case of fraud or willful misconduct by such Holder; and (B) no person or entity guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) will be entitled to contribution from any person or entity who was not guilty of such fraudulent misrepresentation. The relative fault of the indemnifying party and of the indemnified party is to be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission.

9.5 Survival of Indemnities

The obligations of the Company, the Holders under this Article survive the completion of any offering of Registrable Securities under a prospectus or in a registration statement whether under this Agreement or otherwise. Notwithstanding the foregoing, to the extent that the provisions on indemnification and contribution contained in the underwriting agreement entered into in connection with the underwritten public offering are in conflict with the foregoing provisions, the provisions in the underwriting agreement shall control.

ARTICLE 10
ASSIGNMENT OF REGISTRATION RIGHTS

10.1 Assignment

The rights of the Holders under this Agreement may be assigned by any Holder: (i) to any member of the Related Group of the Holder; (ii) to any partner (current or former), member or stockholder of such Holder or transferee or an account managed or advised by the manager or adviser of such Holder or transferee who acquires Preferred Shares from the Holder; (iii) to a trust in respect of which such Holder serves as trustee, provided however that the trust instrument governing such trust shall provide that such Holder, as trustee, shall retain sole and exclusive control over the voting and disposition of such rights until the termination of this Agreement; or (iv) to any transferee that acquires at least 1,500,000 of the Preferred Shares owned by a Holder.

10.2 Conditions to Transfer from a Holder

Any transferee to whom rights under this Agreement are transferred from a Holder:

(a) as a condition to such transfer, will promptly deliver to the Company a written instrument by which such transferee agrees to be bound by the obligations imposed upon Holders under this Agreement to the same extent as if such transferee were a Holder under this Agreement; and

(b) is deemed to be a Holder under this Agreement.

ARTICLE 11
MISCELLANEOUS PROVISIONS

11.1 Limitations on Subsequent Registration Rights

From and after the date of this Agreement, the Company will not, without prior Holder Approval, enter into any agreement with any holder or prospective holder of any securities of the Company granting to such holder or prospective holder registration rights unless such rights granted to such holders are junior in all respects to the rights granted to the Holders pursuant to this agreement.

11.2 No Prior Registration Rights

The Company represents and warrants to the Holders that, other than the Prior Agreement, no qualification or registration rights relating to securities of the Company have been granted by the Company prior to, or are being granted concurrently with, the execution of this Agreement.

11.3 Amending or Supplementing Prospectuses or Registration Statements

Whenever a distribution under a prospectus qualifying Registrable Securities pursuant to this Agreement has not been completed, or a registration statement covering Registrable Securities pursuant to this Agreement is effective, and the Company determines that, based upon advice of counsel, such prospectus or registration statement requires amendment or supplementing, the Company will notify all Holders of such fact and will promptly cause such prospectus or registration statement to be amended or supplemented, as the case may be, and will notify all Holders when such amendment or supplement has been filed and, as to any such amendment of a registration statement, declared effective. Holders will not sell any Registrable Securities until such latter notice is provided. If the board of directors of the Company determines in its reasonable discretion that it would not be in the best interests of the Company to so amend or supplement the prospectus or registration statement at such time, the Company is entitled to delay the filing of such amendment or supplement for a period not to exceed 60 days.

11.4 Termination of Registration Rights

The qualification and registration obligations of the Company pursuant to this Agreement terminate, with respect to any Holder, on the earlier of:

(a) the date that is five years following the date of a Qualified IPO; and

(b) the date upon which all of the Holder's Registrable Securities may be resold pursuant to Rule 144 under the 1933 Act without regard to the limitations on the amount of securities that may be sold in a given period under Rule 144(e) (or any successor provision thereto).

11.5 Merger, Etc.

Upon any merger, amalgamation, consolidation, arrangement or other reorganization involving the Company in which Holders receive, in exchange for their Registrable Securities, securities of any entity that are not freely tradable, the rights of the Holders under this Agreement remain in effect except that such rights relate to the securities received by the Holders upon such exchange.

ARTICLE 12
GENERAL

12.1 Notices

All notices, requests, consents and demands must be in writing and must be personally delivered (effective upon receipt), faxed (effective upon receipt of the fax in complete, readable form), or sent via a reputable overnight courier service (effective the following Business Day), to the Company at:

if to the Company or the Canadian Company, at:

Suite 600 – 555 West 12th Avenue
V5Z 3X7 Canada

Attention: David Main
Facsimile: (778) 331-4486

with a copy sent at the same time and by the same means to each of:

McCarthy Tétrault LLP
777 Dunsmuir Street Suite 1300
PO Box 10424 Pacific Centre
Vancouver BC V7Y 1K2

Attention: Robin Mahood
Facsimile: (604) 622-5796

Cooley LLP
719 Second Avenue
Suite 900
Seattle, WA 98104

Attention: Gordon Empey
Facsimile: (206) 452-8800

or to the Investors at their respective addresses set out on Schedule A or Schedule B hereto, or, in any case, as notified in writing to the other parties to this Agreement,

with a copy sent at the same time and by the same means to:

Ropes & Gray LLP
1900 University Avenue, 6th Floor
East Palo Alto, CA 94303

Attention: Lowell A. Segal
Facsimile: 650-566-4244

and

Blake, Cassels & Graydon LLP
199 Bay Street
Suite 4000, Commerce Court West
Toronto ON M5L 1A9

Attention: Cheryl L. Satin
Facsimile: 416-863-2653

12.2 Amendments, Waivers and Consents

Modifications or amendments to this Agreement may be made, and compliance with any covenant or provision of this Agreement may be omitted or waived, if the Company agrees to such modification, amendment or waiver and the Company:

(a) obtains the consent in writing from Holders holding or having the right to acquire in the aggregate at least 60% of the Registrable Securities; and

(b) in each such case, deliver copies of such consent in writing to any Holders who did not execute the consent,

but only if no Holder, without its consent, is adversely affected by any such modification, amendment or waiver in any manner in which the other Holders are not likewise adversely affected.

12.3 Binding Effect

This Agreement enures to the benefit of and is binding upon the heirs, executors, personal representatives, successors (including any successor by reason of amalgamation of any party) and permitted assigns of the parties to this Agreement.

12.4 Assignment by Company

The Company may not assign its obligations under this Agreement or any interest in this Agreement without obtaining the prior written consent of Holders holding or having the right to acquire in the aggregate at least 60% of the Registrable Securities.

12.5 Execution and Delivery

This Agreement may be executed by the parties in counterparts and may be executed and delivered by facsimile and all such counterparts and facsimiles shall together constitute one and the same agreement.

12.6 Specific Performance

The Company recognizes that the rights of the Holders under this Agreement are unique and, accordingly, the Holders will, in addition to such other remedies available to them at law or in equity, have the right to enforce their rights under this Agreement by actions for injunctive relief and specific performance to the extent permitted by law. This Agreement is not intended to limit or abridge any rights of the Holders that exist apart from this Agreement.

12.7 Independent Legal Advice

Each of the parties to this Agreement acknowledge and agree that McCarthy Tétrault LLP and Cooley LLP have acted as counsel only to the Companies, and that McCarthy Tétrault LLPand Cooley LLP are not protecting the rights and interests of any other party to this Agreement. The other parties to this Agreement acknowledge and agree that the Companies, McCarthy Tétrault LLP and Cooley LLP have given them the opportunity to seek, and have recommended that such parties obtain, independent legal advice with respect to the subject matter of this Agreement and the other transaction documents and, further, each of the other parties hereby represent and warrant to the Companies, McCarthy Tétrault LLP and Cooley LLP that such party has sought independent legal advice or waives such advice.

12.8 Effect on Prior Agreement

The Prior Agreement is hereby amended in its entirety and restated herein. The Holders (as defined in the Prior Agreement) that do not execute this Agreement shall nonetheless be a party to and bound by this Agreement by reason of their execution of the Prior Agreement. All provisions of, rights granted and covenants made in the Prior Agreement are hereby waived, released and superseded in their entirety and shall have no further force or effect.

IN WITNESS WHEREOF, the parties have duly executed this Agreement.

[signature pages follow]

AQUINOX PHARMACEUTICALS (USA) INC.

Per: /s/ David Main
(Authorized Signatory)

VENTURES WEST 8 LIMITED PARTNERSHIP, by its General Partner, Ventures West 8 Management Ltd.

Per: /s/ Illegible
(Authorized Signatory)

Per: /s/ Illegible
(Authorized Signatory)

14159, L.P.
By: BAKER BROS. ADVISORS, LLC, management company and investment adviser to 14159, L.P., pursuant to authority granted to it by 14159 Capital, L.P., general partner to 14159, L.P., and not as the general partner.

By: /s/ Scott Lessing
Name: Scott Lessing
Title: President

BAKER BROS. INVESTMENTS II, L.P.
By: BAKER BROS. ADVISORS, LLC, management company and investment adviser to BAKER BROS. INVESTMENTS II, L.P., pursuant to authority granted to it by Baker Bros. Capital, L.P., general partner to Baker Bros. Investments II,, L.P., and not as the general partner.

By: /s/ Scott Lessing
Name: Scott Lessing
Title: President

JOHNSON & JOHNSON DEVELOPMENT CORPORATION

Per: /s/ Asish K. Xavier
Asish K. Xavier, Ph.D.
Principal/Executive Director, Venture Investments

B.C. ADVANTAGE FUNDS (VCC) LTD.

Per: /s/ Illegible
(Authorized Signatory)

BAKER BROTHERS LIFE SCIENCES, L.P.
By: BAKER BROS. ADVISORS, LLC, management company and investment adviser to Baker Brothers Life Sciences, L.P., pursuant to authority granted to it by Baker Brothers Life Sciences Capital, L.P., general partner to Baker Brothers Life Sciences, L.P., and not as the general partner.

By: /s/ Scott Lessing
Name: Scott Lessing
Title: President

667, L.P.
By: BAKER BROS. ADVISORS, LLC, management company and investment adviser to 667, L.P., pursuant to authority granted to it by Baker Biotech Capital, L.P., general partner to 667, L.P., and not as the general partner.

By: /s/ Scott Lessing
Name: Scott Lessing
Title: President

AUGMENT INVESTMENTS LTD.

Per: /s/ Egor Rulkor
Egor Rulkor
Attorney in Fact by Power of Atttorney

PFIZER INC.

Per: /s/ Barbara Dalton
(Authorized Signatory)

[Signature Page to Amended and Restated Qualification and Registration Rights Agreement]

SCHEDULE A

SERIES A INVESTORS

Series A Investors	Address
Johnson & Johnson Development Corporation	410 George Street, New Brunswick, NJ 08901
Baker Bros. Investments II, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
667, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
14159, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
Baker Brothers Life Sciences, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
Ventures West 8 Limited Partnership	Suite 2500—1066 West Hastings Street, Vancouver, B.C. V6E 3X1, Fax: 604-687-2145
B.C. Advantage Funds (VCC) Ltd.	Suite 1280, 885 W. Georgia St., Vancouver BC, V6C 3E8, Fax: (604) 688-6166

SERIES B INVESTORS

Series B Investors	Address
Johnson & Johnson Development Corporation	410 George Street, New Brunswick, NJ 08901
Baker Bros. Investments II, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
667, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
14159, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
Baker Brothers Life Sciences, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
Ventures West 8 Limited Partnership	Suite 2500—1066 West Hastings Street, Vancouver, B.C. V6E 3X1, Fax: 604-687-2145
B.C. Advantage Funds (VCC) Ltd.	Suite 1280, 885 W. Georgia St., Vancouver BC, V6C 3E8, Fax: (604) 688-6166
Pfizer Inc.	235 East 42nd Street, New York , NY 10017

SERIES C INVESTORS

Series C Investors	Address
Augment Investments, Ltd.	15 Dimokritou, PANARETOS ELIANA COMPLEX, office/flat 104, 4041 Potamos Germasogeias, Limassol, Cyprus

SCHEDULE B

to the Aquinox Pharmaceuticals (USA) Inc.,
Amended and Restated Qualification and Registration Rights Agreement

COUNTERPART SIGNATURE PAGE

THE UNDERSIGNED, —, has purchased **[— shares of Series — Preferred Stock of Aquinox Pharmaceuticals (USA) Inc.,] [— Exchangeable Shares of Aquinox Pharmaceuticals Inc.]** , and hereby undertakes and agrees to become a party to and to be bound by the terms and conditions of the Amended and Restated Qualification and Registration Rights Agreement made between **Aquinox Pharmaceuticals (USA) Inc.,** and certain of its shareholders on or about the — day of March, 2013, a copy of which agreement the undersigned acknowledges having received.

IN WITNESS WHEREOF this day of , .

_____
Shareholder

By: _____
Name:
Title:
Address: _____

_____

_____

Name and class
of shares held: _____

Exhibit 4.2

AMENDED & RESTATED SHAREHOLDERS' AGREEMENT

THIS AMENDED & RESTATED SHAREHOLDERS' AGREEMENT is made as of March 19, 2013 among the U.S. Company, the Canadian Company and the parties listed in Schedule A hereto.

WHEREAS:

A. The U.S. Company, the Canadian Company and the shareholders of the U.S. Company and the Canadian Company listed in Schedule A entered into a shareholders' agreement dated for reference June 8, 2007, which agreement (the **"Original Shareholders' Agreement"**) was amended and restated as of March 31, 2010 and June 14, 2010, and amended as of February 24, 2012, relating to the establishment of certain rights and obligations in respect of the conduct of the affairs of the U.S. Company and the Canadian Company, the holding and sale of their respective securities, and certain other matters; and

B. The parties wish to amend and restate the Original Shareholders' Agreement to add Augment (as defined below) as a party and as provided herein;

NOW THEREFORE THIS AGREEMENT WITNESSES that in consideration of the premises, the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration (the receipt and sufficiency of which is hereby acknowledged by each of the parties), the parties hereby agree as follows:

ARTICLE 1 — INTERPRETATION

1.1 **Interpretation —** In this Agreement, unless otherwise provided:

(a) **"Acquisition"** means any bona fide acquisition of any shares or business assets by either Company, whether by purchase, exchange, amalgamation or otherwise, from an arms-length third party for fair market value;

(b) **"Advantage"** means B.C. Advantage Funds (VCC) Ltd.;

(c) **"Affiliate"** means, with respect to any entity, any Person directly or indirectly Controlled by, Controlling or under common Control with such entity;

(d) **"Agreement"** means this shareholders' agreement, together with any amendments to or restatements or replacements of this shareholders' agreement;

(e) **"Associate"** has the same meaning as has been designated to that term in the Company Act;

(f) **"Augment"** means Augment Investments Ltd.;

(g) **"BBI"** means, collectively, Baker Bros. Investments II, L.P., 667 L.P. (formerly Baker Biotech Fund I, L.P.), 14159, L.P., and Baker Brothers Life Sciences, L.P.;

(h) **"Board"** means the board of directors of the U.S. Company or the Canadian Company, as the case may be, and **"Boards"** shall mean the boards of directors of both Companies;

(i) **"Board approval"**, **"approval of the Board"**, **"determined by the Board"**, **"as the Board determines"** or any such similar terminology denoting approval of the Board means approval of the Board of the U.S. Company and Canadian Company, respectively, determined by majority vote of those Directors present at a duly called and convened meeting of such Board at which the matter is considered or by a written resolution signed by all Directors which may be signed in one or more counterparts which together shall be treated as one and the same document;

(j) **"Business"** means the business carried on at any time or proposed to be carried on in the near term by the Companies including, without limitation, the business of investigating, discovering, developing, evaluating, or commercializing pharmaceutical compositions that may be useful modifiers of SHIP/SHIP2 enzyme activity, or any other enzyme or technology for which the Companies have, at the date hereof, initiated a plan or program of investigation, discovery, development, evaluation or commercialization;

(k) **"Business Day"** means any day except a Saturday or Sunday, on which the Royal Bank of Canada in Vancouver, British Columbia and the Bank of America in Seattle, Washington are both open for commercial banking business during normal banking hours;

(l) **"Canadian Company"** means Aquinox Pharmaceuticals Inc. and includes any successor resulting from any amalgamation, merger, arrangement or other reorganization of or including the Canadian Company or any continuance under the laws of another jurisdiction;

(m) **"Canadian Exchangeable Shares"** means the Common Exchangeable Shares, the Class A Exchangeable Shares, the Class B Exchangeable Shares and the Class C Exchangeable Shares of the Canadian Company;

(n) **"Canadian Special Voting Shares"** means the special voting shares in the capital of the Canadian Company;

(o) **"Change of Control"** means any "Change of Control" pursuant to the terms of the U.S. Certificate;

(p) **"Class A Exchangeable Shares"** means the Class A exchangeable preferred shares in the capital of the Canadian Company;

(q) **"Class B Exchangeable Shares"** means the Class B exchangeable preferred shares in the capital of the Canadian Company;

(r) **"Class C Exchangeable Shares"** means the Class C exchangeable preferred shares in the capital of the Canadian Company;

(s) **"Common Director"** has the meaning set out in Section 3.1(a)(i) of this Agreement;

(t) **"Common Shares"** means the shares of common stock in the capital of the U.S. Company;

(u) **"Common Special Voting Stock"** means the shares of common special voting stock in the capital of the U.S. Company;

(v) **"Companies"** means, collectively, the U.S. Company and the Canadian Company and "**Company**" shall mean either of them;

(w) **"Company Act"** means the *Canada Business Corporations Act*, as it may be amended from time to time, or any corporations act under which the Canadian Company may be continued from time to time, and every statute that may be substituted therefor, and in the case of any such amendment or substitution, any reference in this Agreement to the Company Act shall be read as referring to the amended or substituted provisions therefor;

(x) **"Constating Documents"** means the articles or certificate of incorporation, continuance or amalgamation pursuant to which a corporation was incorporated, continued or amalgamated, as the case may be, together with any amendments thereto or replacements thereof, and the by-laws (if any) of such corporation;

(y) **"Control"** or **"Controls"** means, in relation to a corporation or other legal entity:

(i) the right to cast a majority of the votes which may be cast at a general meeting of holders of equity shares of that corporation or other legal entity, including votes which are exercisable only upon the occurrence of a contingency where such contingency has occurred and is continuing; or

(ii) the right to elect or appoint, directly or indirectly, a majority of the directors of that corporation or other legal entity or other persons who have the right to manage or supervise the affairs and business of the corporation or other legal entity;

(z) **"Delaware Act"** means the Delaware General Corporation Law, as it may be amended from time to time, or any act under which the U.S. Company may be continued from time to time, and every statute that may be substituted therefor, and in the case of any such amendment or substitution, any reference in this Agreement to the Delaware Act shall be read as referring to the amended or substituted provisions thereof;

(aa) **"Directors"** means the persons who are, from time to time, elected or appointed directors of the Companies and a "**Director**" means any one of them;

(bb) **"Environmental Laws"** means any applicable federal, provincial, state, municipal and local laws, statutes, ordinances, by-laws, regulations and orders, directives and decisions, approvals of all governmental authorities or administrative or regulatory agency related to environmental, health, occupational safety and product liability matters, in effect from time to time;

(cc) **"Equity Securities"** means:

(i) U.S. Shares or any other security of the U.S. Company that carries the residual right to participate in the earnings of the U.S. Company and, on liquidation, dissolution or winding-up, in the assets of the U.S. Company, whether or not the security carries voting rights;

(ii) any warrants, options or rights entitling the holders thereof to purchase or acquire any such securities; and

(iii) any securities issued by the Canadian Company which are convertible or exchangeable, directly or indirectly, into such securities (including securities exchangeable pursuant to the Exchange Rights);

(dd) **"Exchange Agreement"** means the Amended & Restated Exchange Agreement, dated as of March 19, 2013, by and among the U.S. Company, the Canadian Company and all shareholders of each of the Companies;

(ee) **"Exchange Rights"** means the rights of a holder of Canadian Exchangeable Shares to receive, in exchange for such Canadian Exchangeable Shares. consideration consisting, in whole or in part, of shares in the capital stock of the U.S. Company pursuant to the Constating Documents of the Companies or the Exchange Agreement and the corresponding right of the Canadian Company to acquire such shares in exchange for such consideration;

(ff) **"Exchangeable Preferred Shares"** means, collectively, the Class A Exchangeable Shares, the Class B Exchangeable Shares and the Class C Exchangeable Shares of the Canadian Company;

(gg) **"FCPA"** has the meaning set out in Section 3.16 of this Agreement;

(hh) **"Founders"** means Raymond J. Andersen, Gerald Krystal, Gerald Krystal and Jacqueline Lea Krystal as trustees of the Krystal Family Trust, David Main, David J. Main and Karen M. Main as trustees of the Main Family Trust, Alice Low Fung Mui, Christopher John Ong and Christopher John Ong as trustee of the CJ Ong Family Trust;

(ii) **"Fully Converted Basis"** at any time means that all Shares then outstanding which are convertible or exchangeable (directly or indirectly) (including pursuant to the Exchange Rights) into Common Shares at that time shall be deemed to have been fully converted and exchanged into Common Shares, in accordance with the rights, privileges, restrictions and conditions attached thereto, and Common Shares issuable as a result thereof shall be deeme d to have been issued and to form part of the holdings of the Person(s) entitled to receive such Common Shares and assuming the redemption of all Special Voting Stock in accordance with the rights, privileges, restrictions and conditions attached thereto. For clarity, such basis does not include options or warrants that are exercisable or exchangeable (directly or indirectly) (including pursuant to the Exchange Rights) into Common Shares;

(jj) **"Fully Diluted Basis"** at any time means that all options, warrants or other rights of any kind to acquire Common Shares and all securities convertible or exchangeable (directly or indirectly) (including pursuant to the Exchange Rights) into Common Shares outstanding at that time shall be deemed to have been fully exercised, converted or exchanged, as the case may be, and the Common Shares issuable as a result thereof shall be deemed to have been fully issued and to form part of the holdings of the Person(s) entitled to receive such Common Shares and assuming the redemption of all Special Voting Stock in accordance with the rights, privileges, restrictions and conditions attached thereto;

(kk) **"Incentive Compensation Plans/ESOPs"** means the Incentive Compensation Plans/ESOPs described in, and established or modified in accordance with, Section 3.14 of this Agreement;

(ll) **"Independent Director"** has the meaning set out in Section 3.1(a)(v) of this Agreement;

(mm) **"Investor Approval"** means the written approval of the Investors holding not less than 60% of the votes attaching to the Series Preferred Stock and Series Special Voting Stock;

(nn) **"Investor Nominee Directors"** has the meaning given to such term in Section 3.1(a) of this Agreement;

(oo) **"Investors"** means the Series A Investors, Series B Investors and Series C Investors who become Shareholders (and/or their respective Affiliates, Associates, successors and permitted assigns) and **"Investor"** means any one of them, provided that if any of the above-mentioned parties ceases to be a party to this Agreement without such successor or permitted assignee, then **"Investors"** means the remaining parties or party alone and **"Investor"** means any one of them;

(pp) **"JJDC"** means Johnson & Johnson Development Corporation;

(qq) **"JJDC Director**" has the meaning set out in Section 3.1(a)(iii) of this Agreement;

(rr) **"Material Adverse Effect"** means, with reference to a Company, when taken as a whole, a material adverse effect on the condition (financial or otherwise), operations, business, assets, property or prospects of the Company, or on its ability to consummate the transactions contemplated by the Series C Subscription Agreement; provided, however, that Material Adverse Effect shall not be deemed to include the impact of (i) any change in generally accepted accounting principles applicable to a Company or (ii) any change in general economic, regulatory or political conditions, the capital markets or the industry in which the Companies are engaged in business, but only to the extent that such changes referenced in clauses (i) and (ii) do not have a disproportionate effect on such Company as compared to other industry participants;

(ss) **"Person"** means any individual, partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, trust, trustee, executor, administrator, or other legal personal representatives, regulatory body or agency, government or governmental agency, authority or entity howsoever designated or constituted;

(tt) **"Purchase"** includes any purchase, acquisition or other arrangement by which a Person obtains beneficial ownership of a security from another Person, whether or not voluntarily and whether or not for value, and any agreement to effect any of the foregoing; and the words **"purchased"**, **"purchasing**" and similar words have corresponding meanings;

(uu) **"PVI"** means Pfizer Inc.;

(vv) **"PVI Director"** has the meaning given to such term in Section 3.1(a)(iv) of this Agreement;

(ww) **"Qualified IPO"** has the meaning given to such term in the U.S. Certificate;

(xx) "**Registration Rights Agreement**" has the meaning given to such term in Section 8.1 of this Agreement;

(yy) **"SBVCA"** means the *Small Business Venture Capital Act* (British Columbia) and the regulations thereto as amended from time to time, and every statute that may be substituted therefor, and in the case of any such amendment or substitution, any reference in this Agreement to the SBVCA shall be read as referring to the amended or substituted provisions therefor;

(zz) **"Series A Investors"** means the parties listed in Schedule A hereto who hold Class A Exchangeable Shares of the Canadian Company or Series A Preferred Stock of the U.S. Company (and/or their respective Affiliates, Associates, successors and permitted assigns) and **"Series A Investor"** means any one of them, provided that if any of the above-mentioned parties ceases to be a party to this Agreement without such successor or permitted assignee, then **"Series A Investors"** means the remaining parties or party alone and **"Series A Investor"** means any one of them;

(aaa) **"Series A Preferred Stock"** means the shares of Series A-1 preferred stock and Series A-2 preferred stock in the capital of the U.S. Company;

(bbb) **"Series A Special Voting Stock"** means the shares of Series A-1 special voting stock and the Series A-2 special voting stock in the capital of the U.S. Company;

(ccc) **"Series A Subscription Agreement"** means that certain stock subscription agreement dated June 8, 2007 between the Canadian Company, the U.S. Company and certain purchasers of shares of Series A Preferred Stock of the U.S. Company and certain purchasers of Class A Exchangeable Shares in the capital of the Canadian Company;

(ddd) **"Series B Investors"** means the parties listed in Schedule A hereto who hold Class B Exchangeable Shares of the Canadian Company or Series B Preferred Stock of the U.S. Company (and/or their respective Affiliates, Associates, successors and permitted assigns) and **"Series B Investor"** means any one of them, provided that if any of the above-mentioned parties ceases to be a party to this Agreement without such successor or permitted assignee, then **"Series B Investors"** means the remaining parties or party alone and **"Series B Investor"** means any one of them;

(eee) **"Series B Preferred Stock"** means the shares of Series B-1 preferred stock and Series B-2 preferred stock in the capital of the U.S. Company;

(fff) **"Series B Special Voting Stock"** means the shares of Series B-1 special voting stock and the Series B-2 special voting stock in the capital of the U.S. Company;

(ggg) **"Series B Subscription Agreement"** means that certain stock subscription agreement dated as of March 31, 2010 between the Canadian Company, the U.S. Company and certain purchasers of shares of Series B Preferred Stock of the U.S. Company and certain purchasers of Class B Exchangeable Shares of the Canadian Company (as supplemented by that certain subscription agreement supplement dated June 14, 2010);

(hhh) **"Series C Investors"** means the parties listed in Schedule A hereto who hold Class C Exchangeable Shares of the Canadian Company or Series C Preferred Stock of the U.S. Company (and/or their respective Affiliates, Associates, successors and permitted assigns) and **"Series C Investor"** means any one of them, provided that if any of the above-mentioned parties ceases to be a party to this Agreement without such successor or permitted assignee, then **"Series C Investors"** means the remaining parties or party alone and **"Series C Investor"** means any one of them;

(iii) **"Series C Preferred Stock"** means the shares of Series C preferred stock in the capital of the U.S. Company;

(jjj) **"Series C Special Voting Stock"** means the shares of Series C special voting stock in the capital of the U.S. Company;

(kkk) **"Series C Subscription Agreement"** means that certain stock subscription agreement dated as of March 19, 2013 between the Canadian Company, the U.S. Company and certain purchasers of shares of Series C Preferred Stock of the U.S. Company and certain purchasers of Class C Exchangeable Shares of the Canadian Company, as may be amended from time to time in accordance with its terms;

(lll) **"Series Preferred Stock"** means the Series A Preferred Stock, the Series B Preferred Stock and the Series C Preferred Stock;

(mmm) **"Series Special Voting Stock"** means the Series A Special Voting Stock, the Series B Special Voting Stock and the Series C Special Voting Stock;

(nnn) **"Shareholders"** means the Persons who hold securities of the Companies who have executed this Agreement or who from time to time hold securities of the Companies and have agreed to become bound by this Agreement (or their respective successors or permitted assigns), but shall not include the U.S. Company, which may from time to time hold securities of the Canadian Company, and a "**Shareholder**" means any one of them;

(ooo) **"Shares"** means shares of any class or series in the share capital of the Companies from time to time;

(ppp) **"Special Voting Stock"** means the Series Special Voting Stock and Common Special Voting Stock of the U.S. Company and the Canadian Special Voting Shares of the Canadian Company;

(qqq) **"Subscription Agreements"** means, collectively, the Series A Subscription Agreement, the Series B Subscription Agreement and the Series C Subscription Agreement;

(rrr) **"Subsidiary"** means a subsidiary of either of the Companies within the meaning of the Company Act and **"Subsidiaries"** means more than one subsidiary;

(sss) **"Support Agreement"** means the Amended & Restated Support Agreement, dated as of March 19, 2013, by and between the U.S. Company and the Canadian Company;

(ttt) **"Transfer"** includes any sale, exchange, assignment, gift, bequest, disposition, mortgage, charge, pledge, encumbrance, grant of a security interest or other arrangement by which possession, legal title or beneficial ownership passes from one Person to another, or to the same Person in a different capacity, whether or not voluntarily and whether or not for value, and any agreement to effect any of the foregoing; and the words **"Transferred"**, **"Transferring"** and similar words have corresponding meanings; provided however, that **"Transfer"**, **"Transferring"** and similar words shall not include the exchange or redemption of any Canadian Exchangeable Shares or Special Voting Stock under the terms of the Exchange Agreement, the Constating Documents of the Canadian Company or the U.S. Certificate;

(uuu) **"U.S. Company"** means Aquinox Pharmaceuticals (USA) Inc. and includes any successor resulting from any amalgamation, merger, arrangement or other reorganization of or including the U.S. Company or any continuance under the laws of another jurisdiction;

(vvv) **"U.S. Certificate"** means the Sixth Amended and Restated Certificate of Incorporation of the U.S. Company, as amended and/or amended and restated, from time to time;

(www) **"U.S. Shares"** means shares of any class in the share capital of the U.S. Company from time to time;

(xxx) **"VW"** means Ventures West 8 Limited Partnership;

(yyy) **"VW Director"** has the meaning set out in Section 3.1(a)(ii) of this Agreement;

(zzz) **"VW Group"** means VW and any limited partners of VW, Ventures West Capital Ltd. and any Subsidiary of Ventures West Capital Ltd. and any corporation whose senior officers are common with the officers of any of Ventures West Capital Ltd. or any fund or investor in any fund managed by Ventures West Capital Ltd. or by any Subsidiary of Ventures West Capital Ltd;

(aaaa) **"VW Shareholders"** means any member of the VW Group who holds Shares;

(bbbb) Any words or phrases defined elsewhere in this Agreement shall have the particular meaning assigned thereto;

(cccc) Words (including defined terms) using or importing the singular number include the plural and vice versa and words importing one gender only shall include all genders and words importing persons in this Agreement shall include individuals, partnerships, corporations and any other entities, legal or otherwise;

(dddd) The headings used in this Agreement are for ease of reference only and shall not affect the meaning or the interpretation of this Agreement;

(eeee) All references to Article, section and subsection numbers refer, unless expressly stated otherwise, to the Articles, sections and subsections in this Agreement having those numbers;

(ffff) All accounting terms not defined in this Agreement shall have the meanings then generally ascribed to them under the Canadian generally accepted accounting principles set forth in the Handbook published by the Canadian Institute of Chartered Accountants (as revised from time to time); and

(gggg) All references to the symbol $ means U.S. dollars.

1.2 Schedules — The schedules attached to this Agreement shall form part of this Agreement.

ARTICLE 2 — SCOPE, EFFECT AND PARTIES

2.1 Shareholders to Act in Support of Terms — The Shareholders shall at all times promptly:

(a) vote their respective Shares (or execute written shareholder consent resolutions); and

(b) take all such steps as may be reasonably within their powers;

so as to cause the Companies to act in the manner contemplated by this Agreement and so as to fully implement the terms of this Agreement, the Exchange Agreement and the Support Agreement.

2.2 Ceasing to be a Party — Except as otherwise specifically provided herein, if a Person (other than either of the Companies) who was a Shareholder shall cease to hold any Equity Securities, then from that point forward that Person shall be deemed to no longer be a party to this Agreement; provided, however, that where such Person disposed of his Equity Securities in compliance with the provisions of this Agreement, he shall be entitled to the benefit of and be bound by the rights and obligations set forth in this Agreement in respect of matters occurring prior to such disposition.

2.3 Shareholder Representations & Warranties — Each Shareholder hereby represents and warrants to each other Shareholder and each Company that the Shareholder:

(a) other than as otherwise noted in Schedule A, is the registered and beneficial owner of the Shares shown beside the Shareholder's name in Schedule A (or on the instrument under which the Shareholder became party to this Agreement) free and clear of any mortgage, lien or encumbrance or security interest, and the Shareholder is not subject to any agreement under which any mortgage, encumbrance, lien or security interest may be created upon any of the Shareholder's Shares;

(b) is not in a relationship in respect of which a triggering event under Section 56 of the *Family Relations Act* (British Columbia) (or any applicable similar legislation in any other jurisdictions) has occurred;

(c) is not in any way subject or party to any unsatisfied judgments, consent decrees, injunctions, litigation, proceedings, actions or claims (and to the best of the knowledge of the Shareholder no such matters are pending or threatened against the Shareholder) which could result in a judgment against the Shareholder leading to the impairment or loss of the Shareholder's title to such Shareholder's Shares;

(d) is not violating, contravening, breaching, or creating a default under any law, statute, regulation, order, judgment, or decree applicable to the Shareholder by becoming party to this Agreement or performing the provisions hereof; and

(e) if the Shareholder is not an individual, is duly created and is validly existing under the laws of its jurisdiction of creation and has the legal power and capacity to own its assets and enter into and perform its obligations pursuant to this Agreement.

ARTICLE 3 — CONDUCT OF THE AFFAIRS OF THE COMPANY

3.1 Composition of the Board of Directors

(a) Each Shareholder agrees to vote, or cause to be voted, all Shares owned by such Shareholder, or over which such Shareholder has voting control, from time to time and at all times, in whatever manner as shall be necessary to ensure that the size of the Board of the U.S. Company shall be set and remain at five Directors. Each Shareholder agrees to vote, or cause to be voted, all Shares owned by such Shareholder, or over which such Shareholder has voting control, from time to time and at all times, in whatever manner as shall be necessary to ensure that the following persons shall be elected to the Board of the U.S. Company:

(i) the then current Chief Executive Officer of the Companies (the "**Common Director**");

(ii) at any time during which VW Shareholders collectively own 10% or more of the outstanding Common Shares on a Fully Diluted Basis, one individual designated by the VW Shareholders (the **"VW Director"**);

(iii) at any time during which JJDC or its Affiliates collectively own 10% or more of the outstanding Common Shares on a Fully Diluted Basis, one individual designated by JJDC (the **"JJDC Director"**);

(iv) at any time during which PVI or its Affiliates collectively own 10% or more of the outstanding Common Shares on a Fully Diluted Basis, one individual designated by PVI (the "**PVI Director**"); and

(v) one individual who is not an employee of either of the Companies and has been approved and designated by Investor Approval (the **"Independent Director"**),

and each Director designated as a Director pursuant to clauses (ii) to (iv) above shall, for purposes of this Agreement, be referred to as an **"Investor Nominee Director"**. If a person or group exercising the right to designate a Director pursuant to clauses (ii) to (iv) above ceases to hold 10% or more of the outstanding Common Shares on a Fully Diluted Basis, any Director appointed by such person or group pursuant to this Section 3.1(a) shall immediately resign as Director and, if such Director does not immediately resign as Director, the Shareholders shall forthwith take all actions required to be taken to remove such Director from the Board and appoint an additional Independent Director.

(b) (i) Upon execution of this Agreement, the Board of the U.S. Company will be constituted as follows:

Name of Director:	
David Main	Common Director
Kenneth Galbraith	VW Director
Asish Xavier	JJDC Director
Elaine V. Jones, Ph.D.	PVI Director
Daniel Levitt	Independent Director

(ii) If a Director ceases to be a Director for any reason, each Shareholder agrees to vote, or cause to be voted, all Shares owned by such Shareholder, or over which such Shareholder has voting control, from time to time and at all times, in whatever manner as shall be necessary to ensure that the Board composition set out above in Section 3.1(a) is maintained.

(c) No party hereto shall vote to remove any Director of the Board of the U.S. Company designated in accordance with Section 3.1(a) unless the persons or groups so designating such Director as specified above so vote or recommend, and, if such persons or groups so vote, then the non-designating party or parties shall likewise so vote.

(d) The parties to this Agreement shall take all actions to ensure that the Directors of the U.S. Company are elected and serve as the only Directors of the Canadian Company and are removed in accordance with Section 3.1(c). The Board of the Canadian Company shall at all times consist of the same number of Directors as and shall be identical to the Board of the U.S. Company.

3.2 Observers — Any Investor that has purchased Series Preferred Stock or Exchangeable Preferred Shares pursuant to one or more of the Subscription Agreements with an aggregate purchase price equal to or greater than $4,000,000, shall have the right to appoint one person to act as an observer (the **"Observer"**); provided, however, that any Investor who has appointed a Director pursuant to Section 3.1 shall not have the additional right to appoint an Observer pursuant to this Section 3.2. Each Observer will have the right to receive notice of all meetings of the Boards (and meetings of the boards of either of the Company's Subsidiaries) and the right to speak thereat and will receive all information and material presented to the Boards as would a Director, but will not have a vote, all provided that the Observer must sign the form of non-disclosure agreement attached as Schedule B hereto. For the avoidance of doubt, each Investor who appoints an Observer pursuant to this Section 3.2 shall be solely responsible for the expenses of the Observer, including without limitation any expenses incurred in connection with attending or participating at any meeting of the Boards.

3.3 Additional Information — Subject to the Company Act and the Delaware Act, as applicable, each Director of each Company shall have the right to request such additional information concerning the affairs of the respective Company and its Subsidiaries as the Director reasonably considers necessary in order to understand and assess the affairs of such Company and its Subsidiaries, and such Company shall in response to each such request provide or cause to be provided to the Director or Observer as promptly as possible the additional information reasonably requested.

3.4 Meetings of the Board of Directors — The Board of each of the Companies shall meet at least four times per year (until such time as the Board determines to alter this schedule) at such place as the Directors may determine from time to time. Unless otherwise waived in writing by all of the Directors, the respective Company shall give at least three Business Days advance written notice to Directors of all meetings together with an agenda of items to be discussed together with a brief description of each item. Such Company shall provide each Director with copies of the minutes of each meeting within 30 days of each such meeting.

3.5 Quorum for Board Meetings — A quorum for the transaction of business at any meeting of the Board of a Company shall be a majority of Directors, including each of the VW Director, the JJDC Director and the PVI Director. If a quorum is not present at the commencement of a Board meeting, then the Directors present may not

transact any business and such Directors shall be deemed to have adjourned such meeting to the same time and place on the same day the following week. At such reconvened meeting, a quorum for the transaction of business shall be a majority of Directors, one of whom shall be either the VW Director, the JJDC Director or the PVI Director.

3.6 Audit Committee —The Board of each of the Companies shall have an audit committee composed of at least three members, all of whom shall be non-management Directors and at least one of whom shall be an Investor Nominee Director designated in accordance with Section 3.1. Subject to the foregoing, the members of each audit committee shall be selected by a simple majority vote of the Board of the respective Company.

3.7 Compensation Committee—The Board of each of the Companies shall have a compensation committee composed of at least three members, a majority of which shall be non-management Directors and at least one of whom shall be an Investor Nominee Director designated in accordance with Section 3.1. Subject to the foregoing, the members of each compensation committee shall be selected by a simple majority vote of the Board of the respective Company.

3.8 Specific Matters Requiring Board Approval – Each of the Companies shall only undertake or proceed with any of the following matters with the prior approval of the Board of the respective Company:

(a) approve any adoption or amendment of any plan under which employees of a Company are entitled to purchase or receive shares in the capital of such Company;

(b) loan any money to, provide a guarantee of, assume liability for the debts or obligations of any other Person other than a Subsidiary in excess of $50,000, or grant any security interest over the assets of a Company;

(c) enter into or amend any employment or consulting agreements with senior management of a Company;

(d) amend any devotion of time, non-competition, non-disclosure agreements, proprietary rights agreements, employment agreements, profit sharing agreements, or agreements relating to intellectual property with key employees between a Company and any of its Directors, employees, key employees or consultants, other than any amendments that are not prejudicial to such Company;

(e) enter into any joint venture or partnership with any corporation, partnership, joint venture, firm or Person; or

(f) any of the following matters, provided that such approval of the Board of the U.S. Company with respect to such matters shall include the affirmative vote of both the JJDC Director and the PVI Director: (i) incur any material indebtedness or other material liability on behalf of the U.S. Company; (ii) enter into any material contract to which the U.S. Company is a party or otherwise bound; (iii) retain or terminate the services of any employee, independent contractor or other service provider of the U.S. Company; (iv) adopt or terminate any Benefit Plan (as defined in the Series C Subscription Agreement) for the U.S. Company; or (v) initiate any legal action or proceeding on behalf of the U.S. Company; provided, however, that this Section 3.8(f) shall not be deemed to apply to a Change of Control, a public offering of securities of the U.S. Company or any action taken pursuant to, or amendment of, this Agreement (other than this Section 3.8(f)), the Subscription Agreements, the Exchange Agreement, the Support Agreement, the Registration Rights Agreement or the U.S. Company's Constating Documents.

Each Company shall ensure that any of its Subsidiaries only undertake or proceed with the kind of transactions referred to above in this Section 3.8 (as adjusted to relate to similar actions of such Subsidiary) with the prior approval of the Board of the respective Company.

3.9 Specific Major Matters also Requiring Investor Approval

(a) So long as at least 25% of the Series Preferred Stock and Series Special Voting Stock issued under the Subscription Agreements (or Series Preferred Stock issued pursuant to the exchange of Exchangeable Preferred Shares issued pursuant to the Subscription Agreements) remains outstanding, the Companies shall only undertake or proceed with any of the matters described in subsections (a) through (e) of Section 3.8 or any of the following matters with prior Investor Approval:

(i) redeem, purchase or otherwise acquire for value (or pay into or set aside for a sinking fund for such purpose) any securities of a Company (other than securities of the Canadian Company held or purchased by the U.S. Company) unless required under the special rights and restrictions attached to such securities, the Exchange Agreement or the Support Agreement or pursuant the terms of the Incentive Compensation Plans/ESOPs and related agreements thereto;

(ii) take any action that results in the payment or declaration of any dividend on any securities of a Company (other than securities of the Canadian Company held by the U.S. Company) or in the distribution of any cash (other than in the normal course of business), securities or assets of the Company unless required under the special rights and restrictions attached to such securities, the Exchange Agreement or the Support Agreement;

(iii) authorize or issue, or obligate itself to issue, any equity security (including any security convertible into or exercisable for any equity security) senior to or on parity with the Series Preferred Stock of the U.S. Company or the Exchangeable Preferred Shares of the Canadian Company except for any issuance pursuant to the Exchange Agreement, the Support Agreement or the Series C Subscription Agreement and except for any issuance by the Canadian Company to the U.S. Company;

(iv) effect a public offering of securities of a Company;

(v) amend, alter or repeal any of the provisions of a Company's Constating Documents;

(vi) take any action which effects a liquidation, dissolution or winding up of a Company or any Subsidiary;

(vii) make any loans or monetary advances to employees of a Company or of any Subsidiary (or any relative of such persons), except as unanimously approved by the Board of such Company;

(viii) incur or guarantee any indebtedness, or permit any Subsidiary to incur or guarantee any such indebtedness, except as unanimously approved by the Board of such Company;

(ix) create any mortgage, pledge, or other security interest in all or substantially all of the property of a Company, or any of its Subsidiaries, except as unanimously approved by the Board of such Company;

(x) own, or permit any Subsidiary to own, any stock or other securities of any other corporation, partnership or entity (other than stock or other securities of the Canadian Company held by the U.S. Company), unless such entity is wholly-owned by such Company and such ownership is unanimously approved by the Board of such Company;

(xi) increase or decrease the number of directors of a Company except in accordance with this Agreement;

(xii) effect a Change of Control (as defined in the U.S. Certificate) or enter into any agreement relating to the same unless such Change of Control is in accordance with Section 3.6 of the Exchange Agreement or has been approved by the holders of at least two-thirds (2/3) of then outstanding shares of Common Stock of the U.S. Company on a Fully Converted Basis (voting together as a single class);

(xiii) make a material change in the nature of the Business; or

(xiv) increase, or authorize the increase of, the number of securities of a Company available under the Incentive Compensation Plans/ESOPs except in accordance with this Agreement, provided, however, that prior Investor Approval shall not be necessary with respect to any such increase if (A) the number of Shares available under the Incentive Compensation Plans/ESOPs after such increase is not greater than 15% of all Shares on a Fully Converted Basis and (B) such increase is unanimously approved by the Board of such Company.

(b) The Canadian Company shall not issue any of its New Common Shares or Non-Voting Preferred Shares to any Person other than the U.S. Company, and the U.S. Company shall not Transfer any New Common Shares or Non-Voting Preferred Shares of the Canadian Company to any Person other than the Canadian Company without prior Investor Approval.

3.10 **Reciprocal Amendments**—The Shareholders agree not to vote in favour of:

(a) any amendment, alteration or repeal of any of the provisions of the U.S. Certificate or by-laws of the U.S. Company that requires the approval of the holders of Series A Preferred Stock and Series A Special Voting Stock pursuant to Section C 6(b) of Article FOURTH of the U.S. Certificate unless a corresponding amendment, alteration or repeal is concurrently approved by holders of Series B Preferred Stock and Series B Special Voting Stock and holders of Series C Preferred Stock and Series C Special Voting Stock pursuant to Section C 6(c) and Section C 6(d) of Article FOURTH of the U.S. Certificate;

(b) any amendment, alteration or repeal of any of the provisions of the U.S. Certificate or by-laws of the U.S. Company that requires the approval of the holders of Series B Preferred Stock and Series B Special Voting Stock pursuant to Section C 6(c) of Article FOURTH of the U.S. Certificate unless a corresponding amendment, alteration or repeal is concurrently approved by holders of Series A Preferred Stock and Series A Special Voting Stock and holders of Series C Preferred Stock and Series C Special Voting Stock pursuant to Section C 6(b) and Section C 6(d) of Article FOURTH of the U.S. Certificate; or

(c) any amendment, alteration or repeal of any of the provisions of the U.S. Certificate or by-laws of the U.S. Company that requires the approval of the holders of Series C Preferred Stock and Series C Special Voting Stock pursuant to Section C 6(d) of Article FOURTH of the U.S. Certificate unless a corresponding amendment, alteration or repeal is concurrently approved by holders of Series A Preferred Stock and Series A Special Voting Stock and holders of Series B Preferred Stock and Series B Special Voting Stock pursuant to Section C 6(b) and Section C 6(c) of Article FOURTH of the U.S. Certificate

and, in each such case, the change(s) to the provisions with respect to the Series A Preferred Stock, Series B Preferred Stock and Series C Preferred Stock shall be made with the same effective time and date; provided, however, that the requirements of this paragraph shall be deemed satisfied and/or waived if an instrument to such effect has been duly executed by the holders of a majority of the Series A Preferred Stock and Series A Special Voting Stock, the holders of a majority of the Series B Preferred Stock and Series B Special Voting Stock and the holders of a majority of the Series C Preferred Stock and Series C Special Voting Stock.

3.11 Preserving Proprietary Rights/Confidentiality — Each Company covenants and agrees that it will cause:

(a) Proprietary Rights — all of its employees and the employees of its Subsidiaries and all consultants engaged by such Company or its Subsidiaries to assign to such Company and waive all rights to any and all patents, trademarks, copyrights, inventions and other intellectual property arising out of the work of such employees or consultants or arising out of the use of funds, materials or facilities of such Company or its Subsidiaries; and

(b) Confidentiality — all of its employees and the employees of its Subsidiaries and all consultants engaged by such Company or its Subsidiaries having confidential knowledge of the intellectual property of such Company or its Subsidiaries to sign appropriate confidentiality agreements with such Company;

in substantially the form currently used by such Company.

3.12 Indemnity for Directors and Others

Subject to the limitations set forth in the Company Act, the Delaware Act or otherwise at law, and in addition to any existing provisions which may be contained in each Company's Constating Documents, each Company shall to the fullest extent possible indemnify each Director or officer of such Company, and any Observer, a former Director or officer of such Company, former Observer or any Person who acts or has acted at such Company's request as a director or officer of a body corporate of which such Company is or was a shareholder, and his heirs and other personal representatives, against all costs, charges and expenses, including any amount paid to settle an action or satisfy a judgment, actually and reasonably incurred by him, including an amount paid to settle an action or satisfy a judgment in a civil, criminal or administrative action or proceeding to which he was made a party by reason of being or having been a Director, Observer or officer of such Company or such body corporate and any costs related thereto, including legal costs and disbursements of legal counsel, if:

(a) he has acted honestly and in good faith with a view to the best interests of such Company or such body corporate; and

(b) in the case of any criminal or administrative action or proceeding, he had reasonable grounds for believing that his conduct was lawful.

Nothing in this Section shall limit the right of any person entitled to claim any indemnity apart from the provisions of this Section. If under applicable law, any payment by such Company under such indemnity requires the approval of any court, then such Company at its own expense shall promptly take all necessary proceedings to obtain such approval. Each person indemnified hereunder shall be a third party beneficiary of the provisions of this Section 3.12 and entitled to enforce such provisions as if they were a party to this Agreement. Each Company will enter into an Indemnity Agreement in the form attached hereto as Schedule C with each Director, officer or other Person indemnified hereunder who is not a party to this Agreement.

3.13 Reimbursement of Expenses — All Directors shall be entitled to reimbursement of reasonable costs of attendance of meetings of the Directors.

3.14 Incentive Compensation Plans/ESOPs — The maximum number of Common Shares directly or indirectly issuable to employees, directors, officers and consultants of the Companies under the Incentive Compensation Plans/ESOPs dated or amended and restated on June 8, 2007, as amended on March 31, 2010 and as further amended on the date hereof, will be increased to 12,809,037 Common Shares upon the closing of the transactions contemplated by the Series C Subscription Agreement.

3.15 Acknowledgment of Shareholders — Each Company and each Shareholder acknowledges and agrees that (i) any Investor may presently have, or may engage in the future, in internal development programs, or may receive information from third parties that relates to, and may develop and commercialize products independently or in cooperation with such third parties, that are similar to or that are directly or indirectly competitive with, the Company's development programs, products or services; and (ii) any employee of an Investor serving on the Boards is serving in such capacity at the request, and for the benefit, of the Companies. Accordingly, an Investor's designation of any Director under Section 3.1, the service of such Director on the Boards, or the exercise by such Investor of any rights under this Agreement or any other agreement related to the transactions contemplated by this Agreement (the "**Transaction Agreements**") shall not in any way preclude or restrict such Investor from conducting any development program, commercializing any product or service or otherwise engaging in any enterprise, whether or not such development program, product, service or enterprise competes with those of the Companies. Nothing herein or in any other Transaction Agreement shall be construed to impose on any Investor or any Director designated by an Investor under Section 3.1 any restriction, duty or obligation other than as expressly set forth herein or therein or as required by applicable laws.

3.16 FCPA Compliance — Each Company represents that it shall not, and shall not permit any of its Subsidiaries or Affiliates or any of its or their respective directors, officers, managers, employees, independent contractors, representatives or agents to, promise, authorize or make any payment to, or otherwise contribute any item of value to, directly or indirectly, any non-U.S. government official, in each case, in violation of the U.S. Foreign Corrupt Practices Act ("**FCPA**") or any other applicable anti-bribery or anti-corruption law. Each Company further represents that it shall, and shall cause each of its Subsidiaries and Affiliates to, cease all of its or their respective activities, as well as remediate any actions taken by such Company, its Subsidiaries or Affiliates or any of its or their respective directors, officers, managers, employees, independent contractors, representatives or agents, in violation of the FCPA or any other applicable anti-bribery or anti-corruption law. Each Company further represents that it shall, and shall cause each of its Subsidiaries and Affiliates to, maintain systems of internal controls (including, but not limited to, accounting systems, purchasing systems and billing systems) to ensure compliance with the FCPA or any other applicable anti-bribery or anti-corruption law.

ARTICLE 4 — INFORMATION

4.1 Reporting Requirements — Each Company shall distribute to each Investor who, together with its Affiliates, Associates, successors and permitted assigns, holds at least 2,000,000 Common Shares, shares of Series Preferred Stock or Canadian Exchangeable Shares (as adjusted for any stock splits, stock dividends, combinations or other similar recapitalizations affecting such shares) the following information and reports concurrently with the distribution of such information and reports to the Board of each Company:

(a) Periodic Financial Statements — within 45 days of the end of each calendar quarter, comprehensive quarterly financial statements prepared by such Company (including actual and projected cash flows for the most recent quarter and a rolling cash flow forecast for the current fiscal year) with management's analysis of the results and comments on variances from budget and certified by the respective Company's chief financial and accounting officer in his capacity as an officer of the Company and not in his personal capacity as having been prepared in accordance with generally accepted accounting principles consistently applied (subject to year-end audit adjustments);

(b) Annual Budget — within 30 days after the beginning of each fiscal year, an annual operating and capital budget for such Company which has been approved by its Board;

(c) Annual Audited Statements —within 120 days of the end of each fiscal year of the Company, annual audited consolidated financial statements for such Company (including its balance sheet and its statements of earnings, retained earnings and changes in financial position);

(d) Statutory Compliance Certificate — within 21 days of each fiscal quarter end, a certificate signed by the president of the Canadian Company stating that:

(i) the Canadian Company has paid all taxes, premiums, contributions and payments required to be deducted at source, paid and/or remitted under the *Income Tax Act* (Canada), *Excise Tax Act* (Canada), *Canada Pension Plan*, *Employment Insurance Act* (Canada), *Income Tax Act* (British Columbia), *Workers Compensation Act* (British Columbia), *Social Services Tax Act* (British Columbia) or applicable regulations thereto have been deducted, paid and remitted (as the case may be) to the proper authority; and

(ii) each of the Canadian Company and Subsidiaries is in compliance with all applicable Environmental Laws;

(e) Litigation — promptly after a Company becomes aware of same, a summary of any material litigation (pending, threatened or otherwise) or other proceedings by or against such Company or any of its Subsidiaries before any court, tribunal or administrative agency;

(f) Material Adverse Effect — within five days after a Company becomes aware of the same, notice of any default, breach, acceleration, modification, cancellation of any agreement, arrangement or other transaction or matter that may result in a Material Adverse Effect to such Company or its Subsidiaries; and

(g) Merger etc. —promptly after such Company becomes aware of the same, notice of the intention or proposal to effect a change of control, sale of substantial assets, reorganization, amalgamation, consolidation, merger or an agreement to amalgamate, consolidate or merge a Company or its Subsidiaries with any Person.

The financial reports to be provided above shall conform to generally accepted accounting principles and include such Company's Subsidiaries.

4.2 Right to Visit Premises — Each Company shall permit representatives of each Investor to from time to time, upon reasonable notice and at any reasonable time, visit the business premises of such Company and to observe the operations of such Company. Such Company shall ensure that its Subsidiaries give representatives of the Investors similar access rights.

4.3 Investors May Refer to Investment in Publicity Materials

(a) Each Investor shall have the right to refer to its investment in the Companies in its reports, publications and promotional materials with the written approval of such Company (not to be unreasonably withheld). If any such disclosure or publication contains a material misrepresentation regarding the Companies or the Investor's investment in the Companies, the Investor shall, upon notification thereof by the Companies, revise the disclosure to remove such material misrepresentation.

(b) Each Company and each Investor covenants not to disclose the name of an Investor in any of its reports, publications, promotional materials, news releases or other disclosure documents or other communications to third parties or the public without first obtaining such identified Investor's written approval (not to be unreasonably withheld), except if such Company or identifying Investor is advised by counsel that such disclosure is legally required to be made and provided that it gives ten days prior written notice to such Investors who are being identified.

(c) Notwithstanding Section 4.3(a) and (b), Advantage shall be entitled to refer to its investment in the Companies and to the other Investors in its routine filings pursuant to the SBVCA.

4.4 **Inspection Rights —** Each Company shall permit each holder of Series Preferred Stock of the U.S. Company and each holder of Exchangeable Preferred Shares of the Canadian Company, at such holder's expense, to visit and inspect such Company's properties, examine such Company's books of account and records and discuss such Company's affairs, finances and accounts with its officers, during normal business hours of such Company as may be reasonably requested by such holder, provided, however, that such Company shall not be obligated pursuant to this Section 4.4 to provide access to any information that it reasonably and in good faith considers to be a trade secret or confidential information (unless covered by an enforceable confidentiality agreement, in a form acceptable to such Company) or the disclosure of which would adversely affect the attorney-client privilege between such Company and its counsel.

4.5 **Confidential Information**

(a) In this Section 4.5, "Confidential Information" will mean confidential or proprietary information of either of the Companies, including information in respect of the Business, work, inventions, patents, designs, methods, improvements, trade secrets, know-how, and information in respect of any other confidential or proprietary matters, but excluding information which:

(i) was in or comes into the public domain other than as a result of a breach of this Agreement;

(ii) is disclosed with the prior written permission of the applicable Company;

(iii) was in the possession of the applicable Shareholder prior to its receipt thereof from the applicable Company; or

(iv) is required to be disclosed pursuant to applicable laws or policies or regulations of any government or regulatory authority.

(b) Each Shareholder acknowledges that it may come into possession of Confidential Information as a result of various disclosures or information provided by other Shareholders or by the Company pursuant to this Agreement, including through attendance at a Shareholders' meeting, through the exercise of board observer rights, through a visit to premises of the Companies or through various notices or offers pursuant to Articles 6 and 7 hereof.

(c) Each Shareholder agrees that all such Confidential Information will, for all purposes, be maintained by the Shareholder as strictly confidential and the Shareholder will not reveal, or induce others to reveal, any of the Confidential Information to any Person (except, if the Shareholder is a corporation, partnership or other business entity, those of the Shareholder's employees, directors, officers, managers, advisors, counsel, consultants, agents, partners, shareholders or investors with a definable need to know and who are subject to a duty of confidentiality).

(d) Nothing herein shall restrict a Shareholder from disclosing Confidential Information that it is required or requested to disclose by law or by any governmental or regulatory authority having jurisdiction over such Shareholder, provided that, prior to disclosing any Confidential Information pursuant to this paragraph, the Shareholder delivers notice of such requirement or request to the Companies so that the Companies have the opportunity to contest the potential disclosure.

This Section 4.5 will survive the termination of this Agreement.

ARTICLE 5 — INSURANCE POLICIES

5.1 Directors' and Officers' Liability Insurance — Each Company will use reasonable commercial efforts to obtain and maintain directors' and officers' liability insurance for its Directors and senior officers with coverage of at least $5,000,000, or such greater amount as determined by the Board of each of the Companies.

5.2 Product Liability Insurance — Each Company shall, to the extent available at rates considered reasonable by the applicable Board, use reasonable commercial efforts to obtain and maintain suitable products liability insurance for its products and those of its Subsidiaries.

5.3 Other Insurance — Each Company will use reasonable commercial efforts to obtain and maintain, and shall use reasonable commercial efforts to ensure that its Subsidiaries obtain and maintain, fire and casualty insurance policies with sufficient coverage to allow replacement of any of their respective insurable properties that might be damaged or destroyed and insurance policies for comprehensive general liability insurance (including bodily injury, death and property damage) for amounts which meet commercially reasonable standards as determined by the Board of each of the Companies.

5.4 Limitation on Encumbrances — Neither Company shall grant a security interest in, borrow on the security of, hypothecate, assign or dispose of any of the insurance policies referred to in this Article or any part thereof except to the extent that such policies are charged or encumbered from time to time by security instruments granted by such Company in good faith to its lenders for genuine corporate borrowing purposes approved by the applicable Board.

ARTICLE 6 — ISSUE OF ADDITIONAL EQUITY SECURITIES

6.1 Treasury Share Offerings — Except as otherwise provided under Section 6.4, each offering by either Company of additional Equity Securities shall be made in accordance with this Article 6.

6.2 Pro-Rata Preemptive Right — Subject to Section 6.3, each time a Company proposes to allot, issue, sell or resell any Equity Securities, together with any corresponding Special Voting Stock (if applicable), such Company (the **"Issuing Company"**) shall first offer (the **"Treasury Offer"**) the Equity Securities and corresponding Special Voting Stock (if applicable) to the Investors (collectively the **"Treasury Offerees"** and individually a **"Treasury Offeree"**) on the following basis:

(a) Pro Rata Portions — The number of Equity Securities a particular Treasury Offeree shall be offered and may purchase shall be determined by the following formula:

$$\text{Number of Equity Securities which the Treasury Offeree shall be offered and may purchase} = \frac{\text{Number of Common Shares held by the Treasury Offeree on a Fully Converted Basis immediately prior to the Treasury Offer}}{\text{Number of Common Shares held by all Treasury Offerees on a Fully Converted Basis immediately prior to the Treasury Offer}} \times \text{Total Number of Equity Securities being offered;}$$

(b) Special Voting Stock — A Company shall not offer additional Equity Securities unless the offer is jointly made by both Companies and includes an offer from the other Company for the corresponding Special Voting Stock. If applicable, each Treasury Offeree shall be required to purchase the corresponding number of shares of Special Voting Stock associated with any Equity Securities which it purchases pursuant hereto;

(c) Notice of Offer — Each Treasury Offer shall be made by written notice to the Treasury Offerees specifying:

(i) the total number and class of Equity Securities and corresponding Special Voting Stock (if applicable) offered;

(ii) the Treasury Offeree's pro rata portion thereof as determined by the formula in (a) above;

(iii) the price at which the Equity Securities and corresponding Special Voting Stock (if applicable) are being offered;

(iv) any other terms and conditions applicable to the offer not set out in this Section 6.2; and

(v) that Treasury Offerees shall have 21 days (the **"Initial Acceptance Period"**) following receipt of the notice to accept the Treasury Offer (provided that if such written notice is mailed by first class mail to the address for the Treasury Offeree shown on the Companies' registers of stockholders, that Treasury Offeree will be deemed to have received the notice 3 days thereafter);

(d) Acceptance — Acceptance of a Treasury Offer shall be made by notice in writing to the Issuing Company within the Initial Acceptance Period specifying the number of Equity Securities and corresponding Special Voting Stock (if applicable) up to the pro rata number determined above the Treasury Offeree wishes to purchase. The Treasury Offeree may also specify in such notice an additional number of the Equity Securities and, if applicable, corresponding Special Voting Stock (**"Specified Additional Amounts"**) offered for sale that the Treasury Offeree is prepared to purchase if any of the other Treasury Offerees fails to fully accept their offered portion of the Treasury Offer. If a Treasury Offeree does not accept the Treasury Offer before expiration of the Initial Acceptance Period, then such Treasury Offeree shall be deemed to have refused the Treasury Offer. Additionally, if all Treasury Offerees notify the Issuing Company in writing that they accept or decline the Treasury Offer before the end of the Initial Acceptance Period, then the Initial Acceptance Period shall be deemed to have ended on the date the last such notice is received by the Issuing Company;

(e) Remaining Equity Securities — In the event that some Treasury Offerees do not fully accept their offered portion of the Equity Securities and corresponding Special Voting Stock (if applicable) within the Initial Acceptance Period, the unaccepted remaining portion of the Equity Securities and, if applicable, corresponding Special Voting Stock (the **"Remaining Amount"**) shall be divided, within 7 days of the end of the Initial Acceptance Period, among such of the Treasury Offerees as have in their notice of acceptance of the Treasury Offer indicated a preparedness to purchase Specified Additional Amounts (collectively the **"Second Round Offerees"** and individually a **"Second Round Offeree"**) as follows:

(i) in such manner as may be agreed among the Second Round Offerees; and

(ii) failing such agreement, the Remaining Amount shall be divided pro rata among the Second Round Offerees in accordance with their respective holdings of Common Shares on a Fully Converted Basis in successive rounds if necessary to fully divide such Remaining Amount, provided that no Second Round Offeree shall be required to accept more than his Specified Additional Amount;

(f) Sale to Third Party — The Issuing Company shall be entitled to allot, issue or sell the balance of any of the offered Equity Securities and corresponding Special Voting Stock (if applicable) which are not purchased by the Treasury Offerees upon completion of the above process to any Person(s), other than a Treasury Offeree who did not accept the Treasury Offer, provided that such allotment, issuance or sale:

(i) shall not be effected at a price which is less than the price or on terms and conditions which are more favourable (from the purchaser's perspective) than those set forth in the written notice to the Treasury Offerees concerning the Treasury Offer; and

(ii) shall be effected within a 45 day period following the expiration of the Initial Acceptance Period, after which period has expired, the Issuing Company shall comply with this Article 6 before offering Equity Securities and corresponding Special Voting Stock (if applicable) to any Person.

6.3 Permitted Non-Pro rata Offerings — Subject to Sections 3.8 and 3.9 and the rights, privileges and restrictions attaching to any Shares, the Issuing Company may directly allot, issue or sell Equity Securities and corresponding Special Voting Stock (if applicable) without complying with Section 6.2 in the following circumstances:

(a) ESOP — options are granted pursuant to the Incentive Compensation Plans/ESOPs or the Shares are being issued pursuant to the exercise of options granted under the Incentive Compensation Plans/ESOPs or to Directors and officers of the Issuing Company;

(b) Qualified IPO – the Shares are being issued pursuant to a Qualified IPO;

(c) Subdivision etc. — the Shares are being issued pursuant to a duly approved subdivision, amalgamation or reorganization or a dividend payable in Shares;

(d) Conversion etc. — the Shares are being issued in accordance with the special rights and restrictions attached to Shares;

(e) Exchange etc. — the Shares are being issued pursuant to exchange or other rights under the Exchange Agreement or Support Agreement;

(f) Existing Options etc. — the Shares are being issued pursuant to the options, warrants or other rights disclosed in the Disclosure Schedule to the Series C Subscription Agreement;

(g) Acquisitions — the Shares are allotted or issued pursuant to an Acquisition which is not part of a financing transaction and is approved by the Board of the applicable Company and the Investors by way of Investor Approval;

(h) Strategic Alliances — the Equity Securities are allotted or issued pursuant to options, warrants or other rights issued to an entity whose principal business is in the pharmaceutical or biotechnology industries and is approved by the Investors by way of Investor Approval as a corporate partner or strategic industry alliance of a Company, which allotment and issuance are not part of a financing transaction;

(i) Existing Obligations under Material Contracts — the Shares are being issued pursuant to the License Agreement dated June 6, 2006 between the Canadian Company and the University of British Columbia, as amended from time to time;

(j) Intercompany Issues — the New Common Shares or Non-Voting Preferred Shares of the Canadian Company are being issued to the U.S. Company;

(j) Lending Arrangements — the Equity Securities are allotted or issued pursuant to options, warrants or other rights issued to a bank or other entity whose principal business is lending money or an equipment lender, in connection with a loan to a Company and is approved by the Board of the applicable Company and the Investors by way of Investor Approval; and

(k) Subscription Agreements— the Shares are allotted and issued in accordance with the Subscription Agreements.

6.4 Waiver of Rights — Notwithstanding any other provision of this Article 6, any Investor may waive his rights with respect to any particular offer or right given under, or any provision contained in, Article 6 by notice in writing to the Issuing Company. Additionally, in the event that Investors holding not less than 60% of the Common Shares held by all Investors (on a Fully Converted Basis) elect to waive their rights with respect to any particular offer or right given under, or any provision contained in, Article 6 by notice in writing to the Issuing Company, then such waiver shall be binding upon all of the parties to this Agreement.

6.5 Right to Corresponding Shares – If an Investor has a right to acquire Shares of one of the Companies pursuant to this Article 6, such Investor may elect, by so stating in its acceptance notice, to instead acquire, on substantially the same terms, Shares of the other Company that are the economic equivalent of the first-mentioned Shares.

ARTICLE 7 — SHARE TRANSFERS

7.1 Transfers Restricted — Except as permitted by the terms of this Agreement, a Shareholder shall not, directly or indirectly, Transfer any Equity Securities or, if applicable, corresponding Special Voting Stock (including but not restricted to any disposition by agreement, option, right or privilege capable of becoming an agreement or option).

7.2 Permitted Transfers — Subject to compliance with the Exchange Agreement, Sections 7.1 and 7.3 do not apply to the following Transfers of Equity Securities and corresponding Special Voting Stock (if applicable):

(a) Sale to a Controlled Company — A Shareholder who is a natural person and is not in breach of its obligations under this Agreement may from time to time Transfer all or any part of his Equity Securities and corresponding Special Voting Stock (if applicable) to a corporation which is under the Control of the Shareholder and, if applicable, members of the Shareholder's immediate family own 100% of the shares (a **"Wholly Owned Company"**), provided that each such transferee enters into an agreement under which the transferee becomes party to and bound by this Agreement and such corporation agrees as a condition of the Transfer to Transfer back such Equity Securities and corresponding Special Voting Stock (if applicable) to such Shareholder in the event that such corporation ceases to be under the Control of such Shareholder. Notwithstanding Section 2.2, any such Transfer shall not release the transferor from his obligations hereunder.

(b) Family, RSP Sales —A Shareholder who is not in breach of its obligations under this Agreement may from time to time Transfer all or any part of his Equity Securities and corresponding Special Voting Stock to:

(i) a spouse or child (who has attained the age of majority) of the Shareholder;

(ii) a trust for the benefit of the Shareholder and/or his or her immediate family; or

(iii) a registered retirement savings plan of the Shareholder or his or her spouse;

provided that:

(iv) each such transferee (both legal and beneficial transferees in the case of trust) enters into an agreement under which the transferee becomes a party to this Agreement;

(v) all costs and expenses associated with such Transfer will be paid by the transferor Shareholder; and

(vii) notwithstanding Section 2.2, any such Transfer shall not release the transferor from his obligations hereunder, and when such transferee becomes a party to this Agreement, such transferees (if more than one) shall designate the Shareholder to represent all of the transferees and such representative will remain a party to and bound by this Agreement for and on behalf of such transferees and the Shareholder;

(c) Death — Upon the death of a Shareholder, that Shareholder's Equity Securities and corresponding Special Voting Stock (if applicable) may be Transferred in accordance with a probated will of the deceased or by operation of laws for the administration of estates upon intestacy, provided that (i) each such transferee enters into an agreement under which the transferee becomes party to and bound by this Agreement and (ii) all costs and expenses associated with such Transfer will be paid by the estate of the Shareholder;

(d) Investor Exemptions — Any Investor (together, the **"Transferring Investors"**) may Transfer the whole or any part of its Equity Securities and corresponding Special Voting Stock (if applicable):

(i) if it is required by law to do so;

(ii) if it resolves to Transfer all or substantially all of its assets or if the Transfer is part of a portfolio sale of its assets;

(iii) if the Transfer is to any Affiliate or Associate of the Transferring Investor;

(iv) in the case of VW, to any member of the VW Group;

(v) to any corporation or other form of entity whose senior officers are, or which is managed by a corporate manager whose senior officers are, common officers of the Transferring Investor as at the date of the Transfer;

(vi) to any Persons who are bona fide investors (including limited partners, the general partner or fund manager, as the case may be) in the Transferring Investor who are entitled to participate in a distribution of the assets of the Transferring Investor upon winding-up, liquidation or dissolution where the Equity Securities and corresponding Special Voting Stock are distributed to them on such occurrence; provided that if such investors are required to become parties to this Agreement, such investors (if more than one) shall designate one person to represent all such investors and such representative will become party to and bound by this Agreement for and on behalf of such investors and shall be deemed to be the legal and beneficial owner of such transferred Equity Securities for the purposes of this Agreement; or

(vii) to any limited partnership the general partner of which is controlled, directly or indirectly, by the Transferring Investor as at the date of the Transfer;

(each a **"Transferee Investor"**); provided that (i) each Transferee Investor will assume responsibility for any ongoing obligations, if any, of the Transferring Investors and (ii) all costs and expenses associated with such Transfer will be paid by the Transferring Investor.

(e) Piggyback Sales — A Transfer of Equity Securities and corresponding Special Voting Stock (if applicable) pursuant to the rights provided to the Investors in Section 7.4.

(f) Drag-Along Sales — Any Transfer of Equity Securities made in accordance with Section 3.6 of the Exchange Agreement.

(g) Redemptions, Retractions etc. — Any Transfer of Shares made in a accordance with the special rights and restrictions attached to Shares or a Transfer of Equity Securities and corresponding Special Voting Stock (if applicable) under a repurchase of Equity Securities and corresponding Special Voting Stock (if applicable) by a Company itself.

7.3 Right of First Offer — Except for Transfers permitted pursuant to Section 7.2, and subject to compliance with the Exchange Agreement, no Shareholder (other than an Investor as to its Series Preferred Stock, shares or stock exchangeable into such stock and any corresponding Special Voting Stock) shall Transfer any of his Equity Securities and corresponding Special Voting Stock (if applicable) unless that Shareholder (the **"Offeror"**) first offers (the **"Offer"**) the Companies and the Investors (the latter being the **"Other Offerees"** and any one of them an **"Other Offeree"**) the prior right to purchase, receive or acquire such securities (the **"Offered Securities"**) on the following basis:

(a) Notice of Offer — Each Offer shall be made by written notice (the **"Sale Notice"**) to the Companies and the Other Offerees specifying:

(i) the total number and class of the Offered Securities;

(ii) the price at which the Shareholder is prepared to sell the Offered Securities;

(iii) any other terms and conditions applicable to the offer not set out in this Section 7.3; and

(iv) whether or not the Offeror has received a third party offer to purchase any of the Offered Securities (in which case the third party offer shall be attached to the notice);

(b) Companies' First Right - The Companies shall have the first right to accept the Offer and purchase all or a portion of the Offered Securities from the Offeror. The Companies shall have 14 days (the **"Companies Acceptance Period"**) after receipt of the Sale Notice within which to give to the Offeror written notice (the **"Companies Notice"**) that they accept the Offer and agree to purchase all or a portion of the Offered Securities (in a proportion agreed to by the Companies) and deliver a copy of the Companies Notice to each of the Other Offerees;

(c) Shareholders' Second Right **—** If upon the expiry of the Companies Acceptance Period the Companies have not delivered a Companies Notice or have delivered a Companies Notice which provides for the purchase of only a portion of the Offered Securities, then the Offeror shall immediately notify (the **"Second Right Notice"**) each of the Other Offerees in writing and the Other Offerees shall have the right to purchase the remaining Offered Securities on the following basis:

(i) *Pro Rata Portions* — the Second Right Notice shall specify the number of Offered Securities remaining and state that each of the Other Offerees is entitled to purchase up to that number of the remaining Offered Securities determined by the following formula as to Equity Securities that are included as Offered Securities:

$$\text{Number of such remaining Equity Securities which a particular Other Offeree may purchase} = \frac{\text{Number of Common Shares held by the Other Offeree on a Fully Converted Basis immediately prior to the Second Offer}}{\text{Number of Common Shares held by all Other Offerees on a Fully Converted Basis immediately prior to the Second Offer}} \times \text{Number of such remaining Equity Securities}$$

(ii) *Special Voting Stock* — If applicable, each Other Offeree shall be required to purchase the corresponding number of shares of Special Voting Stock associated with any Equity Securities which it purchases pursuant hereto;

(iii) *Acceptance* — each of the Other Offerees shall have 14 days after receipt of the Second Right Notice (the **"Second Acceptance Period"**) within which to give to the Offeror written notice that it accepts the Offer and specifying the number of Offered Securities up to the pro rata number determined above it wishes to purchase. The Other Offeree may also specify in such notice an additional number of the remaining Offered Securities (**"Specified Additional Securities"**) the Other Offeree is prepared to purchase if any of the Other Offerees fails to fully accept their offered portion of the Offered Securities. If all the Other Offerees notify the Offeror in writing that they accept or decline the Offer before the end of the Second Acceptance Period, then the Second Acceptance Period shall be deemed to have ended on the date the last such notice is received by the Offeror;

(iv) *Remaining Securities* — in the event that some Other Offerees do not fully accept their offered portion of the Offered Securities within the Second Acceptance Period, the unaccepted remaining portion of the Offered Securities (the **"Remaining Securities"**) shall be divided, within three days of the end of the Second Acceptance Period, among such of the Other Offerees as have in their notice of acceptance of the Offer indicated a preparedness to purchase Specified Additional Securities (collectively the **"Second Tier Offerees"** and individually a **"Second Tier Offeree"**) as follows:

(A) in such manner as may be agreed among the Second Tier Offerees;

(B) failing such agreement, the Remaining Securities shall be divided pro rata among the Second Tier Offerees in accordance with their respective holdings of Common Shares on a Fully Converted Basis in successive rounds if necessary to fully divide such Remaining Securities, provided that no Second Tier Offeree shall be required to accept more than his Specified Additional Securities;

(the process provided for in this clause (iv) is referred to as the **"Last Step"**);

(d) Closing — The closing of the purchase of the Offered Securities by the Companies and the Other Offerees hereunder shall take place at the principal office of the Canadian Company on the later of the closing date specified in the Offer and ten days after expiry of either the Companies Acceptance Period or the Second Acceptance Period, as applicable;

(e) Sale to Third Party — If any of the Offered Securities remain unaccepted after completion of the Last Step, then the Offeror shall have the option to reject all acceptances given by the Companies and the Other Offerees hereunder and (subject to Section 7.4) Transfer all, but not less than all, of the Offered Securities to a third party provided that:

(i) such Transfer is effected at a price which is not less than the price and on terms and conditions no more favourable (from a purchaser's perspective) than those set forth in the Sale Notice hereunder;

(ii) the Offeror shall not Transfer any of the Offered Securities to a third party who is a competitor of the Companies unless the Sale Notice originally delivered by the Offeror attached a detailed written offer from the competitor for the Offered Securities; and

(iii) such Transfer is completed within a 90 day period following the Last Step (after which period has expired the Offeror must again comply with this Article 7 before Transferring any of his Equity Securities and corresponding Special Voting Stock to any Person).

(f) Company Assistance — Each Company shall use reasonable commercial efforts to assist with the efficient operation and administration of the process provided for under this Section 7.3.

(g) Mailed Notices — If a written notice is mailed by first class mail to the address for an Other Offeree shown on the applicable Company's register of stockholders such notice will be deemed to have been received by the Other Offeree 3 days thereafter.

7.4 Piggyback Rights —If a Shareholder (other than an Investor as to its Series Preferred Stock, shares or stock exchangeable into such stock and any corresponding Special Voting Stock) or a trust, partnership or corporation Controlled by any such persons from time to time (any of whom is a **"Key Person Seller"**) becomes entitled and intends to Transfer Offered Securities to a third party pursuant to Section 7.3(e) (the **"Piggy Back Sale"**), then each Investor that did not exercise its rights under Section 7.3(c) (the **"Other Holder(s)"**) shall have the right (the **"Piggyback Right"**) to participate in any such Transfers on the following terms and conditions:

(a) Intended Sale Notice — If the Key Person Seller intends to proceed with a Piggy Back Sale, the Key Person Seller shall immediately notify (the **"Piggyback Sale Notice"**) each Other Holder in writing specifying:

(i) the name, address and telephone number of the third party (the **"Third Party"**) intended to purchase the Offered Securities;

(ii) the purchase price the Third Party is to pay the Key Person Seller for each class of Equity Securities and any corresponding Special Voting Stock to be purchased (the **"Specified Prices"**) and the other terms and conditions of the intended sale;

(iii) the number and class of Equity Securities and corresponding Special Voting Stock (if applicable) held by the Third Party and its Associates and Affiliates; and

(iv) that each Other Holder has the Piggyback Right provided under this Section 7.4 in respect of the Piggyback Sale.

(b) Securities which can be Piggybacked — Subject to the provisions of Section 7.7, each Other Holder shall be entitled to sell to the Third Party, in conjunction (if applicable) with the closing of the Third Party's purchase of Equity Securities and (if applicable) corresponding Special Voting Stock from the Key Person Seller, a pro rata portion of its Equity Securities and any related Special Voting Stock (or such lesser number of Equity Securities and corresponding Special Voting Stock (if applicable) as each Other Holder may determine) determined by the following formula:

$$\text{Number of such Equity Securities an Other Holder may sell} = \frac{\text{Number of Common Shares on a Fully Converted Basis to be sold to the Third Party by the Key Person Seller}}{\text{Total number of Common Shares on a Fully Converted Basis held by the Key Person Seller and all Other Holders exercising their Piggyback Rights pursuant to this Section 7.4}} \times \text{Common Shares held by the Other Holder on a Fully Converted Basis}$$

(c) Special Voting Stock — If applicable, each Third Party shall be required to purchase the corresponding number of shares of Special Voting Stock associated with any Equity Securities which it purchases pursuant hereto;

(d) Exercise Notice — Each Other Holder shall have 14 days after the receipt of the Piggyback Notice, to exercise its Piggyback Right by written notice to the Key Person Seller specifying the number and class of Equity Securities and corresponding Special Voting Stock (if applicable) which each Other Holder elects to sell to the Third Party hereunder.

(e) Piggyback Sale to Third Party — If an Other Holder exercises the Piggyback Right, the Key Person Seller may not complete the Transfer of the Offered Securities to the Third Party unless the Third Party also purchases from the Other Holder all of the Equity Securities and, if applicable, corresponding Special Voting Stock (the **"Piggyback Securities"**) in respect of which the Piggyback Right was exercised at the same time and on the same terms and conditions (subject however to the pricing adjustments and rules set forth in (f) below).

(f) Pricing of Securities — The price that the Third Party must pay to an Other Holder for its Piggyback Securities shall be further adjusted or derived in accordance with the following rules:

(i) if the Specified Prices are for Common Shares only, the price per share for any preferred shares of the applicable Company in respect of which the Piggyback Right was exercised shall be computed as if such shares were fully converted into Common Shares in accordance with their terms and pursuant to the Exchange Rights;

(ii) if the Specified Prices are for preferred shares of the applicable Company only, the price per share for any Common Shares in respect of which the Piggyback Right was exercised shall be computed on the basis of a reverse conversion of the Common Shares into preferred shares (if there is more than one conversion rate applicable to different series of preferred shares outstanding, the reverse conversion shall be computed on a pro rata basis based upon the ratio of the total number of Common Shares which the holders of each series of preferred shares may acquire to the total number of Common Shares which holders of all series of preferred shares may acquire); and

(iii) if the Specified Prices do not include a price for a class of Equity Securities and corresponding Special Voting Stock (if applicable) which entitle the holder thereof to acquire another class of Equity Securities and corresponding Special Voting Stock (if applicable), such class of Equity Securities and corresponding Special Voting Stock (if applicable) shall be priced as if such securities were fully exercised, converted or exchanged (as the case may) into the other class of Equity Securities and corresponding Special Voting Stock (if applicable) (net of any amounts payable by the holder on such exercise, conversion or exchange).

If the Third Party will not purchase the Piggyback Securities from the Other Holders on the terms and conditions provided for herein, then the proposed Transfer of Offered Securities from the Key Person Seller to the Third Party shall not be made.

7.5 Recognition of Transfers — Except as otherwise required by law, neither Company shall recognize any Transfers of Shares made in violation of this Agreement.

7.6 Endorsement on Share Certificates — Any and all certificates representing Equity Securities and corresponding Special Voting Stock now or hereafter owned by Shareholders during the term of this Agreement (whether such Equity Securities are issued initially or following a Transfer or otherwise) shall have endorsed thereon in bold type the following legend:

> ***"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE PROVISIONS OF A SHAREHOLDERS' AGREEMENT DATED FOR REFERENCE THE 8th DAY OF JUNE, 2007, AS AMENDED AND/OR RESTATED FROM TIME TO TIME, AND SUCH SECURITIES ARE NOT TRANSFERABLE ON THE BOOKS OF THE COMPANY EXCEPT IN ACCORDANCE AND COMPLIANCE WITH THE TERMS AND CONDITIONS OF SUCH AGREEMENT. BY ACCEPTING ANY INTEREST IN SUCH SHARES THE PERSON ACCEPTING SUCH INTEREST SHALL BE DEEMED TO AGREE TO AND SHALL BECOME BOUND BY ALL THE PROVISIONS OF THAT SHAREHOLDERS' AGREEMENT, INCLUDING CERTAIN RESTRICTIONS ON TRANSFER AND OWNERSHIP SET FORTH THEREIN"***

7.7 Waiver of Rights — Notwithstanding any other provision of this Article 7, any Investor may waive its rights with respect to any particular offer or right given under, or provision contained in, Article 7 by notice in writing to the relevant parties.

7.8 Shareholder Transfer of Agreement Rights —The Transfer of Equity Securities and corresponding Special Voting Stock (if applicable) by a Shareholder pursuant to the provisions of Article 7 may include the transfer of such Shareholders' rights under this Agreement provided that the assignee first agrees in writing to be bound by this Agreement.

7.9 Investors' Assignment of Rights — Subject to compliance with the Exchange Agreement, each Investor shall be entitled to assign its right to be offered and take up Equity Securities and corresponding Special Voting Stock (if applicable) under Sections 6.2 and 7.3 and/or its rights to Transfer Equity Securities under Section 7.4, in whole or in part, to any Person described in Section 7.2(d).

7.10 Repayment of Indebtedness — Any Shareholder proposing to Transfer Equity Securities and corresponding Special Voting Stock (if applicable) pursuant to the terms of this Agreement who at the time of the Transfer is indebted to the applicable Company in an amount recorded in the books of account of the applicable Company and verified by the auditors of the applicable Company, shall repay such amount to the applicable Company immediately prior to the completion of the Transfer and, if such Shareholder fails to repay such amount, the Person acquiring the Equity Securities and corresponding Special Voting Stock (if applicable) shall be entitled to repay all or any portion of the indebtedness and the purchase price of the Equity Securities and corresponding Special Voting Stock (if applicable) shall be reduced accordingly.

7.11 Recognition of Transfers — A purported Transfer in violation of this Agreement will not be valid and no related voting rights may be exercised and no purported exercise of any voting rights will be valid and no dividend or distribution will be paid or made.

ARTICLE 8 — PUBLIC OFFERING PROVISIONS

8.1 Prior Rights Terminated — The Shareholders agree and acknowledge that they are not entitled to any registration rights (or other similar rights) pursuant to the terms of this Agreement (or any predecessor agreement hereto) and that all registration rights granted to the individual Shareholders by the Companies, if any, shall be granted pursuant to that Amended and Restated Qualification and Registration Rights Agreement made as of March 19, 2013 by and among certain parties to this Agreement (the "**Registration Rights Agreement**").

ARTICLE 9 — AMENDMENT AND TERMINATION

9.1 Amendments — This Agreement may only be amended by an instrument in writing duly executed by each of the Companies and Shareholders holding not less than 60% of the Common Shares that are subject to this Agreement on a Fully Converted Basis and any amendment so made shall be binding upon all of the parties to this Agreement; and provided that any amendment that uniquely and adversely affects the rights, restrictions and obligations of holders of a series or class of Shares (the **"Affected Class"**) or any individual or group of Shareholders shall require the approval of the holders of a majority of the Shares held by the holders included in the Affected Class or the approval of such individual or group of Shareholders, respectively. Notwithstanding the foregoing, an amendment which adversely affects rights, restrictions and obligations of any one particular Shareholder and not all Shareholders generally, will not be binding on the said Shareholder without such Shareholder's agreement to the amendment. For greater certainty, (a) Section 3.1(a)(ii) and this clause (a) of this Section 9.1 cannot be amended without VW's consent, (b) Section 3.1(a)(iii) and this clause (b) of this Section 9.1 cannot be amended without JJDC's consent, (c) Section 3.1(a)(iv) and this clause (c) of this Section 9.1 cannot be amended without PVI's consent and (d) Section 3.1(a)(v) and this clause (d) of this Section 9.1 cannot be amended without prior Investor Approval.

9.2 Termination Events — Except as provided in Section 9.3, this Agreement shall terminate:

(a) if the Shareholders holding not less than 60% of the Common Shares that are subject to this Agreement on a Fully Converted Basis agree in writing to terminate this Agreement;

(b) if each of the Companies is dissolved, liquidated or formally wound-up; or

(c) upon a Qualified IPO.

9.3 Surviving Obligations — The termination of this Agreement shall not affect the right of any party to whom money is owed hereunder at the time of termination to receive that money according to the provisions hereof or affect any other rights or obligations which arose hereunder in respect of matters occurring prior to or concurrent with such termination.

ARTICLE 10 — GENERAL PROVISIONS

10.1 No Partnership — Nothing in this Agreement or in the relationship of the parties hereto shall be construed as in any sense creating a partnership among or between the parties or as giving to any party any of the rights or subjecting any party to any of the creditors of the other party.

10.2 Time of the Essence — Time shall be of the essence of this Agreement.

10.3 Further Acts — Each of the parties to this Agreement shall at the request of any other party, and at the expense of the Companies, execute and deliver any further documents and do all acts and things as that party may reasonably require in order to carry out the true intent and meaning of this Agreement.

10.4 Parties of Interest — This Agreement and the rights of each party hereunder shall enure to the benefit of and be binding upon the parties hereto, their permitted assigns and their personal representatives, administrators, heirs and successors.

10.5 Resignations — If a Shareholder ceases to be a Shareholder, and is not owed any money by the Companies, it shall cause its nominees to resign from the Board of the Companies (except if the nominee also represents a continuing Shareholder).

10.6 Share Reorganizations — The provisions of this Agreement relating to Equity Securities shall also apply, with the necessary changes, to the following:

(a) any shares or securities into which such Equity Securities may be converted, changed, reclassified, redivided, redesignated, redeemed, subdivided or consolidated;

(b) any shares or securities that are received by the stockholders of the Companies as a stock dividend or distribution payable in Shares or securities of each of the Companies; and

(c) any shares or securities of a Company or of any successor or continuing corporation to such Company that may be received by the stockholders of the Companies on a reorganization, amalgamation, consolidation or merger or otherwise.

10.7 Governing Law — This Agreement is a contract made under and shall be governed by and construed in accordance with the laws of the Province of British Columbia and the laws of Canada applicable therein. Any action, suit or proceeding arising out of or relating to this Agreement shall be brought in the courts of the Province of British Columbia, and each of the Parties hereby irrevocably submits to the jurisdiction of such courts.

10.8 Entire Agreement — This Agreement as amended and restated as of March 19, 2013 constitutes the entire agreement between the parties to this Agreement with respect to the subject matter hereof and supersedes all prior negotiations, proposals and agreements, whether oral or written, with respect to the subject matter of this Agreement. The parties hereto hereby terminate all other shareholders' agreements between or among or between any of them which govern the voting, holding or sale of securities or the management of the affairs of the Companies including, without limitation, the Original Shareholders' Agreement. The parties represent that they are not aware of any outstanding breaches of such other agreements now being terminated.

10.9 Notices — All notices, demands and payments under this Agreement must be in writing and may be delivered personally or by facsimile transmission to the party for whom it is intended, addressed as follows:

(a) to the Companies, at Suite 430, 5600 Parkwood Way, Richmond, BC V6V 2M2;

(b) VW, Advantage, BBI, JJDC, PVI and Augment at the addresses set forth in Schedule A as applicable;

(c) to any of the Founders, care of the Companies at the address given above; and

(d) for any other Person who becomes a party hereto who is not currently an Investor, at the address listed on any document pursuant to which such Person becomes party hereto;

or such other addresses as may from time to time be notified in writing by the parties. All notices shall be deemed to have been given and received on the next Business Day following the date of transmission or delivery, as the case may be.

10.10 Waiver — Failure by any party hereto to insist in any one or more instances upon the strict performance of any one of the covenants contained herein shall not be construed as a waiver or relinquishment of such covenant. No waiver by any party hereto of any such covenant shall be deemed to have been made unless expressed in writing and signed by the waiving party.

10.11 Severability — The unlawfulness or invalidity or unenforceability of any provision in this Agreement or of any covenant herein contained on the part of any party shall not affect the validity or enforceability of any other provision or covenant hereof or herein contained and the parties hereby undertake to renegotiate in good faith, with a view to concluding arrangements as nearly as possible the same as those herein contained.

10.12 Assignment — Except as provided in Sections 7.8 and 7.9, no party shall be entitled to assign his rights under this Agreement to any Person without the prior written consent of the other parties; provided that such consent shall not be unreasonably withheld or delayed.

10.13 Independent Legal Advice — Each of the parties to this Agreement acknowledge and agree that McCarthy Tétrault LLP and Cooley LLP have acted as counsel only to the Companies, and that McCarthy Tétrault LLP and Cooley LLP are not protecting the rights and interests of any other party to this Agreement. The other parties to this Agreement acknowledge and agree that the Companies, McCarthy Tétrault LLP and Cooley LLP have given them the opportunity to seek, and have recommended that such parties obtain, independent legal advice with respect to the subject matter of this Agreement and the other transaction documents and, further, each of the other parties hereby represent and warrant to the Companies, McCarthy Tétrault LLP and Cooley LLP that such party has sought independent legal advice or waives such advice.

10.14 Counterparts

(a) This Agreement may be executed in several counterparts (including by fax), each of which when so executed shall be deemed to be an original and shall have the same force and effect as an original but such counterparts together shall constitute but one and the same instrument.

(b) The rights and obligations of the parties hereto are several, not joint and several.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF the parties have executed this Agreement as of the date first written above.

AQUINOX PHARMACEUTICALS INC.

Per: /s/ David Main
(Authorized Signatory)

AQUINOX PHARMACEUTICALS (USA) INC.

Per: /s/ David Main
(Authorized Signatory)

VENTURES WEST 8 LIMITED PARTNERSHIP, by its General Partner, Ventures West 8 Management Ltd.

Per: /s/ Illegible
(Authorized Signatory)

Per: /s/ Illegible
(Authorized Signatory)

B.C. ADVANTAGE FUNDS (VCC) LTD.

Per: /s/ Illegible
(Authorized Signatory)

14159, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to 14159, L.P., pursuant to authority granted to it by 14159 Capital, L.P., general partner to 14159, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

667, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to 667, L.P., pursuant to authority granted to it by Baker Biotech Capital, L.P., general partner to 667, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

BAKER BROS. INVESTMENTS II, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to Baker Bros. Investments II, L.P., pursuant to authority granted to it by Baker Bros. Capital, L.P., general partner to Baker Bros. Investments II, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

BAKER BROTHERS LIFE SCIENCES, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to Baker Brothers Life Sciences, L.P., pursuant to authority granted to it by Baker Brothers Life Sciences Capital L.P., general partner to Baker Brothers Life Sciences, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

JOHNSON & JOHNSON DEVELOPMENT CORPORATION

Per: /s/ Asish K. Xavier
Asish K. Xavier
Vice President, Venture Investments

PFIZER INC.

Per: /s/ Barbara Dalton
(Authorized Signatory)

AUGMENT INVESTMENTS LTD.

Per: /s/ Egor Rulkov
Egor Rulkov
Attorney in fact by Power of Attorney

SIGNED AND DELIVERED by Raymond J. Andersen in the presence of:

Signature

Print Name

Address

Occupation

RAYMOND J. ANDERSEN

SIGNED AND DELIVERED by Gerald Krystal in the presence of:

Signature

Print Name

Address

Occupation

GERALD KRYSTAL

SIGNED AND DELIVERED by Gerald Krystal and Jacqueline Lea Krystal as trustees of The Krystal Family Trust in the presence of:)

Signature)

Print Name)

Address)

Occupation)

GERALD KRYSTAL AND JACQUELINE LEA KRYSTAL AS TRUSTEES OF THE KRYSTAL FAMILY TRUST

SIGNED AND DELIVERED by Alice Low Fung Mui in the presence of:)

Signature)

Print Name)

Address)

Occupation)

ALICE LOW FUNG MUI

SIGNED AND DELIVERED by Christopher John Ong in the presence of:)

Signature)

Print Name)

Address)

Occupation)

CHRISTOPHER JOHN ONG

SIGNED AND DELIVERED by David Main in the presence of: ______________________ Signature ______________________ Print Name ______________________ Address ______________________ Occupation	)))))))))))))	______________________ **DAVID MAIN**
SIGNED AND DELIVERED by Christopher John Ong as trustee of the CJ Ong Family Trust in the presence of: ______________________ Signature ______________________ Print Name ______________________ Address ______________________ Occupation	))))))))))))))	______________________ **CHRISTOPHER JOHN ONG AS TRUSTEE OF THE CJ ONG FAMILY TRUST**

SCHEDULE A

LIST OF SHAREHOLDERS PARTY TO THIS AGREEMENT

Shareholder Name	Number & Class of Shares Held
Raymond J. Andersen	755,750 Common Exchangeable Shares 755,750 Canadian Special Voting Shares 755,750 shares of Common Special Voting Stock
Gerald Krystal	194,750 Common Exchangeable Shares 194,750 Canadian Special Voting Shares 194,750 shares of Common Special Voting Stock
Gerald Krystal and Jacqueline Lea Krystal as trustees of the Krystal Family Trust	562,500 Common Exchangeable Shares 562,500 Canadian Special Voting Shares 562,500 shares of Common Special Voting Stock
Alice Low Fung Mui	813,750 Common Exchangeable Shares 813,750 Canadian Special Voting Shares 813,750 shares of Common Special Voting Stock
Christopher John Ong	506,338 Common Exchangeable Shares 506,338 Canadian Special Voting Shares 506,338 shares of Common Special Voting Stock
Christopher John Ong as trustee of the CJ Ong Family Trust	300,688 Common Exchangeable Shares 300,688 Canadian Special Voting Shares 300,688 shares of Common Special Voting Stock
David Main	1,555,000 Common Exchangeable Shares 1,555,000 Canadian Special Voting Shares 1,555,000 shares of Common Special Voting Stock
Johnson & Johnson Development Corporation	4,909,090 shares of Series A-1 Preferred Stock 3,272,727 shares of Series A-2 Preferred Stock 5,642,590 shares of Series B-1 Preferred Stock 5,616,622 shares of Series B-2 Preferred Stock 7,287,227 shares of Series C Preferred Stock 26,728,256 Canadian Special Voting Shares

Shareholder Name	Number & Class of Shares Held
Baker Bros. Investments II, L.P.	5,454 shares of Series A-1 Preferred Stock 3,636 shares of Series A-2 Preferred Stock 6,269 shares of Series B-1 Preferred Stock 6,239 shares of Series B-2 Preferred Stock 7,273 shares of Series C Preferred Stock 28,871 Canadian Special Voting Shares
667, L.P.	730,909 shares of Series A-1 Preferred Stock 487,272 shares of Series A-2 Preferred Stock 840,119 shares of Series B-1 Preferred Stock 836,251 shares of Series B-2 Preferred Stock 974,544 shares of Series C Preferred Stock 3,869,095 Canadian Special Voting Shares
14159, L.P.	62,727 shares of Series A-1 Preferred Stock 41,818 shares of Series A-2 Preferred Stock 72,099 shares of Series B-1 Preferred Stock 71,767 shares of Series B-2 Preferred Stock 83,636 shares of Series C Preferred Stock 332,047 Canadian Special Voting Shares
Baker Brothers Life Sciences, L.P.	1,928,181 shares of Series A-1 Preferred Stock 1,285,454 shares of Series A-2 Preferred Stock 2,216,284 shares of Series B-1 Preferred Stock 2,206,086 shares of Series B-2 Preferred Stock 2,570,904 shares of Series C Preferred Stock 10,206,909 Canadian Special Voting Shares
Ventures West 8 Limited Partnership	70,000 Common Exchangeable Shares 5,454,545 Series A-1 Exchangeable Shares 3,636,363 Series A-2 Exchangeable Shares 6,269,545 Series B-1 Exchangeable Shares 6,240,691 Series B-2 Exchangeable Shares 7,272,701 Class C Exchangeable Shares 28,943,845 Canadian Special Voting Shares 5,454,545 shares of Series A-1 Special Voting Stock 3,636,363 shares of Series A-2 Special Voting Stock 6,269,545 shares of Series B-1 Special Voting Stock 6,240,691 shares of Series B-2 Special Voting Stock 7,272,701 shares of Series C Special Voting Stock 70,000 shares of Common Special Voting Stock

Shareholder Name	Number & Class of Shares Held
B.C. Advantage Funds (VCC) Ltd.	3,667,777 Series A-1 Exchangeable Shares 1,818,181 Series A-2 Exchangeable Shares 1,880,863 Series B-1 Exchangeable Shares 846,409 Series B-2 Exchangeable Shares 8,213,230 Canadian Special Voting Shares 3,667,777 shares of Series A-1 Special Voting Stock 1,818,181 shares of Series A-2 Special Voting Stock 1,880,863 shares of Series B-1 Special Voting Stock 846,409 shares of Series B-2 Special Voting Stock
Pfizer Inc.	6,420,879 shares of Series B-1 Preferred Stock 6,281,822 shares of Series B-2 Preferred Stock 5,440,023 shares of Series C Preferred Stock 18,142,724 Canadian Special Voting Shares
Augment Investments Ltd.	9,090,893 shares of Series C Preferred Stock 9,090,893 Canadian Special Voting Shares

Total Shares held by the Shareholders (as of the date hereof)

Total Common Exchangeable Shares	4,758,776
Total Series A-1 Exchangeable Shares	9,122,322
Total Series A-2 Exchangeable Shares	5,454,544
Total Series B-1 Exchangeable Shares	8,150,408
Total Series B-2 Exchangeable Shares	7,087,100
Total Class C Exchangeable Shares	7,272,701
Total Canadian Special Voting Shares	110,244,646
Total Series A-1 Preferred Stock	7,636,361
Total Series A-2 Preferred Stock	5,090,917
Total Series B-1 Preferred Stock	15,198,240
Total Series B-2 Preferred Stock	15,018,787
Total Series C Preferred Stock	25,454,500
Total Series A-1 Special Voting Stock	9,122,322
Total Series A-2 Special Voting Stock	5,454,544
Total Series B-1 Special Voting Stock	8,150,408
Total Series B-2 Special Voting Stock	7,087,100
Total Series C Special Voting Stock	7,272,701
Total Common Special Voting Stock	4,758,776

Shareholder Addresses

The addresses of those Shareholders not otherwise specified in the Agreement are set out in the table below:

Shareholder Name	Address
Johnson & Johnson Development Corporation	410 George Street, New Brunswick, NJ 08901
Baker Bros. Investments II, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
667, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
14159, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
Baker Brothers Life Sciences, L.P.	667 Madison Avenue 17th Floor, New York, NY 10021
Ventures West 8 Limited Partnership	Suite 2500, 1066 West Hastings Street, Vancouver BC V6E 3X1, Fax: 604-687-2145
B.C. Advantage Funds (VCC) Ltd.	Suite 1280, 885 W. Georgia St., Vancouver BC, V6C 3E8, Fax: (604) 688-6166
Pfizer Inc.	253 East 42nd Street, New York, NY 10017, Attn: Elaine V. Jones
Augment Investments Ltd.	15 Dimokritou, PANARETOS ELIANA COMPLEX, office/flat 104, 4041 Potamos Germasogeias, Limassol, Cyprus

SCHEDULE B

NON-DISCLOSURE AGREEMENT

THIS AGREEMENT is made on , 20¿

BETWEEN:

•, of _____

(the "**Corporation**")

AND:

_____

(the "**Signor**")

WHEREAS:

A. The Signor may come into possession of certain confidential information of the Corporation which is not otherwise known or available to the public; and

B. The Corporation has requested the Signor to provide the Corporation with the confidentiality and non-disclosure covenants set forth in this Agreement;

NOW THEREFORE this Agreement witnesses that in consideration of the Company disclosing Confidential Information (as defined below) to the Signor and of the premises, covenants and agreements contained in this Agreement, the parties agree as follows:

1. The Signor agrees that all knowledge and information not already in the public domain or known to the Signor independently of the Corporation which the Signor may acquire from the Corporation or through attendance at a Corporation Board or Shareholders' meeting or through a visit to the Corporation's premises respecting the business, work, inventions, designs, methods, improvements, trade secrets, know-how and all other confidential or proprietary matters of the Corporation (hereinafter referred to as the "**Confidential Information**") shall for all purposes be regarded by the Signor as strictly confidential.

2. The Signor agrees to use its best efforts to keep all Confidential Information in strict confidence and not to reveal, or induce or permit others to reveal, any of the Confidential Information to any person, firm, corporation, partnership, entity or other party, for any use whatsoever (except if the Signor is a representative of an investor in the Corporation (an "**Investor**"), those of the Signor's or the Investor's employees, directors, officers, advisors, counsel or agents with a definable need to know in connection with the Signor's observer rights and who are subject to confidentiality obligations in respect of such Confidential Information that are at least as restrictive as the terms hereof). The Signor further agrees that it shall only use the Confidential Information for the purposes for which it was disclosed to the Signor.

3. The Corporation may exclude the Signor from access to any Confidential Information or meeting or portion thereof if the Corporation believes upon advice of counsel to the Corporation that such exclusion is reasonably necessary to preserve attorney-client privilege.

4. Nothing contained in this Agreement shall prevent the Signor from using or disclosing any portion of the Confidential Information which:

   (a) was in-the possession of the Signor prior to its receipt thereof from the Corporation;

   (b) was or does come into the public domain other than as a result of a breach of this Agreement;

   (c) is required to be disclosed by law or by any governmental or regulatory authority having jurisdiction provided that prior to disclosing any Confidential Information pursuant to this paragraph (c) the Signor delivers notice of such requirement to the Corporation at the address set out above in a timely manner, so that the Corporation has the opportunity to contest the potential disclosure; or

   (d) is disclosed with the prior written permission of the Corporation.

5. Upon the Signor ceasing to have a relationship with the Corporation then the Signor shall, at the request of the Corporation, return or destroy all copies of Confidential Information in the possession of the Signor.

6. This Agreement shall be governed and construed in accordance with the laws in force in the Province of British Columbia. The courts of British Columbia shall have non-exclusive jurisdiction to hear any matters arising in connection with this Agreement.

IN WITNESS WHEREOF the parties have executed this Agreement as of the date set forth above.

(Signature of Corporation Representative)	**(Signature of Signor or Representative)**
Print Name:	**Print Name:**

SCHEDULE C

INDEMNITY AGREEMENTS

Exhibit 4.3

AMENDED & RESTATED EXCHANGE AGREEMENT

This Amended & Restated Exchange Agreement is made as of March 19, 2013

B E T W E E N:

AQUINOX PHARMACEUTICALS INC., a corporation existing under the laws of Canada (the "**Corporation**"),

– and –

AQUINOX PHARMACEUTICALS (USA) INC., a corporation existing under the laws of Delaware ("**U.S. Company**"),

– and –

THE HOLDERS OF SHARES in the capital of the Corporation or U.S. Company.

RECITALS:

A. In connection with a reorganization of the Corporation and a Series A financing of the Corporation and U.S. Company, the Corporation, U.S. Company and the holders of shares in the capital of the Companies entered into an exchange agreement dated June 8, 2007 (the "**Original Exchange Agreement**") in order to establish a procedure whereby the rights of holders of Common Exchangeable Shares, Series A-1 Exchangeable Shares and Series A-2 Exchangeable Shares to require U.S. Company (or a Permitted Subsidiary) to purchase such shares from the holders thereof may be exercised.

B. In connection with a Series B financing of the Corporation and U.S. Company pursuant to which the Corporation issued Series B-1 Exchangeable Shares and Series B-2 Exchangeable Shares of the Corporation, on March 31, 2010 the Corporation, U.S. Company and the holders of the Common Exchangeable Shares, the Series A-1 Exchangeable Shares and the Series A-2 Exchangeable Shares amended the Original Exchange Agreement in order to establish a procedure whereby the rights of holders of Series B-1 Exchangeable Shares and Series B-2 Exchangeable Shares to require U.S. Company (or a Permitted Subsidiary) to purchase such shares from the holders thereof may be exercised.

C. The Corporation and U.S. Company propose to complete a Series C financing pursuant to which the Corporation shall issue Class C Exchangeable Shares.

D. U.S. Company is to grant to and in favour of each holder from time to time of Class C Exchangeable Shares the right to require U.S. Company (or a Permitted Subsidiary) to purchase all or any part of the Class C Exchangeable Shares.

E. The Corporation and U.S. Company propose to amend and restate the Original Exchange Agreement as set forth herein in order to, among other things, establish a procedure whereby the rights of holders of Class C Exchangeable Shares to require U.S. Company (or a Permitted Subsidiary) to purchase such shares from the holders thereof may be exercised.

F. The proposed amendment and restatement of the Original Exchange Agreement, as amended on March 31, 2010, set forth herein has been approved by the holders of the Common Exchangeable Shares, Series A-1 Exchangeable Shares, Series A-2 Exchangeable Shares, Series B-1 Exchangeable Shares and Series B-2 Exchangeable Shares as required by Section 3.1 of the Original Exchange Agreement. The undersigned shareholders hold in the aggregate at least two-thirds of the Exchangeable Shares.

NOW THEREFORE in consideration of the covenants and agreements provided in this Agreement and for other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), the parties agree as follows:

ARTICLE 1
DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement, the following terms shall have the following meanings:

"**Affiliate**" of any Person means any other Person directly or indirectly controlling, controlled by, or under common control with, that Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as applied to any Person, means the possession by another Person, directly or indirectly, of the power to direct or cause the direction of the management and policies of that first mentioned Person, whether through the ownership of voting securities, by contract or otherwise, but for greater certainty a director or officer shall not be considered to be an Affiliate of a Person merely by acting in such capacity.

"**Agreement**" means this Amended & Restated Exchange Agreement, as amended, supplemented or restated.

"**Automatic Exchange Rights**" means the benefit of the obligation of U.S. Company or a Permitted Subsidiary to effect the automatic exchange of Exchangeable Shares for shares of U.S. Company Shares pursuant to Section 2.11 or Section 2.12.

"**Board**" means the board of directors of either of the Companies, as the case may be, and "**Boards**" shall mean the boards of directors of both Companies.

"**Business**" has the meaning ascribed thereto in the Shareholders' Agreement.

"**Business Day**" means any day except a Saturday or Sunday, on which the Royal Bank of Canada in Vancouver, British Columbia and the Bank of America in Seattle, Washington are both open for commercial banking business during normal banking hours.

"**Canadian Special Voting Shares**" means the special voting shares in the capital of the Corporation.

"**Change of Control**" means:

(a) any acquisition of U.S. Company by means of merger, share exchange or other form of corporate reorganization in which the stockholders of U.S. Company immediately prior to such event do not hold a majority of the outstanding shares or interest of (1) the surviving corporation or entity or (2) if the surviving or resulting corporation is a wholly owned Subsidiary of another corporation immediately following such merger or consolidation, the parent corporation of such surviving or resulting corporation, and in which outstanding shares of U.S. Company are exchanged for securities or other consideration issued (or caused to be issued) by the acquiring corporation or its subsidiary (other than a mere reincorporation transaction) or entity, or any transaction or series of related transactions to which U.S. Company is a party in which in excess of fifty percent (50%) of voting power in U.S. Company is transferred;

(b) any sale or other disposition (or series of related sales or dispositions) of the outstanding stock of U.S. Company, in any transaction or series of transactions not contemplated by the preceding subparagraph (i), in which the stockholders immediately prior to such event do not hold a majority of the outstanding stock of U.S. Company immediately after such event;

(c) any sale, license, lease or disposition of all or substantially all of the assets of U.S. Company;

(d) any discontinuance of the business activities of U.S. Company, and its affiliates, of a substantial and material extent and duration, provided that the determination of such discontinuance has been confirmed by the affirmative vote or written consent of the holders of the Exchangeable Preferred Shares by Preferred Shareholder Approval (the date of such Preferred Shareholder Approval shall be deemed the effective date of such discontinuance for purposes of this Agreement); or

(e) any similar transaction as described in clauses (a) through (d) above as to the Corporation.

"**Class A Preferred Stock"** means the Series A-1 Preferred Stock and Series A-2 Preferred Stock.

"**Class A Special Voting Stock**" means the Series A-1 Special Voting Stock and the Series A-2 Special Voting Stock.

"**Class A Voting Stock**" means the Class A Preferred Stock and the Class A Special Voting Stock.

"**Class B Preferred Stock"** means the Series B-1 Preferred Stock and Series B-2 Preferred Stock.

"**Class B Special Voting Stock**" means the Series B-1 Special Voting Stock and the Series B-2 Special Voting Stock.

"**Class B Voting Stock**" means the Class B Preferred Stock and the Class B Special Voting Stock.

"**Class C Exchangeable Shares**" means the Class C exchangeable preferred shares in the capital of the Corporation.

"**Class C Subscription Agreement**" means the stock subscription agreement dated March 19, 2013 between the Corporation, U.S. Company and certain purchasers of shares of Series C Preferred Stock of U.S. Company and certain purchasers of Class C Exchangeable Shares of the Corporation.

"**Closing Documents**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Common Exchangeable Shares**" means the common exchangeable shares in the capital of the Corporation, exchangeable for U.S. Company Common Stock.

"**Companies**" means, collectively, the Corporation and U.S. Company and "Company" shall mean either of them.

"**Constating Documents**" means the articles or certificate of incorporation, continuance or amalgamation pursuant to which a corporation was incorporated, continued or amalgamated, as the case may be, together with any amendments thereto or replacements thereof, and the by-laws (if any) of such corporation.

"**Corporation Automatic Liquidation Event**" has the meaning ascribed thereto in Section 2.12(a).

"**Corporation Automatic Liquidation Event Record Date**" has the meaning ascribed thereto in Section 2.12(b).

"**Corresponding U.S. Company Shares**" means, with respect to a class or series of Exchangeable Shares, the class or series of U.S. Company Shares set out opposite such class or series of Exchangeable Shares in the list immediately below:

Class or Series of U.S. Company Shares	Class or Series of Exchangeable Shares
Common Shares	Common Exchangeable Shares
Series A-1 Preferred Stock	Series A-1 Exchangeable Shares
Series A-2 Preferred Stock	Series A-2 Exchangeable Shares
Series B-1 Preferred Stock	Series B-1 Exchangeable Shares
Series B-2 Preferred Stock	Series B-2 Exchangeable Shares
Series C Preferred Stock	Class C Exchangeable Shares

and "**Corresponding Exchangeable Shares**", "**Corresponds**" and "**Corresponding**" shall have correlative meanings.

"**Exchange Amount**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Exchange Right**" has the meaning ascribed thereto in Section 2.1.

"**Exchange Right Consideration**" has the meaning ascribed thereto in Section 2.4.

"**Exchangeable Preferred Shares**" means the Series A-1 Exchangeable Shares, Series A-2 Exchangeable Shares, Series B-1 Exchangeable Shares, Series B-2 Exchangeable Shares and Class C Exchangeable Shares.

"**Exchangeable Share Provisions**" means the special rights and restrictions attaching to the Exchangeable Shares as set forth in the articles of incorporation of the Corporation.

"**Exchangeable Shares**" means the Common Exchangeable Shares, Series A-1 Exchangeable Shares, Series A-2 Exchangeable Shares, Series B-1 Exchangeable Shares, Series B-2 Exchangeable Shares and Class C Exchangeable Shares.

"Fully Converted Basis" at any time means that all Shares then outstanding which are convertible or exchangeable (directly or indirectly) (including pursuant to this Agreement) into U.S. Company Common Stock at that time shall be deemed to have been fully converted and exchanged into U.S. Company Common Stock, in accordance with the rights, privileges, restrictions and conditions attached thereto, and U.S. Company Common Stock issuable as a result thereof shall be deemed to have been issued and to form part of the holdings of the Person(s) entitled to receive such U.S. Company Common Stock and assuming the redemption of all U.S. Company Special Voting Stock and Canadian Special Voting Shares in accordance with the rights, privileges, restrictions and conditions attached thereto. For clarity, such basis does not include options or warrants that are exercisable or exchangeable (directly or indirectly) (including pursuant to this Agreement) into U.S. Company Common Stock.

"**Holders**" means the registered holders from time to time of Exchangeable Shares or U.S. Company Shares other than U.S. Company and its Affiliates, including those holders who execute a counterpart to this Agreement in the form attached as Schedule A.

"**Incentive Compensation Plans/ESOPs**" has the meaning ascribed thereto in the Shareholders' Agreement.

"**Investor Approval**" has the meaning ascribed thereto in the Shareholders' Agreement.

"**Liquidation Event**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Liquidation Call Right**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Majority Approval**" has the meaning ascribed thereto in Section 3.6(a).

"**Outstanding Dividend Amount**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Permitted Subsidiary**" means a Subsidiary of U.S. Company designated by U.S. Company to assume the obligations of U.S. Company pursuant to the Exchange Right or the Automatic Exchange Rights.

"**Person**" means any individual, corporation, firm, partnership (including a limited partnership), sole proprietorship, syndicate, joint venture, trustee, trust, any unincorporated organization or association, any government or instrumentality thereof and any tribunal; and pronouns have a similar extended meaning.

"**Preferred Shareholder Approval**", in respect of a matter, means that shareholders holding at least 60% of the votes attaching to the Preferred Voting Stock then outstanding (voting together as a single class and not as separate series of stock) have approved of the matter by instrument in writing which describes the matter approved.

"**Preferred Voting Stock**" means the Class A Voting Stock, Class B Voting Stock and Series C Voting Stock.

"**Redemption Call Right**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Retracted Shares**" has the meaning ascribed thereto in Section 2.7.

"**Retraction Call Right**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Retraction Request**" has the meaning ascribed thereto in the Exchangeable Share Provisions.

"**Series A Subscription Agreement**" means the stock subscription agreement dated June 8, 2007 between the Corporation, U.S. Company and certain purchasers of shares of Series A-1 Preferred Stock and Series A-2 Preferred Stock of U.S. Company and certain purchasers of Series A-1 Exchangeable Shares and Series A-2 Exchangeable Shares of the Corporation.

"**Series A-1 Preferred Stock**" means the Series A-1 Preferred Stock in the capital of U.S. Company.

"**Series A-1 Special Voting Stock**" means the Series A-1 Special Voting Stock in the capital of U.S. Company.

"**Series A-2 Preferred Stock**" means the Series A-2 Preferred Stock in the capital of U.S. Company.

"**Series A-2 Special Voting Stock**" means the Series A-2 Special Voting Stock in the capital of U.S. Company.

"**Series B Exchangeable Shares**" means the Series B-1 Exchangeable Shares and Series B-2 Exchangeable Shares in the capital of the Corporation.

"**Series B Subscription Agreements**" means the stock subscription agreements dated March 31, 2010 and June 14, 2010 between the Corporation, U.S. Company and certain purchasers of shares of Series B-1 Preferred Stock and Series B-2 Preferred Stock of U.S. Company and certain purchasers of Series B-1 Exchangeable Shares and Series B-2 Exchangeable Shares of the Corporation.

"**Series B-1 Preferred Stock**" means the Series B-1 Preferred Stock in the capital of U.S. Company.

"**Series B-1 Special Voting Stock**" means the Series B-1 Special Voting Stock in the capital of U.S. Company.

"**Series B-2 Preferred Stock**" means the Series B-2 Preferred Stock in the capital of U.S. Company.

"**Series B-2 Special Voting Stock**" means the Series B-2 Special Voting Stock in the capital of U.S. Company.

"**Series C Preferred Stock"** means the Series C Preferred Stock in the capital of U.S. Company.

"**Series C Special Voting Stock**" means the Series C Special Voting Stock in the capital of U.S. Company.

"**Series C Voting Stock**" means the Series C Preferred Stock and the Series C Special Voting Stock.

"**Shareholders' Agreement**" means the Amended & Restated Shareholders' Agreement dated the date hereof between the Corporation, U.S. Company and certain shareholders of the Companies, as such agreement may be amended, supplemented or restated from time to time.

"**Shares**" means any shares in the capital of the Corporation or U.S. Company.

"**Stock Option Plans**" means the stock option plans established and approved by either or both of the Boards.

"**Stock Sale**" has the meaning ascribed thereto in Section 3.6(c).

"**Subscription Agreements**" means the Series A Subscription Agreement, the Series B Subscription Agreements and the Class C Subscription Agreement.

"**Subsidiary**" has the meaning set forth in the *Canada Business Corporations Act* and includes all indirect subsidiaries.

"**Support Agreement**" means the Amended & Restated Support Agreement dated the date hereof between the Corporation and U.S. Company, as such agreement may be amended, supplemented or restated from time to time.

"**Transfer**" includes any sale, exchange, assignment, gift, bequest, disposition, mortgage, charge, pledge, encumbrance, grant of a security interest or other arrangement by which possession, legal title or beneficial ownership passes from one Person to another, or to the same Person in a different capacity, whether or not voluntarily and whether or not for value, and any agreement to effect any of the foregoing; and the words "**Transferred**", "**Transferring**" and similar words have corresponding meanings; provided, however, that "Transfer", "Transferred" and "Transferring" and similar words shall not include the exchange or redemption of any Exchangeable Shares or U.S. Company Special Voting Stock under the terms of this Agreement or the constating documents of the Corporation or U.S. Company.

"**U.S. Company Common Special Voting Stock**" means the common special voting stock in the capital of U.S. Company, having a par value of U.S. $0.000001 per share.

"U.S. Company Common Stock" means the shares of common stock in the capital of U.S. Company, having a par value of U.S. $0.000001 per share.

"U.S. Company Liquidation Event" has the meaning ascribed thereto in Section 2.11(a).

"U.S. Company Liquidation Event Record Date" has the meaning ascribed thereto in Section 2.11(b).

"U.S. Company Preferred Stock" means the U.S. Company Shares other than the U.S. Company Common Stock.

"U.S. Company Shares" means shares of the U.S. Company Common Stock and shares of the Series A-1 Preferred Stock, Series A-2 Preferred Stock, Series B-1 Preferred Stock, Series B-2 Preferred Stock and Series C Preferred Stock of U.S. Company and any securities into which such shares may be changed.

"U.S. Company Special Voting Stock" means shares of the U.S. Company Common Special Voting Stock and shares of the Series A-1 Special Voting Stock, Series A-2 Special Voting Stock, Series B-1 Special Voting Stock, Series B-2 Special Voting Stock and Series C Special Voting Stock of U.S. Company and any securities into which such shares may be changed.

1.2 Interpretation Not Affected by Headings, etc.

The division of this Agreement into Articles, sections and other portions and the insertion of headings are for convenience of reference only and do not affect the construction or interpretation of this Agreement. Unless otherwise indicated, all references to an "Article" or "Section" followed by a number and/or a letter refer to the specified Article or Section of this Agreement. The terms "this Agreement", "hereof", "herein" and "hereunder" and similar expressions refer to this Agreement and not to any particular Article, Section or other portion hereof and include any agreement or instrument supplementary or ancillary hereto.

1.3 Number, Gender, etc.

Words importing the singular number only shall include the plural and *vice versa*. Words importing any gender shall include all genders.

1.4 Date for any Action

If any date on which any action is required to be taken under this Agreement is not a Business Day, such action shall be required to be taken on the next succeeding Business Day.

ARTICLE 2
EXCHANGE RIGHT AND AUTOMATIC EXCHANGE

2.1 Grant and Ownership of the Exchange Right

U.S. Company hereby grants to the Holders (a) the right (the "**Exchange Right**") to require U.S. Company or, at the option of U.S. Company, a Permitted Subsidiary, upon the occurrence and during the continuance of any (i) Liquidation Event or (ii) failure of the Corporation by reason other than a Liquidation Event to purchase the Retracted Shares pursuant to a duly completed and delivered Retraction Request, to purchase from each or any Holder, at any time and from time to time, all or any part of the Exchangeable Shares held by such Holders and (b) the Automatic Exchange Rights, all in accordance with the provisions of this Agreement. U.S. Company hereby acknowledges receipt from the Holders of good and valuable consideration (and the adequacy thereof) for the grant of the Exchange Right and the Automatic Exchange Rights by U.S. Company to the Holders.

2.2 Share Certificates

The Corporation will cause each certificate representing Exchangeable Shares to bear an appropriate legend notifying the Holders of (a) their right to exercise the Exchange Right in respect of the Exchangeable Shares and (b) the Automatic Exchange Rights.

2.3 General Exercise of Exchange Right

The Exchange Right shall be and remain vested in and may be exercised by each Holder in respect of the Exchangeable Shares held by such Holder.

2.4 Purchase Price

The purchase price payable by U.S. Company or a Permitted Subsidiary for each Exchangeable Share to be exchanged by U.S. Company or a Permitted Subsidiary under the Exchange Right shall be an amount per share equal to the Exchange Amount, which amount shall be paid and satisfied by U.S. Company or a Permitted Subsidiary delivering to each Holder one Corresponding U.S. Company Share for each Exchangeable Share held plus an amount per Exchangeable Share equal to the Outstanding Dividend Amount on such Exchangeable Share on the date of such exchange (the "**Exchange Right Consideration**").

2.5 Exercise Instructions

Subject to the terms and conditions herein set forth, a Holder shall be entitled, upon the occurrence and during the continuance of any event as provided by paragraphs 2.1(a)(i) or (ii), to exercise the Exchange Right with respect to all or any part of the Exchangeable Shares registered in the name of such Holder on the books of the Corporation. To exercise the Exchange Right, the Holder shall deliver to the Corporation, in person or by certified or registered mail the certificates representing the Exchangeable Shares which such Holder desires U.S. Company or a Permitted Subsidiary to purchase, duly endorsed in blank, and accompanied by such other documents and instruments as may be required to effect a transfer of Exchangeable Shares under the *Canada Business Corporations Act* and the by-laws of the Corporation and such additional documents and instruments as the Corporation may reasonably require together with:

(a) a written notice of exercise of the Exchange Right attached to the Exchangeable Share certificates, stating (i) that the Holder thereby exercises the Exchange Right so as to require U.S. Company or, at the option of U.S. Company, a Permitted Subsidiary to exchange the number of Exchangeable Shares specified therein, (ii) that such Holder has good title to and owns all such Exchangeable Shares to be acquired by U.S. Company or a Permitted Subsidiary free and clear of all liens, claims and encumbrances (other than resale restrictions arising under applicable securities laws), (iii) that such Holder is not a non-resident of Canada for the purposes of the *Income Tax Act* (Canada), (iv) the names in which the certificates representing U.S. Company Shares issuable in connection with the exercise of the Exchange Right are to be issued and (v) the names and addresses of the person to whom such new certificates should be delivered; and

(b) payment (or evidence satisfactory to U.S. Company or the Permitted Subsidiary, as the case may be, and the Corporation of payment) of the taxes (if any) payable as contemplated by Section 2.8 of this Agreement.

Delivery of such written notice of exercise together with the other required documents and instruments described above shall constitute the exercise of the Exchange Right on the Holders' part. If only a part of the Exchangeable Shares represented by any certificate or certificates are to be exchanged by U.S. Company or a Permitted Subsidiary under the Exchange Right, a new certificate for the balance of such Exchangeable Shares shall be issued to the Holder.

2.6 Delivery of Exchange Right Consideration; Effect of Exercise

Promptly after receipt by the Corporation of the certificate representing the Exchangeable Shares which the Holder desires U.S. Company or a Permitted Subsidiary to purchase under the Exchange Right (together with such documents and instruments of transfer and a written notice of exercise of the Exchange Right (and payment of taxes, if any, or evidence thereof)), duly endorsed for transfer to U.S. Company or a Permitted Subsidiary, the Corporation shall notify U.S. Company of its receipt of same and U.S. Company shall as soon as reasonably practical thereafter:

(a) notify the Corporation as to whether U.S. Company or a Permitted Subsidiary will discharge the obligations of U.S. Company pursuant to the Exchange Right; and

(a) deliver or cause to be delivered to the Holder (or to such other persons, if any, properly designated by the Holder) (i) the number of Corresponding U.S. Company Shares issuable in connection with the exercise of the Exchange Right, which shares shall, when issued and delivered against the surrender of the applicable Closing Documents, be duly issued, fully paid and non-assessable and shall be free and clear of any lien, claim or encumbrance, and (ii) cheques for the balance, if any, of the total Exchange Right Consideration therefor without interest less any tax required to be deducted or withheld from the total Exchange Right Consideration by U.S. Company or the Permitted Subsidiary, provided, however, that no such delivery shall be made unless and until the Holder requesting the same shall have paid (or provided evidence satisfactory to U.S. Company or the Permitted Subsidiary, as the case may be, and the Corporation of the payment of) the taxes, if any, payable as contemplated by Section 2.8 of this Agreement.

Immediately upon the giving of notice by the Corporation to U.S. Company of the exercise of the Exchange Right, as provided in this Section 2.6, the exchange shall be deemed to have occurred, and the holder of such Exchangeable Shares shall be deemed to have transferred to U.S. Company or the Permitted Subsidiary all of its right, title and interest in and to such Exchangeable Shares and shall cease to be a holder of such Exchangeable Shares and shall not be entitled to exercise any of the rights of a Holder in respect thereof, other than the right to receive the Exchange Right Consideration therefor, unless the requisite number of Corresponding U.S. Company Shares (together with a cheque for the balance, if any, of the total Exchange Right Consideration therefor without interest less any tax required to be deducted or withheld from the total Exchange Right Consideration by U.S. Company or the Permitted Subsidiary) is not allotted, issued and delivered by U.S. Company or the Permitted Subsidiary to such Holder (or to such other persons, if any, properly

designated by such Holder), within five (5) Business Days of the date of the exercise of the Exchange Right, in which case the rights of the Holder as a holder of Exchangeable Shares shall remain unaffected until such Corresponding U.S. Company Shares are so allotted, issued and delivered by U.S. Company or the Permitted Subsidiary and any such cheque is so delivered and paid. Concurrently with such Holder ceasing to be a holder of Exchangeable Shares, the Holder shall be considered and deemed for all purposes to be the holder of the Corresponding U.S. Company Shares delivered to it pursuant to the Exchange Right.

2.7 Exercise of Exchange Right Subsequent to Retraction

If a Holder has exercised its rights under Article 6 of the Exchangeable Share Provisions to require the Corporation to redeem any or all of the Exchangeable Shares held by the Holder (the "**Retracted Shares**") and is notified by the Corporation pursuant to Section 6.6 of the Exchangeable Share Provisions that the Corporation will not be permitted, as a result of the solvency requirement, other provisions of applicable law or other restrictions specified in Section 6.6 of the Exchangeable Share Provisions, to redeem all such Retracted Shares, then, provided that neither U.S. Company nor a Permitted Subsidiary shall have exercised the Retraction Call Right with respect to the Retracted Shares and further provided that the Holder has not revoked the retraction request delivered by the Holder to the Corporation pursuant to Section 6.8 of the Exchangeable Share Provisions, the Retraction Request will constitute and will be deemed to constitute notice from the Holder of the exercise of the Exchange Right with respect to those Retracted Shares which the Corporation is unable to redeem. In any such event, the Corporation hereby agrees to immediately notify the Holder of such prohibition against the Corporation redeeming all of the Retracted Shares.

Without in any way limiting the Exchange Right or Automatic Exchange Rights and notwithstanding Section 6.6(b) of the Exchangeable Share Provisions, the Corporation agrees to redeem in accordance with the Exchangeable Share Provisions the Retracted Shares specified in a Retraction Request given at any time by a Holder, provided that neither U.S. Company nor a Permitted Subsidiary shall have exercised the Retraction Call Right with respect to such Retracted Shares, the redemption of the Retracted Shares would not be contrary to solvency requirements or any other provision of applicable law (other than Section 6.6(b) of the Exchangeable Share Provisions) and that the Holder is not an "eligible investor", as defined in the *Small Business Venture Capital Act* (British Columbia), as amended or substituted from time to time, that has invested in the Corporation in connection with an approval granted under Part II of such Act.

2.8 Stamp or Other Transfer Taxes

Upon any exchange of Exchangeable Shares pursuant to the Exchange Right or the Automatic Exchange Rights, the share certificate or certificates representing Corresponding U.S. Company Shares to be delivered in connection with the payment of the total consideration therefor shall be issued in the name of the holder of the Exchangeable Shares so exchanged or in such names as such Holder may otherwise direct in writing without charge to the holder of the Exchangeable Shares so sold, provided, however, that such Holder (a) shall pay (and none of U.S. Company, any Permitted Subsidiary or the Corporation shall be required to pay) any documentary, stamp, transfer or other similar taxes that may be payable in respect of any transfer involved in the issuance or delivery of such shares to a person other than such Holder or (b) shall have established to the satisfaction of U.S. Company or the Permitted Subsidiary, as the case may be, and the Corporation that such taxes, if any, have been paid.

2.9 Reservation of U.S. Company Shares

U.S. Company hereby represents, warrants and covenants that it has reserved for issuance and will at all times keep available, free from pre-emptive and other rights, out of its authorized and unissued capital stock, such number of U.S. Company Shares as are now and may hereafter be required to enable and permit U.S. Company, any Permitted Subsidiary and the Corporation to meet their obligations hereunder, under the Support Agreement and under the Exchangeable Share Provisions (including, without limitation, U.S. Company's obligation to issue U.S. Company Common Stock on the conversion of the U.S. Company Preferred Stock issuable on the redemption, retraction or exchange of the Exchangeable Shares).

2.10 Notice of Liquidation Event

As soon as practicable following the occurrence of any event that, with the giving of notice or the passage of time or both, would be a Liquidation Event, the Corporation shall give written notice thereof to U.S. Company. As soon as practicable following the receipt of notice from the Corporation of the occurrence of a Liquidation Event, or upon U.S. Company becoming aware of a Liquidation Event, U.S. Company shall provide written notice to each Holder of such Liquidation Event, which written notice shall contain a brief statement of the rights of the Holders with respect to the Exchange Right.

2.11 Automatic Exchange on Liquidation of U.S. Company

(a) Each of the following events shall give rise to the automatic exchange of the Exchangeable Shares as provided in this Section 2.11 (each, a "**U.S. Company Liquidation Event**"):

(i) any determination by the board of directors of U.S. Company to institute voluntary liquidation, dissolution or winding-up proceedings with respect to U.S. Company or to effect any other distribution of assets of U.S. Company among its stockholders for the purpose of winding up its affairs; and

(ii) upon the earlier of U.S. Company receiving notice, or otherwise becoming aware, of any instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding up of U.S. Company or to effect any other distribution of assets of U.S. Company among its stockholders for the purpose of winding up its affairs.

(b) U.S. Company will give the Holders written notice of a U.S. Company Liquidation Event described in Section 2.11(a) or any threatened U.S. Company Liquidation Event of which U.S. Company is aware at least twenty (20) days prior to the record date or other relevant date for determining the eligibility of holders of U.S. Company Shares to participate as shareholders in respect of such U.S. Company Liquidation Event (the "**U.S. Company Liquidation Event Record Date**"). Such notice shall include a brief description of the automatic exchange of Exchangeable Shares for U.S. Company Shares provided for in Section 2.11(c).

(c) In order that the holders of Exchangeable Shares will be able to participate on a pro rata basis with the holders of Corresponding U.S. Company Shares in the distribution of assets of U.S. Company in connection with a U.S. Company Liquidation Event, on the fifth Business Day prior to the U.S. Company Liquidation Event Record Date, all of the then outstanding Exchangeable Shares shall be automatically exchanged for U.S. Company Shares. To effect such automatic exchange, U.S. Company or a Permitted Subsidiary and the Holder shall exchange each Exchangeable Share outstanding on the fifth Business Day prior to the U.S. Company Liquidation Event Record Date and held by such Holder for consideration per share equal to the Exchange Amount, by delivering to such Holder one Corresponding U.S. Company Share for each Exchangeable Share held plus an amount per Exchangeable Share equal to the Outstanding Dividend Amount on such Exchangeable Share.

(d) On the fifth Business Day prior to the U.S. Company Liquidation Event Record Date, the closing of the automatic exchange of Exchangeable Shares for Corresponding U.S. Company Shares shall be deemed to have occurred, and each holder of Exchangeable Shares shall be deemed to have transferred to U.S. Company or a Permitted Subsidiary all of the Holder's right, title and interest in and to such Exchangeable Shares and shall cease to be a holder of such Exchangeable Shares and U.S. Company or the Permitted Subsidiary shall deliver to the Holder the Corresponding U.S. Company Shares deliverable upon the automatic exchange of Exchangeable Shares for U.S. Company Shares and shall deliver to the Holder a cheque for the balance, if any, of the total Outstanding Dividend Amount for such Exchangeable Shares without interest. Concurrently with such Holder ceasing to be a holder of Exchangeable Shares, the Holder shall be considered and deemed for all purposes to be the holder of the U.S. Company Shares delivered to it pursuant to the automatic exchange of Exchangeable Shares for U.S. Company Shares and the certificates held by the Holder previously representing the Exchangeable Shares exchanged by the Holder with U.S. Company or a Permitted Subsidiary pursuant to such automatic exchange shall thereafter be deemed to represent the U.S. Company Shares delivered to the Holder by U.S. Company or the Permitted Subsidiary pursuant to such automatic exchange. Upon the request of a Holder and the surrender by the Holder of Exchangeable Share certificates deemed to represent U.S. Company Shares, duly endorsed in blank and accompanied by such instruments of transfer as U.S. Company or the Permitted Subsidiary may reasonably require, U.S. Company or the Permitted Subsidiary shall deliver or cause to be delivered to the Holder certificates representing the U.S. Company Shares representing the Exchange Right Consideration in respect of such Exchangeable Shares.

2.12 Automatic Exchange on Liquidation of the Corporation

(a) Each of the following events shall give rise to the automatic exchange of the Exchangeable Shares as provided in this Section 2.12 (each, a "**Corporation Automatic Liquidation Event**"):

(i) any determination by the board of directors of the Corporation to institute voluntary liquidation, dissolution or winding-up proceedings with respect to the Corporation or to effect any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs; and

(ii) upon the earlier of the Corporation receiving notice, or otherwise becoming aware, of any instituted claim, suit, petition or other proceedings with respect to the involuntary liquidation, dissolution or winding up of the Corporation or to effect any other distribution of assets of the Corporation among its shareholders for the purpose of winding up its affairs.

(b) The Corporation will give the Holders written notice of a Corporation Automatic Liquidation Event described in Section 2.12(a) or any threatened Corporation Automatic Liquidation Event of which the Corporation is aware at least twenty (20) days prior to the record date or other relevant date for determining the eligibility of holders of Exchangeable Shares to participate as shareholders in respect of such Corporation Automatic Liquidation Event (the "**Corporation Automatic Liquidation Event Record Date**"). Such notice shall include a brief description of the automatic exchange of Exchangeable Shares for U.S. Company Shares provided for in Section 2.12(c).

(c) On the fifth Business Day prior to the Corporation Automatic Liquidation Event Record Date, all of the then outstanding Exchangeable Shares shall be automatically exchanged for U.S. Company Shares. To effect such automatic exchange, U.S. Company or a Permitted Subsidiary and the Holder shall exchange each Exchangeable Share outstanding on the fifth Business Day prior to the Corporation Automatic Liquidation Event Record Date and held by such Holder for consideration per share equal to the Exchange Amount, by delivering to such Holder one Corresponding U.S. Company Share for each Exchangeable Share held plus an amount per Exchangeable Share equal to the Outstanding Dividend Amount on such Exchangeable Share.

(d) On the fifth Business Day prior to the Corporation Automatic Liquidation Event Record Date, the closing of the automatic exchange of Exchangeable Shares for Corresponding U.S. Company Shares shall be deemed to have occurred, and each holder of Exchangeable Shares shall be deemed to have transferred to U.S. Company or a Permitted Subsidiary all of the Holder's right, title and interest in and to such Exchangeable Shares and shall cease to be a holder of such Exchangeable Shares and U.S. Company or the Permitted Subsidiary shall deliver to the Holder the Corresponding U.S. Company Shares deliverable upon the automatic exchange of Exchangeable Shares for U.S. Company Shares and shall deliver to the Holder a

cheque for the balance, if any, of the total Outstanding Dividend Amount for such Exchangeable Shares without interest. Concurrently with such Holder ceasing to be a holder of Exchangeable Shares, the Holder shall be considered and deemed for all purposes to be the holder of the U.S. Company Shares delivered to it pursuant to the automatic exchange of Exchangeable Shares for U.S. Company Shares and the certificates held by the Holder previously representing the Exchangeable Shares exchanged by the Holder with U.S. Company or a Permitted Subsidiary pursuant to such automatic exchange shall thereafter be deemed to represent the U.S. Company Shares delivered to the Holder by U.S. Company or the Permitted Subsidiary pursuant to such automatic exchange. Upon the request of a Holder and the surrender by the Holder of Exchangeable Share certificates deemed to represent U.S. Company Shares, duly endorsed in blank and accompanied by such instruments of transfer as U.S. Company or the Permitted Subsidiary may reasonably require, U.S. Company or the Permitted Subsidiary shall deliver or cause to be delivered to the Holder certificates representing the U.S. Company Shares representing the Exchange Right Consideration in respect of such Exchangeable Shares.

2.13 Withholding Rights

The Corporation, U.S. Company and any Permitted Subsidiary shall be entitled to deduct and withhold from any dividend or consideration otherwise payable to a holder of Exchangeable Shares (whether pursuant to this Agreement, the Exchangeable Share Provisions or otherwise) such amounts as the Corporation, U.S. Company or the Permitted Subsidiary is required to deduct and withhold with respect to such payment under the *Income Tax Act* (Canada), the United States Internal Revenue Code of 1986 or any provincial, state, local or foreign tax law, in each case, as amended. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the Holder of the Exchangeable Shares in respect of which such deduction and withholding was made, provided that such withheld amounts are actually remitted to the appropriate taxing authority.

ARTICLE 3
AMENDMENTS AND TRANSFERS

3.1 Amendments, Modifications, etc.

This Agreement may not be amended or modified except by an agreement in writing executed by U.S. Company and the Corporation and, unless such amendment is contemplated in Sections 11.2(a), (b) or (c) of the Exchangeable Share Provisions, approved by the holders of Exchangeable Shares in accordance with Section 10.2 of the Exchangeable Share Provisions.

3.2 Changes in Capital of U.S. Company and the Corporation

At all times after the occurrence of any event contemplated pursuant to Section 3.2 of the Support Agreement or otherwise, as a result of which U.S. Company Shares or the Exchangeable Shares are in any way changed, this Agreement shall forthwith be amended and modified as necessary in order that it shall apply with full force and effect, *mutatis mutandis*, to all new securities into which U.S. Company Shares or the Exchangeable Shares are so changed and the parties hereto shall execute and deliver a supplemental agreement giving effect to and evidencing such necessary amendments and modifications.

3.3 Meeting to Consider Amendments

The Corporation, at the request of U.S. Company, shall call a meeting or meetings of the holders of the Exchangeable Shares for the purpose of considering any proposed amendment or modification requiring approval pursuant to this Article 3. Any such meeting or meetings shall be called and held in accordance with the by-laws of the Corporation, the Exchangeable Share Provisions and all applicable laws.

3.4 Transfer Restriction

Notwithstanding any other provision of this Agreement:

(a) no Exchangeable Shares may be Transferred unless an equal number of Canadian Special Voting Shares and an equal number of shares of:

(i) U.S. Company Common Special Voting Stock, if the Exchangeable Shares proposed to be Transferred are Common Exchangeable Shares;

(ii) Series A-1 Special Voting Stock, if the Exchangeable Shares proposed to be Transferred are Series A-1 Exchangeable Shares;

(iii) Series A-2 Special Voting Stock , if the Exchangeable Shares proposed to be Transferred are Series A-2 Exchangeable Shares;

(iv) Series B-1 Special Voting Stock, if the Exchangeable Shares proposed to be Transferred are Series B-1 Exchangeable Shares;

(v) Series B-2 Special Voting Stock, if the Exchangeable Shares proposed to be Transferred are Series B-2 Exchangeable Shares; and

(vi) Series C Special Voting Stock, if the Exchangeable Shares proposed to be Transferred are Class C Exchangeable Shares

are concurrently Transferred to the transferee;

(b) no shares of Class A Preferred Stock, Class B Preferred Stock, Series C Preferred Stock or U.S. Company Common Stock may be Transferred unless an equal number of Canadian Special Voting Shares are concurrently Transferred to the transferee;

(c) no Canadian Special Voting Shares may be Transferred unless the transferor complies with paragraph (a) or (b) above;

(d) no Exchangeable Shares or U.S. Company Shares may be Transferred unless, in addition to such Transfer complying with paragraphs (a), (b) and (c), the transferee enters into this Agreement by executing a counterpart to this Agreement in the form attached as Schedule A; and

(e) no Exchangeable Shares may be issued by the Corporation, and no U.S. Company Shares may be issued by U.S. Company, unless the person to whom such shares are issued enters into this Agreement by executing a counterpart to this Agreement in the form attached as Schedule A.

3.5 Options to Purchase Special Voting Shares

(a) Each Holder hereby grants an option to U.S. Company to purchase, at a price of $0.000001 per share, at any time:

(i) the number of shares of U.S. Company Common Special Voting Stock held by such Holder at that time that is greater than the number of Common Exchangeable Shares held by such Holder at that time;

(ii) the number of shares of Series A-1 Special Voting Stock held by such Holder at that time that is greater than the number of Series A-1 Exchangeable Shares held by such Holder at that time;

(iii) the number of shares of Series A-2 Special Voting Stock held by such Holder at that time that is greater than the number of Series A-2 Exchangeable Shares held by such Holder at that time;

(iv) the number of shares of Series B-1 Special Voting Stock held by such Holder at that time that is greater than the number of Series B-1 Exchangeable Shares held by such Holder at that time;

(v) the number of shares of Series B-2 Special Voting Stock held by such Holder at that time that is greater than the number of Series B-2 Exchangeable Shares held by such Holder at that time; and

(vi) the number of shares of Series C Special Voting Stock held by such Holder at that time that is greater than the number of Class C Exchangeable Shares held by such Holder at that time.

(b) Each Holder hereby grants an option to the Corporation to purchase, at a price of US$0.000001 per share, at any time, the number of Canadian Special Voting Shares held by such Holder at that time that is greater than the aggregate number of shares of U.S. Company Common Stock that would be held by such Holder if all of the U.S. Company Shares and Exchangeable Shares held by such Holder at that time were converted into or exchanged for U.S. Company Common Stock.

(c) The options granted pursuant to Sections 3.5(a) and (b) may be exercised by U.S. Company or the Corporation, as the case may be, by giving at least two Business Days' notice to the Holder of its intention to exercise the option. Such notice must be

accompanied by payment of the purchase price for the shares in respect of which the option is being exercised. Upon receipt of such payment, the Holder is deemed to have ceased to be a holder of the shares acquired pursuant to the exercise of the option and has no right to exercise the votes in respect of such shares. Within two Business Days following receipt of such notice and payment, the Holder will surrender to U.S. Company or the Corporation, as the case may be, the certificates representing the shares in respect of which the option has been exercised. If any Holder fails to deliver such certificates, the Secretary of U.S. Company is deemed to be irrevocably appointed as the true and lawful attorney for such Holder with authority to do all things and execute and deliver, on behalf of and in the name of such Holder, such deeds, transfers, consents, resolutions, share certificates or other documents as may be necessary or desirable to complete the sale of shares contemplated in this Section 3.5, and the Holder will have no claim or cause of action against any party to this Agreement or against any third party, as a result of the Secretary of U.S. Company so acting as its attorney, such appointment and power of attorney, being coupled with an interest, is not revoked by the insolvency or bankruptcy of the Holder, and each Holder hereby ratifies and confirms all that the Secretary of U.S. Company may lawfully do or cause to be done by virtue of such appointment and power.

(d) The Corporation hereby grants an option to each Holder to subscribe for and purchase, at a price of US$0.000001 per share, at any time, the number of Canadian Special Voting Shares that, when added to the number of Canadian Special Voting Shares held by such Holder at that time, is equal to the aggregate number of shares of U.S. Company Common Stock that would be held by such Holder if all of the U.S. Company Preferred Stock and Exchangeable Shares held by such Holder at that time were converted into or exchanged for U.S. Company Common Stock. Such option is deemed to be exercised, with no further act of the Holder, and the Corporation will forthwith issue the Canadian Special Voting Shares to such Holder, at any time that the number of Canadian Special Voting Shares held by such Holder is less than the number of shares of U.S. Company Common Stock that would be held by such Holder if all of the U.S. Company Preferred Stock and Exchangeable Shares held by such Holder at that time were converted into or exchanged for U.S. Company Common Stock. At the time of such deemed exercise, the Corporation will notify U.S. Company of such exercise, and U.S. Company will, on behalf of the Holder, pay to the Corporation the exercise price. Upon receipt of payment of the exercise price, the Corporation will issue to the Holder the Canadian Special Voting Shares upon such deemed exercise.

3.6 Drag-Along

(a) Subject to this Section 3.6, if Holders holding not less than two-thirds (2/3) of the U.S. Company Common Stock on a Fully Converted Basis (voting together as a single class) approve ("**Majority Approval**") a Change of Control transaction, whether at a meeting of Holders, by written consent in lieu of a meeting of Holders or by the tender of their shares, then all Holders shall be obligated to:

(i) vote all Shares held by the Holders in favour of such transaction;

(ii) sell, transfer or exchange all of the Shares held by the Holders in connection with such transaction on the same terms as those approved by Majority Approval; and

(iii) execute and deliver such instruments of conveyance and transfer and take such other action, including executing any purchase agreement, merger agreement, indemnity agreement, escrow agreement or related documents, as may be reasonably required by the Corporation or U.S. Company in order to carry out the terms and provisions of this Section 3.6.

(b) The obligations of the Holders set forth in this Section 3.6 shall apply with respect to a particular Holder for any proposed Change of Control transaction only if:

(i) the liability for indemnification, if any, of such Holder in the proposed Change of Control transaction and for the inaccuracy of any representations and warranties made by the Corporation or U.S. Company in connection with such proposed Change of Control transaction, is several and not joint with any other person, and is pro rata in proportion to the amount of consideration paid to such Holder in connection with such proposed Change of Control transaction (in accordance with the provisions of U.S. Company certificate of incorporation);

(ii) such Holder's indemnification obligations under a proposed Change of Control transaction would not exceed the proceeds actually paid to such Holder with respect to such proposed Change of Control transaction, except with respect to claims related to fraud by such Holder, the liability for which need not be limited as to such Holder;

(iii) any representations and warranties to be made by such Holder in connection with the proposed Change of Control transaction are limited to representations and warranties related to authority, ownership and the ability to convey title to such Shares, including but not limited to representations and warranties that (A) the Holder holds all right, title and interest in and to the Shares such Holder purports to hold, free and clear of all liens and encumbrances, (B) the obligations of the Holder in connection with the transaction have been duly authorized, if applicable, (C) the documents to be entered into by the Holder have been duly executed by the Holder and delivered to the acquirer and are enforceable against the Holder in accordance with their respective terms and (D) neither the execution and delivery of documents to be entered into in connection with the transaction, nor the performance of the Holder's obligations thereunder, will cause a breach or violation of the terms of any agreement, law or judgment, order or decree of any court or governmental agency;

(iv) the Holder shall not be liable for the inaccuracy of any representation or warranty made by any other person in connection with the proposed Change of Control transaction, other than the Corporation or U.S. Company;

(v) upon the consummation of the proposed Change of Control transaction, (A) each holder of each series of U.S. Company Preferred Stock will receive the same form of consideration for such series, (B) each holder of a series of U.S. Company Preferred Stock will receive the same amount of consideration per share of such series of U.S. Company Preferred Stock, (C) each holder of U.S. Company Common Stock will receive the same amount of consideration per share of U.S. Company Common Stock, and (D) the aggregate consideration receivable by all holders of the U.S. Company Preferred Stock and U.S. Company Common Stock shall be allocated among the holders of U.S. Company Preferred Stock and U.S. Company Common Stock on the basis of the relative liquidation preferences to which the holders of each respective series of U.S. Company Preferred Stock and the holders of U.S. Company Common Stock are entitled in a Change of Control transaction in accordance with U.S. Company's certificate of incorporation in effect immediately prior to the proposed Change of Control transaction; and

(vi) subject to clause (v) above, requiring the same form of consideration to be received by the holders of U.S. Company Preferred Stock, if any holders of U.S. Company Preferred Stock are given an option as to the form and amount of consideration to be received as a result of the proposed Change of Control transaction, all holders of such capital stock will be given the same option.

(c) In addition, no Holder shall be a party to a Change of Control transaction structured as a sale of stock by the Holders ("**Stock Sale**") unless all holders of Preferred Stock are allowed to participate in such transaction and the consideration received pursuant to such transaction is allocated among the parties thereto in the manner specified in U.S. Company's certificate of incorporation in effect immediately prior to the Stock Sale (as if such transaction were a liquidation event under Section C.2 of Article Fourth).

(d) Each of the Holders hereby grants U.S. Company a proxy covering the total number of Shares of capital stock of U.S. Company directly or indirectly acquired (of record or beneficially) by such party for the purposes of approving a Change of Control transaction which complies with this Section 3.6. Each party delivering this proxy hereby agrees that the proxy is coupled with an interest and is irrevocable.

3.7 Legends

(a) Share certificates of the Corporation shall bear the following language either as an endorsement or on the face of such share certificate:

The shares represented by this certificate are subject to all the terms and conditions of an exchange agreement dated for reference June 8, 2007, as amended from time to time, among, *inter alia*, Aquinox Pharmaceuticals Inc., Aquinox Pharmaceuticals (USA) Inc. and the holders of the shares, which agreement constitutes a unanimous shareholders agreement within the meaning of the Canada Business Corporations Act and contains, among other things, restrictions on the right of the holder hereof to transfer or sell the shares. A copy of such exchange agreement is on file at the registered office of the Corporation.

(b) Share certificates of U.S. Company shall bear the following language either as an endorsement or on the face of such share certificate:

The shares represented by this certificate are subject to all the terms and conditions of an exchange agreement dated for reference June 8, 2007, as amended from time to time among, *inter alia*, Aquinox Pharmaceuticals Inc., Aquinox Pharmaceuticals (USA) Inc. and the holder of the shares, which agreement contains, among other things, restrictions on the right of the holder hereof to transfer or sell the shares. A copy of such exchange agreement is on file at the registered office of the Corporation.

ARTICLE 4
SUPPORT AGREEMENT

4.1 Application of Support Agreement to holders of Exchangeable Shares

To the extent that any representation, warranty or covenant contained in Article 2 of the Support Agreement is not provided herein, the Corporation and U.S. Company hereby incorporate by reference such representations, warranties and covenants and acknowledge that the holders of Exchangeable Shares are relying on such representations, warranties and covenants as if they were parties to the Support Agreement.

4.2 Amendments and Waiver under Support and Exchange Agreements

The Corporation shall not propose, agree to or otherwise give effect to any amendment to, or waiver or forgiveness of its rights or obligations under, the Support Agreement or this Agreement without the approval of the holders of the Exchangeable Shares given in accordance with Section 10.2 of the Exchangeable Share Provisions other than such amendments, waivers and/or forgiveness as may be necessary or advisable for the purposes of:

(a) adding to the covenants of parties to such agreement other than the Corporation for the protection of the Corporation or the holders of the Exchangeable Shares thereunder;

(b) making such provisions or modifications not inconsistent with such agreement as may be necessary or desirable with respect to matters or questions arising thereunder which, in the good faith opinion of each of the Boards, may be expedient to make, provided that each of the Boards shall be of the good faith opinion, after consultation with counsel, that such provisions and modifications will not be prejudicial to the interests of the holders of the Exchangeable Shares; or

(c) making such changes in or corrections to such agreement which, on the advice of counsel to the Corporation, are required for the purpose of curing or correcting any ambiguity or defect or inconsistent provision or clerical omission or mistake or manifest error contained therein, provided that the each of the Boards shall be of the good faith opinion, after consultation with counsel, that such changes or corrections will not be prejudicial to the interests of the holders of the Exchangeable Shares.

ARTICLE 5
APPROVAL MATTERS

5.1 Specific Matters Requiring Board Approval

Each of the Companies shall only undertake or proceed with any of the following matters with the prior approval of the Board of the respective Company:

(a) approve any adoption or amendment of any plan under which employees of a Company are entitled to purchase or receive shares in the capital of such Company;

(b) loan any money to, provide a guarantee of, assume liability for the debts or obligations of any other Person other than a Subsidiary of such Company in excess of $50,000, or grant any security interest over the assets of a Company;

(c) enter into or amend any employment or consulting agreements with senior management of a Company;

(d) amend any devotion of time, non-competition, non-disclosure agreements, proprietary rights agreements, employment agreements, profit sharing agreements, or agreements relating to intellectual property with key employees between a Company and any of its directors, employees, key employees or consultants, other than any amendments that are not prejudicial to a Company; or

(e) enter into any joint venture or partnership with any corporation, partnership, joint venture, firm or Person.

Each Company shall ensure that any of its Subsidiaries only undertake or proceed with the kind of transactions referred to above in this Section 5.1 (as adjusted to relate to similar actions of such Subsidiary) with the prior approval of the Board of the respective Company.

5.2 Specific Major Matters also Requiring Investors' Approval

(a) So long as at least 25% of the Preferred Voting Stock issued under the Subscription Agreements (or Preferred Voting Stock issued pursuant to the exchange of Exchangeable Preferred Shares issued pursuant to the Subscription Agreements) remains outstanding, the Companies shall only undertake or proceed with any of the matters described in subsections (a) through (e) of Section 5.1 or any of the following matters with prior Investor Approval:

(i) redeem, purchase or otherwise acquire for value (or pay into or set aside for a sinking fund for such purpose) any securities of a Company (other than securities of the Corporation held or purchased by U.S. Company) unless required under the special rights and restrictions attached to such securities, this Agreement or the Support Agreement or pursuant the terms of the Incentive Compensation Plans/ESOPs and related agreements thereto;

(ii) take any action that results in the payment or declaration of any dividend on any securities of a Company (other than securities of the Corporation held by U.S. Company) or in the distribution of any cash (other than in the normal course of business), securities or assets of the Company unless required under the special rights and restrictions attached to such securities, this Agreement or the Support Agreement;

(iii) authorize or issue, or obligate itself to issue, any equity security (including any security convertible into or exercisable for any equity security) senior to or on parity with the Preferred Voting Stock or the Exchangeable Preferred Shares except for any issuance pursuant to this Agreement, the Support Agreement or the Class C Subscription Agreement and except for any issuance by the Corporation to U.S. Company;

(iv) effect a public offering of securities of a Company;

(v) amend, alter or repeal any of the provisions of a Company's Constating Documents;

(vi) take any action which effects a liquidation, dissolution or winding up of a Company or any Subsidiary of a Company;

(vii) make any loans or monetary advances to employees of a Company or of any Subsidiary of a Company (or any relative of such persons), except as unanimously approved by the Board of such Company;

(viii) incur or guarantee any indebtedness, or permit any Subsidiary to incur or guarantee any such indebtedness, except as unanimously approved by the Board of such Company;

(ix) create any mortgage, pledge, or other security interest in all or substantially all of the property of a Company, or any of its Subsidiaries, except as unanimously approved by the Board of such Company;

(x) own, or permit any Subsidiary of a Company to own, any stock or other securities of any other corporation, partnership or entity (other than stock or other securities of the Corporation held by U.S. Company), unless such entity is wholly-owned by such Company and such ownership is unanimously approved by the Board of such Company;

(xi) increase or decrease the number of directors of a Company except in accordance with the Shareholders' Agreement;

(xii) effect a Change of Control or enter into any agreement relating to the same unless such Change of Control is in accordance with Section 3.6 of this Agreement or has been approved by Majority Approval;

(xiii) make a material change in the nature of the Business; or

(xiv) increase, or authorize the increase of, the number of securities of a Company available under the Incentive Compensation Plans/ESOPs.

(b) The Corporation shall not issue any of its New Common Shares or Non-Voting Preferred Shares to any Person other than U.S. Company, and U.S. Company shall not Transfer any New Common Shares or Non-Voting Preferred Shares of the Corporation to any Person other than the Corporation, without prior Investor Approval.

ARTICLE 6
GENERAL

6.1 Call Rights, Compliance with other Instruments

Each holder hereby acknowledges and agrees to the Liquidation Call Right, Redemption Call Right and the Retraction Call Right, and hereby grants each such right to U.S. Company and (if designated by U.S. Company) to Permitted Subsidiary. Each of the Corporation and U.S. Company confirms that it will comply, and U.S. Company will cause Permitted Subsidiary to comply, with the Exchangeable Share Provisions and the Support Agreement, as applicable.

6.2 Unanimous Shareholders Agreement

The parties hereto agree that this Agreement is intended to operate as a unanimous shareholders agreement within the meaning of the *Canada Business Corporations Act* with respect to the Corporation.

6.3 Term

This Agreement shall come into force and be effective as of the date hereof and shall terminate and be of no further force and effect at such time as no Exchangeable Shares (or securities or rights convertible into or exchangeable for or carrying rights to acquire Exchangeable Shares) are held by any party other than U.S. Company and its Affiliates.

6.4 Severability

If, in any jurisdiction, any provision of this Agreement or its application to any party or circumstance is restricted, prohibited or unenforceable, such provision shall, as to such jurisdiction, be ineffective only to the extent of such restriction, prohibition or unenforceability without invalidating the remaining provisions of this Agreement and without affecting the validity or enforceability of such provision in any other jurisdiction or without affecting its application to other parties or circumstances.

6.5 Enurement

This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and permitted assigns.

6.6 Notices to Parties

All notices, requests, consents and demands must be in writing and must be personally delivered (effective upon receipt), faxed (effective upon receipt of the fax in complete, readable form), or sent via a reputable overnight courier service (effective the following Business Day):

(a) if to U.S. Company or the Corporation, to:

Suite 430, 5600 Parkwood Way
Richmond, BC V6V 2M2

Facsimile: (778) 331-4486
Attention: David Main

with a copy to:

McCarthy Tétrault LLP
777 Dunsmuir Street Suite 1300
PO Box 10424 Pacific Centre
Vancouver BC V7Y 1K2

Facsimile: (604) 622-5796
Attention: Robin Mahood

and to:

Cooley LLP
719 Second Avenue
Suite 900
Seattle, WA 98104

Facsimile: (206) 452-8800
Attention: Gordon Empey

6.7 Notice to Holders

Any and all notices to be given and any documents to be sent to any holders of Exchangeable Shares may be given or sent to the address of such Holder shown on the register of holders of Exchangeable Shares in any manner permitted by the by-laws of the Corporation from time to time in force in

respect of notices to shareholders and shall be deemed to be received (if given or sent in such manner) at the time specified in such by-laws, the provisions of which by-laws shall apply *mutatis mutandis* to notices or documents as aforesaid sent to such Holders. Any and all notices to be given and any documents to be sent to any holders of U.S. Company Shares may be given or sent to the address of such Holder shown on the register of holders of U.S. Company Shares in any manner permitted by the by-laws of U.S. Company from time to time in force in respect of notices to shareholders and shall be deemed to be received (if given or sent in such manner) at the time specified in such by-laws, the provisions of which by-laws shall apply *mutatis mutandis* to notices or documents as aforesaid sent to such Holders.

6.8 Counterparts

This Agreement may be executed in counterparts and by facsimile signature, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

6.9 Governing Law

This Agreement shall be construed and enforced in accordance with the laws of Province of British Columbia and the laws of Canada applicable therein. Any action, suit or proceeding arising out of or relating to this Agreement shall be brought in the Courts of the Province of British Columbia , and each of the parties hereby irrevocably submits to the jurisdiction of such courts.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be duly executed as of the date first above written.

AQUINOX PHARMACEUTICALS INC.

Per: /s/ David Main
(Authorized Signatory)

AQUINOX PHARMACEUTICALS (USA) INC.

Per: /s/ David Main
(Authorized Signatory)

BAKER BROS. LIFE SCIENCES, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to Baker Brothers Life Sciences, L.P., pursuant to authority granted to it by Baker Brothers Life Sciences Capital L.P., general partner to Baker Brothers Life Sciences, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

BAKER BROS. INVESTMENTS II, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to Baker Bros. Investments II, L.P., pursuant to authority granted to it by Baker Bros. Capital, L.P., general partner to Baker Bros. Investments II, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

667, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to 667, L.P., pursuant to authority granted to it by Baker Biotech Capital, L.P., general partner to 667, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

14159, L.P.
By: Baker Bros. Advisors, LLC, management company and investment adviser to 14159, L.P., pursuant to authority granted to it by 14159 Capital, L.P., general partner to 14159, L.P., and not as the general partner

By: /s/ Scott Lessing
Scott Lessing
President

VENTURES WEST 8 LIMITED PARTNERSHIP, by its General Partner, Ventures West 8 Management Ltd.

Per: /s/ Illegible
(Authorized Signatory)

Per: /s/ Illegible
(Authorized Signatory)

JOHNSON & JOHNSON DEVELOPMENT CORPORATION

Per: /s/ Asish K. Xavier
Asish K. Xavier, Ph.D.
Principal/Executive Director, Venture Investments

AUGMENT INVESTMENTS LTD.

Per: /s/ Egor Rulkov
Egor Rulkov
Attorney in Fact by Power of Attorney

B.C. ADVANTAGE FUND (VCC) LTD.

Per: /s/ Illegible
(Authorized Signatory)

PFIZER INC.

Per: /s/ Barbara Dalton
(Authorized Signatory)

SIGNED AND DELIVERED by Raymond J. Andersen in the presence of:)

Signature)

Print Name) **RAYMOND J. ANDERSEN**

Address)

Occupation)

SIGNED AND DELIVERED by Gerald Krystal in the presence of:)

Signature)

Print Name) **GERALD KRYSTAL**

Address)

Occupation)

SIGNED AND DELIVERED by Gerald Krystal and Jacqueline Lea Krystal as trustees of The Krystal Family Trust in the presence of:)

Signature)

Print Name) **GERALD KRYSTAL AND JACQUELINE LEA KRYSTAL AS TRUSTEES OF THE KRYSTAL FAMILY TRUST**

Address)

Occupation)

SIGNED AND DELIVERED by David J. Main and Karen M. Main as trustees of the Main Family Trust in the presence of:

Signature

Print Name

Address

Occupation

DAVID J. MAIN AND KAREN M. MAIN AS TRUSTEES OF THE MAIN FAMILY TRUST

SIGNED AND DELIVERED by Alice Low Fung Mui in the presence of:

Signature

Print Name

Address

Occupation

ALICE LOW FUNG MUI

SIGNED AND DELIVERED by Christopher John Ong in the presence of:

Signature

Print Name

Address

Occupation

CHRISTOPHER JOHN ONG

SIGNED AND DELIVERED by David Main in the presence of:)

Signature)

Print Name)

Address)

Occupation)

DAVID MAIN

SIGNED AND DELIVERED by Christopher John Ong as trustee of the CJ Ong Family Trust in the presence of:)

Signature)

Print Name)

Address)

Occupation)

CHRISTOPHER JOHN ONG AS TRUSTEE OF THE CJ ONG FAMILY TRUST

RIX VENTURE CAPITAL (VCC) CORP.

Per: _____
(Authorized Signatory)

BUILDING BIOTECH (VCC) LTD.

Per: _____
(Authorized Signatory)

SIGNED AND DELIVERED by David M. Babych in the presence of:)

Signature)

Print Name) **DAVID M. BABYCH**

Address)

Occupation)

SIGNED AND DELIVERED by Grant A. Dakus in the presence of:)

Signature)

Print Name) **GRANT A. DAKUS**

Address)

Occupation)

SIGNED AND DELIVERED by Ian Mortimer in the presence of:)

Signature)

Print Name) **IAN MORTIMER**

Address)

Occupation)

RIX PROFESSIONAL MEDICAL CORPORATION

Per: _____
(Authorized Signatory)

MARK BETTERIDGE & ASSOCIATES (MBA) INC.

Per: _____
(Authorized Signatory)

SIGNED AND DELIVERED by Joseph Garcia in the presence of:

_____
Signature

_____
Print Name

_____
Address

_____
Occupation

_____
JOSEPH GARCIA

SIGNED AND DELIVERED by Barry Pynn in the presence of:

_____
Signature

_____
Print Name

_____
Address

_____
Occupation

_____
BARRY PYNN

SIGNED AND DELIVERED by James Hoggan in the presence of:)
)
)
_____)
Signature)
)
)
_____)
Print Name)
)
)
_____)
Address)
)
)
_____)
Occupation)

_____
JAMES HOGGAN

UNIVERSITY OF PAPUA NEW GUINEA

Per: _____
(Authorized Signatory)

THE UNIVERSITY OF BRITISH COLUMBIA

Per: _____
(Authorized Signatory)

SIGNED AND DELIVERED by Bruce Hay in the presence of:)
)
)
_____)
Signature)
)
)
_____)
Print Name)
)
)
_____)
Address)
)
)
_____)
Occupation)

_____
BRUCE HAY

SIGNED AND DELIVERED by Rich Simons in the presence of:)
)
)
_____)
Signature)
)
)
_____)
Print Name) **RICH SIMONS**
)
)
_____)
Address)
)
)
_____)
Occupation)

SIGNED AND DELIVERED by Timothy Fernback in the presence of:)
)
)
_____)
Signature)
)
)
_____)
Print Name) **TIMOTHY FERNBACK**
)
)
_____)
Address)
)
)
_____)
Occupation)

THE BRITISH COLUMIA CANCER AGENCY BRANCH

Per: _____
(Authorized Signatory)

SIGNED AND DELIVERED by David Williams in the presence of:

Signature

Print Name

Address

Occupation

DAVID WILLIAMS

SIGNED AND DELIVERED by Michael LeBlanc in the presence of:

Signature

Print Name

Address

Occupation

MICHAEL LEBLANC

SIGNED AND DELIVERED by Gina Chong in the presence of:

Signature

Print Name

Address

Occupation

GINA CHONG

SIGNED AND DELIVERED by Nicole Lee-Son in the presence of:)

Signature)

Print Name)

Address)

Occupation)

NICOLE LEE-SON

SIGNED AND DELIVERED by Matt Nodwell in the presence of:)

Signature)

Print Name)

Address)

Occupation)

MATT NODWELL

SCHEDULE "A"

to the Aquinox Pharmaceuticals Inc./Aquinox Pharmaceuticals (USA) Inc.
Exchange Agreement

COUNTERPART SIGNATURE PAGE

THE UNDERSIGNED, ¿, has purchased ¿ shares of [¿ Exchangeable Shares of Aquinox Pharmaceuticals Inc. or ¿shares of U.S. Company Preferred Stock of Aquinox Pharmaceuticals (USA) Inc.] and hereby undertakes and agrees to become a party to and to be bound by the terms and conditions of the Amended & Restated Exchange Agreement between Aquinox Pharmaceuticals Inc., Aquinox Pharmaceuticals (USA) Inc. made as of March 19, 2013, a copy of which agreement the undersigned acknowledges having received.

IN WITNESS WHEREOF this day of , .

_____
Shareholder

By: _____
Name:
Title:
Address: _____

_____

_____

Name and class
of shares held: _____

AQUINOX PHARMACEUTICALS INC.

AQUINOX PHARMACEUTICALS (USA) INC.

JOINT CANADIAN STOCK OPTION PLAN AS AMENDED AND RESTATED AS OF JUNE 8, 2007

1. PURPOSE OF THE PLAN

Aquinox Pharmaceuticals Inc. ("**Aquinox Canada**") and Aquinox Pharmaceuticals (USA) Inc. ("**Aquinox US**") hereby confirm the terms and conditions of the amended and restated joint stock option plan for directors, officers, employees and Service Providers (as defined below) of Aquinox Canada and Aquinox US and their respective affiliates, to be known as the "Aquinox Joint Canadian Stock Option Plan" (the "**Plan**").

This Plan amends and restates the stock option plan of Aquinox Canada originally approved the Board of Directors of Aquinox Canada on June 21, 2006 (which plan, as amended and restated from time to time, is referred to as the "**Original Plan**").

2. DEFINITIONS

In this Plan, the following terms shall have the following meanings:

2.1 "**Affiliate**" means an affiliate as interpreted in accordance with the Securities Act.

2.2 "**Associate**" means an associate as defined in the Securities Act.

2.3 "**Board**" means the Boards of Directors of both Aquinox Canada and Aquinox US up to the Exchange Time and the Board of Directors of Aquinox US after the Exchange Time.

2.4 "**Cause**" means:

(a) Cause as such term is defined in the written employment or services agreement between Aquinox Canada or Aquinox US and the Optionee or, in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in Subsection 2.30(b), the Optionee's employer; or

(b) in the event there is no such written agreement or Cause is not defined therein, the usual meaning of just cause under the common law or the laws of the jurisdiction in which the Optionee or the Optionee's employer, as applicable, is employed or engaged.

2.5 "**Change of Control**" means:

(a) any acquisition of Aquinox US by means of merger or other form of corporate reorganization in which stockholders of Aquinox US immediately prior to such event do not hold a majority of outstanding voting securities (as defined in the Securities Act) or interest of the surviving corporation or entity and in which

outstanding Shares of Aquinox US are exchanged for securities or other consideration issued (or caused to be issued) by the acquiring corporation or its subsidiary (other than a mere reincorporation transaction) or entity, or any transaction or series of related transactions to which Aquinox US is a party in which in excess of fifty percent (50%) of the outstanding voting securities of Aquinox US is transferred;

(b) any sale or other disposition (or series of related sales or dispositions) of the outstanding voting securities of Aquinox US whereby stockholders of Aquinox US immediately prior to such event do not hold a majority of the outstanding voting securities of Aquinox US immediately after such event;

(c) any sale, license, lease or disposition of all or substantially all of the assets of Aquinox US; or

(d) any similar transaction as described in clauses (a) through (c) above with respect to Aquinox Canada.

2.6 "**Common Shares**" means shares in the common stock of Aquinox US.

2.7 "**Company**" means either Aquinox Canada or Aquinox US, as the case may be, and "Companies" means both Aquinox Canada and Aquinox US together.

2.8 "**Corporate Reorganization**" has the meaning assigned in Section 5.3.

2.9 "**Disability**" means any disability with respect to an Optionee which the Board of Directors of the Company for which the Optionee serves as a director, officer, employee or Service Provider, in its sole and unfettered discretion, considers likely to prevent permanently the Optionee from:

(a) being employed or engaged by that Company, one of its Affiliates or another employer, in a position the same as or similar to that in which he was last employed or engaged by that Company or one of its Affiliates; or

(b) acting as a director or officer of that Company or one of its Affiliates.

2.10 "**Equity Securities**" means:

(a) Common Shares or any other security of Aquinox US that carries the residual right to participate in the earnings of Aquinox US and, on liquidation, dissolution or winding-up, in the assets of Aquinox US, whether or not the security carries voting rights;

(b) any warrants, options or rights entitling the holders thereof to purchase or acquire any securities referred to in Subsection 2.10(a); or

(c) any securities issued by Aquinox Canada which are convertible or exchangeable, directly or indirectly, into securities referred to in Subsection 2.10(a) (including securities exchangeable pursuant to Exchange Rights).

2.11 "**Exchangeable Shares**" means common exchangeable shares of Aquinox Canada.

2.12 "**Exchange Agreement**" means the exchange agreement dated on or about June 8, 2007 between the Companies and holders of Shares of the Companies, as amended from time to time.

2.13 "**Exchange Agreement Counterpart**" means a counterpart signature page to the Exchange Agreement, substantially in the form attached to the Exchange Agreement.

2.14 "**Exchange Rights**" means the rights of a holder of Exchangeable Shares to receive, and the rights of Aquinox US to acquire Exchangeable Shares upon payment of, consideration upon exercise of such rights consisting, in whole or in part, of Common Shares of Aquinox US.

2.15 "**Exchange Time**" means the time at which there are no Exchangeable Shares outstanding other than Exchangeable Shares, if any, held by Aquinox US and its Affiliates.

2.16 "**Expiry Date**" means the date set by the Board under Section 3.1 of the Plan, as the last date on which an Option may be exercised.

2.17 "**Fair Market Value**" means, with respect to any property (including, without limitation, any Shares or other securities), the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Board.

2.18 "**Fully Converted Basis**" at any time means that all Shares then outstanding which are convertible or exchangeable (directly or indirectly) (including pursuant to the Exchange Rights) into Common Shares shall be deemed to have been fully converted and exchanged into Common Shares, in accordance with the rights, privileges, restrictions and conditions attached thereto, and Common Shares issuable as a result thereof shall be deemed to have been fully issued and to form part of the holdings of the person(s) entitled to receive such Common Shares.

2.19 "**Grant Date**" means the date specified in an Option Agreement as the date on which an Option is granted.

2.20 "**Option**" means an option to purchase Option Securities granted pursuant to the Original Plan or this Plan as from time to time amended, restated, adjusted or confirmed.

2.21 "**Option Agreement**" means an agreement, in the form approved pursuant to the Original Plan or as amended, restated, adjusted or confirmed, or in the form attached hereto as Schedule A, whereby the Companies grant an Option to an Optionee.

2.22 "**Optionee**" means each of the directors, officers, employees and Service Providers of Aquinox Canada, Aquinox US and their respective Affiliates granted an Option pursuant to the Original Plan or this Plan and their Personal Representatives and an Optionee may also be a corporation wholly-owned by an individual eligible for an Option grant pursuant to this Plan.

2.23 "**Option Price**" means the price per Option Security specified in an Option Agreement, adjusted from time to time in accordance with the provisions of Section 5.

2.24 "**Option Securities**" means:

(a) up to the Exchange Time, the aggregate number of Units which an Optionee may purchase under an Option; and

(b) after the Exchange Time, the aggregate number of Common Shares which an Optionee may purchase under an Option.

2.25 "**Original Plan**" has the meaning assigned in Section 1.

2.26 "**Personal Representative**" means:

(a) in the case of a deceased Optionee, the executor or administrator of the deceased duly appointed by a court or public authority having jurisdiction to do so; and

(b) in the case of an Optionee who for any reason is unable to manage his or her affairs, the person entitled by law to act on behalf of such Optionee.

2.27 "**Plan**" has the meaning assigned in Section 1.

2.28 "**Regulatory Authorities**" means all stock exchanges, inter-dealer quotation networks and other organized trading facilities on which the Shares are listed and all securities commissions or similar securities regulatory bodies having jurisdiction over the Companies.

2.29 "**Securities Act**" means the Securities Act, R.S.B.C. 1996, c.418, as amended, as at the date hereof.

2.30 "**Service Provider**" means:

(a) any person or company engaged to provide ongoing management, consulting or advisory services for one of the Companies or an Affiliate of one of the Companies, provided such person is not an employee of either Company; and

(b) any person who is providing ongoing management, consulting or advisory services to one of the Companies or an Affiliate of one of the Companies indirectly through a company that is a Service Provider under Subsection 2.30(a), provided such person is not an employee of either Company.

2.31 "**Shares**" means shares of any class in the share capital of either Company from time to time.

2.32 "**Termination Date**" means:

(a) in the case of the resignation of the Optionee's employment or the termination of the Optionee's employment or, in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in Subsection 2.30(b), the Service Provider's (as defined in Subsection 2.30(a)) services contract by the Optionee or Service Provider, as the case may be, the date that the Optionee or Service Provider, as applicable, provides notice of such resignation or termination to the applicable Company;

(b) in the case of the termination of the Optionee's employment or services contract by the applicable Company for any reason other than death or Disability, the date that such Company delivers written notice of termination of such employment or services contract to the Optionee or the Service Provider, as applicable;

(c) in the case of the expiry of a fixed-term employment or consulting or service contract that is not renewed or extended, the last day of the term; or

(d) in the case of a director or officer ceasing to meet the qualifications required for such position under applicable laws for the purposes of Subsection 4.5(b), the date such director or officer ceases to meet such qualifications.

2.33 "**Unissued Option Securities**" means the number of Option Securities, at a particular time, which have been allotted for issuance upon the exercise of an Option but which have not been issued, as adjusted from time to time in accordance with the provisions of Section 5, such adjustments to be cumulative.

2.34 "**Unit**" means a unit consisting of the following securities of Aquinox Canada:

(a) one Exchangeable Share; and

(b) one special voting share of Aquinox Canada.

2.35 "**Vested**" means that an Option has become exercisable in respect of a number of Option Securities by the Optionee pursuant to the terms of the Option Agreement.

2.36 "**$**" means United States dollars unless otherwise specified.

3. GRANT OF OPTIONS

3.1 Option Terms

The Board may from time to time authorize the issue of Options to directors, officers, employees and Service Providers of the Companies and their Affiliates. The Option Price under each Option shall be determined by the Board at the time of issue of the Option, shall be subject to adjustment in accordance with Section 5.

The Expiry Date for each Option shall be set by the Board at the time of issue of the Option and shall not be more than ten years after the Grant Date. Options shall not be assignable (or transferable) by the Optionee provided, however, that the Personal Representative of an Optionee may, to the extent permitted by Section 4.2, exercise an Option prior to the Expiry Date for such Option (subject to Section 4.4 and 4.5). No Option or right under any Option may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or encumbrance thereof shall be void and unenforceable against any Company or any of its Affiliates.

3.2 Limits on Common Shares Issuable on Exercise of Options

The maximum number of Common Shares which may be directly or indirectly issuable pursuant to Options granted under the Plan and options granted under any other stock option plan adopted by either or both of the Companies shall be 2,750,000 Common Shares (subject to adjustment to account for stock dividends, combinations, stock splits and other similar recapitalizations affecting Option Securities or Shares issuable upon exchange of Option Securities), or such other amount as may be approved from time to time by the Board.

3.3 Option Agreements

Each Option shall be confirmed by the execution of an Option Agreement. Each Optionee shall have the option to purchase from the Companies the Option Securities at the time and in the manner set out in the Plan and in the Option Agreement applicable to that Optionee. The execution of an Option Agreement shall constitute conclusive evidence that the Option granted thereunder has been granted in compliance with the Original Plan or this Plan.

3.4 Allocation of Option Price

If any Units are issued on the exercise of an Option, the Option Price paid for each Unit shall be allocated to each share forming part of the Unit by the Board, in its sole discretion, based on the Fair Market Value of such share.

4. EXERCISE OF OPTION

4.1 When Options May be Exercised

Subject to Sections 4.4 and 4.5, an Option may be exercised to purchase any number of Option Securities up to the number of Vested Unissued Option Securities at any time after the Grant Date up to 4:30 p.m. local time in Vancouver, British Columbia on the Expiry Date and shall not be exercisable thereafter.

4.2 Manner of Exercise

An Option may be exercised only by the Optionee or the Personal Representative of the Optionee. Prior to the Exchange Time an Option shall be exercisable by delivering to Aquinox

Canada, on behalf of the Companies, a notice specifying the number of Unissued Option Securities in respect of which the Option is exercised together with payment in full of the Option Price for such Option Securities and, if the Optionee is not already a party to the Exchange Agreement, an executed Exchange Agreement Counterpart. From and after the Exchange Time an Option shall be exercisable by delivering to Aquinox US a notice specifying the number of Unissued Option Securities in respect of which the Option is exercised together with payment in full of the Option Price for such Option Securities.

Upon notice and payment there will be a binding contract for the issue of the Option Securities in respect of which the Option is exercised, upon and subject to the provisions of the Plan. As soon as practicable thereafter, the applicable Company will, in its sole discretion, deliver to the Optionee a certificate or certificates, as the case may be, for the Shares purchased by the Optionee or deliver to the Optionee copies of such certificate or certificates and the original of such certificate or certificates will be placed in the minute books of such Company. Delivery of a cheque payable to Aquinox Canada or Aquinox US, as applicable, in the amount of the Option Price shall constitute payment of the Option Price unless the cheque is not honoured upon presentation in which case the Option shall not have been validly exercised.

4.3 Condition of Issue

The Options and the issue of Shares by Aquinox Canada or Aquinox US, as applicable, pursuant to the exercise of Options are subject to the terms and conditions of the Plan and compliance with the rules and policies of all applicable Regulatory Authorities with respect to the granting of such Options and the issuance and distribution of such Shares, and to all applicable securities laws and regulations. Each Optionee agrees to comply with all such laws, regulations, rules and policies and agrees to furnish to the Companies any information, reports or undertakings required to comply with, and to fully cooperate with, the Companies in complying with such laws, regulations, rules and policies.

4.4 Vesting of Option Securities

Each Option shall become Vested as determined by the Board on the Grant Date, or, if no such determination is made, shall be subject to the following vesting schedule:

(a) 25% of the Option Securities will vest on the date that is twelve months after the Grant Date; and

(b) the balance of the Option Securities will vest in equal amounts on the last day of each of the first 36 months ending after the expiry of such twelve month period, with 1/48th of the Option Securities vesting on each such day.

4.5 Termination

If an Optionee ceases to be a director, officer, employee or Service Provider of a Company or an Affiliate of a Company, his or her Option shall be exercisable as follows:

(a) Death or Disability

If the Optionee ceases to be a director, officer, employee or Service Provider of a Company or an Affiliate of a Company, due to his or her death or Disability or, in the case of an Optionee that is a company, the death or Disability of the person who provides management or consulting services to a Company or an Affiliate of a Company, any outstanding Option then held by the Optionee shall be cancelled as of the day that is one (1) year after the Optionee ceases to be a director, officer, employee or Service Provider.

(b) Termination For Cause

If the Optionee, or in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in Subsection 2.30(b), the Optionee's employer, ceases to be a director, officer, employee or Service Provider of a Company or an Affiliate of a Company as a result of termination (including, in the case of a Service Provider, termination by the relevant Company of the relevant consulting contract and, in the case of a Service Provider as defined in Subsection 2.30(b), termination of the Optionee by the Optionee's employer), for Cause or, in the case of a director or officer only, ceasing to meet the qualifications required for such position under applicable laws, any outstanding Option held by such Optionee on the Termination Date, whether in respect of Option Securities that are Vested or not, shall be cancelled as of that date.

(c) Early Retirement, Voluntary Resignation or Termination Other than For Cause

If the Optionee or, in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in Subsection 2.30(b), the Optionee's employer, ceases to be a director, officer, employee or Service Provider of a Company or an Affiliate of a Company due to his or her retirement at the request of his or her employer earlier than the normal retirement date under the employer's retirement policy then in force, or due to his or her termination by his or her employer (including, in the case of a Service Provider, termination by the relevant Company of the relevant consulting contract and, in the case of a Service Provider as defined in Subsection 2.30(b), termination of the Optionee by the Optionee's employer) other than for Cause (whether such termination occurs with or without any or adequate reasonable notice, or with or without any or adequate compensation in lieu of such reasonable notice), or due to his or her voluntary resignation, any outstanding Option then held by the Optionee shall be exercisable to acquire then Vested Unissued Option Securities at any time up to but not after the earlier of the Expiry Date and the date which is 90 days after the Termination Date.

For greater certainty, an Option that had not become Vested in respect of certain Unissued Option Securities at the time that the relevant event referred to in this Section 4.5 occurred, shall not be or become exercisable in respect of such Unissued Option Securities and shall be cancelled.

4.6 Change of Control

(a) Notwithstanding anything else in this Plan, the Board has the right to:

(i) provide for the conversion or exchange of any outstanding Options into or for options, rights or other securities in any entity participating in or resulting from a Change of Control;

(ii) in case of a proposed Change of Control under the terms of which holders of Shares will receive cash consideration for each Share surrendered in the combination, provide for the delivery to each Optionee of the cash consideration that the Optionee would have received had the Optionee exercised all of the Optionee's outstanding Vested Options immediately prior to the effective date of the Change of Control (less the amount the Optionee would have been required to pay to the applicable Company on that exercise in cash), in exchange for the termination of all of the Optionee's Options; and

(iii) take such other actions or combinations of actions referred to in this Section 4.6 as it deems appropriate and reasonable under the circumstances including but not limited to amending and terminating the Plan and outstanding Options in order to complete the Change of Control provided, however, that as a result of such actions each Optionee receives equivalent consideration that the Optionee would have received had the Optionee exercised all of the Optionee's outstanding Vested Options immediately prior to the effective date of the Change of Control (less the amount the Optionee would have been required to pay to the applicable Company on that exercise in cash).

(b) Upon either Company entering into an agreement relating to, or otherwise becoming aware of, a transaction that, if completed, would result in a Change of Control, Aquinox Canada or Aquinox US shall give written notice of the proposed transaction to the Optionees, together with a description of the anticipated effect of such Change of Control on outstanding Options, not less than five days prior to the closing of the transaction resulting in the Change of Control.

(c) The Board may, in its sole discretion, accelerate the vesting of any or all outstanding Options to provide that, notwithstanding Section 4.4 or any Option Agreement, such outstanding Options shall be fully Vested and conditionally exercisable upon (or prior to) the completion of the Change of Control, but the Board shall not, in any case, authorize the exercise of Options pursuant to this section beyond the Expiry Date of the Options. If the Board elects to accelerate the vesting of the Options, then if any of such Options are not exercised within five days after the Optionees are given the notice contemplated in Subsection 4.6(b), such unexercised Options shall terminate and expire upon the completion of the proposed Change of Control.

(d) If and to the extent that the Board accelerates the vesting of Options under Subsection 4.6(c) in connection with a transaction that, if completed, would result in a Change of Control and the transaction is not completed for any reason, any Option Securities received upon any exercise of such Options may be returned by

the Optionee to the applicable Company and reinstated as authorized but unissued share capital and with respect to such returned Option Securities the Option shall be reinstated as if it had not been exercised and the terms upon which such Option was to become Vested under Section 4.4 shall be reinstated. If any Option Securities are returned to a Company under this Subsection 4.6(d), such Company shall immediately refund the exercise price to the Optionee for such Option Securities.

(e) To the extent that the Change of Control would also result in a capital reorganization, arrangement, amalgamation or reclassification of the share capital of either of the Companies and the Board does not accelerate the vesting of Options pursuant to Subsection 4.6(c), the Companies shall make adequate provision to ensure that, upon completion of the proposed Change of Control, the number and kind of securities subject to outstanding Options and/or the Exercise Price of outstanding Options shall be appropriately adjusted in such manner as the Board considers equitable, in its sole discretion, to prevent material dilution or enlargement of the rights granted to Optionees.

4.7 Exclusion From Severance Allowance, Retirement Allowance or Termination Settlement

If the Optionee, or, in the case of an Option granted to an Optionee who falls under the definition of Service Provider set out in Subsection 2.30(b), the Optionee's employer, retires, resigns or is terminated from employment or engagement with a Company or any Affiliate of a Company, the loss or limitation, if any, pursuant to the Option Agreement with respect to the right to purchase Option Securities which were not Vested at that time or which, if Vested, were cancelled, shall not give rise to any right to damages and shall not be included in the calculation of nor form any part of any severance allowance, retiring allowance or termination settlement of any kind whatsoever in respect of such Optionee.

4.8 Option Securities Not Acquired

Any Unissued Option Securities not acquired by an Optionee under an Option which has expired may be made the subject of a further Option pursuant to the provisions of the Plan or any other stock option plan adopted by either or both of the Companies.

5. ADJUSTMENT OF OPTION PRICE AND NUMBER OF OPTION SECURITIES

5.1 Share Reorganization

Whenever either Company issues Shares to all or substantially all holders of Shares by way of a stock dividend or other distribution, or subdivides all of its outstanding Shares into a greater number of Shares, or combines or consolidates all of its outstanding Shares into a lesser number of Shares (each of such events being herein called a "**Share Reorganization**") then effective immediately after the record date for such dividend or other distribution or the effective date of such subdivision, combination or consolidation, for each Option the Option Price will be reduced or increased, and the number of Unissued Option Securities will be correspondingly increased or reduced, respectively, by such amount, if any, as is determined by the Board in its sole and unfettered discretion to be appropriate in order that:

(a) after the Share Reorganization, the Optionee holding the Option is entitled, on payment of the same aggregate Option Price, to purchase such number of Unissued Option Securities as would represent the same percentage voting entitlement on a Fully Converted Basis as if the Option were exercised immediately prior to the Share Reorganization taking effect; and

(b) after the Share Reorganization, the Optionee holding the Option is entitled to, on payment of the same aggregate Option Price, to purchase such number of Unissued Option Securities as would represent the same percentage of outstanding Equity Securities on a Fully Converted Basis as if the Option were fully exercised immediately prior to the Share Reorganization taking effect.

5.2 Special Distribution

Whenever either Company issues by way of a dividend or otherwise distributes to all or substantially all holders of Shares:

(a) shares of such Company;

(b) evidences of indebtedness;

(c) any cash or other assets, excluding cash dividends (other than cash dividends which the Board of that Company has determined to be outside the normal course); or

(d) rights, options or warrants;

then to the extent that such dividend or distribution does not constitute a Share Reorganization (any of such non-excluded events being herein called a "**Special Distribution**"), and effective immediately after the record date at which holders of Shares are determined for purposes of the Special Distribution, for each Option the Option Price will be reduced, and the number of Unissued Option Securities will be correspondingly increased, by such amount, if any, as is determined by the Board in its sole and unfettered discretion to be appropriate in order to properly reflect any diminution in value of the Option Securities as a result of such Special Distribution.

5.3 Corporate Organization

Whenever there is:

(a) a reclassification of outstanding Shares, a change of Shares into other shares or securities, or any other capital reorganization of either Company, other than as described in Sections 5.1 or 5.2;

(b) a consolidation, merger or amalgamation of either Company with or into another corporation resulting in a reclassification of outstanding Shares into other shares or securities or a change of Shares into other shares or securities other than a Change of Control; or

(c) a transaction whereby all or substantially all of either Company's undertaking and assets become the property of another corporation other than a Change of Control;

(any such event being herein called a "**Corporate Reorganization**") the Optionee will have an option to purchase (at the times, for the consideration, and subject to the terms and conditions set out in the Plan) and will accept on the exercise of such option, in lieu of the Unissued Option Securities which the Optionee would otherwise have been entitled to purchase, the kind and amount of shares or other securities or property that he would have been entitled to receive as a result of the Corporate Reorganization if, on the effective date thereof, the Optionee had been the holder of all Unissued Option Securities or if appropriate, as otherwise determined by the Board.

5.4 Determination of Option Price and Number of Unissued Option Securities

If any questions arise at any time with respect to the Option Price or number of Unissued Option Securities deliverable upon exercise of an Option following a Share Reorganization, Special Distribution or Corporate Reorganization, such questions shall be conclusively determined by the Companies auditor, or, if they decline to so act, any other firm of Chartered Accountants in Vancouver, British Columbia or Certified Public Accountants in Seattle, Washington, that the Board may designate and who will have access to all appropriate records and such determination will be binding upon the Companies and all Optionees.

6. GOING PUBLIC AGREEMENTS

6.1 Going Public Agreements

If either Company proceeds to list any of its Shares on a public stock exchange or commences a public offering, each Optionee will promptly enter into all such escrow, pooling or other agreements with respect to the Option Securities to which it is entitled as are required by the securities regulatory authorities, the exchange, the agents or the underwriters in connection with such listing or public offering.

7. MISCELLANEOUS

7.1 Right to Employment

Neither this Plan nor any of the provisions hereof shall confer upon any Optionee any right with respect to employment or continued employment with a Company or any Affiliate of a Company or interfere in any way with the right of a Company or any Affiliate of a Company to terminate such employment.

7.2 Necessary Approvals

The granting of any Option under the Plan and the obligation of the Companies to sell and deliver Option Securities in accordance with the Plan is subject to compliance with all applicable laws, including the approval of any governmental authority having jurisdiction. If any Option cannot be granted or any Option Securities cannot be issued to any Optionee for any reason, including, without limitation, the failure to comply with such laws or obtain such approval, then the obligation of the Companies, as applicable, to grant such Option or issue such Option Securities shall terminate and any Option Price paid by an Optionee to a Company for such Option Securities shall be immediately refunded to the Optionee such Company.

7.3 United States Securities Restrictions

The following provisions shall apply unless the Board determines that compliance therewith is not required under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**"), or the securities laws of any state of the United States:

(a) Unless the Option Securities have been registered under the U.S. Securities Act, all stock certificates evidencing Option Securities issued under the Plan shall be impressed with a legend in substantially the following form:

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED, OR THE SECURITIES LAWS OF ANY APPLICABLE STATE. SUCH SECURITIES MAY NOT BE OFFERED, SOLD, OR OTHERWISE TRANSFERRED EXCEPT PURSUANT TO REGISTRATION UNDER SUCH LAWS OR AN EXEMPTION THEREFROM."; and

(b) If either Company determines that the exemption from registration provided by Rule 701 under the U.S. Securities Act is not available with respect to any Option grant or any issuance of Option Securities, the Companies may condition the grant of such Option or the issuance of such Option Securities upon the Optionee providing satisfactory evidence to the Companies of the availability of the exclusion from registration provided by Regulation S under the U.S. Securities Act or exemptions from registration under the U.S. Securities Act and applicable state securities laws. The legend impressed on the stock certificates evidencing any Option Securities issued in reliance upon Regulation S under the U.S. Securities Act shall include an additional sentence noting the applicable restrictions on hedging transactions.

7.4 Administration of the Plan

The Board shall, without limitation, have full and final authority in their discretion, but subject to the express provisions of the Plan, to interpret the Plan, to prescribe, amend and rescind rules and regulations relating to the Plan and to make all other determinations deemed necessary or advisable in respect of the Plan. Except as set forth in Section 5.4, the interpretation and construction of any provision of the Plan by the Board shall be final and conclusive. Administration of the Plan shall be the responsibility of the appropriate officers of the Companies and all costs in respect thereof shall be paid by the Companies. Neither of the Companies nor any member of the Board or any person acting pursuant to authority delegated by the Board hereunder will be liable for any action or determination in connection with the Plan made or taken in good faith.

7.5 Income Taxes

At the time an Option is exercised by an Optionee, in whole or in part, or at any time thereafter as requested by the Companies, such Optionee hereby authorizes withholding from payroll and any other amounts payable to such Optionee, and otherwise agrees to make adequate provision for (including by means of a cashless exercise to the extent permitted by the Companies), any sums required to satisfy the federal, state, provincial, local and foreign tax withholding obligations, if any, which arise in connection with such Option, including, without limitation, obligations arising upon (a) the exercise, in whole or in part, of such Option, (b) the transfer, in whole or in part, of any shares acquired upon exercise of such Option, (c) the operation of any law or regulation providing for the imputation of interest, or (d) the lapsing of any restriction with respect to any shares acquired upon exercise of such Option. The Companies shall have no obligation to deliver shares of stock until the tax withholding obligations of the Optionee have been satisfied by the Optionee. In order to assist an Optionee in paying all or a portion of the taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Option, the Board, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Optionee to satisfy such tax obligation by (i) electing to have applicable Company withhold a portion of the Shares otherwise to be delivered by such Company upon exercise or receipt of such Option with a Fair Market Value equal to the amount of such taxes or (ii) delivering to the applicable Company securities, other than Option Securities issueable upon exercise or receipt of such Option, with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

7.6 Amendments to the Plan

The Board may from time to time, subject to applicable law and to the prior approval, if required, of any regulatory body having authority over either of the Companies or the Plan, suspend, terminate or discontinue the Plan at any time, or amend or revise the terms of the Plan or of any Option granted under the Plan and the Option Agreement relating thereto, provided that no such amendment, revision, suspension, termination or discontinuance shall in any manner adversely affect any Option previously granted to an Optionee under the Plan without the consent of that Optionee, except such consent shall not be required in the circumstances described in Section 4.6. For greater certainty, nothing in the Plan shall limit the Board's ability to grant Options under the Plan on terms that may be different or more favorable to an Optionee than those specified herein. The Board of Directors of a Company may waive any conditions of or rights of such Company under any outstanding Options, prospectively or retroactively.

7.7 Notice

Prior to the Exchange Time a notice given to the Companies shall be in writing, signed by the Optionee and delivered to the Secretary of Aquinox Canada, on behalf the Companies and from and after the Exchange Time a notice given to the Companies shall be in writing, signed by the Optionee and delivered to the Secretary of Aquinox US, on behalf the Companies. Any notice or other communication contemplated under the Plan to be given by the Companies to an Optionee will be given by the Companies delivering or faxing the notice to the Optionee at the last address for the Optionee in the Companies' records. Any such notice will be deemed to have been given

on the date on which it was delivered, or in the case of fax, the next business day after transmission. An Optionee may, at any time, advise the Companies of a change in the Optionee's address or fax number.

7.8 No Representation or Warranty

Neither Company makes any representation or warranty as to the future market value of any Shares issued in accordance with the provisions of the Plan.

7.9 Compliance with Applicable Law

If any provision of the Plan or any Option Agreement contravenes any law or any order, policy, by-law or regulation of any regulatory body having authority over either Company or the Plan, then such provision shall be deemed to be amended to the extent required to bring such provision into compliance therewith.

7.10 No Assignment

No Optionee may assign any of his or her rights under the Plan without the consent of the Board.

7.11 Rights of Optionees

An Optionee shall have no rights whatsoever as a shareholder of either Company in respect of any of the Unissued Option Securities (including, without limitation, voting rights or any right to receive dividends, warrants or rights under any rights offering).

7.12 Conflict

In the event of any conflict between the provisions of this Plan and an Option Agreement, the provisions of this Plan shall govern.

7.13 Governing Law

The Plan and each Option Agreement issued pursuant to the Plan shall be governed by the laws of the province of British Columbia.

7.14 Time of Essence

Time is of the essence of this Plan and of each Option Agreement. No extension of time will be deemed to be or to operate as a waiver of the essentiality of time.

7.15 Entire Agreement

This Plan and the Option Agreements entered into between the Companies and the Optionees from time to time set out the entire agreement between the Companies and the Optionees relative to the subject matter hereof and supersedes all prior agreements, undertakings and understandings, whether oral or written.

APPROVED BY THE BOARDS OF DIRECTORS OF AQUINOX CANADA AND AQUINOX US EFFECTIVE JUNE 8, 2007

SCHEDULE A

AQUINOX PHARMACEUTICALS INC.
AQUINOX PHARMACEUTICALS (USA) INC.

OPTION AGREEMENT

THIS AGREEMENT (the "**Option Agreement**"), made on the date set forth below, by and between AQUINOX PHARMACEUTICALS INC., a corporation incorporated under the federal laws of Canada ("**Aquinox Canada**"), AQUINOX PHARMACEUTICALS (USA) INC., a Delaware corporation ("**Aquinox US**"), and the Optionee named below, pursuant to the Aquinox Joint Canadian Stock Option Plan dated as of June 8, 2007, as amended from time to time (the "**Plan**"), a copy of which is attached hereto. Capitalized terms not otherwise defined herein have the meaning as set forth in the Plan.

For good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

The Companies hereby grant to:

(a) [ ] (the "**Optionee**");

(b) on —, 20—— (the "**Grant Date**");

(c) the right and option ("the **Option**") to purchase all or any part of an aggregate of [ ] Option Securities;

(d) at the price of US$[ ] per Option Security (the "**Option Price**");

(e) which shall be exercisable ("**Vested**") in whole or in part in the following amounts on or after the following dates:

-
-
-

(f) terminating on the —, 200— (the "**Expiry Date**");

all on the terms and subject to the conditions set out in the Plan. For greater certainty, once Option Securities purchasable under the Option have become Vested, they continue to be exercisable until the expiry, termination or cancellation thereof as provided in this Option Agreement and the Plan.

The Option is also subject to the terms and conditions contained in the schedules, if any, attached hereto.

By signing this Option Agreement, the Optionee acknowledges that the Optionee has read and understands the Plan and agrees to the terms and conditions of the Plan and this Option Agreement.

In order to exercise this Option prior to the Exchange Time, the Optionee must deliver to Aquinox Canada a notice of exercise in the form attached hereto as Exhibit No. 1, duly completed and executed together with a certified cheque payable to "Aquinox Pharmaceuticals Inc." for payment for all Option Securities in respect of which the Option is exercised and, if the Optionee is not already a party to the Exchange Agreement (as defined in the Plan), an executed Exchange Agreement Counterpart (as defined in the Plan) whereby the Optionee will agree to be bound by the Exchange Agreement. In order to exercise this Option from and after the Exchange Time, the Optionee must deliver to Aquinox US a notice of exercise in the form attached hereto as Exhibit No. 1, duly completed and executed together with a certified cheque payable to "Aquinox Pharmaceuticals (USA) Inc." for payment for all Option Securities in respect of which the Option is exercised. The Optionee acknowledges that Option Securities acquired on exercise of the Option prior to the Exchange Time will be subject to "drag-along" provisions in the Exchange Agreement.

IN WITNESS WHEREOF the parties hereto have executed this Option Agreement as of the — day of —, 200—.

AQUINOX PHARMACEUTICALS INC.

Per:

_____

Authorized Signatory

AQUINOX PHARMACEUTICALS (USA) INC.

Per:

_____

Authorized Signatory

OPTIONEE

_____

[Name of Optionee]

_____

[Signature of Optionee]

EXHIBIT NO. 1 TO OPTION AGREEMENT

EXERCISE FORM

TO: Aquinox Pharmaceuticals Inc. and Aquinox Pharmaceuticals (USA) Inc.
400 – 601 West Broadway
Vancouver, British Columbia V5Z 4C2

RE: Aquinox Joint Canadian Stock Option Plan dated as of June 8, 2007, as amended from time to time (the "**Plan**")

I, the undersigned holder of the attached Option Agreement with Aquinox Pharmaceuticals Inc. and Aquinox Pharmaceuticals (USA) Inc. (the "**Companies**"), hereby exercise my Option and agree to acquire Option Securities (the "**Acquired Securities**") and enclose a certified cheque in the amount of $ representing the exercise price (Option Price multiplied by number of Acquired Securities) for the Acquired Securities.

I hereby irrevocably direct that the Acquired Securities be issued registered in the following name and address and delivered as follows:

Name in Full	**Registered Address**	**Delivery Address**

(PLEASE PRINT IN FULL THE NAME IN WHICH CERTIFICATES ARE TO BE ISSUED.)

Capitalized terms not otherwise defined herein have the meaning as set forth in the Plan.

DATED this day of , .

Signature of Optionee

Name of Optionee

Exhibit 10.6

Private & Confidential

March 1, 2007

To: David Main
[Address]

Re: Employment Agreement

This Agreement contains the terms and conditions of your employment with Aquinox Pharmaceuticals Inc. These terms of employment will commence on the Commencement Date and will continue until terminated in accordance with the provisions of this Agreement.

Therefore, in consideration of your employment with the Company, the increase in compensation, the additional options being granted to you, and the premises, the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which you hereby acknowledge, you agree as follows:

1. Definitions

In this Agreement:

(a) "**Affiliate**" has the same meaning as in the *Canada Business Corporations Act* or any successor legislation, as amended from time to time.

(b) "**Agreement**" means this agreement and schedules attached to this agreement, as amended or supplemented from time to time.

(c) "**Annual Compensation**" means the combined total of Base Salary and Bonus Compensation paid for services and performance in a calendar year.

(d) "**approved by the Company**" or words of similar import means approved by an authorized representative of the Company other than you.

(e) "**Base Salary**" means the base compensation paid to you on a semi-monthly basis and does not include benefits, Bonus Compensation or other incentive compensation.

(f) "**Board**" means the board of directors of the Company.

(g) "**Bonus Compensation**" means the discretionary annual performance-based compensation you are eligible for in accordance with Article 2(e),

(h) "**Business**" means the business of investigating, discovering, developing, evaluating, or commercializing pharmaceutical compositions that may be useful modifiers of SHIP/SHIP2 enzyme activity, or any other enzyme or technology for which the Company has initiated a plan or program of investigation, discovery, development, evaluation or commercialization.

(i) "**Cause**" means any one or more of the following:

(i) A material breach of any of your obligations or duties pursuant to this Agreement, which remains uncured seven days from you becoming aware of the breach;

(ii) Gross negligence or willful misconduct in the course of employment;

(iii) Any action or activity that is contrary to applicable insider trading rules or any other applicable securities rules or legislation;

(iv) An act or omission involving dishonesty or fraud;

(v) Substantial and repeated failure to perform the duties reasonably expected of a Chief Executive Officer in the biotechnology industry, or to perform certain duties as reasonably directed by the Board, or

(vi) Any other act, omission or conduct constituting cause at common law or under the laws of British Columbia.

(j) "**Change in Control**" means the occurrence, after the Commencement Date, of one or more of the following:

(i) a merger, a consolidation, a reorganization or an arrangement that results in a transfer of more than fifty percent (50%) of the total voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(ii) a direct or indirect sale or other transfer of beneficial ownership of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iii) a direct or indirect sale or other transfer of the right to appoint more than fifty percent (50%) of the directors of the Board or otherwise directly or indirectly control the management, affairs and business of the Company to a person or a group of persons different from a person or a group of persons holding this right immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iv) a direct or indirect sale or other transfer of all or substantially all of the assets of the Company to a person or a group of persons different from a person or a group of persons holding those assets immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company); or

(v) a complete liquidation, dissolution or winding-up of the Company;

provided, however, that a Change in Control will not be deemed to have occurred if such Change in Control results solely from the issuance, in connection with a bona fide financing or series of financings by the Company, of voting securities of the Company or any rights to acquire voting securities of the Company which are convertible into voting Securities.

(k) "**Good Reason**" in conjunction with a Change in Control means one or more of the following events occurring without your consent:

(i) termination of your employment without cause;

(ii) any material and adverse change to your position, authority or responsibilities in effect under this Agreement;

(iii) any material reduction in incentives, health benefits, bonuses or other compensation plans, practices, policies or programs provided to you in the aggregate under this Agreement;

(iv) an assignment to you of any duties materially inconsistent with your status as the Chief Executive Officer of the Company;

(v) any failure to secure the agreement of any successor entity to fully assume the Company's obligations under this Agreement; or

(vi) any resolution is passed or any action or proceeding taken with respect to the liquidation, dissolution or winding-up of the Company that does not involve continuation of the Company in another form.

(l) "**Commencement Date**" means the date on which a Series A financing round of not less than US$10,000,000 next closes, or such other dates as the Parties may agree upon in writing.

(m) "**Competitive Business**" means any person, firm, company, partnership, venture or business that is (or is planning on) researching, developing, producing, licensing, selling or marketing any product or service that is competitive or substantially similar to the Business.

(n) "**Company**" means Aquinox Pharmaceuticals Inc., a corporation continued under the laws of Canada having a business address at Suite 400 - 601 West Broadway, Vancouver, British Columbia V5Z 4C2, and includes subsidiaries or affiliates of the Company where used in the context of Confidential Information or intellectual property rights or protection.

(o) "**Confidential Information**" means trade secrets and other information, in whatever form or media, in the possession or control of the Company, which is owned by the Company or by one of its clients or suppliers or a third party with whom the Company has a business relationship (collectively, the "**Associates**"), and which is not generally known to the public and has been specifically identified as confidential or proprietary by

the Company, or its nature is such that it would generally be considered confidential in the industry in which the Company or its Associates operate, or which the Company is obligated to treat as confidential or proprietary.

Confidential Information includes, without limitation, the following: (i) the Products and confidential or proprietary facts, data, techniques, materials and other information related to the Products or the Business of the Company, including all related developmental or experimental work or research, related documentation owned or marketed by the Company and related formulas, algorithms, patent applications, concepts, designs, flowcharts, ideas, programming techniques, specifications and software programs (including source code listings), methods, processes, inventions, sources, drawings, prototypes and patterns; (ii) all Developments; (iii) information regarding the Company's business operations, methods and practices, including market strategies, product pricing, margins and hourly rates for staff and information regarding the financial, legal and corporate affairs of the Company; (iv) the names of the Company's Associates and the nature of the Company's relationships with such Associates; and (v) technical and business information of or regarding the Company's Associates. Confidential Information does not include information that is or becomes generally available to the public without your fault or that you can establish, through written records, was in your possession prior to its disclosure to you in connection with your employment.

(p) "**Developments**" includes, without limitation, all;

(i) Products, software, documentation, research, data, designs, reports, flowcharts, trade-marks, specifications and source code listings, and any related works, including any enhancements, modifications or additions to the Products owned, licensed, sold, marketed or used by the Company;

(ii) copyrightable works of authorship including, without limitation, any technical descriptions for Products, user guides, illustrations and advertising materials; and

(iii) inventions, devices, integrated circuit topographies, discoveries, concepts, ideas, algorithms, formulae, know-how, processes, techniques, systems, methods, operating capabilities and improvements, whether patentable or not,

developed, created, generated or reduced to practice by you, alone or jointly with others, as a result of your employment, which result from your employment or which result from the use of the premises or property (including equipment, supplies or Confidential Information) owned, leased or licensed by the Company or which reasonably relate to the Business of the Company.

(q) "**Parties**" means, collectively, you and the Company and, for clarity, a "**Party**" means any one of the Parties.

(r) "**Person**" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency or entity however designated or constituted.

(s) "**Products**" means (i) therapies, approaches, screening methodologies, diagnostic assays, therapeutic molecules, compounds, and any other products derived from the discovery or development of molecular compounds that can be used to treat human inflammatory diseases, autoimmune disorders and cancer by altering the activity of SHIP, SHIP2 or any other target enzymes or proteins for which a research program has been initiated by the Company and disclosed to you; (ii) any intellectual property or assets owned, licensed, sold, marketed or used by the Company in connection with the Business, including enhancements, modifications, additions or other improvements to such intellectual property; and (iii) any other products or technologies that the Company discovers or develops during the employment relationship.

(t) Use of the defined terms will include both the singular and the plural of each such term, and such use will not be interpreted as changing the meaning first given thereto.

2. Employment

The terms of your employment will be as follows:

(a) **Position and Responsibilities:** You will be employed as an officer of the Company in the position of President & Chief Executive Officer reporting to the Board. You will perform or fulfil the duties and responsibilities and exercise the powers that are normally performed, fulfilled or exercised by the President & Chief Executive Officer of a biotechnology company, subject to the Canada Business Corporation Act and the articles and by-laws of the Company, and any duties reasonably prescribed by the Board from time to time. You will at all times conform to the reasonable and lawful instructions and directions of the Board.

(b) **Scope of Duties:** During your employment you will devote the whole of your working time, attention and abilities to your duties. You agree to give the Company the full benefit of your knowledge, expertise, skill and ingenuity. The Company consents to you holding board appointments on the conditions that your engagement will not affect your duties or obligations to the Company, that your engagement will not in any way assist a Competitive Business, and that you will obtain the consent of the Board prior to accepting any such appointments in the future. Your current appointments, consented to by the Board, are with Inex Pharmaceuticals Corp., Discovery Parks Trust and Sauder School of Business Faculty Advisory Board

(c) **Signing Bonus:** As consideration for you accepting your position and obligations under this Agreement, the Company will provide you with a signing bonus of US$29,000, subject to source deductions and other deductions required to be deducted and remitted, to be payable by regular payroll after execution of this Agreement.

(d) **Base Compensation:** You will receive an annual Base Salary of US$290,000, subject to source deductions and other deductions required to be deducted and remitted. Your Base Salary will be reviewed annually by the Board, and may be increased to reflect the Company's stage of development, your responsibilities and your personal performance. A formal review of your personal performance will be conducted by the Board on an annual basis. Prior to payment to you of the first instalment of Base Salary, you will elect between US and Canadian currency for all future payments of Base Salary, Bonus Compensation and the signing bonus under this Agreement. In the event you elect

Canadian currency, the conversion of amounts expressed as US dollars in this Agreement will be converted using the Bank of Canada's noon currency exchange rate as of the Commencement Date.

(e) **Bonus Compensation:** You will be eligible for a discretionary annual performance-based bonus of up to a maximum of 20% of Base Salary, to be determined by the Board in its unfettered discretion, based on its opinion of your performance, the performance of your management team and the performance of the Company. The Board will make a determination with respect to Bonus Compensation not later that March of each year.

(f) **Stock Options:** After the Commencement Date, and as soon as is practical, the Company will grant you an option to purchase up to 300,000 Option Securities (as defined in the Amended and Restated Plan (as defined below)) at a price of US$0.50 per share (the "**Option**"). Starting on the first anniversary of the Commencement Date, 25% of the Option will vest and thereafter I /36th of the Option will vest on the first day of each month until the Option is fully vested. The Option is granted under the terms of the Company's Stock Option Plan, approved by the Board on June 21, 2006 and thereafter amended and restated as the Joint Canadian Stock Option Plan of the Company and Aquinox Pharmaceuticals (USA) Inc. (the "**Amended and Restated Plan**"), and the option agreement provided for by the Amended and Restated Plan.

You may also be eligible to participate in an incentive options program, under which the Board, in its sole and unfettered discretion, may grant you additional options to purchase common shares of the Company from time to time.

(g) **Vacation Entitlement:** You will receive paid vacation in the amount of four weeks per annum, pro-rated for any partial year of employment. Your vacation must be taken in accordance with the Company's vacation policy in effect from time to time.

(h) **Benefits:** Subject to your insurability, the Company will obtain medical insurance, extended health and dental insurance, life and accident insurance coverage for you and will make all reasonable efforts to obtain the disability coverage for you as is usually and customarily obtained by comparable private biotechnology companies for their executive employees (collectively your "Benefits"), and the employee portion of any applicable Benefits premiums will be paid by the Company.

(i) **Business Equipment and Other Expenses:** The Company will continue to provide you with a laptop computer and cellular phone for business use. You acknowledge that during the term of your employment and thereafter this equipment remains the sole property of the Company. The Company will reimburse you for all reasonable travelling and out-of-pocket expenses actually and properly incurred by you in connection with your duties under this Agreement and in accordance with Company policy and Board approval, provided that you first furnish statements, and receipts or vouchers for all such expenses to the Company.

(j) **D&O Indemnity Insurance:** The Company will make all commercially reasonable efforts to obtain the same level of director's and officer's indemnity insurance for its directors and officers as is usually and customarily obtained by comparable new private biotechnology companies. The level of director's and officer's indemnity insurance will be reviewed and may be adjusted by the Company from time to time.

3. Confidential Information

As consideration for your promotion and continued employment with the Company, you covenant and agree as follows:

(a) **General Obligation of Confidentiality:** You acknowledge that the Confidential Information is the exclusive property of the Company or Persons from whom the Company has obtained its rights. You will treat the Confidential Information in strict confidence and will not directly or indirectly, either during or subsequent to your employment with the Company, disclose, allow access to, transmit or transfer the Confidential Information to a third party (other than the Company's directors, officers, bankers, legal and financial advisors in the ordinary course of business) unless otherwise required by law or by a regulatory authority having jurisdiction over the Company, or except as previously approved in writing by the Company. You will protect such Confidential Information from disclosure by exercising a standard of care as may reasonably be expected to preserve its secret and confidential nature. You acknowledge and agree that nothing contained in this Agreement will be construed as an assignment to you of any right, title or interest in the Confidential Information. All right, title and interest relating to the Confidential Information is expressly reserved by the Company. All documents containing Confidential Information are the property of the Company. Without limiting the generality of the foregoing, you hereby transfer to the Company the property rights in all documents that now or hereafter may contain the Confidential Information.

(b) **Use of Confidential Information:** You agree that at all times during and subsequent to your employment with the Company, you will not use any of the Confidential Information in any manner except as reasonably required for you to perform your duties for the Company. Without limiting the generality of the foregoing, you agree that at all times during and subsequent to your employment, you will not use or take advantage of the Confidential Information for creating, maintaining or marketing, or aiding in the creation, maintenance or marketing, of any product that is competitive with any of the Products.

(c) **Prohibition on Copying:** You will not copy or reproduce the Confidential Information except in the course of your employment with and for the benefit of the Company or with the written approval of the Company. All such copies remain the property of the Company.

(d) **Injunctive Relief:** You acknowledge that irreparable harm may result to the Company if you breach your obligations under this Article or under subsections 4(c) and 4(f). You acknowledge that such a breach may not properly be compensated by an award of damages. Accordingly, the Company's remedy for any such breach may include, in addition to other available remedies and damages, injunctive relief or other equitable relief enjoining such breach at the earliest possible date.

(e) **Assignment:** You agree to make full disclosure to the Company of each Development promptly after its creation. You hereby irrevocably assign and transfer to the Company, and agree that the Company will be the exclusive owner of, all of your right, title and interest in and to each Development throughout the world, including all trade secrets, patent rights, copyrights trademarks, industrial designs and all other intellectual property

rights therein, whether realized within or beyond the scope of your employment, and regardless of the true purpose of the employment relationship, and you irrevocably waive all moral rights you may have in these Developments. You further agree to cooperate fully at all times during and subsequent to your employment with respect to signing further documents and doing such acts and other things reasonably requested by the Company, at the Company's expense, to confirm such transfer of ownership of rights, including intellectual property rights, effective at or after the time the Development is created and to apply for and obtain patents or copyrights, industrial designs trademarks, other intellectual property registrations or other similar rights covering the Development. The Company will be exclusively entitled to make applications for registration of all such rights, in the Company's sole and unfettered discretion, in any jurisdictions that the company deems necessary. Should the Company be unable to secure your signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright or other right or protection relating to any Development, due to your incapacity or any other cause, you hereby irrevocably designate and appoint the Company and each of its duly authorized officers and agents as your agent and attorney-in-fact to do all lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protection with the same force and effect as if executed and delivered by you. You agree that the obligations in this subsection will continue beyond the termination of your employment with respect to any and all Developments created during your employment. For purposes of the copyright laws of the United States of America and other jurisdictions, to the extent, if any, that such laws are applicable to any Confidential Information, it will be considered a work made for hire and the Company will be considered the author thereof.

4. Obligations of Employment

You further covenant and agree as follows:

(a) **Performance and Duty to the Company:** Throughout your employment you will well and faithfully serve the Company and use your best efforts to promote the Business of the Company. You will act honestly and in good faith in what you reasonably believe to be in the best interests of the Company. You will adhere to all applicable policies of the Company and exercise the degree of care, diligence and skill that a reasonably prudent Chief Executive Officer would exercise in comparable circumstances.

(b) **Business of the Company:** You will not, during your employment with the Company, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the Business of the Company.

(c) **Restrictions:** You agree to comply with all of the restrictions set forth below at all times during your employment and for a period of one year from the termination of your employment (regardless of which Party terminates your employment and regardless of the reason for such termination, if any) or, in the event of a termination involving payment of Annual Compensation during a Continuance Period or a Change in Control Continuance Period, for a period equivalent to the Continuance Period or Change in Control Continuance Period, whichever is operative, from the termination of your employment, during which:

(i) you will not, either individually or in conjunction with any Person, as principal, agent, director, officer, employee, investor or in any other manner whatsoever, directly or indirectly, own, operate, carry on, be engaged in the operations of, have any financial interest in, loan any monies to, guarantee any liabilities or obligations of, act as a consultant to or provide management services to a Competitive Business without the prior written consent of the Company. The foregoing will not prevent you from holding any class of publicly held shares of a company, partnership or other organization provided that you, alone or in conjunction with any other Person, will not directly or indirectly hold more than 5% of the shares of any such company, partnership or other organization;

(ii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or appropriate or attempt to solicit, interfere with, divert or appropriate to any Competitive Business, any business or actively sought prospective business of the Company or any customers with whom the Company has current agreements relating to the Business of the Company, or with whom you have dealt, or with whom you have supervised negotiations or business relations, or about whom you have acquired Confidential Information in the course of your employment;

(iii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or hire away, or attempt to solicit, interfere with divert, or hire away, any person engaged by the Company or persuade or attempt to persuade any such individual to terminate his or her employment or consultancy with the Company; and

(iv) you will not directly or indirectly impair or seek to impair any relationships that the Company has with its employees, consultants, customers, suppliers, agents or other parties with which the Company does business or has contractual relations.

(d) **No Personal Benefit:** You will not receive or accept for your own benefit, either directly or indirectly, any commission, rebate, discount, financial gratuity or profit from any Person having or proposing to have one or more business transactions with the Company, without the prior approval of the Board, except that you may accept dinners, event tickets and other customary gifts with values of less than US$500, as long as there is no frequent pattern of such customary gifts from any person or entity, or related group of persons or entities, that would give rise to the perception of a conflict of interest.

(e) **Business Contacts:** During your employment you will communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the Business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding the subsequent termination of your employment.

(f) **Return of Company Property:** Upon termination of your employment, you will promptly return to the Company all Company property including all written information, tapes, discs or memory devices and copies thereof, and any other material on any medium in your possession or control pertaining to the Business of the Company, without retaining any copies or records of any Confidential Information whatsoever. You will also return any keys, pass cards, identification cards, equipment or other property belonging to the Company.

(g) **Pre-existing Obligations:** You are hereby requested and directed by the Company to comply with any existing common law, contractual or statutory obligations to any former employers and to any other Person. The Company is not employing you to obtain the confidential information or business opportunities of any former employers or any other Person.

5. Termination

(a) **Resignation:** If for any reason you should wish to leave the Company, you will provide the Company with three month's prior written notice of your intention (the "**Resignation Period**"). The Parties hereby agree that in order to protect the Company's interests, the Company may, in its sole and unfettered discretion, waive the Resignation Period or any part thereof, and end your employment by delivering to you a written notice accompanied by payment of your Base Salary due to you during the remainder of the Resignation Period.

(b) **Termination for Cause:** The Company may terminate your employment at any time for Cause, effective upon delivery by the Company to you of a written notice of termination of your employment for Cause. You will not be entitled to receive any further pay or compensation (except for pay, if any, accrued and owing under this Agreement up to the date of termination of your employment), severance pay, notice, payment in lieu of notice, benefits or damages of any kind, and for clarity, without limiting the foregoing, you will not be entitled to any bonus or pro rata bonus payment that has not already been awarded by the Board.

(c) **Termination Without Cause:** The Company may terminate your employment at any time without Cause, effective upon delivery by the Company to you of a written notice of termination of your employment, provided that in lieu of notice, the Company provides you with:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) subject to your duty to mitigate the loss of your employment, continuance of the Base Salary in effect at the time of termination for a period equal to twelve months plus one additional month for every completed year of service with the Company, up to a total maximum of eighteen (18) months (the "**Continuance Period**"). In the event you secure employment prior to the end of the Continuance Period, then you agree to notify the Company of such fact and the Company will only be required to continue 50% of your Base Salary from the date of new employment until the end of the Continuance Period;

(iii) your anticipated Bonus Compensation during the Continuance Period based on the average annual bonus paid to you over the three-year period (or the lesser period if the Employee has been employed for less than three years) preceding the date of termination and multiplied by the ratio equal to the number of months in the Continuance Period divided by 12;

(iv) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(v) continued vesting of any unexpired options until the termination of the Continuance Period, at which time any unvested portion of such options will expire and be forfeit, and any vested portion of such options will be exercisable for a period of ninety (90) days from the end of the Continuance Period, at which time any vested but unexercised options will expire and be forfeit.

(d) **Change in Control:** In the event of a Good Reason occurring within the period of twelve (12) months after a Change in Control, you may terminate your employment by providing one month's written notice to the Board. In the event of such termination, you will be entitled to:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) continuance of the Base Salary in effect at the time of termination for a period equal to eighteen (18) months (the "**Change in Control Continuance Period**"); and

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Change in Control Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) all unvested options will immediately vest and will remain exercisable for a period of ninety (90) days from the termination of your employment, at which time any vested but unexercised options will expire and be forfeit.

(e) **Offices and Directorships:** Upon delivery of notice of resignation or termination, regardless of the reason for or manner of termination, you agree to immediately tender your resignation as an officer and/or director of the Company and of any of its subsidiaries or affiliates. You agree that failure to tender you resignation will amount to Cause, for which the Company may treat your employment as being terminated for Cause.

6. Agreement Voluntary and Equitable

The Parties agree that they each have carefully considered and understand the terms of employment contained in this Agreement, that the terms are mutually fair and equitable, and that they each have executed this Agreement voluntarily and of their own free will.

7. Assignment and Enurement

You may not assign this Agreement, any part of this Agreement or any of your rights under this Agreement without the prior written consent of the Company. This Agreement enures to the benefit of and is binding upon you and the Company and your respective heirs, executors, administrators, successors and permitted assigns.

8. Severability

If any part, article, section, clause, paragraph or subparagraph of this Agreement is held to be indefinite, invalid, illegal or otherwise voidable or unenforceable, the entire Agreement will not fail on the account thereof and the validity, legality and enforceability of the remaining provisions will in no way be affected or impaired thereby. Further, if any provision of this Agreement is held by a court of competent jurisdiction to be excessively broad as to duration, activity, geography, or subject, it shall be deemed to extend only over the maximum duration, activity, geographic extent, and subject as to which such provision shall be valid and enforceable under applicable law.

9. Entire Agreement

This Agreement constitutes the entire agreement between you and the Company with respect to the subject matter herein and cancels and supersedes all previous invitations, proposals, letters, correspondence, negotiations, promises, agreements, covenants, conditions, representations and warranties with respect to the subject matter of this Agreement. There is no representation, warranty, collateral term or condition affecting this Agreement for which any Party can be held responsible in any way, other than as expressed in writing in this Agreement. No change or modification of this Agreement will be valid unless it is in writing and signed by both Parties.

10. Notice

Any notice required or permitted to be given hereunder must be in writing and will be sufficiently given or made if delivered by hand to you or to the Chair of the Board, as appropriate, or delivered or sent by registered mail, fax or e-mail to the address of the Parties set out below. Any notice so given will be deemed to have been given and to have been received on the day of delivery if it is a business day and otherwise on the next succeeding business day or, if mailed, on the third business day following the mailing thereof (excluding each day during which there exists any interruption of postal services due to strike, lockout or other cause). Addresses for notice may be changed by giving notice in accordance with this section.

Aquinox Pharmaceuticals Inc.
Suite 400 - 601 West Broadway,
Vancouver, BC V5Z 4C2

Attn: Chair of the Board
Fax: 604.675.2015

Cc: Joe Garcia
McCarthy Tetrault LLP
Fax: 604.643.7900

David Main
[Address]

Fax: [Fax Number]
E-mail: [Email Address]

11. Non-waiver

No failure or delay by you or the Company in exercising any power or right under this Agreement will operate as a waiver of such power or right. Any consent or waiver by any Party to this Agreement to any breach or default under this Agreement will be effective only in the specific instance and for the specific purpose for which it was given.

12. Survival of Terms

The provisions of sections 1, 3, 8, 12, 13, 14 and 17, and of subsections 4(c), 4(e), 4(f) and 5(d) of this Agreement will survive the termination of your employment.

13. Further Assistance

The Parties will execute and deliver any documents and perform any acts necessary to carry out the intent of this Agreement.

14. Equitable Remedies

You hereby acknowledge and agree that a breach of your obligations under this Agreement would result in damages to the Company that could not be adequately compensated for by monetary award. Accordingly, in the event of any such breach by you, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement. The Company hereby acknowledges that any material unilateral change or modification to this Agreement or a material adverse change to your position, duties or compensation, without your prior written consent, except as provided for in section 5, may constitute constructive dismissal or breach of contract and, in addition to all other remedies available to you at law or in equity, you shall be entitled as a matter of right to apply to a court of competent jurisdiction for compensation, relief or other award as may be determined appropriate in the circumstances to ensure compliance with the provisions of this Agreement.

15. Conflict

In the event of any conflict between the terms and conditions of this agreement and any other agreement, the terms of this agreement shall prevail.

16. Time

Time is of the essence of this Agreement.

17. Governing Laws

This Agreement will be governed by and construed in accordance with the laws of British Columbia and the laws of Canada applicable in British Columbia. Each Party attorns to the non-exclusive jurisdiction of courts of British Columbia.

18. Independent Legal Advice

You acknowledge that you have been given an opportunity to seek independent legal advice with respect to the terms of this Agreement prior to its execution and have been advised to do so by the Company and that you understand the terms and rights and obligations under this Agreement. The Company will reimburse you for all reasonable legal fees incurred to obtain independent legal advice up to a maximum of US$1,500.00.

19. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

By: /s/ Kevin B Leslie

Name: Kevin B Leslie

Title: Director

I acknowledge and accept the terms and conditions of my employment with the Company as set out above:

SIGNED, SEALED AND DELIVERED by **DAVID MAIN** in the presence of:	)	
/s/ David Crane Signature of Witness	)	
David Crane Name of Witness	)	
	)	/s/ David Main
David Crane Address of Witness & Solicitor	)	**DAVID MAIN**
McCarthy Tétrault LLP 1300-777 Dunsmuir Street Vancouver, B.C. V7Y 1K2 Direct 604-643-5891	)	
Occupation of Witness	)	

Exhibit 10.7

Private & Confidential

June 6, 2007

To: Tom MacRury
[Address]

Re: Employment Agreement

This Agreement contains the terms and conditions of your employment with Aquinox Pharmaceuticals Inc. These terms of employment will commence on the Commencement Date and will continue until terminated in accordance with the provisions of this Agreement. This Agreement also contains terms for the continuance of options granted to you, as a consultant, by the Company.

Therefore, in consideration of your employment with the Company, the continuance of the options granted to you as a consultant, and the premises, the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which you hereby acknowledge, you agree as follows:

1. Definitions

In this Agreement:

(a) "**Affiliate**" has the same meaning as in the *Canada Business Corporations Act* or any successor legislation, as amended from time to time.

(b) "**Agreement**" means this agreement and schedules attached to this agreement, as amended or supplemented from time to time.

(c) "**Annual Compensation**" means the combined total of Base Salary and Bonus Compensation paid for services and performance in a calendar year.

(d) "**approved by the Company**" or words of similar import means approved by an authorized representative of the Company other than you.

(e) "**Base Salary**" means the base compensation paid to you on a semi-monthly basis and does not include benefits, Bonus Compensation or other incentive compensation.

(f) "**Board**" means the board of directors of the Company.

(g) "**Bonus Compensation**" means the discretionary annual performance-based compensation you are eligible for in accordance with Article 2(e).

(h) "**Business**" means the business of investigating, discovering, developing, evaluating, or commercializing pharmaceutical compositions that may be useful modifiers of SHIP/SHIP2 enzyme activity, or any other enzyme or technology for which the Company has initiated a plan or program of investigation, discovery, development, evaluation or commercialization,

(i) "**Cause**" means any one or more of the following:

(i) A material breach of any of your obligations or duties pursuant to this Agreement, which remains uncured seven days from you becoming aware of the breach;

(ii) Gross negligence or willful misconduct in the course of employment;

(iii) Any action or activity that is contrary to applicable insider trading rules or any other applicable securities rules or legislation;

(iv) An act or omission involving dishonesty or fraud;

(v) Substantial and repeated failure to perform the duties reasonably expected of a Chief Operating Officer in the biotechnology industry, or to perform certain duties as reasonably directed by the Board, or

(vi) Any other act, omission or conduct constituting cause at common law or under the laws of British Columbia.

(j) "**Change in Control**" means the occurrence, after the Commencement Date, of one or more of the following:

(i) a merger, a consolidation, a reorganization or an arrangement that results in a transfer of more than fifty percent (50%) of the total voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(ii) a direct or indirect sale or other transfer of beneficial ownership of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iii) a direct or indirect sale or other transfer of the right to appoint more than fifty percent (50%) of the directors of the Board or otherwise directly or indirectly control the management, affairs and business of the Company to a person or a group of persons different from a person or a group of persons holding this right immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iv) a direct or indirect sale or other transfer of all or substantially all of the assets of the Company to a person or a group of persons different from a person or a group of persons holding those assets immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company); or

(v) a complete liquidation, dissolution or winding-up of the Company;

provided, however, that a Change in Control will not be deemed to have occurred if such Change in Control results solely from the issuance, in connection with a *bona fide* financing or series of financings by the Company, of voting securities of the Company or any rights to acquire voting securities of the Company which are convertible into voting Securities.

(k) "**Good Reason**" in conjunction with a Change in Control means one or more of the following events occurring without your consent:

(i) termination of your employment without cause;

(ii) any material and adverse change to your position, authority or responsibilities in effect under this Agreement;

(iii) any material reduction in incentives, health benefits, bonuses or other compensation plans, practices, policies or programs provided to you in the aggregate under this Agreement;

(iv) an assignment to you of any duties materially inconsistent with your status as the Chief Operating Officer of the Company;

(v) any failure to secure the agreement of any successor entity to fully assume the Company's obligations under this Agreement; or

(vi) any resolution is passed or any action or proceeding taken with respect to the liquidation, dissolution or winding-up of the Company that does not involve continuation of the Company in another form.

(l) "**Commencement Date**" means the date on which a Series A financing round of not less than US$10,000,000 next closes, or such other dates as the Parties may agree upon in writing.

(m) "**Competitive Business**" means any person, firm, company, partnership, venture or business that is (or is planning on) researching, developing, producing, licensing, selling or marketing any product or service that is competitive or substantially similar to the Business.

(n) "**Company**" means Aquinox Pharmaceuticals Inc., a corporation continued under the laws of Canada having a business address at Suite 400 - 601 West Broadway, Vancouver, British Columbia V5Z 4C2, and includes subsidiaries or affiliates of the Company where used in the context of Confidential Information or intellectual property rights or protection.

(o) "**Confidential Information**" means trade secrets and other information, in whatever form or media, in the possession or control of the Company, which is owned by the Company or by one of its clients or suppliers or a third party with whom the Company has a business relationship (collectively, the "**Associates**"), and which is not generally known to the public and has been specifically identified as confidential or proprietary by

the Company, or its nature is such that it would generally be considered confidential in the industry in which the Company or its Associates operate, or which the Company is obligated to treat as confidential or proprietary.

Confidential Information includes, without limitation, the following: (i) the Products and confidential or proprietary facts, data, techniques, materials and other information related to the Products or the Business of the Company, including all related developmental or experimental work or research, related documentation owned or marketed by the Company and related formulas, algorithms, patent applications, concepts, designs, flowcharts, ideas, programming techniques, specifications and software programs (including source code listings), methods, processes, inventions, sources, drawings, prototypes and patterns; (ii) all Developments; (iii) information regarding the Company's business operations, methods and practices, including market strategies, product pricing, margins and hourly rates for staff and information regarding the financial, legal and corporate affairs of the Company; (iv) the names of the Company's Associates and the nature of the Company's relationships with such Associates; and (v) technical and business information of or regarding the Company's Associates. Confidential Information does not include information that is or becomes generally available to the public without your fault or that you can establish, through written records, was in your possession prior to its disclosure to you in connection with your employment.

(p) "**Developments**" includes, without limitation, all:

(i) Products, software, documentation, research, data, designs, reports, flowcharts, trade-marks, specifications and source code listings, and any related works, including any enhancements, modifications or additions to the Products owned, licensed, sold, marketed or used by the Company;

(ii) copyrightable works of authorship including, without limitation, any technical descriptions for Products, user guides, illustrations and advertising materials; and

(iii) inventions, devices, integrated circuit topographies, discoveries, concepts, ideas, algorithms, formulae, know-how, processes, techniques, systems, methods, operating capabilities and improvements, whether patentable or not,

developed, created, generated or reduced to practice by you, alone or jointly with others, as a result of your employment, which result from your employment or which result from the use of the premises or property (including equipment, supplies or Confidential Information) owned, leased or licensed by the Company or which reasonably relate to the Business of the Company.

(q) "**Parties**" means, collectively, you and the Company and, for clarity, a "**Party**" means any one of the Parties.

(r) "**Person**" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency or entity however designated or constituted.

(s) "**Products**" means (i) therapies, approaches, screening methodologies, diagnostic assays, therapeutic molecules, compounds, and any other products derived from the discovery or development of molecular compounds that can be used to treat human inflammatory diseases, auto immune disorders and cancer by altering the activity of SHIP, SHIP2 or any other target enzymes or proteins for which a research program has been initiated by the Company and disclosed to you; (ii) any intellectual property or assets owned, licensed, sold, marketed or used by the Company in connection with the Business, including enhancements, modifications, additions or other improvements to such intellectual property; and (iii) any other products or technologies that the Company discovers or develops during the employment relationship.

(t) Use of the defined terms will include both the singular and the plural of each such term, and such use will not be interpreted as changing the meaning first given thereto.

2. Employment

The terms of your employment will be as follows:

(a) **Position and Responsibilities:** You will be employed as an officer of the Company in the position of Chief Operating Officer reporting to the Chief Executive Officer or his designate. You will perform or fulfil the duties and responsibilities and exercise the powers that are normally performed, fulfilled or exercised by the Chief Operating Officer of a biotechnology company, subject to the *Canada Business Corporation Act* and the articles and by-laws of the Company, and any duties reasonably prescribed by the Board from time to time. You will at all times conform to the reasonable and lawful instructions and directions of the Board.

(b) **Scope of Duties:** During your employment you will devote the whole of your working time, attention and abilities to your duties. You agree to give the Company the full benefit of your knowledge, expertise, skill and ingenuity. The Company consents to you holding board appointments on the conditions that your engagement will not affect your duties or obligations to the Company, that your engagement will not in any way assist a Competitive Business, and that you will obtain the consent of the Board prior to accepting any such appointments in the future.

(c) **Base Compensation:** You will receive an annual Base Salary of US$190,000, subject to source deductions and other deductions required to be deducted and remitted. Your Base Salary will be reviewed annually by the Board, and may be increased to reflect the Company's stage of development, your responsibilities and your personal performance. A formal review of your personal performance will be conducted by the Board on an annual basis. Prior to payment to you of the first instalment of Base Salary, you will elect between US and Canadian currency for all future payments of Base Salary and Bonus Compensation under this Agreement. In the event you elect Canadian currency, the conversion of amounts expressed as US dollars in this Agreement will be converted using the Bank of Canada's noon currency exchange rate as of the Commencement Date.

(d) **Bonus Compensation:** You will be eligible for a discretionary annual performance-based bonus of up to a maximum of 20% of Base Salary, to be determined by the Board in its unfettered discretion, based on its opinion of your performance, the performance of your management team and the performance of the Company. The Board will make a determination with respect to Bonus Compensation not later that March of each year

(e) **Stock Options:** After January 1, 2009, you may be eligible to participate in an incentive options program, under which the Board, in its sole and unfettered discretion, may grant you additional options to purchase equity in the Company or Aquinox Pharmaceutical (USA) Inc. from time to time.

(f) **Previous Stock Option Grants:** For clarity, notwithstanding the termination of your consulting agreement with the Company, dated effective the 15th of February, 2006 (the "**Consulting Agreement**"), the options granted to you thereunder will continue in full force and effect, while you are an employee of the Company, pursuant to the terms and conditions of:

(i) the Company's Stock Option Plan, approved by the Board on June 21, 2006 and thereafter amended and restated as the Joint Canadian Stock Option Plan of the Company and Aquinox Pharmaceuticals (USA) Inc. (the "**Amended and Restated Plan**");

(ii) the Confirmation of Grant Agreement, attached as Schedule A;

(iii) the three Amended and Restated Option Agreements (Grant 1), (Grant 2), and (Grant 3); and

(iv) the Stock Option Adjustment Confirmation Agreement.

(g) **Professional Advisor Fees:** The Company agrees to reimburse you up to a maximum of US$10,000 for future professional advisor fees, in conjunction with any advice or filing you require in order to avoid adverse tax consequences related to the adjustment of options received up to this time. The Company will not be responsible and will not reimburse you for any adverse tax consequences that may arise in connection with the exercise of your options.

(h) **Vacation Entitlement:** You will receive paid vacation in the amount of four weeks per annum, pro-rated for any partial year of employment. Your vacation must be taken in accordance with the Company's vacation policy in effect from time to time.

(i) **Benefits:** Subject to your insurability, the Company will obtain medical insurance, extended health and dental insurance, life and accident insurance coverage for you and will make all reasonable efforts to obtain the disability coverage for you as is usually and customarily obtained by comparable private biotechnology companies for their executive employees (collectively your "**Benefits**"), and the employee portion of any applicable Benefits premiums will be paid by the Company.

(j) **Business Equipment and Other Expenses:** The Company will continue to provide you with a laptop computer and cellular phone for business use. You acknowledge that during the term of your employment and thereafter this equipment remains the sole property of the Company. The Company will reimburse you for all reasonable travelling and out-of-pocket expenses actually and properly incurred by you in connection with your duties under this Agreement and in accordance with Company policy and Board approval, provided that you first furnish statements, and receipts or vouchers for all such expenses to the Company.

3. Confidential Information

As consideration for your promotion and continued employment with the Company, you covenant and agree as follows:

(a) **General Obligation of Confidentiality:** You acknowledge that the Confidential Information is the exclusive property of the Company or Persons from whom the Company has obtained its rights. You will treat the Confidential Information in strict confidence and will not directly or indirectly, either during or subsequent to your employment with the Company, disclose, allow access to, transmit or transfer the Confidential Information to a third party (other than the Company's directors, officers, bankers, legal and financial advisors in the ordinary course of business) unless otherwise required by law or by a regulatory authority having jurisdiction over the Company, or except as previously approved in writing by the Company. You will protect such Confidential Information from disclosure by exercising a standard of care as may reasonably be expected to preserve its secret and confidential nature. You acknowledge and agree that nothing contained in this Agreement will be construed as an assignment to you of any right, title or interest in the Confidential Information. All right, title and interest relating to the Confidential Information is expressly reserved by the Company. All documents containing Confidential Information are the property of the Company. Without limiting the generality of the foregoing, you hereby transfer to the Company the property rights in all documents that now or hereafter may contain the Confidential Information.

(b) **Use of Confidential Information:** You agree that at all times during and subsequent to your employment with the Company, you will not use any of the Confidential Information in any manner except as reasonably required for you to perform your duties for the Company. Without limiting the generality of the foregoing, you agree that at all times during and subsequent to your employment, you will not use or take advantage of the Confidential Information for creating, maintaining or marketing, or aiding in the creation, maintenance or marketing, of any product that is competitive with any of the Products.

(c) **Prohibition on Copying:** You will not copy or reproduce the Confidential Information except in the course of your employment with and for the benefit of the Company or with the written approval of the Company. All such copies remain the property of the Company.

(d) **Injunctive Relief:** You acknowledge that irreparable harm may result to the Company if you breach your obligations under this Article or under subsections 4(c) and 4(f). You acknowledge that such a breach may not properly be compensated by an award of damages. Accordingly, the Company's remedy for any such breach may include, in addition to other available remedies and damages, injunctive relief or other equitable relief enjoining such breach at the earliest possible date.

(e) **Assignment:** You agree to make full disclosure to the Company of each Development promptly after its creation. You hereby irrevocably assign and transfer to the Company,

and agree that the Company will be the exclusive owner of all of your right, title and interest in and to each Development throughout the world, including all trade secrets, patent rights, copyrights trademarks, industrial designs and all other intellectual property rights therein, whether realized within or beyond the scope of your employment, and regardless of the true purpose of the employment relationship, and you irrevocably waive all moral rights you may have in these Developments. You further agree to cooperate fully at all times during and subsequent to your employment with respect to signing further documents and doing such acts and other things reasonably requested by the Company, at the Company's expense, to confirm such transfer of ownership of rights, including intellectual property rights, effective at or after the time the Development is created and to apply for and obtain patents or copyrights, industrial designs trademarks, other intellectual property registrations or other similar rights covering the Development. The Company will be exclusively entitled to make applications for registration of all such rights, in the Company's sole and unfettered discretion, in any jurisdictions that the company deems necessary. Should the Company be unable to secure your signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright or other right or protection relating to any Development, due to your incapacity or any other cause, you hereby irrevocably designate and appoint the Company and each of its duly authorized officers and agents as your agent and attorney-in-fact to do all lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protection with the same force and effect as if executed and delivered by you. You agree that the obligations in this subsection will continue beyond the termination of your employment with respect to any and all Developments created during your employment. For purposes of the copyright laws of the United States of America and other jurisdictions, to the extent, if any, that such laws are applicable to any Confidential Information, it will be considered a work made for hire and the Company will be considered the author thereof.

4. Obligations of Employment

You further covenant and agree as follows:

(a) **Performance and Duty to the Company:** Throughout your employment you will well and faithfully serve the Company and use your best efforts to promote the Business of the Company. You will act honestly and in good faith in what you reasonably believe to be in the best interests of the Company. You will adhere to all applicable policies of the Company and exercise the degree of care, diligence and skill that a reasonably prudent Chief Operating Officer would exercise in comparable circumstances.

(b) **Business of the Company:** You will not, during your employment with the Company, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the Business of the Company.

(c) **Restrictions:** You agree to comply with all of the restrictions set forth below at all times during your employment and for a period of one year from the termination of your employment (regardless of which Party terminates your employment and regardless of the reason for such termination, if any) or, in the event of a termination involving payment of Annual Compensation during a Continuance Period or a Change in Control Continuance Period, for a period equivalent to the Continuance Period or Change in Control Continuance Period, whichever is operative, from the termination of your employment, during which:

(i) you will not, either individually or in conjunction with any Person, as principal, agent, director, officer, employee, investor or in any other manner whatsoever, directly or indirectly, own, operate, carry on, be engaged in the operations of, have any financial interest in, loan any monies to, guarantee any liabilities or obligations of, act as a consultant to or provide management services to a Competitive Business without the prior written consent of the Company. The foregoing will not prevent you from holding any class of publicly held shares of a company, partnership or other organization provided that you, alone or in conjunction with any other Person, will not directly or indirectly hold more than 5% of the shares of any such company, partnership or other organization;

(ii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or appropriate or attempt to solicit, interfere with, divert or appropriate to any Competitive Business, any business or actively sought prospective business of the Company or any customers with whom the Company has current agreements relating to the Business of the Company, or with whom you have dealt, or with whom you have supervised negotiations or business relations, or about whom you have acquired Confidential Information in the course of your employment;

(iii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or hire away, or attempt to solicit, interfere with divert, or hire away, any person engaged by the Company or persuade or attempt to persuade any such individual to terminate his or her employment or consultancy with the Company; and

(iv) you will not directly or indirectly impair or seek to impair any relationships that the Company has with its employees, consultants, customers, suppliers, agents or other parties with which the Company does business or has contractual relations.

(d) **No Personal Benefit:** You will not receive or accept for your own benefit, either directly or indirectly, any commission, rebate, discount, financial gratuity or profit from any Person having or proposing to have one or more business transactions with the Company, without the prior approval of the Board, except that you may accept dinners, event tickets and other customary gifts with values of less than US$500, as long as there is no frequent pattern of such customary gifts from any person or entity, or related group of persons or entities, that would give rise to the perception of a conflict of interest.

(e) **Business Contacts:** During your employment you will communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the Business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding the subsequent termination of your employment.

(f) **Return of Company Property:** Upon termination of your employment, you will promptly return to the Company all Company property including all written information, tapes, discs or memory devices and copies thereof, and any other material on any medium

in your possession or control pertaining to the Business of the Company, without retaining any copies or records of any Confidential Information whatsoever. You will also return any keys, pass cards, identification cards, equipment or other property belonging to the Company.

(g) **Pre-existing Obligations:** You are hereby requested and directed by the Company to comply with any existing common law, contractual or statutory obligations to any former employers and to any other Person. The Company is not employing you to obtain the confidential information or business opportunities of any former employers or any other Person.

5. Termination

(a) **Resignation:** If for any reason you should wish to leave the Company, you will provide the Company with three month's prior written notice of your intention (the "**Resignation Period**"). The Parties hereby agree that in order to protect the Company's interests, the Company may, in its sole and unfettered discretion, waive the Resignation Period or any part thereof, and end your employment by delivering to you a written notice accompanied by payment of your Base Salary due to you during the remainder of the Resignation Period.

(b) **Termination for Cause:** The Company may terminate your employment at any time for Cause, effective upon delivery by the Company to you of a written notice of termination of your employment for Cause. You will not be entitled to receive any further pay or compensation (except for pay, if any, accrued and owing under this Agreement up to the date of termination of your employment), severance pay, notice, payment in lieu of notice, benefits or damages of any kind, and for clarity, without limiting the foregoing, you will not be entitled to any bonus or pro rata bonus payment that has not already been awarded by the Board.

(c) **Termination Without Cause:** The Company may terminate your employment at any time without Cause, effective upon delivery by the Company to you of a written notice of termination of your employment, provided that in lieu of notice, the Company provides you with:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) subject to your duty to mitigate the loss of your employment, continuance of the Base Salary in effect at the time of termination for a period equal to twelve months (the "**Continuance Period**"). In the event you secure employment prior to the end of the Continuance Period, then you agree to notify the Company of such fact and the Company will only be required to continue 50% of your Base Salary from the date of new employment until the end of the Continuance Period;

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) vesting of any unvested options will cease on the date your employment is terminated, at which time any unvested portion of such options will expire and be forfeit, and any vested portion of such options will be exercisable for a period of ninety (90) days from the date of the termination of your employment.

(d) **Change in Control:** In the event of a Good Reason occurring within the period of twelve (12) months after a Change in Control, you may terminate your employment by providing one month's written notice to the Board. In the event of such termination, you will be entitled to:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) continuance of the Base Salary in effect at the time of termination for a period equal to twelve (12) months (the "**Change in Control Continuance Period**"); and

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Change in Control Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) all unvested options will immediately vest and will remain exercisable for a period of ninety (90) days from the termination of your employment, at which time any vested but unexercised options will expire and be forfeit.

(e) **Offices and Directorships:** Upon delivery of notice of resignation or termination, regardless of the reason for or manner of termination, you agree to immediately tender your resignation as an officer and/or director of the Company and of any of its subsidiaries or affiliates. You agree that failure to tender you resignation will amount to Cause, for which the Company may treat your employment as being terminated for Cause.

6. Agreement Voluntary and Equitable

The Parties agree that they each have carefully considered and understand the terms of employment contained in this Agreement, that the terms are mutually fair and equitable, and that they each have executed this Agreement voluntarily and of their own free will.

7. Assignment and Enurement

You may not assign this Agreement, any part of this Agreement or any of your rights under this Agreement without the prior written consent of the Company. This Agreement enures to the benefit of and is binding upon you and the Company and your respective heirs, executors, administrators, successors and permitted assigns.

8. Severability

If any part, article, section, clause, paragraph or subparagraph of this Agreement is held to be indefinite, invalid, illegal or otherwise voidable or unenforceable, the entire Agreement will not fail on the account thereof and the validity, legality and enforceability of the remaining provisions will in no way be affected or impaired thereby. Further, if any provision of this Agreement is held by a court of competent jurisdiction to be excessively broad as to duration, activity, geography, or subject, it shall be deemed to extend only over the maximum duration, activity, geographic extent, and subject as to which such provision shall be valid and enforceable under applicable law.

9. Entire Agreement

This Agreement constitutes the entire agreement between you and the Company with respect to the subject matter herein and cancels and supersedes all previous invitations, proposals, letters, correspondence, negotiations, promises, agreements, covenants, conditions, representations and warranties with respect to the subject matter of this Agreement. There is no representation, warranty, collateral term or condition affecting this Agreement for which any Party can be held responsible in any way, other than as expressed in writing in this Agreement. No change or modification of this Agreement will be valid unless it is in writing and signed by both Parties.

10. Notice

Any notice required or permitted to be given hereunder must be in writing and will be sufficiently given or made if delivered by hand to you or to the Chair of the Board, as appropriate, or delivered or sent by registered mail, fax or e-mail to the address of the Parties set out below. Any notice so given will be deemed to have been given and to have been received on the day of delivery if it is a business day and otherwise on the next succeeding business day or, if mailed, on the third business day following the mailing thereof (excluding each day during which there exists any interruption of postal services due to strike, lockout or other cause). Addresses for notice may be changed by giving notice in accordance with this section.

Aquinox Pharmaceuticals Inc.
Suite 400 - 601 West Broadway,
Vancouver, BC V5Z 4C2

Attn: Chair of the Board
Fax: 604.675.2015

Tom MacRury
[Address]

Fax: [Fax Number]
E-mail: [Email Address]

Cc: Joe Garcia
McCarthy Tetrault LLP
Fax: 604.643.7900

11. Non-waiver

No failure or delay by you or the Company in exercising any power or right under this Agreement will operate as a waiver of such power or right. Any consent or waiver by any Party to this Agreement to any breach or default under this Agreement will be effective only in the specific instance and for the specific purpose for which it was given.

12. Survival of Terms

The provisions of sections 1, 3, 8, 12, 13, 14 and 17, subsections 4(c), 4(e), 4(f) and 5(d) and Schedule A of this Agreement will survive the termination of your employment.

13. Further Assistance

The Parties will execute and deliver any documents and perform any acts necessary to carry out the intent of this Agreement.

14. Equitable Remedies

You hereby acknowledge and agree that a breach of your obligations under this Agreement would result in damages to the Company that could not be adequately compensated for by monetary award. Accordingly, in the event of any such breach by you, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement. The Company hereby acknowledges that any material unilateral change or modification to this Agreement or a material adverse change to your position, duties or compensation, without your prior written consent, except as provided for in section 5, may constitute constructive dismissal or breach of contract and, in addition to all other remedies available to you at law or in equity, you shall be entitled as a matter of right to apply to a court of competent jurisdiction for compensation, relief or other award as may be determined appropriate in the circumstances to ensure compliance with the provisions of this Agreement.

15. Conflict

In the event of any conflict between the terms and conditions of this agreement and any other agreement, the terms of this agreement shall prevail.

16. Time

Time is of the essence of this Agreement.

17. Governing Laws

This Agreement will be governed by and construed in accordance with the laws of British Columbia and the laws of Canada applicable in British Columbia. Each Party attorns to the non-exclusive jurisdiction of courts of British Columbia.

18. Independent Legal Advice

You acknowledge that you have been given an opportunity to seek independent legal advice with respect to the terms of this Agreement prior to its execution and have been advised to do so by the Company and that you understand the terms and rights and obligations under this Agreement.

19. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

Aquinox Pharmaceuticals Inc.

By: /s/ David J. Main

Name: David J. Main

Title: President & CEO

I acknowledge and accept the terms and conditions of my employment with the Company as set out above:

SIGNED, SEALED AND DELIVERED by **TOM MACRURY** in the presence of:

Signature of Witness

Name of Witness

Address of Witness

Occupation of Witness

TOM MACRURY

19. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

Aquinox Pharmaceuticals Inc.

By: _____

Name: _____

Title: _____

I acknowledge and accept the terms and conditions of my employment with the Company as set out above:

SIGNED, SEALED AND DELIVERED by **TOM MACRURY** in the presence of:	)	
	)	
	)	
/s/ David J. Main	)	
Signature of Witness	)	
	)	
David J. Main	)	
Name of Witness	)	
	)	/s/ T. B. MacRury
[Address]	)	**TOM MACRURY**
Address of Witness	)	
	)	
[Address]	)	
	)	
Executive	)	
Occupation of Witness	)	

AQUINOX PHARMACEUTICALS INC.
Suite 430 – 5600 Parkwood Way
Richmond, BC, Canada V6V 2M2

Tel 604.629.9223
Fax 604.295.4748
Web www.aqxpharma.com

Private & Confidential

July 18, 2011

Kamran Alam
[Address]

Dear Kamran:

Re: Employment Agreement

This Agreement contains the terms and conditions of your employment with Aquinox Pharmaceuticals Inc. These terms of employment will commence on the Commencement Date and will continue until terminated in accordance with the provisions of this Agreement. Therefore, in consideration of your employment with the Company and the premises, the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which you hereby acknowledge, you agree as follows:

1. Definitions

In this Agreement:

(a) "**Affiliate**" has the same meaning as in the *Canada Business Corporations Act* or any successor legislation, as amended from time to time.

(b) "**Agreement**" means this agreement and schedules attached to this agreement, as amended or supplemented from time to time by mutual written consent of both Parties.

(c) "**Annual Compensation**" means the combined total of Base Salary and Bonus Compensation paid for services and performance in a calendar year.

(d) "**approved by the Company**" or words of similar import means approved by an authorized representative of the Company other than you.

(e) "**Base Salary**" means the base compensation paid to you on a semi-monthly basis and does not include benefits, Bonus Compensation or other incentive compensation.

(f) "**Board**" means the board of directors of the Company.

(g) "**Bonus Compensation**" means the discretionary annual performance-based compensation you are eligible for in accordance with Article 2(d).

(h) "**Business**" means the business of investigating, discovering, developing, evaluating, or commercializing pharmaceutical compositions that may be useful modifiers of SHIP/SHIP2 enzyme activity, or any other enzyme or technology for which the Company has initiated a plan or program of investigation, discovery, development, evaluation or commercialization prior to or during your employment with the Company.

(i) "**Cause**" means any one or more of the following:

(i) A material breach of any of your obligations or duties pursuant to this Agreement, which remains uncured seven days from you becoming aware of the breach;

(ii) Gross negligence or willful misconduct in the course of employment;

(iii) Any action or activity that is contrary to applicable insider trading rules or any other applicable securities rules or legislation;

(iv) An act or omission involving dishonesty or fraud;

(v) Substantial and repeated failure to perform the duties reasonably expected of an employee in the biotechnology industry, or to perform certain duties as reasonably directed by management or the Board, or

(vi) Any other act, omission or conduct constituting cause at common law or under the laws of British Columbia.

(j) "**Change in Control**" means the occurrence, after the Commencement Date, of one or more of the following:

(i) a merger, a consolidation, a reorganization or an arrangement that results in a transfer of more than fifty percent (50%) of the total voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(ii) a direct or indirect sale or other transfer of beneficial ownership of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iii) a direct or indirect sale or other transfer of the right to appoint more than fifty percent (50%) of the directors of the Board or otherwise directly or indirectly control the management, affairs and business of the Company to a person or a group of persons different from a person or a group of persons holding this right immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iv) a direct or indirect sale or other transfer of all or substantially all of the assets of the Company to a person or a group of persons different from a person or a group of persons holding those assets immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company); or

(v) a complete liquidation, dissolution or winding-up of the Company;

provided, however, that a Change in Control will not be deemed to have occurred if such Change in Control results solely from the issuance, in connection with a *bona fide* financing or series of financings by the Company, of voting securities of the Company or any rights to acquire voting securities of the Company which are convertible into voting Securities.

(k) "**Commencement Date**" means your first day of employment, which will be no later than August 22, 2011.

(l) "**Competitive Business**" means any person, firm, company, partnership, venture or business that is (or, to your knowledge, is planning on) researching, developing, producing, licensing, selling or marketing any product or service that is competitive or substantially similar to the Business.

(m) "**Company**" means Aquinox Pharmaceuticals Inc., a corporation continued under the laws of Canada having a business address at Suite 430 — 5600 Parkwood Way, Richmond, British Columbia V6V 2M2, and includes subsidiaries or affiliates of the Company where used in the context of Confidential Information or intellectual property rights or protection.

(n) "**Confidential Information**" means trade secrets and other information, in whatever form or media, in the possession or control of the Company, which is owned by the Company or by one of its clients or suppliers or a third party with whom the Company has a business relationship (collectively, the "**Associates**"), and which is not generally known to the public and has been specifically identified as confidential or proprietary by the Company, or its nature is such that it would generally be considered confidential in the industry in which the Company or its Associates operate, or which the Company is obligated to treat as confidential or proprietary.

Confidential Information includes, without limitation, the following: (i) the Products and confidential or proprietary facts, data, techniques, materials and other information related to the Products or the Business of the Company, including all related developmental or experimental work or research, related documentation owned or marketed by the Company and related formulas, algorithms, patent applications, concepts, designs, flowcharts, ideas, programming techniques, specifications and software programs (including source code listings), methods, processes, inventions, sources, drawings, prototypes and patterns; (ii) all Developments; (iii) information regarding the Company's business operations, methods and practices, including market strategies, product pricing, margins and hourly rates for staff and information regarding the financial, legal and corporate affairs of the Company; (iv) the names of the Company's Associates and the nature of the Company's relationships with such Associates; and (v) technical and business information of or regarding the Company's Associates. Confidential Information does not include information that is or becomes generally available to the public without your fault or that you can establish, through written records, was in your possession prior to its disclosure to you in connection with your employment.

(o) "**Developments**" includes, without limitation, all:

(i) Products, software, documentation, research, data, designs, reports, flowcharts, trade-marks, specifications and source code listings, and any related works, including any enhancements, modifications or additions to the Products owned, licensed, sold, marketed or used by the Company;

(ii) copyrightable works of authorship including, without limitation, any technical descriptions for Products, user guides, illustrations and advertising materials; and

(iii) inventions, devices, integrated circuit topographies, discoveries, concepts, ideas, algorithms, formulae, know-how, processes, techniques, systems, methods, operating capabilities and improvements, whether patentable or not,

developed, created, generated or reduced to practice by you, alone or jointly with others, as a result of your employment, which result from your employment or which result from the use of the premises or property (including equipment, supplies or Confidential Information) owned, leased or licensed by the Company or which reasonably relate to the Business of the Company.

(p) "**Good Reason**" in conjunction with a Change in Control means one or more of the following events occurring without your consent:

(i) termination of your employment without cause;

(ii) any material and adverse change to your position, authority or responsibilities in effect under this Agreement;

(iii) any material reduction in incentives, health benefits, bonuses or other compensation plans, practices, policies or programs provided to you in the aggregate under this Agreement;

(iv) an assignment to you of any duties materially inconsistent with your status as the Chief Financial Officer of the Company;

(v) any failure to secure the agreement of any successor entity to fully assume the Company's obligations under this Agreement; or

(vi) any resolution is passed or any action or proceeding taken with respect to the liquidation, dissolution or winding-up of the Company that does not involve continuation of the Company in another form.

(q) "**Parties**" means, collectively, you and the Company and, for clarity, a "**Party**" means any one of the Parties.

(r) "**Person**" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency or entity however designated or constituted.

(s) "**Products**" means (i) therapies, approaches, screening methodologies, diagnostic assays, therapeutic molecules, compounds, and any other products derived from the discovery or development of molecular compounds that can be used to treat human inflammatory diseases, autoimmune disorders and cancer by altering the activity of SHIP, SHIP2 or any other target enzymes or proteins for which a research program has been initiated by the Company and disclosed to you; (ii) any intellectual property or assets owned, licensed, sold, marketed or used by the Company in connection with the Business, including enhancements, modifications, additions or other improvements to such intellectual property; and (iii) any other products or technologies that the Company discovers or develops during the employment relationship.

(t) Use of the defined terms will include both the singular and the plural of each such term, and such use will not be interpreted as changing the meaning first given thereto.

2. Employment

The terms of your employment will be as follows:

(a) **Position and Responsibilities:** You will be employed as an officer of the Company in the position of Vice President, Finance and Chief Financial Officer reporting to the Chief Executive Officer or his designate. You will perform or fulfil the duties and responsibilities set out at Schedule A of this Agreement. Additionally, you will perform or fulfil the duties and responsibilities and exercise the powers that are normally performed, fulfilled or exercised by the Chief Financial Officer of a biotechnology company, subject to the *Canada Business Corporation Act* and the articles and by-laws of the Company, and any duties reasonably prescribed by the Board from time to time. You will at all times conform to the reasonable and lawful instructions and directions of the Board.

(b) **Scope of Duties:** During your employment you will devote the whole of your working time, attention and abilities to your duties. You agree to give the Company the full benefit of your knowledge, expertise, skill and ingenuity. The Company consents to you holding board appointments on the conditions that your engagement will not affect your duties or obligations to the Company, that your engagement will not in any way assist a Competitive Business, and that you will obtain the consent of the Board prior to accepting any such appointments in the future.

(c) **Signing Bonus:** As consideration for your accepting your position and obligations under this Agreement, the Company will provide you with a signing bonus of $10,000, subject to source deductions and other deductions required to be deducted and remitted, to be payable in the first regular payroll after the Commencement Date.

(d) **Base Compensation:** You will receive an annual Base Salary of CDN $155,000, subject to source deductions and other deductions required to be deducted and remitted. Your Base Salary will be reviewed annually, subject to approval by the Board, and may be increased to reflect the Company's stage of development, your responsibilities and your personal performance. A formal review of your personal performance will be conducted on an annual basis.

(e) **Bonus Compensation**: You will be eligible for a discretionary annual performance-based bonus of up to a maximum of 20% of Base Salary, paid pro-rata for the period actually worked, to be recommended by the CEO and determined by the Board in its unfettered discretion, based on its opinion of your performance, the performance of your team and the performance of the Company. The Board will make a determination with respect to Bonus Compensation not later than March of each year.

(f) **Excess Hours:** You agree that as a manager or high technology professional as defined in the Employment Standards Act of British Columbia, your hours of work will vary and may be irregular and will be those hours required to meet the objectives of your employment. You agree that the Annual Compensation described in this Agreement compensates for you all hours worked.

(g) **Stock Options:** Subject to the approval of the Board, we will issue to you 400,000 options to purchase equity in the Company under, and subject to the terms and conditions of, our Joint Stock Option Plan. Additionally, you will be eligible to participate in an incentive options program, under which the Board, in its sole and unfettered discretion, may grant you additional options to purchase equity in the Company or Aquinox Pharmaceutical (USA) Inc. from time to time.

(h) **Vacation Entitlement:** You will receive paid vacation in the amount of 4 weeks per annum, pro-rated for any partial year of employment. Your vacation must be taken in accordance with the Company's vacation policy in effect from time to time.

(i) **Benefits:** Subject to your insurability, you will be eligible to enrol upon your Commencement Date in the Company's benefit program covering MSP premiums and additional benefits provided by Encon for access to extended health and dental insurance, life and accident insurance coverage (collectively your "**Benefits**"), and the employee portion of any applicable Benefits premiums will be paid by the Company.

(j) **Business Equipment and Other Expenses:** The Company will provide you with a laptop computer and smartphone for business use. You acknowledge that during the term of your employment and thereafter this equipment remains the sole property of the Company. The Company will reimburse you for all reasonable travelling and out-of-pocket expenses actually and properly incurred by you in connection with your duties under this Agreement and in accordance with Company policy and Board approval, provided that you first furnish statements, and receipts or vouchers for all such expenses to the Company.

3. <u>Confidential Information</u>

As consideration for your promotion and continued employment with the Company, you covenant and agree as follows:

(a) **General Obligation of Confidentiality:** You acknowledge that the Confidential Information is the exclusive property of the Company or Persons from whom the Company has obtained its rights. You will treat the Confidential Information in strict confidence and will not directly or indirectly, either during or subsequent to your employment with the Company, disclose, allow access to, transmit or transfer the Confidential Information to a third party (other than

the Company's directors, officers, bankers, legal and financial advisors in the ordinary course of business) unless otherwise required by law or by a regulatory authority having jurisdiction over the Company, or except as previously approved in writing by the Company. You will protect such Confidential Information from disclosure by exercising a standard of care as may reasonably be expected to preserve its secret and confidential nature. You acknowledge and agree that nothing contained in this Agreement will be construed as an assignment to you of any right, title or interest in the Confidential Information. All right, title and interest relating to the Confidential Information is expressly reserved by the Company. All documents containing Confidential Information are the property of the Company. Without limiting the generality of the foregoing, you hereby transfer to the Company the property rights in all documents that now or hereafter may contain the Confidential Information.

(b) **Use of Confidential Information:** You agree that at all times during and subsequent to your employment with the Company, you will not use any of the Confidential Information in any manner except as reasonably required for you to perform your duties for the Company. Without limiting the generality of the foregoing, you agree that at all times during and subsequent to your employment, you will not use or take advantage of the Confidential Information for creating, maintaining or marketing, or aiding in the creation, maintenance or marketing, of any product that is competitive with any of the Products.

(c) **Prohibition on Copying:** You will not copy or reproduce the Confidential Information except in the course of your employment with and for the benefit of the Company or with the written approval of the Company. All such copies remain the property of the Company.

(d) **Injunctive Relief:** You acknowledge that irreparable harm may result to the Company if you breach your obligations under this Article or under subsections 4(c), 4(e) and 4(f). You acknowledge that such a breach may not properly be compensated by an award of damages. Accordingly, the Company's remedy for any such breach may include, in addition to other available remedies and damages, injunctive relief or other equitable relief enjoining such breach at the earliest possible date.

(e) **Assignment:** You agree to make full disclosure to the Company of each Development promptly after its creation. You hereby irrevocably assign and transfer to the Company, and agree that the Company will be the exclusive owner of, all of your right, title and interest in and to each Development throughout the world, including all trade secrets, patent rights, copyrights trademarks, industrial designs and all other intellectual property rights therein, whether realized within or beyond the scope of your employment, and regardless of the true purpose of the employment relationship, and you irrevocably waive all moral rights you may have in these Developments. You further agree to cooperate fully at all times during and subsequent to your employment with respect to signing further documents and doing such acts and other things reasonably requested by the Company, at the Company's expense, to confirm such transfer of ownership of rights, including intellectual property rights, effective at or after the time the Development is created and to apply for and obtain patents or copyrights, industrial designs trademarks, other intellectual property registrations or other similar rights covering the Development. The Company will be exclusively entitled to make

applications for registration of all such rights, in the Company's sole and unfettered discretion, in any jurisdictions that the company deems necessary. Should the Company be unable to secure your signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright or other right or protection relating to any Development, due to your incapacity or any other cause, you hereby irrevocably designate and appoint the Company and each of its duly authorized officers and agents as your agent and attorney-in-fact to do all lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protection with the same force and effect as if executed and delivered by you. You agree that the obligations in this subsection will continue beyond the termination of your employment with respect to any and all Developments created during your employment. For purposes of the copyright laws of the United States of America and other jurisdictions, to the extent, if any, that such laws are applicable to any Confidential Information, it will be considered a work made for hire and the Company will be considered the author thereof.

4. <u>Obligations of Employment</u>

You further covenant and agree as follows:

(a) **Performance and Duty to the Company:** Throughout your employment you will well and faithfully serve the Company and use your best efforts to promote the Business of the Company. You will act honestly and in good faith in what you reasonably believe to be in the best interests of the Company. You will adhere to all applicable policies of the Company and exercise the degree of care, diligence and skill that a reasonably prudent Vice President Finance, and Chief Financial Officer would exercise in comparable circumstances.

(b) **Business of the Company:** You will not, during your employment with the Company, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the Business of the Company.

(c) **Restrictions:** You agree to comply with all of the restrictions set forth below at all times during your employment and for a period of one year from the termination of your employment (regardless of which Party terminates your employment and regardless of the reason for such termination, if any) during which:

(i) you will not, either individually or in conjunction with any Person, as principal, agent, director, officer, employee, investor or in any other manner whatsoever, directly or indirectly, own, operate, carry on, be engaged in the operations of, have any financial interest in, loan any monies to, guarantee any liabilities or obligations of, act as a consultant to or provide management services to a Competitive Business without the prior written consent of the Company. The foregoing will not prevent you from holding any class of publicly held shares of a company, partnership or other organization provided that you, alone or in conjunction with any other Person, will not directly or indirectly hold more than 5% of the shares of any such company, partnership or other organization;

(ii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or appropriate or attempt to solicit, interfere with, divert or appropriate to any Competitive Business, any business or actively sought prospective business of the Company or any customers with whom the Company has current agreements relating to the Business of the Company, or with whom you have dealt, or with whom you have supervised negotiations or business relations, or about whom you have acquired Confidential Information in the course of your employment;

(iii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or hire away, or attempt to solicit, interfere with divert, or hire away, any person engaged by the Company or persuade or attempt to persuade any such individual to terminate his or her employment or consultancy with the Company; and

(iv) you will not directly or indirectly impair or seek to impair any relationships that the Company has with its employees, consultants, customers, suppliers, agents or other parties with which the Company does business or has contractual relations.

(d) **No Personal Benefit:** You will not receive or accept for your own benefit, either directly or indirectly, any commission, rebate, discount, financial gratuity or profit from any Person having or proposing to have one or more business transactions with the Company, without the prior approval of the Board, except that you may accept dinners, event tickets and other customary gifts with values of less than CDN$500, as long as there is no frequent pattern of such customary gifts from any person or entity, or related group of persons or entities, that would give rise to the perception of a conflict of interest.

(e) **Business Contacts:** During your employment you will communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the Business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding the subsequent termination of your employment.

(f) **Return of Company Property:** Upon termination of your employment, you will promptly return to the Company all Company property including all written information, tapes, discs or memory devices and copies thereof, and any other material on any medium in your possession or control pertaining to the Business of the Company, without retaining any copies or records of any Confidential Information whatsoever. You will also return any keys, pass cards, identification cards, equipment or other property belonging to the Company.

(g) **Pre-existing Obligations:** You are hereby requested and directed by the Company to comply with any existing common law, contractual or statutory obligations to any former employers and to any other Person. The Company is not employing you to obtain the confidential information or business opportunities of any former employers or any other Person.

5. <u>Termination</u>

(a) **Resignation:** If for any reason you should wish to leave the Company, you will provide the Company with three months prior written notice of your intention (the "**Resignation Period**"). The Parties hereby agree that in order to protect the Company's interests, the Company may, in its sole and unfettered discretion, waive the Resignation Period or any part thereof, and end your employment by delivering to you a written notice accompanied by payment of your Base Salary due to you during the remainder of the Resignation Period.

(b) **Termination for Cause:** The Company may terminate your employment at any time for Cause, effective upon delivery by the Company to you of a written notice of termination of your employment for Cause. You will not be entitled to receive any further pay or compensation (except for pay, if any, accrued and owing under this Agreement up to the date of termination of your employment), severance pay, notice, payment in lieu of notice, benefits or damages of any kind, and for clarity, without limiting the foregoing, you will not be entitled to any bonus or pro rata bonus payment that has not already been awarded by the Board.

(c) **Termination Without Cause:** Following the Commencement Date and for the duration of your employment with Aquinox Pharmaceuticals, the Company may terminate your employment at any time without Cause by providing you with six (6) months working notice, effective upon delivery by the Company of a written notice of termination of your employment. Alternatively, the Company may terminate your employment at any time without Cause, effective upon delivery by the Company to you of a written notice of termination of your employment, provided that in lieu of notice, the Company provides you with:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) subject to your duty to mitigate the loss of your employment, continuance of the Base Salary in effect at the time of termination for a period equal to six (6) months (the "**Continuance Period**"). In the event you secure employment prior to the end of the Continuance Period, then you agree to notify the Company of such fact and the Company will only be required to continue 50% of your Base Salary from the date of new employment until the end of the Continuance Period;

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, similar replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) vesting of any unvested options will cease on the date your employment is terminated, at which time any unvested portion of such options will expire and be forfeited, and any vested portion of such options will be exercisable for a period of ninety (90) days from the date of the termination of your employment, subject to the terms of the Company Stock Option Plan.

(d) **Change in Control:** In the event of a Good Reason occurring within the period of twelve (12) months after a Change in Control, you may terminate your employment by providing one month's written notice to the Board. In the event of such termination, you will be entitled to:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) continuance of the Base Salary in effect at the time of termination for a period equal to six (6) months (the "**Change in Control Continuance Period**"); and

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Change in Control Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) all unvested options will immediately vest and will remain exercisable for a period of ninety (90) days from the termination of your employment, at which time any vested but unexercised options will expire and be forfeit.

(e) **Offices and Directorships:** Upon delivery of notice of resignation or termination, regardless of the reason for or manner of termination, you agree to immediately tender your resignation as an officer and/or director of the Company and of any of its subsidiaries or affiliates. You agree that failure to tender you resignation will amount to Cause, for which the Company may treat your employment as being terminated for Cause.

6. Agreement Voluntary and Equitable

The Parties agree that they each have carefully considered and understand the terms of employment contained in this Agreement, that the terms are mutually fair and equitable, and that they each have executed this Agreement voluntarily and of their own free will.

7. Assignment and Enurement

You may not assign this Agreement, any part of this Agreement or any of your rights under this Agreement without the prior written consent of the Company. This Agreement enures to the benefit of and is binding upon you and the Company and your respective heirs, executors, administrators, successors and permitted assigns.

8. Severability

If any part, article, section, clause, paragraph or subparagraph of this Agreement is held to be indefinite, invalid, illegal or otherwise voidable or unenforceable, the entire Agreement will not fail on the account thereof and the validity, legality and enforceability of the remaining provisions will in no way be affected or impaired thereby. Further, if any provision of this Agreement is held by a court of competent jurisdiction to be excessively broad as to duration, activity, geography, or subject, it shall be deemed to extend only over the maximum duration, activity, geographic extent, and subject as to which such provision shall be valid and enforceable under applicable law.

9. Entire Agreement

This Agreement constitutes the entire agreement between you and the Company with respect to the subject matter herein and cancels and supersedes all previous invitations, proposals, letters, correspondence, negotiations, promises, agreements, covenants, conditions, representations and warranties with respect to the subject matter of this Agreement. There is no representation, warranty, collateral term or condition affecting this Agreement for which any Party can be held responsible in any way, other than as expressed in writing in this Agreement. No change or modification of this Agreement will be valid unless it is in writing and signed by both Parties.

10. Notice

Any notice required or permitted to be given hereunder must be in writing and will be sufficiently given or made if delivered by hand to you or to the Chair of the Board, as appropriate, or delivered or sent by registered mail, fax or e-mail to the address of the Parties set out below. Any notice so given will be deemed to have been given and to have been received on the day of delivery if it is a business day and otherwise on the next succeeding business day or, if mailed, on the third business day following the mailing thereof (excluding each day during which there exists any interruption of postal services due to strike, lockout or other cause). Addresses for notice may be changed by giving notice in accordance with this section.

Aquinox Pharmaceuticals Inc.
Suite 430 — 5600 Parkwood Way
Vancouver, BC V6V 2M2
Attn: President & CEO
Fax: 604-295-4748

Kamran Alam
[Address]
Email: [Email Address]

11. Non-waiver

No failure or delay by you or the Company in exercising any power or right under this Agreement will operate as a waiver of such power or right. Any consent or waiver by any Party to this Agreement to any breach or default under this Agreement will be effective only in the specific instance and for the specific purpose for which it was given.

12. Survival of Terms

The provisions of sections 1, 3, 8, 9, 12, 13, 14 and 17, and of subsections 4(c), 4(e), and 4(f) of this Agreement will survive the termination of your employment.

13. Further Assistance

The Parties will execute and deliver any documents and perform any acts necessary to carry out the intent of this Agreement.

14. Equitable Remedies

You hereby acknowledge and agree that a breach of your obligations under this Agreement would result in damages to the Company that could not be adequately compensated for by monetary award. Accordingly, in the event of any such breach by you, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, injunction, decree or otherwise, as

may be appropriate to ensure compliance with the provisions of this Agreement. The Company hereby acknowledges that any material unilateral change or modification to this Agreement or a material adverse change to your position, duties or compensation, without your prior written consent, except as provided for in section 5, may constitute constructive dismissal or breach of contract and, in addition to all other remedies available to you at law or in equity, you shall be entitled as a matter of right to apply to a court of competent jurisdiction for compensation, relief or other award as may be determined appropriate in the circumstances to ensure compliance with the provisions of this Agreement.

15. Conflict

In the event of any conflict between the terms and conditions of this agreement and any other agreement, the terms of this agreement shall prevail.

16. Time

Time is of the essence of this Agreement.

17. Governing Laws

This Agreement will be governed by and construed in accordance with the laws of British Columbia and the laws of Canada applicable in British Columbia. Each Party attorns to the non-exclusive jurisdiction of courts of British Columbia.

18. Independent Legal Advice

You acknowledge that you have been given an opportunity to seek independent legal advice with respect to the terms of this Agreement prior to its execution and have been advised to do so by the Company and that you understand the terms and rights and obligations under this Agreement.

19. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

Aquinox Pharmaceuticals Inc.

By: /s/ David Main

Name: David Main

Title: President and CEO

Date: July 19/11

I acknowledge and accept the terms and conditions of my employment with the Company as set out above:

SIGNED, SEALED AND DELIVERED by Kamran Alam in the presence of:	)	
/s/ Mona Izadnelahdar	)	
Signature of Witness	)	
Mona Izadnelahdar	)	
Name of Witness	)	/s/ Kamran Alam
	)	Kamran Alam
238 W. 17 Street,	)	Date: July 19, 2011
Address of Witness	)	
North Vancouver, B.C	)	
PhD. student, Epidemiologist	)	
Occupation of Witness	)	

Schedule A
Responsibilities and Duties

- Provides leadership for strategic financial functions of the Company
- Works closely with the CEO and other members of management in development of business, financial and partnering strategies to maximize shareholder value
- Oversees the development of financial plans and policies, budgets, variance reporting and financial procedures
- Assists in the negotiation and management of strategic business agreements
- Provides regular updates to the CEO, Board of Directors, and Senior Management on the financial management of the Company
- Oversees preparation of financial statements and audit of financial statements
- Responsible for coordinating and addressing the needs of the Audit Committee
- Oversees the Company’s treasury function
- Acts as key liaison and builds relationships with Auditors, current and potential investors, corporate legal counsel and investment bankers
- Acts as corporate secretary
- Oversees execution of the Company’s financing plans and any significant corporate transaction
- Oversees IT and facility infrastructure and related service providers
- At the request of the CEO, may be required to take on additional duties from time to time

Private & Confidential

March 2, 2013

Stephen Shrewsbury
[Address]

Dear Stephen:

Re: Employment Agreement

This Agreement contains the terms and conditions of your employment with Aquinox Pharmaceuticals Inc. These terms of employment will commence on the Commencement Date and will continue until terminated in accordance with the provisions of this Agreement. Therefore, in consideration of your employment with the Company and the premises, the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which you hereby acknowledge, you agree as follows:

1. Definitions

In this Agreement:

(a) "**Affiliate**" has the same meaning as in the *Canada Business Corporations Act* or any successor legislation, as amended from time to time.

(b) "**Agreement**" means this agreement and schedules attached to this agreement, as amended or supplemented from time to time by mutual written consent of both Parties.

(c) "**Annual Compensation**" means the combined total of Base Salary and Bonus Compensation paid for services and performance in a calendar year.

(d) "**approved by the Company**" or words of similar import means approved by an authorized representative of the Company other than you.

(e) "**Base Salary**" means the base compensation paid to you on a semi-monthly basis and does not include benefits, Bonus Compensation or other incentive compensation.

(f) "**Board**" means the board of directors of the Company.

(g) "**Bonus Compensation**" means the discretionary annual performance-based compensation you are eligible for in accordance with Article 2(d).

(h) "**Business**" means the business of investigating, discovering, developing, evaluating, or commercializing pharmaceutical compositions that may be useful modifiers of SHIP/SHIP2 enzyme activity, or any other enzyme or technology for which the Company has initiated a plan or program of investigation, discovery, development, evaluation or commercialization prior to or during your employment with the Company.

(i) "**Cause**" means any one or more of the following:

(i) A material breach of any of your obligations or duties pursuant to this Agreement, which remains uncured seven days from you becoming aware of the breach;

(ii) Gross negligence or willful misconduct in the course of employment;

(iii) Any action or activity that is contrary to applicable insider trading rules or any other applicable securities rules or legislation;

(iv) An act or omission involving dishonesty or fraud;

(v) Substantial and repeated failure to perform the duties reasonably expected of an employee in the biotechnology industry, or to perform certain duties as reasonably directed by management or the Board, or

(vi) Any other act, omission or conduct constituting cause at common law or under the laws of British Columbia.

(j) "**Change in Control**" means the occurrence, after the Commencement Date, of one or more of the following:

(i) a merger, a consolidation, a reorganization or an arrangement that results in a transfer of more than fifty percent (50%) of the total voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(ii) a direct or indirect sale or other transfer of beneficial ownership of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iii) a direct or indirect sale or other transfer of the right to appoint more than fifty percent (50%) of the directors of the Board or otherwise directly or indirectly control the management, affairs and business of the Company to a person or a group of persons different from a person or a group of persons holding this right immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iv) a direct or indirect sale or other transfer of all or substantially all of the assets of the Company to a person or a group of persons different from a person or a group of persons holding those assets immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company); or

(v) a complete liquidation, dissolution or winding-up of the Company;

provided, however, that a Change in Control will not be deemed to have occurred if such Change in Control results solely from the issuance, in connection with a bona fide financing or series of financings by the Company, of voting securities of the Company or any rights to acquire voting securities of the Company which are convertible into voting Securities.

(k) "**Good Reason**" in conjunction with a Change in Control means one or more of the following events occurring without your consent:

(i) termination of your employment without cause;

(ii) any material and adverse change to your position, authority or responsibilities in effect under this Agreement;

(iii) any material reduction in incentives, health benefits, bonuses or other compensation plans, practices, policies or programs provided to you in the aggregate under this Agreement;

(iv) an assignment to you of any duties materially inconsistent with your status as the Chief Medical Officer of the Company;

(v) any failure to secure the agreement of any successor entity to fully assume the Company's obligations under this Agreement; or

(vi) any resolution is passed or any action or proceeding taken with respect to the liquidation, dissolution or winding-up of the Company that does not involve continuation of the Company in another form.

(l) "**Commencement Date**" means your first day of employment, which will be no later than April 2, 2013.

(m) "**Competitive Business**" means any person, firm, company, partnership, venture or business that is (or, to your knowledge, is planning on) researching, developing, producing, licensing, selling or marketing any product or service that is competitive or substantially similar to the Business.

(n) "**Company**" means Aquinox Pharmaceuticals Inc., a corporation continued under the laws of Canada having a business address at Suite 430 —5600 Parkwood Way, Richmond, British Columbia V6V 2M2, and includes subsidiaries or affiliates of the Company where used in the context of Confidential Information or intellectual property rights or protection.

(o) "**Confidential Information**" means trade secrets and other information, in whatever form or media, in the possession or control of the Company, which is owned by the Company or by one of its clients or suppliers or a third party with whom the Company has a business

relationship (collectively, the "**Associates**"), and which is not generally known to the public and has been specifically identified as confidential or proprietary by the Company, or its nature is such that it would generally be considered confidential in the industry in which the Company or its Associates operate, or which the Company is obligated to treat as confidential or proprietary.

Confidential Information includes, without limitation, the following: (i) the Products and confidential or proprietary facts, data, techniques, materials and other information related to the Products or the Business of the Company, including all related developmental or experimental work or research, related documentation owned or marketed by the Company and related formulas, algorithms, patent applications, concepts, designs, flowcharts, ideas, programming techniques, specifications and software programs (including source code listings), methods, processes, inventions, sources, drawings, prototypes and patterns; (ii) all Developments; (iii) information regarding the Company's business operations, methods and practices, including market strategies, product pricing, margins and hourly rates for staff and information regarding the financial, legal and corporate affairs of the Company; (iv) the names of the Company's Associates and the nature of the Company's relationships with such Associates; and (v) technical and business information of or regarding the Company's Associates. Confidential Information does not include information that is or becomes generally available to the public without your fault or that you can establish, through written records, was in your possession prior to its disclosure to you in connection with your employment.

(p) "**Developments**" includes, without limitation, all:

(i) Products, software, documentation, research, data, designs, reports, flowcharts, trade-marks, specifications and source code listings, and any related works, including any enhancements, modifications or additions to the Products owned, licensed, sold, marketed or used by the Company;

(ii) copyrightable works of authorship including, without limitation, any technical descriptions for Products, user guides, illustrations and advertising materials; and

(iii) inventions, devices, integrated circuit topographies, discoveries, concepts, ideas, algorithms, formulae, know-how, processes, techniques, systems, methods, operating capabilities and improvements, whether patentable or not,

developed, created, generated or reduced to practice by you, alone or jointly with others, as a result of your employment, which result from your employment or which result from the use of the premises or property (including equipment, supplies or Confidential Information) owned, leased or licensed by the Company or which reasonably relate to the Business of the Company.

(q) "**Parties**" means, collectively, you and the Company and, for clarity, a "**Party**" means any one of the Parties.

(r) "**Person**" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency or entity however designated or constituted.

(s) "**Products**" means (i) therapies, approaches, screening methodologies, diagnostic assays, therapeutic molecules, compounds, and any other products derived from the discovery or development of molecular compounds that can be used to treat human inflammatory diseases, autoimmune disorders and cancer by altering the activity of SHIP, SHIP2 or any other target enzymes or proteins for which a research program has been initiated by the Company and disclosed to you; (ii) any intellectual property or assets owned, licensed, sold, marketed or used by the Company in connection with the Business, including enhancements, modifications, additions or other improvements to such intellectual property; and (iii) any other products or technologies that the Company discovers or develops during the employment relationship.

(t) Use of the defined terms will include both the singular and the plural of each such term, and such use will not be interpreted as changing the meaning first given thereto.

2. <u>Employment</u>

The terms of your employment will be as follows:

(a) **Position and Responsibilities:** You will be employed as an officer of the Company in the position of Senior Vice President, Clinical Development and Chief Medical Officer reporting to the Chief Executive Officer or his designate. You will perform or fulfil the duties and responsibilities as outlined in Schedule A and exercise the powers that are normally performed, fulfilled or exercised by the Senior Vice President, Clinical Development and Chief Medical Officer of a biotechnology company, subject to the articles and by-laws of the Company, and any duties reasonably prescribed by the CEO or Board from time to time. You will at all times conform to the reasonable and lawful instructions and directions of the CEO and Board.

(b) **Scope of Duties:** During your employment you will devote the whole of your working time, attention and abilities to your duties unless expressly agreed between the parties. You agree to give the Company the full benefit of your knowledge, expertise, skill and ingenuity. The Company consents to you holding board appointments on the conditions that your engagement will not affect your duties or obligations to the Company, that your engagement will not in any way assist a Competitive Business, and that you will obtain the consent of the Board prior to accepting any such appointments in the future.

(c) **Base Compensation:** You will receive an annual Base Salary of CDN $320,000 p.a., subject to source deductions and other deductions required to be deducted and remitted. Your Base Salary will be reviewed annually, subject to approval by the Board, and may be increased to reflect the Company's stage of development, your responsibilities and your personal performance. A formal review of your personal performance will be conducted on an annual basis.

(d) **Bonus Compensation:** You will be eligible for a discretionary annual performance-based bonus of up to a maximum of 20% of Base Salary, paid pro-rata for the period actually worked, to be recommended by the CEO and determined by the Board in its unfettered discretion, based on its opinion of your performance, the performance of your management team and the performance of the Company. The Board will make a determination with respect to Bonus Compensation not later than March of each year.

(e) **Excess Hours:** You agree that as a manager or high technology professional as defined in the Employment Standards Act of British Columbia, your hours of work will vary and may be irregular and will be those hours required to meet the objectives of your employment. You agree that the Annual Compensation described in this Agreement compensates for you all hours worked.

(f) **Stock Options:** Subject to the approval of the Board, we will issue to you 750,000 options to purchase equity in the Company under, and subject to the terms and conditions of, our Joint Stock Option Plan. Additionally, you will be eligible to participate in an incentive options program, under which the Board, in its sole and unfettered discretion, may grant you additional options to purchase equity in the Company or Aquinox Pharmaceutical (USA) Inc. from time to time.

(g) **Vacation Entitlement:** You will receive paid vacation in the amount of 4 weeks per annum, pro-rated for any partial year of employment. Your vacation must be taken in accordance with the Company's vacation policy in effect from time to time.

(h) **Benefits:** Subject to your insurability, you will be eligible to enrol upon your Commencement Date in the Company's benefit program covering MSP premiums and additional benefits provided by Encon for access to extended health and dental insurance, life and accident insurance coverage (collectively your "**Benefits**"), and the employee portion of any applicable Benefits premiums will be paid by the Company.

(i) **Business Equipment and Other Expenses:** The Company will provide you with a laptop computer and smartphone for business use. You acknowledge that during the term of your employment and thereafter this equipment remains the sole property of the Company. The Company will reimburse you for all reasonable travelling and out-of-pocket expenses actually and properly incurred by you in connection with your duties under this Agreement and in accordance with Company policy and Board approval, provided that you first furnish statements, and receipts or vouchers for all such expenses to the Company.

3. <u>Confidential Information</u>

As consideration for your promotion and continued employment with the Company, you covenant and agree as follows:

(a) **General Obligation of Confidentiality:** You acknowledge that the Confidential Information is the exclusive property of the Company or Persons from whom the Company has obtained its rights. You will treat the Confidential Information in strict confidence and will not directly or indirectly, either during or subsequent to your employment with the Company, disclose, allow access to, transmit or transfer the Confidential Information to a third party (other than the Company's directors, officers, bankers, legal and financial advisors in the ordinary course of business) unless otherwise required by law or by a regulatory authority having jurisdiction over the Company, or except as previously approved in writing by the Company. You will protect such Confidential Information from disclosure by exercising a standard of care as may reasonably be expected to preserve its secret and confidential nature. You acknowledge and agree that nothing contained in this Agreement will be construed as an assignment to you of any right, title or interest in the Confidential Information. All right, title and interest relating to the Confidential Information is expressly reserved by the Company. All documents containing Confidential Information are the property of the Company. Without limiting the generality of the foregoing, you hereby transfer to the Company the property rights in all documents that now or hereafter may contain the Confidential Information.

(b) **Use of Confidential Information:** You agree that at all times during and subsequent to your employment with the Company, you will not use any of the Confidential Information in any manner except as reasonably required for you to perform your duties for the Company. Without limiting the generality of the foregoing, you agree that at all times during and subsequent to your employment, you will not use or take advantage of the Confidential Information for creating, maintaining or marketing, or aiding in the creation, maintenance or marketing, of any product that is competitive with any of the Products.

(c) **Prohibition on Copying:** You will not copy or reproduce the Confidential Information except in the course of your employment with and for the benefit of the Company or with the written approval of the Company. All such copies remain the property of the Company.

(d) **Injunctive Relief:** You acknowledge that irreparable harm may result to the Company if you breach your obligations under this Article or under subsections 4(c), 4(e) and 4(f). You acknowledge that such a breach may not properly be compensated by an award of damages. Accordingly, the Company's remedy for any such breach may include, in addition to other available remedies and damages, injunctive relief or other equitable relief enjoining such breach at the earliest possible date.

(e) **Assignment:** You agree to make full disclosure to the Company of each Development promptly after its creation. You hereby irrevocably assign and transfer to the Company, and agree that the Company will be the exclusive owner of, all of your right, title and interest in and to each Development throughout the world, including all trade secrets, patent rights, copyrights trademarks, industrial designs and all other intellectual property rights therein, whether realized within or beyond the scope of your employment, and regardless of the true purpose of the employment relationship, and you irrevocably waive all moral rights you may have in these Developments. You further agree to cooperate fully at all times during and subsequent to your employment with respect to signing further documents and doing such acts and other things reasonably requested by the Company, at the Company's expense, to confirm such transfer of ownership of rights, including intellectual property rights, effective at or after the time the Development is created and to apply for and obtain patents or copyrights, industrial designs trademarks, other intellectual property registrations or other similar rights covering the Development. The Company will be exclusively entitled to make applications for registration of all such rights, in the Company's sole and unfettered discretion, in any jurisdictions that the company deems necessary. Should the Company be unable to secure your signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright or other right or protection relating to any Development, due to your incapacity or any other cause, you hereby irrevocably designate and appoint the Company and each of its duly authorized officers and agents as your agent and attorney-in-fact to do all lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protection with the same force and effect as if executed and delivered by you. You agree that the obligations in this subsection will continue beyond the termination of your employment with respect to any and all Developments created during your employment. For purposes of the copyright laws of the United States of America and other jurisdictions, to the extent, if any, that such laws are applicable to any Confidential Information, it will be considered a work made for hire and the Company will be considered the author thereof.

4. Obligations of Employment

You further covenant and agree as follows:

(a) **Performance and Duty to the Company:** Throughout your employment you will well and faithfully serve the Company and use your best efforts to promote the Business of the Company. You will act honestly and in good faith in what you reasonably believe to be in the best interests of the Company. You will adhere to all applicable policies of the Company and exercise the degree of care, diligence and skill that a reasonably prudent Vice President, Clinical Development and Chief Medical Officer would exercise in comparable circumstances.

(b) **Business of the Company:** You will not, during your employment with the Company, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the Business of the Company.

(c) **Restrictions:** You agree to comply with all of the restrictions set forth below at all times during your employment and for a period of one year from the termination of your employment (regardless of which Party terminates your employment and regardless of the reason for such termination, if any) during which:

(i) you will not, either individually or in conjunction with any Person, as principal, agent, director, officer, employee, investor or in any other manner whatsoever, directly or indirectly, own, operate, carry on, be engaged in the operations of, have any financial interest in, loan any monies to, guarantee any liabilities or obligations of, act as a consultant to or provide management services to a Competitive Business without the prior written consent of the Company. The foregoing will not prevent you from holding any class of publicly held shares of a company, partnership or other organization provided that you, alone or in conjunction with any other Person, will not directly or indirectly hold more than 5% of the shares of any such company, partnership or other organization;

(ii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or appropriate or attempt to solicit, interfere with, divert or appropriate to any Competitive Business, any business or actively sought prospective business of the Company or any customers with whom the Company has current agreements relating to the Business of the Company, or with whom you have dealt, or with whom you have supervised negotiations or business relations, or about whom you have acquired Confidential Information in the course of your employment;

(iii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or hire away, or attempt to solicit, interfere with divert, or hire away, any person engaged by the Company or persuade or attempt to persuade any such individual to terminate his or her employment or consultancy with the Company; and

(iv) you will not directly or indirectly impair or seek to impair any relationships that the Company has with its employees, consultants, customers, suppliers, agents or other parties with which the Company does business or has contractual relations.

(d) **No Personal Benefit:** You will not receive or accept for your own benefit, either directly or indirectly, any commission, rebate, discount, financial gratuity or profit from any Person

having or proposing to have one or more business transactions with the Company, without the prior approval of the Board, except that you may accept dinners, event tickets and other customary gifts with values of less than US$200, as long as there is no frequent pattern of such customary gifts from any person or entity, or related group of persons or entities, that would give rise to the perception of a conflict of interest.

(e) **Business Contacts:** During your employment you will communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the Business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding the subsequent termination of your employment.

(f) **Return of Company Property:** Upon termination of your employment, you will promptly return to the Company all Company property including all written information, tapes, discs or memory devices and copies thereof, and any other material on any medium in your possession or control pertaining to the Business of the Company, without retaining any copies or records of any Confidential Information whatsoever. You will also return any keys, pass cards, identification cards, equipment or other property belonging to the Company.

(g) **Pre-existing Obligations:** You are hereby requested and directed by the Company to comply with any existing common law, contractual or statutory obligations to any former employers and to any other Person. The Company is not employing you to obtain the confidential information or business opportunities of any former employers or any other Person.

5. Termination

(a) **Resignation:** If for any reason you should wish to leave the Company, you will provide the Company with three month's prior written notice of your intention (the "Re**signation Period**"). The Parties hereby agree that in order to protect the Company's interests, the Company may, in its sole and unfettered discretion, waive the Resignation Period or any part thereof, and end your employment by delivering to you a written notice accompanied by payment of your Base Salary due to you during the remainder of the Resignation Period.

(b) **Termination for Cause:** The Company may terminate your employment at any time for Cause, effective upon delivery by the Company to you of a written notice of termination of your employment for Cause. You will not be entitled to receive any further pay or compensation (except for pay, if any, accrued and owing under this Agreement up to the date of termination of your employment), severance pay, notice, payment in lieu of notice, benefits or damages of any kind, and for clarity, without limiting the foregoing, you will not be entitled to any bonus or pro rata bonus payment that has not already been awarded by the Board.

(c) **Termination Without Cause:** The Company may terminate your employment at any time without Cause, effective upon delivery by the Company to you of a written notice of termination of your employment, provided that in lieu of notice, the Company provides you with:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) subject to your duty to mitigate the loss of your employment,

continuance of the Base Salary in effect at the time of termination for a period equal to six months (the "**Continuance Period**"). In the event you secure employment prior to the end of the Continuance Period, then you agree to notify the Company of such fact and the Company will only be required to continue 50% of your Base Salary from the date of new employment until the end of the Continuance Period;

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) vesting of any unvested options will cease on the date your employment is terminated, at which time any unvested portion of such options will expire and be forfeit, and any vested portion of such options will be exercisable for a period of ninety (90) days from the date of the termination of your employment.

(d) **Change in Control:** In the event of a Good Reason occurring within the period of twelve (12) months after a Change in Control, you may terminate your employment by providing one month's written notice to the Board. In the event of such termination, you will be entitled to:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) continuance of the Base Salary in effect at the time of termination for a period equal to six (6) months (the "**Change in Control Continuance Period**"); and

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Change in Control Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) all unvested options will immediately vest and will remain exercisable for a period of ninety (90) days from the termination of your employment, at which time any vested but unexercised options will expire and be forfeit.

(e) **Offices and Directorships:** Upon delivery of notice of resignation or termination, regardless of the reason for or manner of termination, you agree to immediately tender your resignation as an officer and/or director of the Company and of any of its subsidiaries or affiliates. You agree that failure to tender you resignation will amount to Cause, for which the Company may treat your employment as being terminated for Cause.

(f) **Termination Without Cause:** The Company may terminate your employment at any time without Cause in accordance with the Employment Standards Act of British Columbia.

6. Agreement Voluntary and Equitable

The Parties agree that they each have carefully considered and understand the terms of employment contained in this Agreement, that the terms are mutually fair and equitable, and that they each have executed this Agreement voluntarily and of their own free will.

7. Assignment and Enurement

You may not assign this Agreement, any part of this Agreement or any of your rights under this Agreement without the prior written consent of the Company. This Agreement enures to the benefit of and is binding upon you and the Company and your respective heirs, executors, administrators, successors and permitted assigns.

8. Severability

If any part, article, section, clause, paragraph or subparagraph of this Agreement is held to be indefinite, invalid, illegal or otherwise voidable or unenforceable, the entire Agreement will not fail on the account thereof and the validity, legality and enforceability of the remaining provisions will in no way be affected or impaired thereby. Further, if any provision of this Agreement is held by a court of competent jurisdiction to be excessively broad as to duration, activity, geography, or subject, it shall be deemed to extend only over the maximum duration, activity, geographic extent, and subject as to which such provision shall be valid and enforceable under applicable law.

9. Entire Agreement

This Agreement constitutes the entire agreement between you and the Company with respect to the subject matter herein and cancels and supersedes all previous invitations, proposals, letters, correspondence, negotiations, promises, agreements, covenants, conditions, representations and warranties with respect to the subject matter of this Agreement. There is no representation, warranty, collateral term or condition affecting this Agreement for which any Party can be held responsible in any way, other than as expressed in writing in this Agreement. No change or modification of this Agreement will be valid unless it is in writing and signed by both Parties.

10. Notice

Any notice required or permitted to be given hereunder must be in writing and will be sufficiently given or made if delivered by hand to you or to the Chair of the Board, as appropriate, or delivered or sent by registered mail, fax or e-mail to the address of the Parties set out below. Any notice so given will be deemed to have been given and to have been received on the day of delivery if it is a business day and otherwise on the next succeeding business day or, if mailed, on the third business day following the mailing thereof (excluding each day during which there exists any interruption of postal services due to strike, lockout or other cause). Addresses for notice may be changed by giving notice in accordance with this section.

Aquinox Pharmaceuticals Inc. Suite 430 — 5600 Parkwood Way Vancouver, BC V6V 2M2 Attn: President & CEO Fax: 604-295-4748	Stephen Shrewsbury [Address]

11. Non-waiver

No failure or delay by you or the Company in exercising any power or right under this Agreement will operate as a waiver of such power or right. Any consent or waiver by any Party to this Agreement to any breach or default under this Agreement will be effective only in the specific instance and for the specific purpose for which it was given.

12. Survival of Terms

The provisions of sections 1, 3, 8, 9, 12, 13, 14 and 17, and of subsections 4(c), 4(e), and 4(f) of this Agreement will survive the termination of your employment.

13. Further Assistance

The Parties will execute and deliver any documents and perform any acts necessary to carry out the intent of this Agreement.

14. Equitable Remedies

You hereby acknowledge and agree that a breach of your obligations under this Agreement would result in damages to the Company that could not be adequately compensated for by monetary award. Accordingly, in the event of any such breach by you, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement. The Company hereby acknowledges that any material unilateral change or modification to this Agreement or a material adverse change to your position, duties or compensation, without your prior written consent, except as provided for in section 5, may constitute constructive dismissal or breach of contract and, in addition to all other remedies available to you at law or in equity, you shall be entitled as a matter of right to apply to a court of competent jurisdiction for compensation, relief or other award as may be determined appropriate in the circumstances to ensure compliance with the provisions of this Agreement.

15. Conflict

In the event of any conflict between the terms and conditions of this agreement and any other agreement, the terms of this agreement shall prevail.

16. Time

Time is of the essence of this Agreement.

17. Governing Laws

This Agreement will be governed by and construed in accordance with the laws of British Columbia and the laws of Canada applicable in British Columbia. Each Party attorns to the nonexclusive jurisdiction of courts of British Columbia.

18. Independent Legal Advice

You acknowledge that you have been given an opportunity to seek independent legal advice with respect to the terms of this Agreement prior to its execution and have been advised to do so by the Company and that you understand the terms and rights and obligations under this Agreement.

19. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

Aquinox Pharmaceuticals Inc.

By: /s/ David Main

Name: David Main

Title: President and CEO

Date: 4/9/2013

I acknowledge and accept the terms and conditions of my employment with the Company as set out above:

SIGNED, SEALED AND DELIVERED by Stephen Shrewsbury in the presence of:

/s/ Kamran Alam
Signature of Witness

Kamran Alam
Name of Witness

5600 Parkwood Way
Address of Witness

Richmond , BC

CEO, Aquinox
Occupation of Witness

/s/ Stephen Shrewsbury
Stephen Shrewsbury

Date: 4/9/2013

Schedule A

Job Responsibilities include, but are not limited to, the following activities:

- Leads and oversees the strategic definition and tactical development of clinical trial programs, including protocol writing, interpretation of clinical data, and literature reviews.
- Responsible for clinical development strategies including Phase 1 through 3, lifecycle management, medical affairs, safety responsibilities, scientific interactions with regulatory bodies, and interactions with corporate partner(s), investors and the Board of Directors.
- Supervises and directs the activities of other Clinical Research staff and contracted Clinical Research Organizations to include Biostatistics, Data Management, Clinical Operations, Regulatory, Quality and Medical Affairs.
- Ensures the consistent application of state-of-the-art scientific and ethical methods to design clinical investigational trials of the highest quality.
- Ensures that all clinical trials are in keeping with approved timelines and budgets, with potential obstacles identified and solutions implemented to avoid delays in clinical trial implementation.

AQUINOX PHARMACEUTICALS INC.
Suite 430 - 5600 Parkwood Way
Richmond, BC, Canada V6V 2M2

Tel 604.629.9223
Fax 778.331.4486
Web www.aqxpharma.com

Private & Confidential

May 30, 2013

Lloyd Mackenzie
[Address]

Dear Lloyd:

Re: EmploymentAgreement

This Agreement contains the terms and conditions of your employment with Aquinox Pharmaceuticals Inc. These terms of employment will commence on the Commencement Date and will continue until terminated in accordance with the provisions of this Agreement. Therefore, in consideration of your employment with the Company and the premises, the mutual covenants and agreements set forth in this Agreement and other good and valuable consideration, the receipt and sufficiency of which you hereby acknowledge, you agree as follows:

1. Definitions

In this Agreement:

(a) "**Affiliate**" has the same meaning as in the Canada Business Corporations Act or any successor legislation, as amended from time to time.

(b) "**Agreement**" means this agreement and schedules attached to this agreement, as amended or supplemented from time to time by mutual written consent of both Parties.

(c) "**Annual Compensation**" means the combined total of Base Salary and Bonus Compensation paid for services and performance in a calendar year.

(d) "**approved by the Company**" or words of similar import means approved by an authorized representative of the Company other than you.

(e) "**Base Salary**" means the base compensation paid to you on a semi-monthly basis and does not include benefits, Bonus Compensation or other incentive compensation.

(f) "**Board**" means the board of directors of the Company.

(g) "**Bonus Compensation**" means the discretionary annual performance-based compensation you are eligible for in accordance with Article 2(d).

(h) "**Business**" means the business of investigating, discovering, developing, evaluating, or commercializing pharmaceutical compositions that may be useful modifiers of SHIP/SHIP2 enzyme activity, or any other enzyme or technology for which the Company has initiated a plan or program of investigation, discovery, development, evaluation or commercialization prior to or during your employment with the Company.

(i) "**Cause**" means any one or more of the following:

(i) A material breach of any of your obligations or duties pursuant to this Agreement, which remains uncured seven days from you becoming aware of the breach;

(ii) Gross negligence or willful misconduct in the course of employment;

(iii) Any action or activity that is contrary to applicable insider trading rules or any other applicable securities rules or legislation;

(iv) An act or omission involving dishonesty or fraud;

(v) Substantial and repeated failure to perform the duties reasonably expected of an employee in the biotechnology industry, or to perform certain duties as reasonably directed by management or the Board, or

(vi) Any other act, omission or conduct constituting cause at common law or under the laws of British Columbia.

(j) "**Change in Control**" means the occurrence, after the Commencement Date, of one or more of the following:

(i) a merger, a consolidation, a reorganization or an arrangement that results in a transfer of more than fifty percent (50%) of the total voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(ii) a direct or indirect sale or other transfer of beneficial ownership of securities of the Company possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities to a person or a group of persons different from a person or a group of persons holding those securities immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iii) a direct or indirect sale or other transfer of the right to appoint more than fifty percent (50%) of the directors of the Board or otherwise directly or indirectly control the management, affairs and business of the Company to a person or a group of persons different from a person or a group of persons holding this right immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company);

(iv) a direct or indirect sale or other transfer of all or substantially all of the assets of the Company to a person or a group of persons different from a person or a group of persons holding those assets immediately prior to such transaction (other than the Company or a person that directly or indirectly controls, is controlled by, or is under common control with, the Company); or

(v) a complete liquidation, dissolution or winding-up of the Company;

provided, however, that a Change in Control will not be deemed to have occurred if such Change in Control results solely from the issuance, in connection with a *bona fide* financing or series of financings by the Company, of voting securities of the Company or any rights to acquire voting securities of the Company which are convertible into voting Securities.

(k) "**Good Reason**" in conjunction with a Change in Control means one or more of the following events occurring without your consent:

(i) termination of your employment without cause;

(ii) any material and adverse change to your position, authority or responsibilities in effect under this Agreement;

(iii) any material reduction in incentives, health benefits, bonuses or other compensation plans, practices, policies or programs provided to you in the aggregate under this Agreement;

(iv) an assignment to you of any duties materially inconsistent with your status as the Chief Operating Officer of the Company;

(v) any failure to secure the agreement of any successor entity to fully assume the Company's obligations under this Agreement; or

(vi) any resolution is passed or any action or proceeding taken with respect to the liquidation, dissolution or winding-up of the Company that does not involve continuation of the Company in another form.

(l) "**Commencement Date**" means your first day of employment which will be no later than April 1, 2013.

(m) "**Competitive Business**" means any person, firm, company, partnership, venture or business that is (or, to your knowledge, is planning on) researching, developing, producing, licensing, selling or marketing any product or service that is competitive or substantially similar to the Business.

(n) "**Company**" means Aquinox Pharmaceuticals inc., a corporation continued under the laws of Canada having a business address at Suite 430—5600 Parkwood Way, Richmond, British Columbia V6V 2M2, and includes subsidiaries or affiliates of the Company where used in the context of Confidential Information or intellectual property rights or protection.

(o) "**Confidential Information**" means trade secrets and other information, in whatever form or media, in the possession or control of the Company, which is owned by the Company or by one of its clients or suppliers or a third party with whom the Company has a business relationship (collectively, the "**Associates**"), and which is not generally known to the public and has been specifically identified as confidential or proprietary by the Company, or its nature is such that it would generally be considered confidential in the industry in which the Company or its Associates operate, or which the Company is obligated to treat as confidential or proprietary.

Confidential Information includes, without limitation, the following: (i) the Products and confidential or proprietary facts, data, techniques, materials and other information related to the Products or the Business of the Company, including all related developmental or experimental work or research, related documentation owned or marketed by the Company and related formulas, algorithms, patent applications, concepts, designs, flowcharts, ideas, programming techniques, specifications and software programs (including source code listings), methods, processes, inventions, sources, drawings, prototypes and patterns; (ii) all

Developments; (iii) information regarding the Company's business operations, methods and practices, including market strategies, product pricing, margins and hourly rates for staff and information regarding the financial, legal and corporate affairs of the Company; (iv) the names of the Company's Associates and the nature of the Company's relationships with such Associates; and (v) technical and business information of or regarding the Company's Associates. Confidential Information does not include information that is or becomes generally available to the public without your fault or that you can establish, through written records, was in your possession prior to its disclosure to you in connection with your employment.

(p) "**Developments**" includes, without limitation, all:

(i) Products, software, documentation, research, data, designs, reports, flowcharts, trade-marks, specifications and source code listings, and any related works, including any enhancements, modifications or additions to the Products owned, licensed, sold, marketed or used by the Company;

(ii) copyrightable works of authorship including, without limitation, any technical descriptions for Products, user guides, illustrations and advertising materials; and

(iii) inventions, devices, integrated circuit topographies, discoveries, concepts, ideas, algorithms, formulae, know-how, processes, techniques, systems, methods, operating capabilities and improvements, whether patentable or not,

developed, created, generated or reduced to practice by you, alone or jointly with others, as a result of your employment, which result from your employment or which result from the use of the premises or property (including equipment, supplies or Confidential Information) owned, leased or licensed by the Company or which reasonably relate to the Business of the Company.

(q) "**Parties**" means, collectively, you and the Company and, for clarity, a "**Party**" means any one of the Parties.

(r) "**Person**" means any individual, partnership, limited partnership, joint venture, syndicate, sole proprietorship, company or corporation with or without share capital, unincorporated association, trust, trustee, executor, administrator or other legal personal representative, regulatory body or agency, government or governmental agency or entity however designated or constituted.

(s) "**Products**" means (i) therapies, approaches, screening methodologies, diagnostic assays, therapeutic molecules, compounds, and any other products derived from the discovery or development of molecular compounds that can be used to treat human inflammatory diseases, autoimmune disorders and cancer by altering the activity of SHIP, SHIP2 or any other target enzymes or proteins for which a research program has been initiated by the Company and disclosed to you; (ii) any intellectual property or assets owned, licensed, sold, marketed or used by the Company in connection with the Business, including enhancements, modifications, additions or other improvements to such intellectual property; and (iii) any other products or technologies that the Company discovers or develops during the employment relationship.

(t) Use of the defined terms will include both the singular and the plural of each such term, and such use will not be interpreted as changing the meaning first given thereto.

2. Employment

The terms of your employment will be as follows:

(a) **Position and Responsibilities:** You will be employed as an officer of the Company in the position of Vice President, Technical Operations and Planning, reporting to the Chief Executive Officer or his designate. You will perform or fulfill the duties and responsibilities and exercise the powers that are normally performed, fulfilled or exercised by the Chief Operating Officer of a biotechnology company, subject to the Canada Business Corporation Act and the articles and by-laws of the Company, and any duties reasonably prescribed by the Board from time to time. You will at all times conform to the reasonable and lawful instructions and directions of the Board.

(b) **Scope of Duties:** During your employment you will devote the whole of your working time, attention and abilities to your duties. You agree to give the Company the full benefit of your knowledge, expertise, skill and ingenuity. The Company consents to you holding board appointments on the conditions that your engagement will not affect your duties or obligations to the Company, that your engagement will not in any way assist a Competitive Business, and that you will obtain the consent of the Board prior to accepting any such appointments in the future.

(c) **Base Compensation:** You will receive an annual Base Salary of CDN 155,000, subject to source deductions and other deductions required to be deducted and remitted. Your Base Salary will be reviewed annually, subject to approval by the Board, and may be increased to reflect the Company's stage of development, your responsibilities and your personal performance. A formal review of your personal performance will be conducted on an annual basis.

(d) **Bonus Compensation:** You will be eligible for a discretionary annual performance-based bonus of up to a maximum of 20% of Base Salary, paid pro-rata for the period actually worked, to be recommended by the CEO and determined by the Board in its unfettered discretion, based on its opinion of your performance, the performance of your management team and the performance of the Company. The Board will make a determination with respect to Bonus Compensation not later than March of each year.

(e) **Excess Hours:** You agree that as a manager or high technology professional as defined in the Employment Standards Act of British Columbia, your hours of work will vary and may be irregular and will be those hours required to meet the objectives of your employment. You agree that the Annual Compensation described in this Agreement compensates for you all hours worked.

(f) **Stock Options:** You will be eligible to participate in an incentive options program, under which the Board, in its sole and unfettered discretion, may grant you additional options to purchase equity in the Company or Aquinox Pharmaceutical (USA) Inc. from time to time.

(g) **Vacation Entitlement:** You will receive paid vacation in the amount of 4 weeks per annum, pro-rated for any partial year of employment. Your vacation must be taken in accordance with the Company's vacation policy in effect from time to time.

(h) **Benefits:** Subject to your insurability, you will be eligible to enrol upon your Commencement Date in the Company's benefit program covering MSP premiums and additional benefits provided by Encon for access to extended health and dental insurance, life and accident insurance coverage (collectively your "**Benefits**"), and the employee portion of any applicable Benefits premiums will be paid by the Company.

(i) **Business Equipment and Other Expenses:** The Company will provide you with a laptop computer and smartphone for business use. You acknowledge that during the term of your employment and thereafter this equipment remains the sole property of the Company. The Company will reimburse you for all reasonable travelling and out-of-pocket expenses actually and properly incurred by you in connection with your duties under this Agreement and in accordance with Company policy and Board approval, provided that you first furnish statements, and receipts or vouchers for all such expenses to the Company.

3. Confidential Information

As consideration for your promotion and continued employment with the Company, you covenant and agree as follows:

(a) **General Obligation of Confidentiality:** You acknowledge that the Confidential Information is the exclusive property of the Company or Persons from whom the Company has obtained its rights. You will treat the Confidential Information in strict confidence and will not directly or indirectly, either during or subsequent to your employment with the Company, disclose, allow access to, transmit or transfer the Confidential Information to a third party (other than the Company's directors, officers, bankers, legal and financial advisors in the ordinary course of business) unless otherwise required by law or by a regulatory authority having jurisdiction over the Company, or except as previously approved in writing by the Company. You will protect such Confidential Information from disclosure by exercising a standard of care as may reasonably be expected to preserve its secret and confidential nature. You acknowledge and agree that nothing contained in this Agreement will be construed as an assignment to you of any right, title or interest in the Confidential Information. All right, title and interest relating to the Confidential Information is expressly reserved by the Company. All documents containing Confidential Information are the property of the Company. Without limiting the generality of the foregoing, you hereby transfer to the Company the property rights in all documents that now or hereafter may contain the Confidential Information.

(b) **Use of Confidential Information:** You agree that at all times during and subsequent to your employment with the Company, you will not use any of the Confidential Information in any manner except as reasonably required for you to perform your duties for the Company. Without limiting the generality of the foregoing, you agree that at all times during and subsequent to your employment, you will not use or take advantage of the Confidential Information for creating, maintaining or marketing, or aiding in the creation, maintenance or marketing, of any product that is competitive with any of the Products.

(c) **Prohibition on Copying:** You will not copy or reproduce the Confidential Information except in the course of your employment with and for the benefit of the Company or with the written approval of the Company. All such copies remain the property of the Company.

(d) **Injunctive Relief:** You acknowledge that irreparable harm may result to the Company if you breach your obligations under this Article or under subsections 4(c), 4(e) and 4(f). You acknowledge that such a breach may not properly be compensated by an award of damages. Accordingly, the Company's remedy for any such breach may include, in addition to other available remedies and damages, injunctive relief or other equitable relief enjoining such breach at the earliest possible date.

(e) **Assignment:** You agree to make full disclosure to the Company of each Development promptly after its creation. You hereby irrevocably assign and transfer to the Company, and agree that the Company will be the exclusive owner of, all of your right, title and interest in and to each Development throughout the world, including all trade secrets, patent rights, copyrights trademarks, industrial designs and all other intellectual property rights therein, whether realized within or beyond the scope of your employment, and regardless of the true purpose of the employment relationship, and you irrevocably waive all moral rights you may have in these Developments. You further agree to cooperate fully at all times during and subsequent to your employment with respect to signing further documents and doing such acts and other things reasonably requested by the Company, at the Company's expense, to confirm such transfer of ownership of rights, including intellectual property rights, effective at or after the time the Development is created and to apply for and obtain patents or

copyrights, industrial designs trademarks, other intellectual property registrations or other similar rights covering the Development. The Company will be exclusively entitled to make applications for registration of all such rights, in the Company's sole and unfettered discretion, in any jurisdictions that the company deems necessary. Should the Company be unable to secure your signature on any document necessary to apply for, prosecute, obtain, or enforce any patent, copyright or other right or protection relating to any Development, due to your incapacity or any other cause, you hereby irrevocably designate and appoint the Company and each of its duly authorized officers and agents as your agent and attorney-in-fact to do all lawfully permitted acts to further the prosecution, issuance, and enforcement of patents, copyrights, or other rights or protection with the same force and effect as if executed and delivered by you. You agree that the obligations in this subsection will continue beyond the termination of your employment with respect to any and all Developments created during your employment. For purposes of the copyright laws of the United States of America and other jurisdictions, to the extent, if any, that such laws are applicable to any Confidential Information, it will be considered a work made for hire and the Company will be considered the author thereof.

4. Obligations of Employment

You further covenant and agree as follows:

(a) **Performance and Duty to the Company:** Throughout your employment you will well and faithfully serve the Company and use your best efforts to promote the Business of the Company. You will act honestly and in good faith in what you reasonably believe to be in the best interests of the Company. You will adhere to all applicable policies of the Company and exercise the degree of care, diligence and skill that a reasonably prudent Vice President, Technical Operations and Planning would exercise in comparable circumstances.

(b) **Business of the Company:** You will not, during your employment with the Company, engage in any business, enterprise or activity that is contrary to or detracts from the due performance of the Business of the Company.

(c) **Restrictions:** You agree to comply with all of the restrictions set forth below at all times during your employment and for a period of one year from the termination of your employment (regardless of which Party terminates your employment and regardless of the reason for such termination, if any) during which:

(i) you will not, either individually or in conjunction with any Person, as principal, agent, director, officer, employee, investor or in any other manner whatsoever, directly or indirectly, own, operate, carry on, be engaged in the operations of, have any financial interest in, loan any monies to, guarantee any liabilities or obligations of, act as a consultant to or provide management services to a Competitive Business without the prior written consent of the Company. The foregoing will not prevent you from holding any class of publicly held shares of a company, partnership or other organization provided that you, alone or in conjunction with any other Person, will not directly or indirectly hold more than 5% of the shares of any such company, partnership or other organization;

(ii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or appropriate or attempt to solicit, interfere with, divert or appropriate to any Competitive Business, any business or actively sought prospective business of the Company or any customers with whom the Company has current agreements relating to the Business of the Company, or with whom you have dealt, or with whom you have supervised negotiations or business relations, or about whom you have acquired Confidential Information in the course of your employment;

(iii) you will not, either directly or indirectly, on your own behalf or on behalf of others, solicit, interfere with, divert or hire away, or attempt to solicit, interfere with divert, or hire away, any person engaged by the Company or persuade or attempt to persuade any such individual to terminate his or her employment or consultancy with the Company; and

(iv) you will not directly or indirectly impair or seek to impair any relationships that the Company has with its employees, consultants, customers, suppliers, agents or other parties with which the Company does business or has contractual relations.

(d) **No Personal Benefit:** You will not receive or accept for your own benefit, either directly or indirectly, any commission, rebate, discount, financial gratuity or profit from any Person having or proposing to have one or more business transactions with the Company, without the prior approval of the Board, except that you may accept dinners, event tickets and other customary gifts with values of less than US$200, as long as there is no frequent pattern of such customary gifts from any person or entity, or related group of persons or entities, that would give rise to the perception of a conflict of interest.

(e) **Business Contacts:** During your employment you will communicate and channel to the Company all knowledge, business and customer contacts and any other information that could concern or be in any way beneficial to the Business of the Company. Any such information communicated to the Company as aforesaid will be and remain the property of the Company notwithstanding the subsequent termination of your employment.

(f) **Return of Company Property:** Upon termination of your employment, you will promptly return to the Company all Company property including all written information, tapes, discs or memory devices and copies thereof, and any other material on any medium in your possession or control pertaining to the Business of the Company, without retaining any copies or records of any Confidential Information whatsoever. You will also return any keys, pass cards, identification cards, equipment or other property belonging to the Company.

(g) **Pre-existing Obligations:** You are hereby requested and directed by the Company to comply with any existing common law, contractual or statutory obligations to any former employers and to any other Person. The Company is not employing you to obtain the confidential information or business opportunities of any former employers or any other Person.

5. Termination

(a) **Resignation:** If for any reason you should wish to leave the Company, you will provide the Company with three month's prior written notice of your intention (the "**Resignation Period**"). The Parties hereby agree that in order to protect the Company's interests, the Company may, in its sole and unfettered discretion, waive the Resignation Period or any part thereof, and end your employment by delivering to you a written notice accompanied by payment of your Base Salary due to you during the remainder of the Resignation Period.

(b) **Termination for Cause:** The Company may terminate your employment at any time for Cause, effective upon delivery by the Company to you of a written notice of termination of your employment for Cause. You will not be entitled to receive any further pay or compensation (except for pay, if any, accrued and owing under this Agreement up to the date of termination of your employment), severance pay, notice, payment in lieu of notice, benefits or damages of any kind, and for clarity, without limiting the foregoing, you will not be entitled to any bonus or pro rata bonus payment that has not already been awarded by the Board.

(c) **Termination Without Cause:** The Company may terminate your employment at any time without Cause, effective upon delivery by the Company to you of a written notice of termination of your employment, provided that in lieu of notice, the Company provides you with:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) subject to your duty to mitigate the loss of your employment, continuance of the Base Salary in effect at the time of termination for a period equal to six months (the "**Continuance Period**"). In the event you secure employment prior to the end of the Continuance Period, then you agree to notify the Company of such fact and the Company will only be required to continue 50% of your Base Salary from the date of new employment until the end of the Continuance Period; and

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) vesting of any unvested options will cease on the date your employment is terminated, at which time any unvested portion of such options will expire and be forfeit, and any vested portion of such options will be exercisable for a period of ninety (90) days from the date of the termination of your employment.

(d) **Change in Control:** In the event of a Good Reason occurring within the period of twelve (12) months after a Change in Control, you may terminate your employment by providing one month's written notice to the Board. In the event of such termination, you will be entitled to:

(i) all pay owed to the date of termination, including pay for accrued and unpaid vacation;

(ii) continuance of the Base Salary in effect at the time of termination for a period equal to six (6) months (the "**Change in Control Continuance Period**"); and

(iii) continuance of the Benefits, subject to the terms of the respective plans, until the earlier of you obtaining coverage from a new employer or the expiry of the Change in Control Continuation Period. In the event the plans do not provide continuation of coverage after termination of your employment, the Company will provide, or reimburse you for the cost of, equivalent replacement coverage until the earlier of you obtaining coverage from your new employer or the expiry of the Continuance Period; and

(iv) all unvested options will immediately vest and will remain exercisable for a period of ninety (90) days from the termination of your employment, at which time any vested but unexercised options will expire and be forfeit.

(e) **Offices and Directorships:** Upon delivery of notice of resignation or termination, regardless of the reason for or manner of termination, you agree to immediately tender your resignation as an officer and/or director of the Company and of any of its subsidiaries or affiliates. You agree that failure to tender you resignation will amount to Cause, for which the Company may treat your employment as being terminated for Cause.

6. Agreement Voluntary and Equitable

The Parties agree that they each have carefully considered and understand the terms of employment contained in this Agreement, that the terms are mutually fair and equitable, and that they each have executed this Agreement voluntarily and of their own free will.

7. Assignment and Enurement

You may not assign this Agreement, any part of this Agreement or any of your rights under this Agreement without the prior written consent of the Company. This Agreement enures to the benefit of and is binding upon you and the Company and your respective heirs, executors, administrators, successors and permitted assigns.

8. Severability

If any part, article, section, clause, paragraph or subparagraph of this Agreement is held to be indefinite, invalid, illegal or otherwise voidable or unenforceable, the entire Agreement will not fail on the account thereof and the validity, legality and enforceability of the remaining provisions will in no way be affected or impaired thereby. Further, if any provision of this Agreement is held by a court of competent jurisdiction to be excessively broad as to duration, activity, geography, or subject, it shall be deemed to extend only over the maximum duration, activity, geographic extent, and subject as to which such provision shall be valid and enforceable under applicable law.

9. Entire Agreement

This Agreement constitutes the entire agreement between you and the Company with respect to the subject matter herein and cancels and supersedes all previous invitations, proposals, letters, correspondence, negotiations, promises, agreements, covenants, conditions, representations and warranties with respect to the subject matter of this Agreement. There is no representation, warranty, collateral term or condition affecting this Agreement for which any Party can be held responsible in any way, other than as expressed in writing in this Agreement. No change or modification of this Agreement will be valid unless it is in writing and signed by both Parties.

10. Notice

Any notice required or permitted to be given hereunder must be in writing and will be sufficiently given or made if delivered by hand to you or the Chair of the board, as appropriate, or delivered or sent by registered mail, fax or e-mail to the address of the Parties set out below. Any notice so given will be deemed to have been given and to have been received on the day of delivery if it is a business day and otherwise on the next succeeding business day or, if mailed, on the third business day following the mailing thereof (excluding each day during which there exists any interruption of postal services due to strike, lockout or other cause). Addresses for notice may be changed by giving notice in accordance with this section.

Aquinox Pharmaceuticals Inc. Suite 430 - 5600 Parkwood Way Vancouver, BC V6V 2M2 Attn: President & CEO Fax: 604-295-4748	Lloyd Mackenzie [Address]

11. Non-waiver

No failure or delay by you or the Company in exercising any power or right under this Agreement will operate as a waiver of such power or right. Any consent or waiver by any Party to this Agreement to any breach or default under this Agreement will be effective only in the specific instance and for the specific purpose for which it was given.

12. Survival of Terms

The provisions of sections 1, 3, 8, 9, 12, 13, 14 and 17, and of subsections 4(c), 4(e), and 4(f) of this Agreement will survive the termination of your employment.

13. Further Assistance

The Parties will execute and deliver any documents and perform any acts necessary to carry out the intent of this Agreement.

14. Equitable Remedies

You hereby acknowledge and agree that a breach of your obligations under this Agreement would result in damages to the Company that could not be adequately compensated for by monetary award. Accordingly, in the event of any such breach by you, in addition to all other remedies available to the Company at law or in equity, the Company shall be entitled as a matter of right to apply to a court of competent jurisdiction for such relief by way of restraining order, injunction, decree or otherwise, as may be appropriate to ensure compliance with the provisions of this Agreement. The Company hereby acknowledges that any material unilateral change or modification to this Agreement or a material adverse change to your position, duties or compensation, without your prior written consent, except as provided for in section 5, may constitute constructive dismissal or breach of contract and, in addition to all other remedies available to you at law or in equity, you shall be entitled as a matter of right to apply to a court of competent jurisdiction for compensation, relief or other award as may be determined appropriate in the circumstances to ensure compliance with the provisions of this Agreement.

15. Conflict

In the event of any conflict between the terms and conditions of this agreement and any other agreement, the terms of this agreement shall prevail.

16. Time

Time is of the essence of this Agreement.

17. Governing Laws

This Agreement will be governed by and construed in accordance with the laws of British Columbia and the laws of Canada applicable in British Columbia. Each Party attorns to the non-exclusive jurisdiction of courts of British Columbia.

18. Independent Legal Advice

You acknowledge that you have been given an opportunity to seek independent legal advice with respect to the terms of this Agreement prior to its execution and have been advised to do so by the Company and that you understand the terms and rights and obligations under this Agreement.

19. Counterparts

This Agreement may be executed in two or more counterparts, each of which will be deemed to be an original and all of which will constitute one Agreement.

Aquinox Pharmaceuticals Inc.,

By: /s/ David Main

Name: David Main

Title: President and CEO

Date May 30, 2013

I acknowledge and accept the terms and conditions of my employment with the Company as set out above:

SIGNED, SEALED AND DELIVERED By Lloyd Mackenzie in the Presence of:

/s/ Kamran Alam
Signature of Witness

Kamran Alam
Name of Witness

238 W. 17 St.
Address of Witness

Occupation of Witness

/s/ Lloyd Mackenzie
Lloyd Mackenzie

Date: 30 May 2013

SCHEDULE A

Responsibilities and Duties

- Reporting to the President and CEO, provides leadership and day to day oversight and responsibility for all aspects of Technical Operations, including regulatory compliance for CMC, Pre-clinical, Quality assurance and Analytical and subcontracted vendors for these functional areas
- Acts as primary lead to coordinate Project Management to ensure functional areas plan in accordance with Corporate Objectives and that fully integrated project plans are consistent with Corporate Objectives
- Acts as primary lead to coordinate Regulatory consultants and internal functional areas to ensure regulatory obligations are being monitored and addressed. Responsibility for meeting regulatory obligations rests within functional areas.
- Attend meetings with Regulatory Authorities as requested and represent CMC and preclinical functions
- Participates as a member of the Executive Team
- Provides regular updates to the Executive team and Board of Directors on the Technical Operations and Planning of the company
- Oversees and manages CMC activities and requirements, as well as tech transfer audits, and related activities for all compounds
- Provides Quality oversight to ensure SOPs are developed, implemented and adhered to Company-wide: quality audits of CMO's and CRO's
- Oversees and manages pre-clinical development activities including safety, toxicology, ADME and in vitro and in vivo research experiments and reviews literature to keep up to date with scientific publications, advances related to the mechanism and related mechanisms and disease/indications of interest
- Participates in the recruitment and management of qualified personnel
- Participates in Business Development activities, attending partnering meetings and acting as technical lead in introductory and small group meetings with potential partners
- Along with CEO, CMO and team participates in developing publication plans for compounds in development or research
- Coordinates internal personnel to ensure that Scientific Abstracts are submitted and meeting poster/presentations are produced
- Along with the CEO, CFO, and CMO participates in the answering of questions/information requests from potential partners
- Keeps the Executive team and Development team aware of competitive intelligence gathered at scientific and partnering meetings
- Works with Development team to ensure technical information is captured in slides that can be used for investor, partnering and BOD presentations and that presentations accurately reflect the current Corporate positioning
- Acts as primary technical lead for intellectual Property and historical Research and Preclinical results
- Collaborates, and directs his reports to collaborate, on the achievement of Corporate Objectives
- At the request of the CEO, may be required to take on additional duties as necessary

Company: _____

Employee: /s/ Lloyd Mackenzie Date: _____

Exhibit 10.11

OFFER TO LEASE

February 15, 2010

Bentall Limited Partnership
Suite 90,10451 Shellbridge Way
Richmond, BC V6X 2W8

Attention: Tim Evans

Dear Sirs:

We, **AQUINOX PHARMACEUTICALS, INC.** (hereinafter referred to as the "Tenant"), hereby offer to lease certain premises (the "Demised Premises") located at **Part Building 400, 5600 Parkwood Way, Richmond, BC** from **Sun Life Assurance Company of Canada** the owners thereof, (hereinafter referred to as the "Landlord'), on the following terns and conditions:

1. RENTABLE AREA

An area of approximately **Fifteen Thousand Seven Hundred Twenty-Nine (15,729)** square feet of Rentable Area as shown on the plan attached hereto as "Schedule A".

2. TERM

The Term shall be for **five (5)** years measured from the Commencement Date. The Commencement Date shall be **September 1, 2010**. No construction or demolition work shall commence until proof of Tenant's insurance has been provided to the Landlord.

3. BASIC RENT

Basic Rent per square foot of Rentable Area per annum shall be:

Years 1 to 2 at $9.75;
Year 3 at $10.50; and
Years 4 to 5 at $11.25.

Basic Rent shall be payable in accordance with the Lease. The Tenant shall be responsible for the payment of GST in addition to Basic Rent. The Landlord shall have the right to measure or survey the Demised Premises. Should the Rentable Area be inconsistent with the estimated Rentable Area set out in Clause 1 hereof, Basic Rent shall be adjusted accordingly.

4. PROPERTY TAXES AND OPERATING EXPENSES

In addition to Basic Rent, the Tenant shall be responsible for the proportionate share of annual Property Taxes and Operating Expenses. Estimated figures for 2010 total $4.07 per square foot of Rentable Area per annum.

Charges which are estimated shall be subject to adjustment when actual amounts are available.

The Tenant shall be responsible for payment of GST in addition to the above.

5. CONDITION OF DEMISED PREMISES

The Tenant agrees to take the Demised Promises in “as is where is” condition excepting only the following which the Landlord will provide and install at the Landlord’s expense to its base building standard by August 31, 2010 on a reasonable commercial efforts basis:

a) As per the Streamline quote (dated November 30, 2009) attached as Schedule “C”. All mechanical, electrical, HVAC and plumbing systems and hot water supplies shall be properly separated from the adjacent tenancies as part of the demising work undertaken by the Landlord; and

b) All base building mechanical, electrical, HVAC and plumbing systems shall be in proper working order at the Commencement Date of the Lease.

c) See Schedule “D”.

The Landlord makes no representation or warranty with respect to the usability of any existing phone lines and/or data cables within the Demised Premises. The Tenant, at its expense, shall be responsible for all modifications required to reuse such phone lines and/or data cables.

6. PERMITTED USE

Research laboratory with related business office.

7. TENANT IMPROVEMENTS

The Tenant shall be responsible for its own improvements to the Demised Premises. Should the Tenant require additional utilities, heating, ventilation or air conditioning (“HVAC”) because of the nature of its business, in excess of those already provided to the Demised Premises, then the Tenant shall be responsible for the cost of installing and/or supplying such additional utilities, subject to prior approval from the Landlord.

8. OTHER TERMS AND CONDITIONS

Other terms and conditions shall be applicable as contained in the Landlord’s standard form of Lease, a copy of which is attached as Schedule “B” and forms an integral part of this Offer to Lease, except where the standard lease terms are contrary to the terms and conditions of this Offer to Lease, in which case the contrary provisions contained herein supersede the standard lease.

The standard lease shall be modified by the Landlord to incorporate the terms of this Offer to Lease and any amendments to the standard form of Lease agreed to by both the Tenant and the Landlord prior to the removal of the Tenant’s and Landlord’s Conditions

contained herein, provided that no such amendments shall alter the financial terms agreed to herein and shall be delivered to the Tenant for execution within a reasonable period of time after acceptance of this Offer to Lease and satisfaction of any subject conditions herein contained. The Tenant shall execute and return the Lease to the Landlord within five (5) business days upon receipt thereof. In no event shall the Tenant take occupancy and commence business operations in the Demised Premises, without the Lease being fully executed.

If the Tenant takes occupancy of the Demised Premises without executing the Lease, the Tenant shall be deemed to have executed the same and shall be bound to the provisions thereof and shall be deemed to hold the Demised Premises in accordance therewith, provided however, the Tenant shall still be obligated to execute and deliver the Lease to the Landlord forthwith upon demand. Notwithstanding that the Tenant shall be deemed to hold the Demised Premises in accordance with the provisions of the Lease, the Tenant's failure to actually execute and return the Lease to the Landlord will be a default under the terms of the Lease.

9. PRE-AUTHORIZED PAYMENT PLAN

The Tenant authorizes the Landlord to withdraw monthly Rent payments from the Tenant's account by way of direct withdrawals, as may be arranged from time to time between financial institutions administering the Tenant's and the Landlord's accounts.

The Tenant further agrees to execute and provide whatever further documentation, account information, cancelled cheques or otherwise, which are reasonably requested by the Landlord in order to assist the Landlord in the administration of a pre-authorized payment procedure for monies owing or accruing due as Rent under the Lease.

10. FINANCIAL INFORMATION

This Offer to Lease is subject to the Tenant providing necessary financial information about the Tenant in order for the Landlord to conduct the Landlord's standard credit check. Such information to be provided within three (3) days of the Offer to Lease being accepted by the Landlord, failing which the Landlord may, in its sole discretion terminate this Offer to Lease and any legal obligations arising from the provisional acceptance hereof by the Landlord. If the Tenant, in the Landlord's sole discretion, satisfactorily passes the Landlord's standard credit check, this subject condition shall be removed by the Landlord in writing within seven (7) days of the Landlord receiving such financial information failing which this Offer to lease and any obligations arising therefrom shall forthwith be null and void. The subject clause is for the sole benefit of the Landlord.

11. DEPOSIT

A deposit in the amount of **two (2) months gross Rent plus GST** (the "Deposit") is due within two business days of unconditional acceptance of this Offer to Lease, and shall be held by Bentall Limited Partnership as managing agent on behalf of the Landlord and the Deposit shall be retained by the Landlord without interest and shall be applied firstly to the first month's gross Rent payable under the Lease (including G.S.T.), with the balance to be held as security for the due and proper performance by the Tenant of all of the terms, covenants and conditions of the Lease, including the payment of all Rent due thereunder. Such of the Deposit as then remains outstanding and unapplied by the Landlord shall be repaid to the Tenant within ~~ninety (90)~~ **sixty (60)** days of the expiration of the Term of the Lease. Notwithstanding the foregoing, if the Tenant fails to execute and return the Lease to the Landlord in the form attached in accordance with Clause 8, the Landlord may, at its sole option, terminate this Offer to Lease and/or the Lease, if applicable, whereupon the Deposit shall be retained by the Landlord as liquidated damages on account of the Tenant's default and not as a penalty.

If the Landlord does not accept this Offer to Lease, the Deposit will be returned to the Tenant without Interest. If the Tenant fails to deliver the Deposit described herein to the Landlord, the Landlord at its option may terminate this Offer to Lease and the Landlord's obligations arising from the provisional acceptance hereof by the Landlord, whereupon the same shall be null and void.

12. TENANT'S CONDITIONS

This Offer to Lease is subject to the following conditions precedent, all of which are for the sole benefit of the Tenant:

a) The approval of the Tenant's board of directors;

b) Review and approval of the Lease;

c) The Tenant finalizing a round of financing in an amount not less than Fourteen Million Five Hundred Thousand dollars ($14,500,000.00) by ~~February 15, 2010~~ March 9, 2010;

d) The Tenant approving the scope of any work required to the Demised Premises to meet any applicable building, fire safety or handicap accessibility codes; and

e) The Tenant approving the scope of any restoration required to the Demised Premises to accommodate the Tenant's tenancy;

f) The Tenant's review and approval of the costs associated with the acquisition and restoration (if any) of the existing Tenant's Business and Trade Fixtures.

(the "Tenant's Conditions"). The Tenant's Conditions shall be removed or waived by notice in writing to be given by the Tenant to the Landlord, within fifteen (15) business days of the Landlord's acceptance hereof, failing which this Offer to Lease shall be null and void and of no force or effect and the Deposit shall be forthwith returned to the Tenant.

13. LANDLORD'S CONDITION

This Offer to Lease is subject to the following condition precedent, which is for the sole benefit of the Landlord:

a) The Landlord's senior executive's final approval;

b) The Landlord reviewing and approving the cost of any work required to the Demised Premises to meet any applicable building, fire safety or handicap accessibility codes; and

c) The Landlord reviewing and approving the cost of any restoration required to the Demised Premises to accommodate the Tenant's tenancy;

(the "Landlord's Condition"). The Landlord's Condition shall be removed or waived by notice in writing to be given by the Landlord to the Tenant within fifteen (15) business days of the Landlord's acceptance hereof, failing which this Offer for Lease shall be null and void and of no force or effect and the Deposit shall be forthwith returned to the Tenant.

14. PARKING

Throughout the Term, the Landlord shall make available for the Tenant, to use at its option, **one (1) random parking stall per 500 Rentable square feet leased** in the designated parking lot at the prevailing monthly rental rate, which is currently $NII per stall per month plus applicable taxes, which rental rate may be adjusted by the Landlord from time to time. If available, additional parking stalls shall be provided to the Tenant on a month to month recallable basis at the prevailing monthly rental rate. Notwithstanding the aforementioned the parking stalls shall be free of charge during the Initial Term of the Lease.

15. IMPROVEMENT ALLOWANCE

Provided the Tenant is not in default, the Landlord shall provide the Tenant with an improvement allowance which shall be solely applied to fixturing and modifying the Demised Premises in the amount of $4.00 per square foot of rentable area of the Demised Premises plus GST (the "Allowance"). Such Allowance to be payable upon fulfillment of all of the following conditions:

a) The Tenant has completed all of the work required of it pursuant to the Crestwood Commerce Centre Tenant Guidelines (including but not limited to HVAC balancing and delivery of "as-built" drawings);

b) provision of satisfactory evidence of payment of all of the Tenant's contractors in full by the Tenant including but not limited to a statutory declaration that all fees and payments resulting from the modification and fixturing of the Demised Premises have been made;

c) the Lease is fully executed; and

d) the Tenant has ~~fully~~ occupied the Demised Premises and commenced business operations therein.

All modifications to the Demised Premises are to the Tenant's account and are subject to the Landlord's prior written approval. It is understood that the Landlord's contractor shall be utilized for all changes to the mechanical, electrical and life safety systems. All design and consultants' fees and permits are to the Tenant's account.

16. FIXTURING PERIOD

So long as the Lease has been fully executed and the Tenant has provided the Landlord with proof of the Tenant's insurance, the Landlord shall provide the Tenant with possession of the Demised Premises for a period of **two (2)** months commencing **July 1, 2010** for the purposes of fixturing, modifying, preparing and occupying the Demised Premises for the Tenant's day-to-day business. All terms of the Lease shall be applicable from the date the Tenant takes possession of the Demised Premises save for the payment of Basic Rent, Operating Expenses and Property Taxes which shall be payable as of **September 1, 2010**.

17. FREE BASIC RENT

Subject to the Tenant being in occupancy and not in default under the Lease, the Landlord shall provide the Tenant with **two (2)** months of free Basic Rent. The free Basic Rent shall be applied by the Landlord against the payment of Basic Rent accruing due during the first and second (1st and 2nd) months of the Term.

For greater certainty, the Tenant acknowledges and agrees that notwithstanding the period of free Basic Rent set out above, the Tenant shall pay its share of the Operating Expenses and Property Taxes and other charges provided for in the Lease in the manner set out in the Lease during the entire Term.

18. SIGNAGE

The Tenant shall be permitted exterior base building signage. The exterior signage shall be subject to the Landlord's approval and meet all applicable local, municipal and /or federal rules and regulations having jurisdiction. The signage shall be installed at the Tenant's sole cost and maintained to a first class standard and the Tenant shall remove and make good such signage upon the termination of the Lease.

19. HVAC SYSTEMS

The Landlord will ensure, at the Landlord's sole cost, that all existing HVAC systems serving the Demised Premises will be in proper working order at the Commencement Date of the Lease.

The maintenance of the existing HVAC systems after the Commencement Date will be undertaken by the Landlord and charged back directly to the Tenant through the Operating Expenses for the Demised Premises.

It is understood by the Landlord and Tenant that it is the Tenant's sole responsibility to purchase any non-base building HVAC systems from the existing tenant (if required) at the Tenant's sole cost prior to the expiry of the existing tenant's lease.

20. OPTION TO EXTEND LEASE

The Tenant, provided it is Aquinox Pharmaceuticals Inc. and is itself in occupation of the whole of the Demised Premises and provided it has not been in material default during the Term, shall have one option to extend the Term of the Lease for a further period of **five (5)** years (the "Extended Term"), such option to be exercised upon twelve (12) months' written notice to the Landlord, prior to the expiry of the Initial Term, not to be given sooner than eighteen (18) months prior to expiry of the Initial Term. The Extended Term shall be on the same terms and conditions as the Initial Term except for Basic Rent, any free rent allowance, fixturing period, Tenant Improvement allowance or other incentive or inducement and except for this option to extend.

The Basic Rent payable by the Tenant during the Extended Term shall be negotiated and agreed upon between the parties prior to the commencement of the Extended Term based on the prevailing fair market Basic Rent at the commencement of the Extended Term for similarly improved premises of similar size, quality, use and location in **flex office/laboratory** buildings of a similar size, quality and location in **Richmond, BC**. Failing such agreement, then within two (2) months prior to the commencement of the Extended Term, Basic Rent shall be determined by arbitration under the provisions of the Commercial Arbitration Act of the Province of British Columbia and in accordance with this clause provided that the Basic Rent payable shall not in any case be less than that payable by the Tenant during the last year of the Initial Term. The Tenant covenants and agrees to execute any document or instrument which the Landlord reasonably requires under this provision, including but not limited to the Landlord's form of extension and amending agreement prepared by the Landlord to give effect to the Extended Term.

21. OVERHOLDING

The Tenant has no right to remain in possession of the Premises after the end of the Term. If the Tenant remains in possession of the Premises after the end of the Term with the consent of the Landlord but without entering into a new lease or other agreement then, notwithstanding any statutory provisions, legal presumption or reasonableness requirement to the contrary, there shall be no tacit renewal of this Lease or the Term and the Tenant shall be deemed to be occupying the Premises as a tenant from month to month (with either party having the right to terminate such month to month tenancy at any time on 30 days' notice, whether or not the date of termination is at the end of a rental period) at a monthly Basic Rent payable in advance on the first day of each month equal to 150% the monthly amount of Basic Rent payable during the last month of the Term (or which would have been payable but for any discount or rent-free period applicable to such last month) and otherwise upon the same terms, covenants and conditions as in this Lease insofar as these are applicable to a monthly tenancy and, for greater certainty, including liability for all Additional Rent.

22. ADDITIONAL CONSIDERATION

If this Offer to Lease contains one or more subject conditions in favor of either party hereto, then in respect of each such subject condition the party not receiving the benefit of such subject condition hereby acknowledges the receipt of $10.00 and other good and valuable consideration to be retained by such party as consideration for keeping this Offer to Lease open for acceptance until the time for removal or waiver of such subject condition has expired.

23. AGENCY DISCLOSURE

In accordance with the Rules established by the Real Estate Council pursuant to the Real Estate Services Act of British Columbia, Bentall Limited Partnership (the "Landlord's Agent") disclosed that it is representing the Landlord in respect of this transaction, and will receive remuneration from the Landlord for such representation.

Kevin Nelson of CB Richard Ellis Limited (the "Tenant's Agent") discloses that it is representing the Tenant in respect of this transaction and will receive remuneration from the Landlord for such representation in accordance with the Agent's agreement with the Landlord.

24. PRIVACY STATEMENT

The Tenant consents to the Landlord collecting, using and disclosing the personal information in this Offer to Lease and the Lease or otherwise collected by or on behalf of the Landlord or its agents, affiliates, or service providers, for the purposes of:

a) determining the suitability of the Tenant, both for the Term and any renewal or extension thereof;

b) taking action for collection of Rent in the event of default by the Tenant; and

c) facilitating the pre-authorized payment plan contained in this Offer to Lease and the Lease.

Consent under this Offer to Lease and the Lease includes consent to the disclosure by the Landlord of such information to credit agencies, collection agencies and existing or potential lenders, investors and purchasers.

The Tenant also consents to and confirms its authority and that it has all necessary consents to enable the collection, use, and disclosure, as provided in this privacy statement, of personal information about employees of the Tenant and other individuals whose personal information is provided to or collected by or on behalf of the Landlord in connection with this Offer to Lease and the Lease.

To the extent the Landlord uses a managing agent, consent under this Offer to Lease and the Lease includes consent for the managing agent to do all such things on behalf of the Landlord. The Landlord's current managing agent to Bentall Limited Partnership ("Bentall"). The Tenant also consents to the terms of Bentall's Privacy Policy, a copy of which is available at www.bentall.com, and to the collection, use and disclosure of personal information in accordance with such privacy policy.

25. NO REPRESENTATIONS

There are no representations, warranties or agreements made by the Landlord to the Tenant except as specifically set out in this Offer to Lease.

26. NO ASSIGNMENT

The Tenant shall not assign its interest in this Offer to Lease without the prior written consent of the Landlord, which consent may be withheld in the Landlord's sole discretion.

27. CAPITALIZED TERMS

Any capitalized terms used in this Offer to Lease and not defined herein and/or in Appendix 1 attached hereto shall have the meaning set out in the Lease attached as Schedule "B" hereto.

28. FACSIMILE EXECUTION

The parties agree that this Offer to Lease may be executed by facsimile and the parties agree to be bound by the facsimile copies.

29. ACCEPTANCE

This Offer to Lease is irrevocable and open for acceptance by the Tenant for **three (3)** business days from the date offered by the Landlord as set out below after which time, if not accepted by the Tenant, it shall be null and void.

30. NO OFFER

The Landlord shall not be deemed to have made an offer to the Tenant by furnishing to the Tenant a copy of this Offer to Lease with particulars inserted and, notwithstanding that the Deposit may be received by the Landlord when this Offer to Lease is received by it for signature, no contractual or other rights shall exist or be created between the Landlord and the Tenant until such time as all parties to this Offer to Lease have executed this Offer to Lease and copies thereof have been delivered to each party. If this Offer to Lease contains subject conditions in favor of either party hereto, (a) no contractual or other rights shall exist or be created between the Landlord and the Tenant until such time as such subject conditions have been removed or waived save as

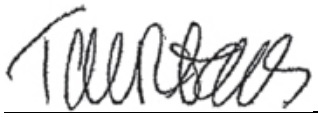
expressly set out herein, and (b) the Landlord may continue to consider and accept other offers for the Demised Premises (or any portion thereof) until such time as all such subject conditions have been removed or waived.

31. TIME OF ESSENCE

Time is of the essence of this Offer to Lease and each part of it.

OFFERED by the Landlord, this ~~15th~~ 26th day of February, 2010 at Vancouver, in the Province of British Columbia.

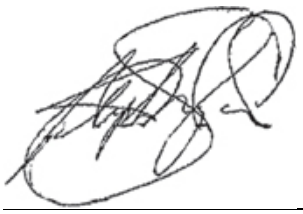
SUN LIFE ASSURANCE COMPANY OF CANADA
by its duly authorized Agent
BENTALL LIMITED PARTNERSHIP
By its General Partner, Bentall G.P. Ltd.

PER: 
(AUTHORIZED SIGNATORY)

PER: _____
(AUTHORIZED SIGNATORY)

ACCEPTED by the Tenant, this ~~19th~~ 3rd day of ~~February~~ March, 2010 at Vancouver, in the Province of British Columbia.

AQUINOX PHARMACEUTICALS INC.

PER: 
(AUTHORIZED SIGNATORY)

C/S

PER: _____
(AUTHORIZED SIGNATORY)

APPENDIX 1
DEFINITIONS

For greater certainty, for the purposes of the Lease, the following terms used in this Offer to Lease shall have the meanings set out below.

a) "Basic Rent" shall mean the fixed monthly payments due and payable under clause 3 of this Offer to Lease, whether referred to in the Lease as "Basic Rent", "Minimum Rent" or otherwise;

b) "Demised Premises" shall mean the premises to be demised to the Tenant pursuant this Offer to Lease, whether referred to in the Lease as "Demised Premises", "Leased Premises", "Premises" or otherwise:

c) "Operating Expenses" shall mean the amounts payable by the Landlord and reimbursable by the Tenant under the Lease on account of the operation, maintenance, administration, management and repair of the Demised Premises and the building in which the Demised Premises are situated, whether therein referred to as "Operating Expenses", "Operating Costs", "Common Costs" or otherwise;

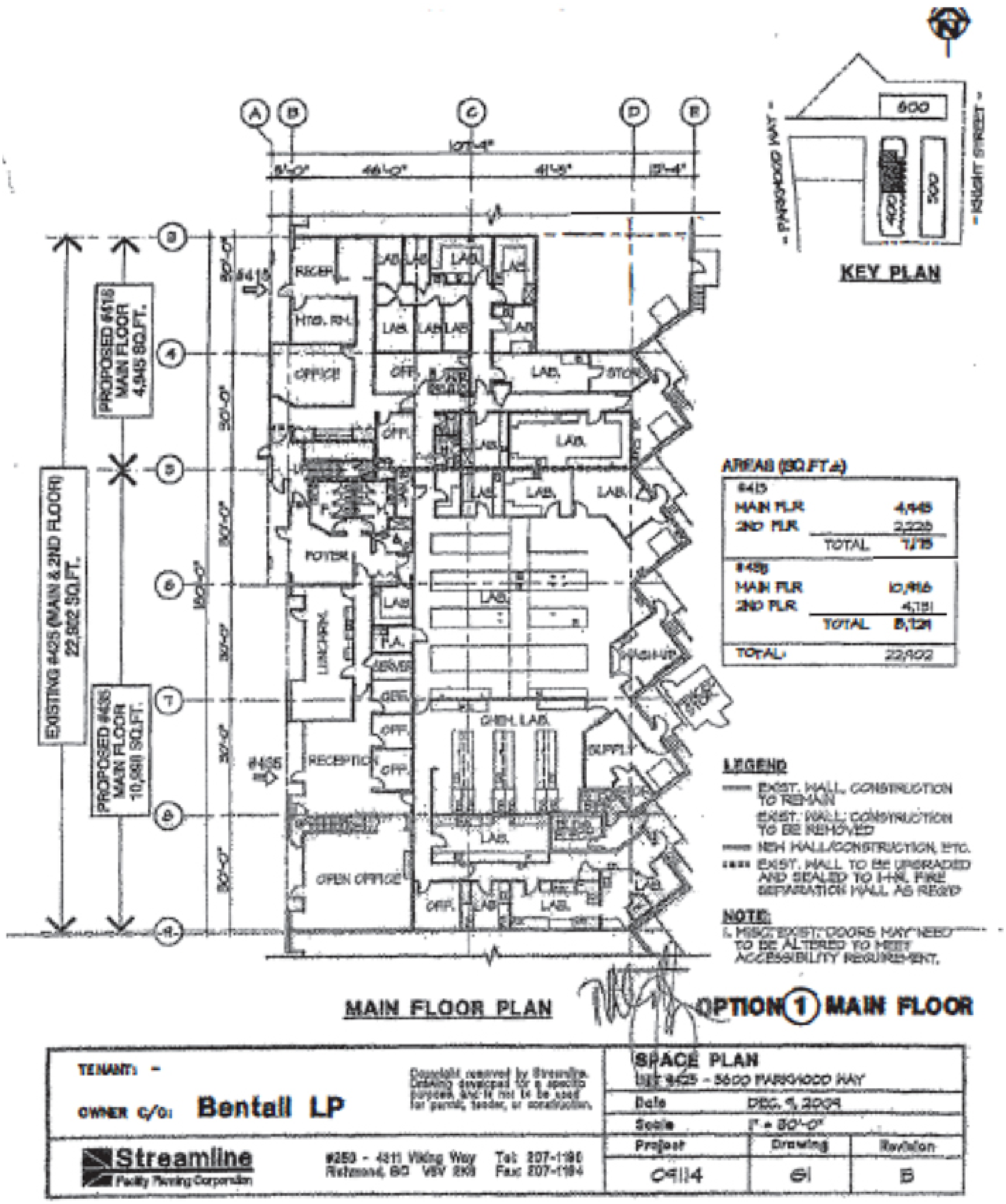
d) "Landlord" shall mean the Landlord herein defined, whether referred to in the Lease as "Landlord", "Lessor" or otherwise;

e) "Property Taxes" shall mean the amounts payable by the Landlord and reimbursable by the Tenant under the Lease on account of real property taxes, duties and assessments imposed against the lands and building where the Demised Premises are situated, whether therein referred to as "Property Taxes", "Municipal Taxes", "Taxes" or otherwise;

f) "Rent" shall mean all amounts payable by the Tenant pursuant to the provisions of this Offer to Lease or of the Lease; and

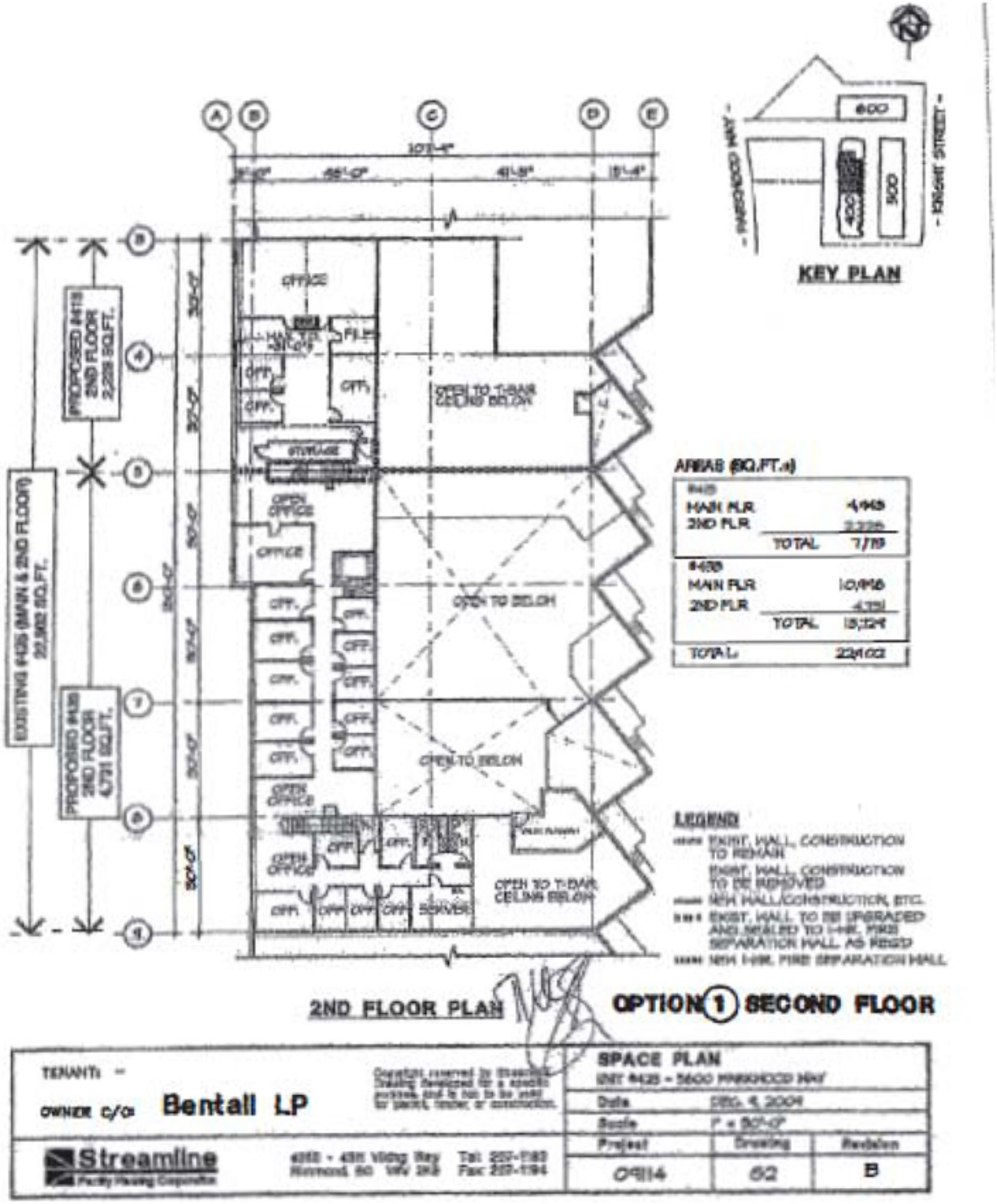
g) "Tenant" shall mean the Tenant herein defined, whether referred to in the Lease as '"Tenant", "Lessee" or otherwise.

SCHEDULE "A"



KEY PLAN
600
500
400
AREAS (SQ.FT.±)
#415
MAIN FLR 4,445
2ND FLR 2,220
TOTAL 7,175
#435
MAIN FLR 10,416
2ND FLR 4,111
TOTAL 15,124
TOTAL 22,102
LEGEND
EXIST. WALL CONSTRUCTION TO REMAIN
EXIST. WALL CONSTRUCTION TO BE REMOVED
NEW WALL/CONSTRUCTION, ETC.
EXIST. WALL TO BE UPGRADED AND SEALED TO 1-HR. FIRE SEPARATION WALL AS REQ'D
NOTE:
1. MISC. EXIST. DOORS MAY NEED TO BE ALTERED TO MEET ACCESSIBILITY REQUIREMENT.
PROPOSED #415 MAIN FLOOR 4,945 SQ.FT.
PROPOSED #435 MAIN FLOOR 10,889 SQ.FT.
EXISTING #425 (MAIN & 2ND FLOOR) 22,802 SQ.FT.
MAIN FLOOR PLAN
OPTION 1 MAIN FLOOR
TENANT: -
OWNER C/O: Bentall LP
Streamline
Facility Planning Corporation
SPACE PLAN
Date
Scale
Project
Drawing
Revision
04114
B

SCHEDULE "A"


KEY PLAN
AREAS (SQ.FT.±)
MAIN FLR
2ND FLR
TOTAL
LEGEND
2ND FLOOR PLAN
OPTION (1) SECOND FLOOR
TENANT: -
OWNER c/o Bentall LP
Streamline
SPACE PLAN
Date
Scale
Project
Drawing
Revision
09114
B

SCHEDULE "B"

LEASE

BETWEEN

SUN LIFE ASSURANCE COMPANY OF CANADA

(LANDLORD)

- AND -

*****

(TENANT)

Premises:

*****

LEASE

BETWEEN

SUN LIFE ASSURANCE COMPANY OF CANADA

(LANDLORD)

- AND -

AQUINOX PHARMACEUTICALS INC.

(TENANT)

Premises:

Part of Building 400, 5600 Parkwood Way

Richmond, British Columbia

TABLE OF CONTENTS

THIS LEASE, dated April 8, 2010, is made by the Landlord and the Tenant named in it who, in consideration of the rents, covenants and agreements contained in this Lease, covenant and agree as follows:

ARTICLE 1 - BASIC TERMS

1.1 Basic Terms

(a)	(i)	Landlord:	SUN LIFE ASSURANCE COMPANY OF CANADA
	(ii)	Address of Landlord:	c/o Bentall Limited Partnership Suite 1800-1055 Dunsmuir Street, P.O. Box 49001, Vancouver, B.C. V7X 1B1
(b)	(i)	Tenant:	AQUINOX PHARMACEUT1CALS INC.
	(ii)	Address of Tenant:	Part of Building 400, 5600 Parkwood Way Richmond, British Columbia
(c)	(i)	Indemnifier:	Not Applicable
	(ii)	Address of lndemnifier:	Not Applicable
	~~(iii)~~	~~Indemnity Provisions:~~	~~See Schedule "D"~~
(d)	Project, if applicable		Crestwood Commerce Centre
(e)	Building:		Building 400
(f)	Premises:		Part of Building 400
(g)	Rentable Area of Premises:		Approximately 15,729 square feet
(h)	(i)	Term:	Five (5) years
	(ii)	Commencement Date:	September 1, 2010
	(iii)	Expiry Date:	August 31, 2015
(i)	Fixturing Period		Commencing July 1, 2010, provided this Lease is fully executed and the Tenant has provided the Landlord with proof of insurance and ending August 31, 2010
(j)	Basic Rent:		

Time Period	Per Sq. Ft. of Rentable Area of the Premises/Year	Per Year	Per Month
September 1, 2010 to August 31, 2012	$ 9.75	$153,357.75	$12,779.81
September 1, 2012 to August 31, 2013	$ 10.50	$165,154.50	$13,762.88
September 1, 2013 to August 31, 2015	$ 11.25	$176,951.25	$14,745.94

(k)	(i)	~~Rent Deposit referred to in section 5.6:~~	~~*~~
	(ii)	Security Deposit referred to in Section 5.7:	$42,778.68
(l)	Permitted Use:		Research laboratory with related business offices

ARTICLE 2 - SPECIAL PROVISIONS

2.1 Construction and Completion of the Premises

Schedule "E' attached hereto sets out the respective obligations of the Landlord and Tenant with respect to the initial construction and completion of the Premises for the Tenant's day to day business prior to the Commencement Date.

2.2 Free Basic Rent

Notwithstanding anything to the contrary herein contained, but subject to the Tenant being in occupancy and not in default, the Landlord shall provide the Tenant with two (2) months free Basic Rent. The free Basic Rent shall be applied by the Landlord against the payment of Basic Rent accruing due during the calendar months of September 2010 and October 2010 of the Term and Sections 1.1(j) and 5.1 hereto shall be deemed to have been amended accordingly. For greater certainty, the Tenant acknowledges and agrees that notwithstanding the period of free Basic Rent set out above it shall remain responsible for payments of all other amounts owing under this Lease.

2.3 Tenant Improvement Allowance

Provided the Tenant is not in default, the Landlord shall provide the Tenant with an improvement allowance which shall be solely applied to fixturing and modifying the Premises in the amount of $4.00 per square foot of Rentable Area of the Premises plus Rental Taxes (the "Allowance"). Such Allowance to be payable upon fulfillment of all of the following conditions:

(a) the Tenant has completed all of the work required of it pursuant to Section 9.2 and the Crestwood Commerce Centre (including but not limited to HVAC balancing and delivery of "as built" drawings);

(b) provision of satisfactory evidence of payment of all of the Tenant's contractors in full by the Tenant including but not limited to a statutory declaration that all fees and payments resulting from the modification and fixturing of the Premises have been made;

(c) the Lease is fully executed; and

(d) the Tenant has fully occupied the Premises and commenced business operations therein.

All modifications to the Premises are to the Tenant's account and are subject to the Landlord's prior written approval. It is understood that the Landlord's contractor shall be utilized for all changes to the mechanical, electrical and life safety systems. All design and consultants' fees and permits are to the Tenant's account.

2.4 Tenant's Parking

Throughout the Term, the Landlord shall make available for the Tenant, to use at its option, parking in the designated parking lot on the basis of one (1) random parking stall per 500 square feet of Rentable Area leased by the Tenant. Monthly rental for the said parking stalls shall be based on the prevailing monthly rental rate, which is shall be free of charge during the initial Term. Access to any additional parking stalls shall be on an "as available, month to month" basis in the designated parking lot at the prevailing monthly rental rate, which rental rate may be adjusted by the Landlord from time to time. During any renewal or extension of the Term, the monthly rental rate shall be based on the prevailing monthly rental rate per random parking stall per month plus applicable taxes, which monthly rental rate may be adjusted by the Landlord from time to time.

2.5 Tenant's Option to Extend Term

The Tenant, provided it is Aquinox Pharmaceuticals Inc. and is itself in occupation of the whole of the Premises and provided it has not been in material default during the Term, shall have one option to extend the Term of the Lease for a further period of five (5) years (the "Extended Term"), such option to be exercised upon twelve (12) months' written notice to the Landlord, prior to the expiry of the initial Term, not to be given sooner than eighteen (18) months prior to expiry of the initial Term. The Extended Term shall be on the same terms and conditions as the initial Term except for Basic Rent, any free rent allowance, fixturing period, Tenant improvement allowance or other incentive or inducement and except for this option to extend.

The Basic Rent payable by the Tenant during the Extended Term shall be negotiated and agreed upon between the parties prior to the commencement of the Extended Term based on the prevailing fair market Basic Rent at the commencement of the Extended Term for similarly improved premises of similar size, quality, use and location in office/laboratory buildings of a similar size, quality and location in Richmond, British Columbia. Failing such agreement, then within two (2) months prior to the commencement of the Extended Term, Basic Rent shall be determined by arbitration under the provisions of the *Commercial Arbitration Act* (British Columbia) and in accordance with this clause provided that the Basic Rent payable shall not in any case be less than that payable by the Tenant during the last year of the initial Term. The Tenant covenants and agrees to execute any document or instrument which the Landlord reasonably requires under this provision, including but not limited to the Landlord's form of extension and amending agreement prepared by the Landlord to give effect to the Extended Term.

2.6 Privacy Statement

The Tenant consents to the Landlord collecting, using and disclosing the personal information in this Lease or otherwise collected by or on behalf of the Landlord or its agents, affiliates, or service providers, for the purposes of:

(a) determining the suitability of the Tenant, both for the Term and any renewal or extension thereof;

(b) taking action for collection of Rent in the event of default by the Tenant; and

(c) facilitating the pre-authorized payment plan pursuant to Section 5.4(d).

Consent under this Lease includes consent to the disclosure by the Landlord of such information to credit agencies, collection agencies and existing or potential lenders, investors and purchasers.

The Tenant also consents to and confirms its authority and that it has all necessary consents to enable the collection, use, and disclosure, as provided in this privacy statement, of personal information about employees of the Tenant and other individuals whose personal information is provided to or collected by or on behalf of the Landlord in connection with this Lease.

To the extent the Landlord uses a managing agent, consent under this Lease includes consent for the managing agent to do all such things on behalf of the Landlord. The Landlord's current managing agent is Bentall Limited Partnership ("Bentall"). The Tenant also consents to the terms of Bentall's Privacy Policy, a copy of which is available at www.bentall.com and to the collection, use and disclosure of personal information in accordance with such privacy policy.

ARTICLE 3 - DEFINITIONS AND INTERPRETATION

3.1 Definitions

(a) "**Additional Rent**" means all amounts in addition to Basic Rent payable by the Tenant to the Landlord or any other Person pursuant to this Lease, other than Rental Taxes (except as provided in Section 15.l(a)).

(b) "**Alterations**" has the meaning set out in Section 9.2.

(c) "**Applicable Laws**" means all statutes, laws, by-laws, regulations, ordinances, orders and requirements of governmental or other public authorities having jurisdiction in force from time to time.

(d) "**Arbitration**" if that term is used in this Lease, has the meaning given to it in Section 16.6.

(e) "**Basic Rent**" means the rent payable pursuant to Section 5.1.

(f) "**Building**" means the Building Lands and the building and all other structures, improvements, facilities and appurtenances that have been or will be constructed on the Building Lands (above, at or below grade), including the Building Systems and the Common Areas and Facilities, all as may be altered, expanded, reduced or reconstructed from time to time.

(g) "**Building Lands**" means the lands described in Part 1 of Schedule "A" (or such portion thereof as may be designated by the Landlord from time to time), as altered, expanded or reduced from time to time.

(h) "**Building Systems**" means at any time: (i) all heating, ventilating and air-conditioning and other climate control systems and other systems, services, installations and facilities installed in or servicing all or any part of the Building or Project including, without limitation, the following systems, services, installations and facilities: mechanical (including plumbing, sprinkler, drainage and sewage), electrical and other utilities, lighting, sprinkler, life safety, computer (including environmental, security and lighting control), and ice and snow melting; (ii) all machinery, appliances, equipment, apparatus, components, computer software and appurtenances forming pat of or used for or in connection with any of such systems, services, installations and facilities including, but not limited to, boilers, motors, generators, fans, pumps, pipes, conduits, ducts, valves, wiring, meters and controls, and the structures and shafts housing and enclosing any of them; and (iii) all Landlord owned or controlled telecommunications facilities, installations and equipment.

(i) "**Business Day**" means any day which is not a Saturday, Sunday or a day observed as a holiday under the Applicable Laws in the province in which the Building is situate.

(j) "**Business Taxes**" means all taxes, rates, duties, levies, assessments, licence fees and other charges in respect of the use or occupancy of, or any business carried on by, tenants or other occupants of the Project.

(k) "**Capital Tax**", if applicable, means the amount from time to time reasonably allocated by the Landlord to the Project, of any tax or taxes at any time payable under the legislation of a province or to any political subdivision within a province by the Landlord, based upon or computed by reference to the paid-up capital or surplus or value of real estate portfolio or place of business of

the Landlord as determined for the purposes of that tax, and for the purposes of this definition, the word "Landlord" includes, severally, each of the persons or firms that then constitute the Landlord.

(l) "**Change of Control**" means, in the case of any corporation or partnership, the transfer or issue by sale, assignment, subscription, transmission on death, mortgage, charge, security interest, operation of law or otherwise, of any shares, voting rights or interest which would result in any change in the effective control of such corporation or partnership, unless such change occurs as a result of trading in the shares of a public corporation listed on a recognized stock exchange in Canada or the United States.

(m) "**Commencement Date**" means the date set out in or determined pursuant to Section l.l(h)(ii), subject to Section 42.

(n) "**Common Areas and Facilities**" means those areas, facilities, improvements, installations and equipment in or around the Building or Project existing from time to time that are provided or designated from time to time by the Landlord for use in common by the Landlord and/or more than one tenant of the Building or Project or their respective sublessees, agents, employees, customers, invitees or licensees, whether or not those areas are open to the general public or to all tenants of the Building or Project including, without limitation, the Building Systems, outdoor landscaping and landscaped areas, electrical, telephone, meter, valve and mechanical rooms, parking facilities, driveways, laneways and ramps and sidewalks, parks and other municipal facilities for which the Landlord directly or indirectly is subject to obligations in its capacity as owner of the Building or Project or an interest in it, all as may be altered, expanded, reduced, reconstructed or relocated from time to time.

(o) "**Contaminant**" means any solid, liquid, gas, offensive odour, heat, sound, vibration or radiation that results directly or indirectly from human activities that may cause an adverse environmental effect.

(p) "**Default Rate**" means the lesser of: (i) the Prime Rate plus five percent per annum; and (ii) the maximum rate permitted by Applicable Laws, calculated and compounded monthly not in advance.

(q) "**Early Termination**" has the meaning set out in Section 12.3.

(r) "**Environmental Claim**" means any investigation, notice, violation, demand, activities, suit, injunction, order, consent decree, penalty, fine, lien, proceeding or claim arising, pursuant to, or in connection with, an actual or alleged violation of any Environmental Laws or the presence or removal of any hazardous, dangerous, toxic or harmful substances brought or permitted on the Project by the Tenant.

(s) "**Environmental Laws**" means all federal, provincial and local statutes, laws, ordinances, regulations and orders relating to environmental matters.

(t) "**Event of Default**" has the meaning set out in Section 15.1.

(u) "**Expert**" means any architect, designer, engineer, land surveyor, accountant or other professional consultant appointed by the Landlord who, in the opinion of the Landlord, is qualified to perform the function for which he or she is retained.

(v) "**Expiry Date**" means the date set out in or determined pursuant to Section 1.1(h)(iii), subject to Section 42.

(w) "**Fiscal Year**" means the fiscal period(s) as designated by the Landlord from time to time. The Landlord may have different Fiscal Years for any one or more of the components of Additional Rent.

(x) "**Fixturing Period**" means the period, if any, specified in Section 1.1(i) provided to the Tenant to perform its Fixturing of the Premises **and to carry on business**. During any Fixturing Period the Tenant shall be entitled to occupy the Premises in accordance with all terms of this Lease (including the Tenant's obligations to pay for all utilities and services), but shall not be obligated to pay Basic Rent, the Tenants share of Property Taxes or the Tenant's share of Operating Costs.

(y) "**Indemnifier**" means the Person, if any, identified in Section 1.1(c)(i), and if there is more than one such Person, it means each such Person.

(z) "**Lands**" means the Building Lands, or, if applicable, the Project Lands.

(aa) "**Large Corporations Tax**" means the amount from time to time reasonably allocated by the Landlord to the Project, of the tax known as the Large Corporations Tax, if applicable, and of any similar or replacement tax or taxes at any time payable under the legislation of Canada based upon or computed by reference to the paid-up capital or surplus or value of real estate portfolio or place of business of the Landlord as determined for the purposes of that tax, and for the purposes of this definition, the word "Landlord" includes, severally, each of the persons or firms that then constitute the Landlord.

(bb) "**Lease**" means this lease, including all schedules, as it may be amended.

(cc) "**Lease Year**" means: (i) in the case of the first Lease Year, the period beginning on the Commencement Date and ending on the last day of the 12th consecutive full month after the expiry of the calendar month in which the Commencement Date occurs (except that if the Commencement Date occurs on the first day of a calendar month, the first Lease Year shall end on the day prior to the first anniversary of the Commencement Date) and; (ii) in the case of each subsequent Lease Year, consecutive 12 month periods, provided that the final Lease Year shall end on the last day of the Term.

(dd) "**Leasehold Improvements**" means all alterations, fixtures and improvements in or serving the Premises made from time to time by or on behalf of the Tenant or any prior occupant of the Premises including, without limitation, mezzanines, internal stairways, doors, hardware, vaults, partitions (excluding moveable partitions), lighting fixtures, non-Building standard window coverings and wall-to-wall carpeting (excluding carpeting laid over a finished floor and removable without damage to such floor), but excluding trade fixtures and furniture and equipment not of the nature of fixtures.

(ee) "**Measurement Standards**" means the measurement standards set out in Schedule "A".

(ff) "**Mortgage**" means any mortgage, charge or security instrument (including a deed of trust or mortgage securing bonds) and all extensions, renewals, modifications, consolidations and replacements of any such item which may now or hereafter affect the Project or any part of it.

(gg) "**Mortgagee**" means the mortgagee, chargee or other secured party (including a trustee for bondholders), as the case may be, who from time to time holds a Mortgage.

(hh) "**Notice**" has the meaning set out in Section 16.7.

(ii) "**Operating Costs**" has the meaning set out in Section 6.5.

(jj) "**Permitted Transferee**" means any entity which is an affiliate (as that term is deemed as of the date of this Lease in the Canada Business Corporations Act) of the original named Tenant, and only for so long as it remains an affiliate of such original named Tenant.

(kk) "**Permitted Use**" means the use set out in Section 1.1(l).

(ll) "**Person**" means any individual, partnership, corporation, trust, trustee or other entity or any combination of them.

(mm) "**Premises**" means that part of the Building identified in Section 1.l(f) and approximately shown cross-hatched on Schedule "B", extending to: (i) the interior face of all exterior walls, doors and windows; (ii) the interior face of all interior walls, doors and windows separating the Premises from Common Areas and Facilities or from adjoining leaseable premises; and (iii) the top surface of the structural subfloor and the bottom surface of the structural ceiling. Any Building Systems located in the Premises do not form part of the Premises.

(nn) "**Prime Rate**" means the annual rate of interest announced from time to time by the Canadian chartered bank from time to time chosen by the Landlord as the daily rate of interest used by such bank as a reference rate in setting rates of interest for Canadian dollar commercial loans and commonly referred to by such bank as its Canadian "prime rate".

(oo) "**Project**", if applicable, means the Project Lands and the buildings and all other structures, improvements, facilities and appurtenances that have been or will be constructed on the Project Lands (above, at or below grade), including the Building Systems and the Common Areas and Facilities, all as may be altered, expanded, reduced or reconstructed from time to time; provided that if the Landlord determines Project is not applicable, references in this Lease to Project shall be deemed to be references to Building.

(pp) "**Project Lands**", if applicable, means the lands described in Part 2 of Schedule "A" (or such portion thereof as may be designated by the Landlord from time to time), as altered, expanded or reduced from time to time; provided that if Project Lands are not applicable, references in this Lease to Project Lands shall be deemed to be references to Building Lands.

(qq) "**Property Taxes**" means the aggregate of all taxes, rates, duties, levies, fees, charges (including local improvement charges) and assessments whatsoever, imposed, assessed, levied, rated or charged against or in respect of the Project (or any part of the Project) from time to time by any competent taxing or assessing authority, whether school, municipal, regional, provincial, federal, or otherwise, and any taxes or other amounts which are imposed in lieu of, or in addition to, any of the foregoing whether or not in existence on the Commencement Date and whether of the foregoing character or not, but excluding taxes on the income or profits of the Landlord except to the extent that they are levied in lieu of the foregoing.

(rr) "**Proportionate Share**" means a fraction which has: (i) as its numerator, the Rentable Area of the Premises, and (ii) as its denominator, the Rentable Area of the Project.

(ss) "**Purchaser**" has the meaning set out in Section 13.2.

(tt) "**Rent**" means all Basic Rent and Additional Rent.

(uu) "**Rent Deposit**" means the amount specified in Section 1.1(k)(i).

(vv) "**Rentable Area**" means: (i) in the case of the Premises and any other premises included in the Project, the area of all floors of such premises; and (ii) in the case of the Project the aggregate of the area of all premises in the Project that are rented, or designated or intended by the Landlord to be rented (whether actually rented or not), all determined in accordance with the Measurement Standards. The Rentable Area of the Premises, the Project or any part thereof may be adjusted from time to time to reflect any alteration, expansion, reduction, recalculation or other change.

(ww) "**Rental Taxes**" means any tax or duty imposed upon either the Landlord or the Tenant which is measured by or based in whole or in part directly upon the Rent payable under this Lease or in respect of the rental or rental value of premises under this Lease whether existing at the date of this Lease or hereafter imposed by any governmental authority including, without limitation, goods and services tax, harmonized sales tax, value added tax, business transfer tax, sales tax, federal sales tax, excise taxes or duties or any tax similar to the foregoing.

(xx) "**Required Conditions**" means that:

(i) the Tenant is the original named Tenant or a Permitted Transferee, has not undergone a Change of Control and is itself in occupation of and carrying on business from the whole of the Premises; and

(ii) the Tenant has paid all Basic Rent and Additional Rent as and when due and has not been in persistent default and is not in material default under this Lease.

(yy) "**Restoration**" has the meaning set out in Section 9.3.

(zz) "**Restoration Date**" has the meaning set out in Section 9.3.

(aaa) "**Rules and Regulations**" means the Rules and Regulations annexed hereto as Schedule "C" together with any amendments, deletions and additions made by the Landlord from time to time pursuant to Section 10.4, all of which shall form part of this Lease.

(bbb) "**Security Deposit**" means the amount specified in Section 1.1(k)(ii).

(ccc) "**Statement**" has the meaning set out in Section 5.5(b).

(ddd) "**Structural Components**" means those parts of the Project consisting of the footings and foundations, structural columns and beams, structural subfloors, and bearing walls.

(eee) "**Term**" means the period specified in Section 1.1(h)(i).

(fft) "**Transfer**" means all or any of the following, whether by conveyance, written agreement or otherwise: (i) an assignment of this Lease in whole or in part; (ii) a sublease of all or any part of the Premises; (iii) the sharing or transfer of any right of use or occupancy of all or any part of the Premises; (iv) any mortgage, charge or encumbrance of this Lease or the Premises or any part of the Premises or other arrangement under which either this Lease or the Premises become security for any indebtedness or other obligation; and (v) a Change of Control, and includes any transaction or occurrence whatsoever (including, but not limited to, expropriation, receivership proceedings, seizure by legal process and transfer by operation of law), which has changed or might change the identity of the Person having use or occupancy of any part of the Premises.

(ggg) "**Transferee**" means the Person to whom a Transfer is or is to be made.

(hbh) "**Transfer Application Fee**" means such fee as the Landlord may in its sole discretion from time to time determine to be chargeable by it for considering whether to consent to a Transfer plus all costs incurred including legal fees, credit checks and all disbursements in respect of a proposed Transfer.

(iii) "**TSP**" has the meaning set out in Section 7.5.

(jjj) "**Unavoidable Delay**" has the meaning set out in Section 16.5.

3.2 Entire Agreement, Amendments, Waiver

This Lease contains the entire agreement between the parties with respect to the subject matter of this Lease and there are no other agreements, promises or understandings, oral or written, between the parties in respect of this subject matter. This Lease may be amended only by written agreement between the Landlord and the Tenant. No electronic communications between the parties will have the effect of amending this Lease. No provisions of this Lease shall be deemed to have been waived by the Landlord or the Tenant unless such waiver is in writing signed by the party. If the Landlord excuses or condones any default of any obligation under this Lease, no waiver of such obligation shall be implied in respect of any continuing or subsequent default. The Landlord's receipt of Rent with knowledge of a breach shall not be deemed a waiver of any breach.

3.3 Acceptance and Application of Rent

Any endorsement, statement, condition, direction or other communication on or accompanying any Rent payment shall not be binding on the Landlord and the acceptance of any such payment shall be without prejudice to the Landlord's right to recover the balance of Rent then owing or to pursue any other remedy available to the Landlord. Any payment received by the Landlord may be applied towards amounts then outstanding under this Lease in such manner as the Landlord determines.

3.4 General Rules of Interpretation

(a) Obligations as Covenants: Each obligation of the Landlord and the Tenant in this Lease shall be considered a covenant for all purposes.

(b) Time: Time is of the essence of this Lease.

(c) Number, Gender: The grammatical changes required to make the provisions of this Lease apply in the plural sense where the Tenant comprises more than one Person and to individuals (male or female), partnerships, corporations, trusts or trustees will be assumed as though in each case fully expressed.

(d) Liability of Tenant: If the Tenant consists of more than one Person, the covenants of the Tenant shall be joint and several covenants of each such Person. If the Tenant is a partnership, each Person who is presently a partner of the partnership and each Person who becomes a member of any successor partnership shall be and continue to be bound jointly and severally for the performance of and shall be and continue to be subject to all of the terns, obligations and conditions of this Lease, whether or not such Person ceases to be a member of such partnership or successor partnership and whether or not such partnership continues to exist.

(e) Governing Law: This Lease shall be governed by and construed under the Applicable Laws of the jurisdiction in which the Building is located and the parties atom and submit to the jurisdiction of the courts of such jurisdiction.

(f) Headings: The headings of the Articles and Sections are included for convenience only, and shall have no effect upon the construction or interpretation of this Lease.

(g) Landlord as Trustee: Any and all exculpatory provisions, releases and indemnities included in this Lease for the benefit of the Landlord are intended also to benefit the Mortgagees, any owner or lessor with an interest in the Project prior to the Landlord, property managers of the Landlord, and the officers, directors, shareholders, employees, agents of each one of them and, for the purposes of such provisions, the Landlord is acting as agent or trustee on behalf of and for the benefit of the persons mentioned above.

(h) Severability: Should any provision of this Lease be or become invalid, void, illegal or not enforceable, such provision shall be considered separate and severable from this Lease and the remaining provisions shall remain in force and be binding upon the parties hereto as though such provision had not been included.

3.5 Successors

This Lease and everything herein contained shall extend to and bind the successors and assigns of the Landlord and the legal representatives, heirs, executors, administrators, successors and permitted assigns of the Tenant (as the case may be).

ARTICLE 4 - GRANT AND TERM

4.1 Term, Demise

The Landlord hereby demises and leases the Premises to the Tenant for the Term (unless terminated earlier pursuant to this Lease), to have and to hold during the Term, subject to the terms and conditions of this Lease. The Landlord grants to the Tenant a non-exclusive licence throughout the Term to the benefit or use (as may be appropriate) of those Common Areas and Facilities which provide access to the Premises or which are generally made available to all tenants in the Building, in common with other tenants of the Building and with all others entitled thereto, subject to the terms and conditions of this Lease.

4.2 Delay in Delivery of Premises

If the Landlord is delayed in delivering the Premises to the Tenant by the date provided for in this Lease, the Landlord and the Tenant agree that the Commencement Date shall be deferred by the number of days of such delay but the Term will remain as set out in this Lease. The Landlord or its agent shall provide to the Tenant written notice of any such delay before it occurs. The Tenant shall accept the above deferral of the Commencement Date as full compensation for the delay and the Landlord shall have no further liability arising from it. The Tenant shall upon request execute a lease amending agreement documenting such deferral, if any.

4.3 Acceptance

The Tenant hereby leases and accepts the Premises from the Landlord and covenants to pay the Rent and to observe and perform all the covenants and obligations to be observed and performed by the Tenant pursuant to this Lease. If the Tenant occupies the Premises prior to the Commencement Date, its occupancy shall be subject to the terms and conditions of this Lease, other than in respect of Rent if there are other provisions concerning Rent that the Landlord and Tenant have agreed to in writing in respect of such period prior to the Commencement Date. The Tenant agrees that, except as may be specifically set out herein, the Premises are accepted subject only to the Premises being in the condition set out in Schedule “E” and there is no promise, representation or undertaking binding upon the Landlord with respect to any alteration, remodelling or decoration of the Premises or with respect to the installation of equipment or fixtures in the Premises.

4.4 Quiet Enjoyment

If the Tenant pays the Rent, fully performs all its obligations under this Lease and there has been no Event of Default, then the Tenant shall be entitled, subject to the provisions of this Lease, to peaceful and quiet enjoyment of the Premises for the Term.

ARTICLE 5 - RENT

5.1 Basic Rent

The Tenant shall pay to the Landlord Basic Rent in the amount set out in Section 1.1(j) for the respective Lease Year, by equal consecutive monthly instalments in advance on the fast day of each month, subject to any adjustment pursuant to Section 5.3.

5.2 Additional Rent

The Tenant shall also pay throughout the Term, at the times and in the manner provided in this Lease, all Additional Rent which shall, except as otherwise provided in this Lease, be payable within 15 days of receipt by the Tenant of an invoice, statement or demand for it.

5.3 Adjustment Due to Measurement

The Landlord may, from time to time, at its option, cause the Rentable Area of the Premises and/or Project or any part thereof to be measured by an Expert and, if necessary as a result of such measurement, the annual Basic Rent and the calculation of Additional Rent shall be adjusted by the landlord. The effective date of any such adjustment shall be:

(a) in the case of any measurement made prior to or within six months of the Commencement Date, the date the Tenant is allowed possession of the Premises under this Lease, and

(b) in all other cases, the date of the determination of the measurement.

Any such measurement by an Expert shall be final and binding on the Landlord and the Tenant subject to the Landlord’s right from time to time to cause the Rentable Area of the Premises and/or Project or any part thereof to be remeasured by an Expert as set out above. Neither the Landlord nor the Tenant may claim any adjustment to the annual Basic Rent or to the calculation of Additional Rent based on the Rentable Area of the Premises except in accordance with a measurement by an Expert made pursuant to this Section and, for greater certainty, neither the Landlord nor the Tenant may claim any adjustment to the annual Basic Rent or to the calculation of Additional Rent based on such measurement for the period prior to the effective date of such adjustment as set out above.

5.4 Payment of Rent - General

(a) payments required to be made by the Tenant pursuant to this Lease shall be paid when due, without prior demand and without any abatement, set-off, compensation or deduction whatsoever, except as may be otherwise expressly provided herein, at the address of the Landlord set out in Section 1.1(a)(ii) or at such other place as the Landlord may designate from time to time to the Tenant.

(b) All payments required to be made by the Tenant pursuant to this Lease, except for Rental Taxes, shall be deemed to be Rent and shall be payable and recoverable as Rent, and the Landlord shall have all rights against the Tenant for default in any such payment as in the case of arrears of Rent.

(c) The Tenant shall pay to the Landlord all Rental Taxes applicable from time to time, calculated and payable in accordance with Applicable Laws and the Tenant shall pay such amount at the earlier of: (i) the time provided for by Applicable Laws; and (ii) the time such Rent is required to be paid under this Lease. The amount payable by the Tenant on account of Rental Taxes shall be deemed not to be Rent for the purpose of such calculation but in the event of a failure by the Tenant to pay any amount, the Landlord shall have the same rights and remedies as it has in the event of a failure by the Tenant to pay Rent.

(d) ~~•At the Landlord's request, the Tenant shall make all payments under this Lease by way of post dated cheques, automate withdrawals or electronic funds transfer from the Tenant's bank account and shall execute and deliver either concurrently with this Lease or from time to time within three Business Days following request for it, such documentation as may be required by the Landlord and its bank in order to effect such payments.•~~ **The Tenant authorizes the Landlord to withdraw monthly Rent payments from the Tenant's account by way of direct withdrawals, as may be arranged from time to time between financial institutions administering the Tenant's and the Landlord's accounts. The Tenant further agrees to execute and provide whatever further documentation, account information, cancelled cheques or otherwise, which are reasonably requested by the Landlord in order to assist the Landlord in the administration of a pre-authorized payment procedure for monies owing or accruing due as Rent under this Lease.**

~~(e) •At the Tenant begins to use all or part of the Premises for the conduct of its business on a date that is earlier than the Commencement Date, Rent shall begin to accrue from such earlier date, and the Tenant shall pay to the Landlord the Rent accrued, in each case within 30 days of receipt from the Landlord of an invoice in respect of such Rent.•~~

(f) If the ~~•Commencement Date or the date the Tenant commence to conduct its business at the Premises is other than the first day of a full period in respect of which any item of Rent is calculated, or the•~~ last day of the Term is other than the last day of a full period, then unless otherwise provided in this Lease, the amount of such item of Rent payable in respect of the broken period shall be prorated on the basis of a 365 day year.

5.5 Payment of Additional Rent

(a) Prior to the Commencement Date and at or prior to the beginning of each Fiscal Year thereafter, the Landlord shall compute and deliver to the Tenant a bona fide estimate in respect of such Fiscal Year of the Tenant's share of Property Taxes, the Tenant's share of 0perating Costs (being its Proportionate Share subject to Section 6.7) and such other items of Additional Rent as the Landlord may estimate in advance and the Tenant shall pay to the Landlord in monthly instalments one-twelfth of such estimate simultaneously with the Tenants payments of Basic Rent, provided that the monthly instalments on account of the Tenant's share of Property Taxes may be determined so that the Landlord collects all such amounts payable by the Tenant by the final due date in the relevant calendar year. The Landlord may from time to time re-estimate any items of Additional Rent and may fix monthly instalments for the then remaining balance of the Fiscal Year so that such items will be entirely paid during such Fiscal Year.

(b) Within a reasonable period of time after all information necessary to calculate actual Additional Rent becomes available after the end of each Fiscal Year, the Landlord will provide to the Tenant a written statement (in this Section 5.5 referred to as the "Statement") setting out in reasonable detail the amount of Operating Costs, the Property Taxes and such other items of Additional Rent as the Landlord had estimated in advance for such Fiscal Year. If the Tenant's share of Property Taxes, the Tenant's share of Operating Costs (being its Proportionate Share subject to Section 6.7) and other items of Additional Rent actually paid by the Tenant to the Landlord during such Fiscal Year differs from the amount of the Tenant's share of Property Taxes, the Tenant's share of Operating Costs and other items of Additional Rent payable for such Fiscal Year, the Tenant shall pay such difference or the Landlord shall credit the Tenants account (as the case may be), without interest within 30 days after the date of delivery of the Statement~ The respective obligations of the Landlord and the Tenant in this Section 5.5(b) shall survive the end of the Term or earlier termination of this Lease.

(c) The Tenant shall not claim a re-adjustment in respect of Operating Costs or Property Taxes or other items of Additional Rent estimated by the Landlord or the share payable by the Tenant on account thereof for any Fiscal Year except by notice given to the Landlord within six months after delivery of the Statement, stating the particulars of the error in computation.

(d) If the Tenant disputes the accuracy of any Statement within the period permitted under Section 5.5(c) above and the landlord and the Tenant fail to settle the matter within a reasonable period, the matter shall be referred by the Landlord to an Expert for prompt determination. The Tenant shall pay in accordance with the Statement until such decision is rendered. The Expert's signed determination shall be final and binding on both the Landlord and the Tenant. Any adjustment

required to any previous payment made by the Tenant or the Landlord by reason of any such determination shall be made within 14 days thereof, and the party required to pay such adjustment shall bear all costs of the Expert, except that if the amount to be paid is 201/6 or less of the amount in dispute, the Tenant shall pay all such costs.

~~5.6 •Rent Deposit~~

~~The Landlord acknowledges receipt from the Tenant of the Rent Deposit to be applied to the Rent as it becomes due or as otherwise provided in Section 1.1(lc)(i) and, to the extent it is not so applied from time to time, to be held, without interest, as security (without prejudice to the Landlord's other rights and remedies) for the observance and performance of the Tenant's obligations under this Lease.•~~

5.7 Security Deposit

~~•The Landlord acknowledges receipt from the Tenant of the Security Deposit to be held, without interest, as security (withoutprejudice to the Landlord's other rights and remedies) for the observance and performance of the Tenant's obligations under this Lease. If the Tenant defaults in the performance of any of the terms, covenants, conditions and provisions of this Lease as and when the same are due to be performed by the Tenant, then the Landlord, at its option, may appropriate any apply all or any part of the Security Deposit on account of any losses or damages sustained by the Landlord as a result of such default. Upon demand by the Landlord following any such appropriation, the Tenant shall pay to the Landlord an amount sufficient to restore the total original amount of the Security Deposit. If the Tenant complies with all of the terms, covenants, conditions and provisions under this Lease, the Security Deposit shall be returned to the Tenant without interest within 90 days after the expiry or earlier termination of the Term, or, at the Landlord's option, shall be applied by the Landlord on account of the last month's Rent. •~~

Prior to or concurrently with the execution and return of this Lease by the Tenant, the Tenant shall deposit with the Landlord the Security Deposit. The Security Deposit will be held without liability for interest for application by the Landlord firstly against the aggregate payment of first months' Basic Rent, Operating Costs and Property Taxes, including Rental Taxes with the balance to be held as security for the due and proper performance by the Tenant of all of the terms, covenants and conditions of this Lease, including the payment of all Rent due hereunder. At the expiration of the Term, any portion of the Security Deposit that remains outstanding and unapplied by the Landlord shall be repaid by the Landlord to the Tenant within 60 days of the expiration of the Term. Notwithstanding the foregoing, if the Tenant fails to execute and deliver this Lease within 5 Business Days of receipt from the Landlord, the Landlord may, at its sole option, terminate this Lease, whereupon the Security Deposit shall be retained by the Landlord as liquidated damages on account of the Tenant's default and not as a penalty.

5.8 Net Lease

The Tenant acknowledges and agrees that it is intended that this Lease shall be a completely carefree net lease for the Landlord and that the Landlord shall not be responsible for any costs, charges, expenses and outlays of any nature whatsoever arising from or relating to the Premises during the Term, whether foreseen or unforeseen and whether or not within the contemplation of the parties at the commencement of the Term, except as shall be otherwise expressly provided in this Lease.

ARTICLE 6 - OPERATING COSTS AND TAXES

6.1 Property Taxes Payable by Landlord

The Landlord shall pay all Property Taxes, but it may defer such payments or compliance to the fullest extent permitted by law so long as it pursues in good faith any contest or appeal of any such Property Taxes with reasonable diligence.

6.2 Property Taxes Payable by Tenant

(a) The Tenant shall pay as Additional Rent directly to the Landlord in each Fiscal Year the Tenant's share of Property Taxes as determined pursuant to this Section.

(b) The Tenant's share of Property Taxes shall be the portion of the Property Taxes that are attributable to the Premises, as determined by the Landlord. Without limiting the foregoing:

(i) the Landlord may, if it so elects, determine that the Tenant's share of Property Taxes attributable to the Premises shall be the Proportionate Share of Property Taxes;

(ii) the Landlord shall be entitled, but not obligated, to allocate Property Taxes amongst categories of premises in the Project on the basis of such factors as the Landlord determines to be relevant and to adjust the Tenant's share of Property Taxes based on such allocation;

(iii) if there are separate assessments (or, in lieu of separate assessments, calculations made by authorities having jurisdiction from which a reasonable approximation of separate assessments can be made) for the Premises for Property Taxes, the Landlord may in its sole discretion (but need not) have regard thereto;

(iv) nothing herein shall compel or require the Landlord to adjust, continue to adjust or to make the same determination or allocation of Property Taxes from year to year or in any Fiscal Year; and

(v) for the purposes of determining the share of Property Taxes payable by the Tenant pursuant to this Lease, Property Taxes shall include such additional amounts as would have formed part of Property Taxes had the Project been filly assessed during the whole of the relevant Fiscal Year as fully completed and fully occupied by tenants, with no special exemptions or reductions, and without taking into account any actual or potential reduction of Property Taxes or change of assessment category or class for premises within the Project which are vacant or underutilized.

6.3 Business Taxes and Other Taxes of Tenant

The Tenant shall promptly pay before delinquency to the taxing authorities or to the Landlord, if it so directs, as Additional Rent, any taxes, rates, duties, levies and assessments whatsoever, whether municipal, provincial, federal or otherwise, levied, imposed or assessed against or in respect of the operations at, occupancy of, or conduct of business in or from the Premises by the Tenant or any other permitted occupant, including the Tenant's Business Taxes, if levied in the province in which the Building is situate. Whenever requested by the Landlord, the Tenant shall deliver to the Landlord copies of receipts for payment of all such taxes.

6.4 Assessment Appeals

The Tenant shall not appeal any governmental assessment or determination of the value of the Project or any portion of the Project whether or not the assessment or determination affects the amount of Property Taxes or other taxes, rates, duties, levies or assessments to be paid by the Tenant.

6.5 Operating Costs

Subject to the exclusions and deductions stipulated in Section 6.6, "Operating Costs" means the total, without duplication, of the costs, expenses, fees, rentals, disbursements and outlays (in Sections 6.5 and 6.6 referred to collectively as "costs") of every kind, whether direct or indirect, paid, payable or incurred by or on behalf of the Landlord on a cash basis (or on an accrual basis as and to the extent that the Landlord may determine) in the ownership, maintenance, repair, replacement, operation, administration, supervision and management of the Project, including, without limitation:

(a) costs of providing security, supervision, traffic control, landscaping, snowplowing and/or removal services, exterior cleaning and the costs of machinery, supplies, tools, equipment and materials used in connection with the Project (including rental costs of such items), and including costs relating to any spur track;

(b) inspections, repairs, maintenance and replacements to the Building Systems and Common Areas and Facilities of the Project;

(c) costs of telephone and telecommunications (including rooftop and wireless management), information technology, telecopier, stationery, office equipment, supplies, signs and directory boards and other services and materials required for management, maintenance and operation (whether on or off-site and whether incurred by the Landlord or a management company);

(d) to the extent incurred in respect of the Premises and not separately metered and paid for by the Tenant, and to the extent incurred in respect of the Common Areas and Facilities, the costs of providing electricity, fuel, heat, water, telephone, gas, sewage disposal, external lighting and other utilities and services (including all energy management and administration costs);

(e) to the extent payment of such costs is not the responsibility of the Tenant under Article 7 of this Lease, the costs of;

(i) operating, maintaining, replacing, modifying and repairing the Project, including without limitation such costs where incurred by the Landlord in order to comply with Applicable Laws or required by the Landlord's insurance carrier or resulting from normal wear and tear to the Project;

(ii) providing, installing, modifying and upgrading energy conservation equipment and systems, life safety and emergency response systems, materials and procedures and telecommunication systems and equipment if any;

(iii) making alterations, replacements or additions to the Project intended to reduce Operating Costs, improve the operation of the Project and the systems, facilities and equipment serving the Project, or maintain their operation;

(iv) replacing machinery or equipment which by its nature requires periodic replacement;

(v) painting interior areas not normally rented to tenants and the costs of painting or otherwise maintaining the outside of the Project, other than those parts for which the Tenant is responsible;

(vi) maintaining, repairing and replacing the signs, directory boards, roadways, driveways, loading and parking areas of the Common Areas and Facilities;

(vii) maintaining, repaving and replacing any roof or wall or foundation of any part of the Premises; and

(viii) spur track rental,

all to the extent that such costs are fully chargeable in the Fiscal Year in which they are incurred in accordance with generally accepted accounting principles as applied by the Landlord, or as specified in this Lease;

(f) depreciation or amortization of the costs referred to in Section 6.5(e) above as determined in accordance with generally accepted accounting principles as applied by the Landlord, or as specified in this Lease, if such costs have not been charged fully in the Fiscal Year in which they are incurred, and interest or imputed interest (at 2% per annum over the Prime Rate) on the undepreciated or unamortized balance of such costs, it being recognized that the Landlord, acting reasonably, may depreciate or amortize any such cost over a longer or shorter period than that which corresponds to the period over which the benefits of having incurred that cost are realized;

(g) amounts paid to, or reasonably attributable to the remuneration of, all personnel (whether on or off-site and whether employed by the Landlord or a management company) involved in the maintenance, repair, replacement, operation, administration, supervision and management of the Project, including fringe benefits, severance pay, termination payments, uniforms and other employment costs;

(h) auditing, accounting, legal and other professional and consulting fees and disbursements incurred in connection with the maintenance, repair, replacement, operation, administration, supervision and management of the Project, including those incurred with respect to the preparation of the statements required under the provisions of this Lease and costs of minimizing, contesting or appealing assessments of Property Taxes (whether or not successful);

(i) costs of all insurance which the Landlord is obligated or permitted to obtain under this Lease and the amounts of losses incurred or claims paid either below the insurance deductible amounts or as the co-insurance portion of an insured claim, and should the Landlord choose in whole or in part to self-insure, the amount of reasonable contingency reserves not exceeding the amount of premiums that would otherwise have been incurred in respect of the risks undertaken;

(j) Property Taxes to the extent not charged to the Tenant pursuant to Section 6.2 and to other tenants of the Project pursuant to lease provisions similar to such Section;

(k) Capital Tax and Large Corporations Tax;

(1) fair market rental value (having regard to rent being charged for similar space including additional rent for operating costs and property taxes) of space used by the Landlord and/or its property manager, in connection with the maintenance, repair, operation, administration and management of the Project and such fair market rental value of any building amenities (such as conference and day-care facilities provided primarily for tenants of the Project), together with the costs relating to such building amenities; and

(m) an allowance of fifteen percent (15%) of the aggregate of (i) the above amounts, and (ii) Property Taxes, for the Landlord’s building administration fee.

6.6 Limitations on Operating Costs

In determining Operating Costs, the cost (if any) of the following shall be excluded or deducted, as the case may be:

(a) major repairs to Structural Components that are required as a result of defective design or construction of such Structural Components;

(b) interest on, and the capital retirement of debt, except as specifically provided in Section 6.5(e), and ground rent payable to the lessor under any ground or other lease pursuant to which the Landlord has an interest in the Project;

(c) expenses relating to decorating or redecorating or renovating premises demised, or to be demised, to tenants or occupants of the Project and costs relating to tenant inducements, allowances or similar expenses;

(d) all leasing expenses, real estate brokers’ fees, leasing commissions, advertising premises for lease, and space planners’ fees;

(e) repairs or maintenance done for the direct account of other tenants; and

(f) net recoveries by the Landlord in respect of warranties or guarantees and insurance claims to the extent (but only to the extent) that the repair costs in respect of the work covered by such warranties or guarantees or insurance claims have been charged as Operating Costs.

6.7 Adjustments of Operating Costs

In computing Operating Costs:

(a) where the Landlord determines, acting reasonably but in its sole discretion, that any item(s) of Operating Costs are provided only to or for the benefit of the Building (if it is part of a Project) or a portion of the Project or Building, then the Landlord shall be entitled, but not obligated, to allocate the cost of those item(s) over such portion of the Project or Building and adjust the Tenant's Operating Cost payment based on such allocation;

(b) if the Project or the Building is comprised of different categories of leaseable premises, the Landlord shall be entitled, but not obligated, to allocate Operating Costs among the various categories on the basis of such factors as the Landlord determines to be relevant and to adjust the Tenant's Operating Cost payment based on such allocation; and

(c) if any facilities, services or utilities:

(i) for the operation, administration, management, repair and maintenance of the Building are provided from another building or other buildings (whether within the Project or elsewhere) owned or operated by Landlord or its manager;

(ii) for the operation, administration, management, repair and maintenance of another building or other buildings (whether within the Project or elsewhere) owned or operated by the Landlord or its manager are provided from the Building; or

(iii) are otherwise shared between the Building and another building or other buildings (whether within the Project or elsewhere), the costs, charges and expenses of such items shall be allocated by the Landlord, between the Building and other building or buildings (whether within the Project or elsewhere) on a reasonable basis.

6.8 Reduction or Control of Operating Costs

The Tenant shall comply with any practices or procedures that the Landlord, may from time to time introduce to reduce or control Operating Costs and shall pay, as Additional Rent, all costs, as determined by the Landlord, that may be incurred by the Landlord as a result of any non-compliance. The Landlord may use an Expert to assist it in making such determination.

ARTICLE 7 - HVAC, UTILITIES AND OTHER LANDLORD SERVICES

7.1 Heating

The Tenant shall heat the Premises at its own expense to a degree sufficient to protect the Premises and their contents from damage by cold or frost, and to operate, maintain, repair and replace as required the heating equipment. At the expiry or sooner termination of the Tem, the Tenant will peacefully yield up unto the Landlord such heating equipment in good and substantial repair and condition. **Notwithstanding the foregoing, pursuant to Schedule "E", subparagraph (c~, the Landlord will ensure that the existing HVAC systems serving the Premises will be in proper working order as at the Commencement Date. It is understood that the maintenance of such existing HVAC systems throughout the Term will be undertaken by the Landlord and charged back directly to the Tenant through Operating Costs.**

7.2 Electricity and Other Utilities

(a) The Tenant shall be solely responsible for and shall promptly pay all charges for electricity, telephone, water, gas, sewage disposal and other utility services used or consumed in the Premises, and for all work or services performed by any corporation or commission in connection with such public or private utilities. The Tenant shall not overload the capacity of any such service.

(b) The Tenant shall not engage any Person not approved by the Landlord to provide any utility service to the Premises. Solely the Landlord shall have the right to selector designate the provider or providers from time to time of electrical power or other utilities to the Premises or any other part of the Project, and solely the Landlord shall be permitted (at the Tenant's cost) to install any meters or check meters to monitor the consumption or use of electrical power or other utilities.

7.3 Special HVAC Services and Utilities and Excess Quantities

If the Tenant requests electricity, gas, sewage disposal, water or other utility services of a type or in quantities that exceed the capacity of the Building, as determined by the Landlord, the Landlord shall supply such services if the Landlord determines, in its sole discretion, that the provision of such services: (a) is within the capacity of the Building Systems; (b) would not affect the operation, aesthetics or structure of the Building or Project; (c) would not reduce the efficiency of the existing services supplied to other tenants or parts of the Building or Project; and (d) is otherwise feasible. The Tenant will pay to the Landlord all costs, both non-recurring and recurring, of providing all such services. Such costs shall be determined by the Landlord, and may include installation at the Tenant's expense of separate meters or other measuring devices in the Premises or elsewhere and the Landlord may use an Expert at the Tenant's sole cost to assist it in determining such costs.

7.4 Additional Services Provided by Landlord

The Tenant shall pay to the Landlord the costs of all services provided by the Landlord to the Tenant (plus an administrative charge of 15%), other than services supplied by the Landlord and charged as Operating Costs. Such services shall include services performed at the Tenant's request or otherwise provided for herein including, without limitation construction of any Leasehold Improvements or other work performed at the request of or on behalf of the Tenant.

7.5 Telecommunications

The Tenant shall at its cost supply such point of presence equipment and space within the Premises as its telecommunication service provider ("TSP") may require. The Tenant shall not permit a TSP to provide services to any other tenant or occupant of the Building utilizing such equipment or space or any other equipment or space in the Premises. No agreement between the Tenant and TSP shall provide any license for the TSP to have a presence in the Building, and any such agreement shall terminate no later than the expiry or earlier termination of the Term.

7.6 Signs and Premises Identification

The Tenant shall not erect, affix, install or maintain any signs, lettering, identification or any promotional or other written materials (in this section 7.6 referred to collectively as "signage") visible from the exterior of the Building or Project or from any interior Common Areas and Facilities without the prior written approval of the Landlord; provided that the Landlord may prescribe a uniform pattern for signage for tenants to be placed on the outside of the Project or any part thereof, and provided that the Landlord may arbitrarily withhold its approval to any signage that relates to something other than the Tenant and its business operations in the Premises. Prior to the expiry or earlier termination of the Term, the Tenant shall cause any signage to be removed at its own expense in a good and workmanlike manner and to immediately repair any damage caused thereby. **For greater certainty and clarity, the Tenant shall be permitted to install exterior base building signage ("Exterior Signage"). The Exterior Signage is subject to the Landlord's approval and shall conform will all applicable local, municipal and or federal rules and regulations having jurisdiction. The Exterior Signage shall be installed and maintained at the Tenant's sole cost and expense and such maintenance shall be to a first class standard. At the expiry or earlier termination of this Lease, the Tenant shall cause such Exterior Signage to be removed at its own expense in a good and workmanlike manner and to immediately repair any damage caused thereby, such covenant to survive the expiry or earlier termination of this Lease.**

ARTICLE 8 - OPERATION, CONTROL AND MAINTENANCE BY LANDLORD

8.1 Operation of the Building by Landlord

The Landlord shall operate the Building in accordance with all Applicable Laws and with standards from time to time prevailing for similar industrial building in the area in which the Building is located, subject, however, to the limitations occasioned by the design and age of the Building and the capacity of its systems.

8.2 Control of the Project by Landlord

The Landlord has at all times exclusive control of the Project and its management and operation, but not so as to deny the Tenant access to the Premises or interrupt delivery of services or utilities, in each case except in an emergency or to perform maintenance. Without limiting the generality of the foregoing, at any time and from time to time, the Landlord may:

(a) make repairs, replacements, changes or additions to the structure, systems, facilities and equipment in the Project (including the Premises) where necessary to serve the Premises or other parts of the Project;

(b) make changes or additions to any part of the Project not in or forming part of the Premises including, without limitation, dedicating or conveying portions of the Lands, granting easements, rights-of-way, restrictive covenants or other interests in the Lands and constructing additional improvements in or adjoining the Lands;

~~(c) •rearrange the Premises, or take back from or demise to the Tenant space in or adjoining the Premises (not, however, exceeding 200 square feet in any one instance), as may from time to time be required by the Landlord, noting reasonably, for the benefit of the Project or other tenants or~~

~~occupants thereof, and the Landlord and the Tenant shall co-operate with each other in that regard, and shall execute such further agreements and lease amendments as may be required to give effect to this prevision;~~

(d) own or acquire from time to time lands or buildings contiguous to or near the Project and may at its option retain them separately or have them included as part of the Project. The Landlord may from time to time cease to include as part of the Project any buildings or vacant lands now or hereafter forming part of the Project;

(e) terminate or amend the Tenant's right of use of any of the Common Areas and Facilities, change the location and size of any of the Common Areas and Facilities or use parts of the Common Areas and Facilities for promotional or other activities;

(f) retain contractors and employ all personnel, including supervisory personnel and managers, that the Landlord considers necessary for the effective maintenance, repair, operation, management and control of the Project;

(g) control, supervise and regulate the shipping and delivery of goods, supplies, equipment and fixtures within the Project, and specify the kinds of containers to be used for garbage and refuse or rubbish and designate how, when and where it is to be placed for collection; and

(h) do and perform such other acts in and to the Project or any of its component parts as the Landlord considers reasonable for the proper and efficient maintenance, repair, operation, management and control of the Project,

provided that in the course of the Landlord's exercise of its rights hereunder, the Landlord shall be deemed not to have re-entered the Premises nor to have breached any obligation of this Lease. The Landlord shall perform all of its work as expeditiously as is reasonable so as to interfere as little as is reasonably possible with the Tenant's use of the Premises.

8.3 Name of Building

The Landlord may from time to time designate a name or other identification for the Building or Project. The Tenant shall be responsible for any costs it incurs as a result of any changes in the name or identification (such as changes to its stationery and other material). The Tenant shall have no rights in any such names or identification.

8.4 Maintenance and Repair by Landlord

The Landlord shall as part of Operating Costs keep or cause to be kept the following in good repair to the standards from time to time prevailing for similar industrial buildings in the area in which the Building is located, subject, however, to the limitations occasioned by the design and age of the Building and the capacity of its systems and to reasonable wear and tear not inconsistent with such standard

(a) the Structural Components, exterior walls, windows and roofs of the Building; and

(b) the Common Areas and Facilities,

provided that:

(c) if all or part of Building Systems require repair, replacement, maintenance or inspections, the Landlord shall have a reasonable time in which to complete such work, and during such time shall only be required to maintain such services as are reasonably possible in the circumstances; and

(d) no reduction or discontinuance of such services or loss of use of the Premises shall be construed as an eviction of the Tenant or (except as specifically provided in this Lease) release the Tenant from any obligation under this Lease.

8.5 Access by Landlord

The Tenant shall permit the Landlord, its agents and others authorized by it, to enter the Premises to inspect, to provide services or to make repairs, replacements, changes or alterations as set out in this Lease, to take such steps as the Landlord may deem necessary for the safety, improvement, alteration or preservation of the Premises or the Project and to show the Premises to Mortgagees, prospective Mortgagees, purchasers and prospective purchasers and, during the last 18 months of the Term, to prospective tenants, and no such entry shall constitute a re-entry by the Landlord or an eviction or entitle the Tenant to any abatement of Rent. However, in effecting such entry the Landlord shall use reasonable efforts to minimize interference with the Tenant's use and enjoyment of the Premises, and the Landlord shall endeavour to give the Tenant at least twenty-four (24) hours' prior notice before doing any repair or maintenance work (other than in the case of an emergency or apprehended emergency).

8.6 Relocation

The Landlord shall have the right, in its sole discretion, from time to time, on not less than ~~60~~ **120** days' written notice to the Tenant, to relocate the Premises to other premises within the Project having approximately the same area as the Premises. The Landlord shall be entitled to designate the location of the new premises and the date by

which the Tenant must relocate to the new premises, and such location and date shall be specified in the written notice. As of the date so specified, the Tenant's right to use and occupy the Premises will terminate, whether or not the Tenant has moved, unless the Landlord has in its sole discretion by another notice in writing extended such date. The Tenant shall on the date set out in the notice from the Landlord relocate to the other premises and vacate the Premises, and the provisions of Section 93 shall apply in respect of the Premises on such date. If the Landlord relocates the Premises prior to occupancy of the Premises by the Tenant, it shall reimburse the Tenant for all expenses already incurred by the Tenant in preparing to move into the Premises to the extent that such expenditure is for items or materials not usable in the alternate premises. If the Landlord relocates the Tenant after occupancy of the Premises by the Tenant, the Landlord shall provide the relocated premises improved to a standard and using materials of approximately the same quality as the Leasehold Improvements which exist in the existing Premises at the time of relocation and will reimburse the Tenant (upon receipt of copies of receipted third party invoices) for direct costs associated with the relocation, including, without limitation, moving costs, reprinting of a limited supply of stationery and supplies and disconnection and reconnection of telephone and computer equipment and systems. In no case will the Tenant be reimbursed or compensated for indirect costs including overhead, overtime charges or loss of profits and the Tenant will minimize costs by re-using all fixtures and trade fixtures from the Premises where it is feasible to do so. The Landlord agrees to use reasonable efforts to effect the relocation with a minimum of disruption to the Tenant's business. The Landlord and the Tenant shall enter into a lease amending agreement in the Landlord's standard form to confirm the terms of the relocation including, without limitation, any adjustment to the Basic Rent if the Rentable Area of the relocated premises is different than the Rentable Area of the existing Premises and to confirm that all other terms and conditions of this Lease shall apply with respect to the relocated premises for the remainder of the Term.

ARTICLE 9 - MAINTENANCE AND ALTERATIONS BY TENANT

9.1 Maintenance and Repair by Tenant

The Tenant shall at its sole cost maintain and repair the Premises and all Leasehold Improvements in good order and condition to the standards from time to time prevailing for similar industrial buildings in the area in which the Building is located, subject to reasonable wear and tear not inconsistent with such standard and with the exception only of those repairs which are the obligation of the Landlord under this Lease and subject to Article 14. Without limiting the generality of the foregoing, the Tenant shall:

(a) take good care of the Premises and keep same in a tidy, clean and good condition;

(b) at its own expense, be responsible for and maintain and replace from time to time as necessary during the Term all light fixtures, light bulbs, fluorescent tubes, lamps and ballasts;

(c) at its own expense, replace or repair, under the direction and to the reasonable satisfaction of the Landlord, all Leasehold Improvements, Building Systems in or for the direct benefit of the Premises, the complete door and door assemblies of both man-doors and loading dock doors, loading dock levellers, walls, floors, ceiling, roof as well as windows, in or upon the Premises which become damaged, broken or require maintenance;

(d) properly heat the Premises, at its own expense, during the Term hereof at all times to the extent necessary to prevent damage thereto by frost or other causes;

(e) maintain (including, without limitation, the performance of regular and periodic servicing, maintenance and inspections as a prudent owner would) in good operating condition, repair and replace as required and to the satisfaction of the Landlord, all pipes, wiring and electrical apparatus and all plumbing fixtures and heating, ventilating and air conditioning equipment and all other mechanical systems and electrical systems in or about the Premises and shall keep the same in clean and good working order and repair. It is understood and agreed that in case the said fixtures, systems and equipment or any part thereof shall be damaged or destroyed or become incapable of performing their function the Tenant shall forthwith repair or replace (as the Landlord may require) the same to the satisfaction of the Landlord. The Landlord shall have the right to service, maintain or inspect, or any one or more of them, the said fixtures, systems and equipment or cause same to be maintained or inspected, or both, at the Tenant's expense, the costs of which shall be payable as Additional Rent by the Tenant forthwith on demand together with an administrative fee equal to fifteen percent (15%) of all such costs;

(f) keep well painted the painted portions of the interior of the Premises; and

(g) keep and maintain the washrooms in a sanitary condition.

Notwithstanding anything to the contrary herein contained. It is agreed between the parties that if the hot water tank located at grid line 8 on the 2nd floor of the Premises fails then the Tenant shall only be required to replace such water tank with a new water tank of sufficient capacity to serve the Premises only.

9.2 Alterations by Tenant

The Tenant may from time to time at its own expense install Leasehold Improvements and alter existing Leasehold Improvements (the "Alterations") provided that:

(a) all Alterations shall require the prior written approval of the Landlord, which approval may be withheld or conditioned by the Landlord in its sole discretion, save and except for minor alterations to Leasehold Improvements which do not affect the structure of the Building or Project, any exterior walls, windows or roof, any of the Building Systems or the aesthetics of the Building or Project and which do not require a building permit, provided the Tenant has given written notice with reasonable detail of the proposed Alterations to the Landlord in advance;

(b) for Alterations which require the Landlord's approval, the Tenant shall furnish the Landlord with two complete sets of professionally prepared working drawings (which shall include any architectural, structural, electrical, mechanical, computer system wiring and telecommunication plans) of the proposed Alterations. The Tenant shall retain the Landlord's base building architect, mechanical, electrical and structural engineering consultants to ensure compatibility of the Building Systems and the Alterations. If the Tenant uses other consultants for the preparation of the Tenant's working drawings, then the Landlord may elect to retain architects and engineers to review such working drawings for the purpose of approving the proposed Alterations (it being understood that notwithstanding such approval, the Landlord shall have no responsibility with respect to the adequacy of such working drawings). The Tenant shall pay to the Landlord, on demand, the costs of the examination of such drawings by either the Landlord or an outside consultant plus an administration fee of 15% of such costs;

(c) the Alterations shall be subject to regulation, supervision, control and inspection by the Landlord and, in addition to any other payment contained in this Article, the Tenant shall pay to the Landlord, on demand, the Landlord's then current fee for coordination services provided by the Landlord during the Tenant's construction of its Alterations;

(d) the Tenant shall provide, prior to the commencement of Alterations, evidence of required workers compensation coverage and roof of owner and contractors protective liability insurance coverage, with the Landlord, any property manager and any Mortgagee as required by the Landlord, to be named as additional insureds, in amounts, with insurers, and in a form satisfactory to the Landlord, which shall remain in effect during the entire period in which the Alterations will be carried out. In addition, if requested by the Landlord, the Tenant shall provide proof of performance and payment bonds being in place;

(e) the Tenant will deliver a list identifying every contractor and subcontractor, accompanied by an up-to-date valid clearance certificate for each of them issued by the appropriate workers compensation, safety and insurance authority and the Landlord shall have approved, prior to commencement of the Alterations, such contractors and subcontractors and their respective labour affiliations. The Tenant will not use any contractor or permit the use of any sub-contractor that is not identified on the list;

(f) if any proposed Alterations could affect the structure, the floors, the ceiling, the roof, the beams or columns, the exterior walls or the Building Systems, the Landlord may in its sole discretion require that any such Alterations be performed by either the Landlord or its contractors in which case the Tenant shall pay the Landlord's cost plus an administration fee of 15%;

(g) the Tenant shall have provided to the Landlord a copy of the contract for the Alterations and evidence satisfactory to the Landlord as to the existence of all necessary permits;

(h) the Tenant shall perform the Alterations or cause the Alterations to be performed: (i) in accordance with any construction methods and procedures manual for the Building or Project; (ii) in accordance with the plans and specifications submitted to and approved in writing by the Landlord; (iii) in accordance with any conditions, regulations, procedures or rules imposed by the Landlord; (iv) in compliance with all Applicable Laws; and (v) in a good and workmanlike and expeditious manner using new materials;

(i) the Landlord may inspect construction as it proceeds;

(j) upon completion of the Alterations, the Tenant shall provide the Landlord with a complete set of "as built" drawings in hardcopy and AutoCad format for the Alterations; and

(k) if the Tenant fails to observe any of the requirements of this Article, the Landlord may in its sole discretion require that construction stop and, at the Landlord's option, that the Premises be restored to their prior condition failing which the Landlord may do so and the Tenant shall pay the Landlord's cost plus an administration fee of 15%.

9.3 Removal of Improvements and Fixtures

All Leasehold Improvements shall immediately upon their placement become the Landlord's property without compensation to the Tenant. Except as otherwise directed by the Landlord in writing, no Leasehold Improvements or trade fixtures shall be removed from the Premises by the Tenant either during or at the expiry or earlier termination of the Term except that:

(a) the Tenant may, during the Term, in the usual course of its business, remove its trade fixtures, provided that the Tenant is not in default under this Lease; and

(b) at the written request of the Landlord, the Tenant shall, at its sole cost do the following (the "Restoration"): (i) remove all of its trade fixtures, (ii) remove or remedy the effects of any Contaminant from the Premises and the Project; and (iii) remove such of the Leasehold Improvements and wiring, cables and related devices and equipment and restore the Premises and any other part of the Project affected thereby to the then current base building standard of the Building as established in its sole discretion by the Landlord from time to time, all as the Landlord shall require by notice prior to the expiration of the Term. Such Restoration shall be completed by the date (the "Restoration Date") that is the later of; (A) the end of the Term; and (B) 15 days after the Landlord's notice, provided that in the event of termination of this Lease prior to the expiry of the Term, such Restoration shall be completed no later than 15 days after the date the Landlord recovers possession of the Premises. Despite the foregoing the Tenant shall leave in place and in an unimpaired condition such Leasehold Improvements and wiring, cables and related devices and equipment as the Landlord may by notice in writing direct, if any.

The Tenant shall at its own expense repair any damage caused to the Project by the Leasehold Improvements, trade fixtures or wiring, cables and related devices and equipment and/or such Restoration. If the Tenant does not remove its trade fixtures, or wiring, cables and related equipment prior to the expiry or earlier termination of the Term, such trade fixtures or wiring, cables and related devices and equipment shall, at the option of the Landlord, be deemed abandoned and become the property of the Landlord and may be removed from the Premises and sold or disposed of by the Landlord in such manner as it deems advisable and the Tenant shall pay to the Landlord on demand all costs incurred by the Landlord in connection therewith, plus an administration fee of 15% of the costs. The Tenant at the end of the Term shall peaceably surrender and yield up possession of the Premises to the Landlord in as good a condition, repair and decoration as that in which the Tenant is required to maintain the Premises throughout the Term (including as provided for in Section 9.1), shall return to the Landlord at the Landlord's management office for the Project all keys and other entry devices for the Premises and the Project, including vaults and safes, which are in the possession of the Tenant, and shall inform the Landlord of all combinations of locks, safes and vaults, if any, that will remain in the Premises. In addition, immediately before the end of the Term, the Tenant shall level all floors, seal and wax all tile flooring, strip and seal all concrete flooring, steam clean or shampoo all carpeted flooring, wash all glass, doors, woodwork, light fixtures and washrooms, fill all holes and repaint all painted wall surfaces of the Premises to the reasonable specifications and satisfaction of the Landlord. Furthermore, immediately before the end of the Term, the Tenant shall at its expense, by cleaning the surfaces in or about the Premises or otherwise (in a manner satisfactory to the Landlord) ensure that no detectable odours, residual or otherwise, which are a result of the Tenant's use or occupancy of the Premises or resulting from items stored by the Tenant in the Premises, are thereafter emitted from the walls, floors, ceilings, Common Areas and Facilities, Building Systems or other materials in or about the Premises or the Building. If the Tenant fails to complete any work or effect any of the other matters referred to in this Section within the period specified, the Tenant shall pay compensation to the Landlord for damages suffered by the Landlord for loss of use of the Premises, which damages shall not be less than double the per diem Rent payable during the last month preceding the expiry or earlier termination of the Term (or which would have been payable but for any discount or rent-free period applicable to such last month). Further, if the Tenant does not complete the Restoration by the Restoration Date the Landlord may carry out such Restoration and the Tenant shall pay to the Landlord the cost of the Restoration plus an administration fee of 15%. The Tenant's obligations in this Section 9.3 shall survive the end of the Term or earlier termination of this Lease.

9.4 Liens

The Tenant shall pay before delinquency for all materials supplied and work done in respect of the Premises so as to ensure that no lien or claim of lien is registered against any portion of the Lands or Project or against the Landlord's or Tenant's interest in the Lands or Project. If a lien or claim of lien is registered or filed, the Tenant shall discharge it at its expense within five Business Days after notice from the Landlord (or sooner if such lien or claim is delaying a financing or sale of all or any part of the Project), failing which the Landlord may at its option discharge the lien or claim of lien by paying the amount claimed to be due into court and the amount so paid and all expenses of the Landlord including legal fees (on a solicitor and client basis) shall be paid by the Tenant to the Landlord. The Tenant shall not mortgage, charge, grant a security interest in or otherwise encumber any Leasehold Improvements.

9.5 Notice by Tenant

The Tenant shall promptly notify the Landlord of any accident (not including WCB reports), casualty, defect, damage or deficiency which occurs or exists in any part of the Project and which comes to the attention of the Tenant.

ARTICLE 10 - USE OF PREMISES

10.1 Permitted Use

The Tenant shall continuously use the whole of the Premises only for the Permitted Use, which the Tenant shall undertake in a first-class, reputable manner befitting the reputation and image of the Building, and for no other purpose. The Tenant shall not use the Premises in a manner which does or could result in excessive demands being placed on the Building Systems or other Common Areas and Facilities.

10.2 Compliance with Laws

The Tenant shall use and occupy and shall cause the Premises to be used and occupied in compliance with all Applicable Laws and in a safe, careful and proper manner. It is the Tenant's responsibility to ensure that its use from time to time is permitted by all Applicable Laws. At the Landlord's request the Tenant shall comply with any directive, policy or request of any governmental or quasi-governmental authority or any other reasonable request of the Landlord, in respect of any energy conservation, waste management, safety, security or other matter relating to the operation of the Project. If due primarily to the Tenant's use or occupancy of the Premises, improvements or changes are necessary to comply with any Applicable Laws or with any such directive, policy or request or with the requirements of insurance carriers, the Landlord may at its option either do the necessary work, at the expense of the Tenant, or forthwith give notice to the Tenant to do such work within the requisite period of time and the Tenant shall then do such work within the requisite period of time. The Tenant shall pay to the Landlord the costs of any such work done by the Landlord, together with an administration fee of 15%.

10.3 Nuisance, Interference, Waste, Overloading

The Tenant shall not cause or allow any act or thing which constitutes a nuisance or which is offensive to the Landlord or other occupants of the Project or which interferes with the operation of any Building Systems or with the computer equipment, telecommunication equipment or other technological equipment of the Landlord, any service providers or other occupants of the Project. The Tenant shall keep the Premises free of Contaminants, free of debris and other items that might attract rodents or vermin and free of anything of a dangerous, noxious or offensive nature or which could create a fire, environmental, health or other hazard (including any electromagnetic fields or other forms of radiation) or undue vibration, heat or noise, and the provisions of Schedule "F" shall apply to this Lease. The Tenant shall at its cost throughout the Term keep and use, at such location as is designated from time to time by the Landlord, an industrial garbage container. The Tenant acknowledges that the Landlord is making no representations as to the ability of any pavement at the Project or the floor of the Premises to meet the requirements of the Tenant concerning any particular vehicles, articles or fixtures. The Tenant shall not permit any Contaminant or cause or allow any overloading of the floors of the Project or the bringing into any part of the Project, including the Premises, of any vehicles, articles or fixtures that by reason of their weigh; use or size might damage or endanger the structure, any concrete, asphalt or other pavement, or any of the Building Systems. If any such Contaminant or damage occurs, the Tenant shall immediately and at its sole expense repair it or remove from the Premises and Project such Contaminant to the satisfaction of the Landlord.

10.4 Access

(a) The Tenant shall not permit any vehicles or trailers belonging to the Tenant, its employees, invitees, contractors or agents to be stored or parked overnight or to cause obstruction on any roads, driveways or parking areas, or impede ingress and egress by any other tenant in the Project, and will use its best efforts to ensure that persons doing business with the Tenant do not permit any such obstruction.

(b) The Tenant shall not stack or store any materials in the yard or yards of the Project, adjacent driveways, or common areas and shall cause no obstruction to vehicles operating on the roads, driveways or parking areas.

10.5 Rail Spur

If the Premises do now or hereafter have access to a railway spur or are now or hereafter served by a railway spur the Tenant shall forthwith execute and deliver any agreements in respect thereof which are required by the railway company or other authority operating the said railway or required by the Landlord, and the Tenant shall reimburse to the Landlord or pay directly to the railway company or other authority operating the said railway all payments and compensation whatsoever which are required to be paid by the Tenant or the Landlord including, without limitation, any prepayments for the use of the railway facilities and other materials or otherwise and the costs of repairs and replacements of the rail lines, track bed, ties and any other apparatus or facilities (but excluding any amounts included in the Operating Costs and paid by the Tenant under section 5.5 hereof), and the Tenant shall observe and perform all terms, conditions, covenants and obligations under the said agreements and any and all requirements whatsoever of the railway company or other authority operating the said railway or the Landlord. The Tenant shall indemnify and save harmless the Landlord from and against any and all loss, cost, expense, damage, claims and liability whatsoever in respect of the use of the railway spur by the Tenant and in respect of the said agreements and all requirements of the railway company or other authority operating the said railway or the Landlord.

10.6 Rules and Regulations

The Tenant shall comply and cause every Person over whom it has control to comply with the Rules and Regulations. The Landlord, **acting reasonably**, shall have the right from time to time to make amendments, deletions and additions to such Rules and Regulations. If the Rules and Regulations conflict with any other provisions of this Lease, the other provisions of this Lease shall govern. The Landlord shall not be obligated to enforce the Rules and Regulations and shall not be responsible to the Tenant for failure of any person to comply with the Rules and Regulations. The Rules and Regulations may differentiate between different types of tenants, different punts of the Building or the Project or otherwise. The Landlord agrees that it will not enforce the Rules and Regulations in a manner that is discriminatory to the Tenant.

ARTICLE 11 - INSURANCE, LIABILITY AND INDEMNITY

11.1 Tenant's Insurance

The Tenant shall effect and maintain from the earlier of the Commencement Date and the date the Tenant begins operating in the Premises, and thereafter during the Term, at its sole cost and expense:

(a) "all risks" insurance upon all property owned by the Tenant or by others and for which property the Tenant is responsible located in the Project including equipment, furniture, fixtures and Leasehold Improvements in amounts sufficient to fully cover, on a replacement cost basis without deduction for depreciation, all such items;

(b) comprehensive form boiler and machinery insurance on a blanket repair and replacement basis in respect of boilers, pressure vessels, air conditioning equipment and miscellaneous electrical apparatus placed in or for the benefit of the Premises, regardless of source, with limits for each accident in an amount not less than the full replacement cost of all Leasehold Improvements and all property in the Premises;

(c) commercial general liability insurance on an occurrence basis, against claims for bodily injury, personal injury, economic loss and property damage arising from occurrences in or about the Project or arising from or in any way relating to the Tenant's use or occupancy of the Premises or the Project, contractual liability (including coverage of the indemnities provided for in this Lease), non-owned automobile liability and owner and contractors protective liability, in amounts which are from time to time acceptable to a prudent tenant in the community in which the Building is located (as determined by the Landlord), but not less than $5,000,000.00 in respect of each occurrence;

(d) Tenant's legal liability insurance for the fill replacement cost of the Premises including loss of the use of the Premises;

(e) business interruption insurance for a minimum period of •~~24~~• **12** months in an amount that will reimburse the Tenant for direct or indirect loss of earnings attributable to all perils insured against in Sections 11.1(a) and 11.l(b) or attributable to prevention of access to the premises or the Building as a result of any such perils, including extra expense insurance if applicable; and

(f) any other form of insurance that the Landlord or any Mortgagee may require from time to time in form, amounts and for insurance risks acceptable to the Landlord and any Mortgagee.

Should the Tenant fail to maintain any of the insurance required pursuant to this Section 11.1 and should such default continue for two Business Days after notice to the Tenant, then in addition to any other rights and remedies, the Landlord may, but shall have no obligation to, elect to obtain the required insurance and the Tenant shall upon demand pay to the Landlord, as Rent, the Landlord's cost of obtaining such insurance, together with an administration fee of 15%.

11.2 Form of Tenant Policies

Each policy required pursuant to Section 11.1 shall be in a form and with insurers acceptable to the Landlord, having reasonable deductibles, and: (a) the insurance described in Sections 11.1(a) and 11.1(b) and any other property damage insurance shall include, as additional named insureds (but without liability for premiums) as its interests may appear the Landlord, any Mortgagee and other Persons with an interest in the Project from time to time designated in writing by the Landlord; (b) the insurance described in Section 11.1(c) shall include as additional named insureds (but without liability for premiums) the Landlord, any Mortgagee, any other Persons with an interest in the Project from time to time designated in writing by the Landlord and any property manager or facilities manager retained by the Landlord in respect of the Project; (c) all property damage and liability insurance shall contain provisions for cross-liability and severability of interests among the Landlord, the other insureds and the Tenant; and (d) all property damage insurance (including boiler and machinery insurance) shall contain a waiver of any rights of subrogation which the insurer may have against the Landlord and those for whom the Landlord is in law responsible whether the damage is caused by the act, omission or negligence of the Landlord or such other Persons.

11.3 Certified Copies and Notice to Landlord

The Tenant shall provide to the Landlord, prior to the earlier of the Commencement Date and the date the Tenant begins operating in the Premises, ~~•certified copies or other evidence satisfactory•~~ **certificates of insurance** to the Landlord that the Tenant has obtained all insurance policies required by this Lease and shall provide written evidence of the continuation of such policies ~~•not less than ten days•~~ as soon as practicable prior to their respective expiry dates. Each policy required pursuant to Section 11.1 shall provide that: (a) the insurer must notify the Landlord and any Mortgagee in writing at least 30 days prior to ~~•any material change detrimental to the Landlord or any Mortgagee or•~~ the cancellation of any such policy; (b) **the Tenant shall use its commercially reasonable best efforts to notify the Landlord and any Mortgagee of any material change detrimental to the Landlord or any Mortgagee**; (c) the policy shall not be invalidated in respect of the interests of the Landlord or any Mortgagee or any other additional insureds by reason of any breach or violation of any

warranties, representations, declarations or conditions contained in such policy; and •~~(c)~~• (d) the policy shall be noncontributing with, and shall apply only as primary and not excess to any other insurance available to all and any of the Landlord, any Mortgagee or any other additional insured referred to above.

11.4 Landlord's Insurance

The Landlord shall effect and maintain during the Term: (a) liability insurance; (b) "all risks" property insurance; (c) boiler and machinery insurance; and (d) such other insurance on the Building and all property and interest of the Landlord in the Building as determined by the Landlord, in each case, to the extent, with coverage and in amounts as determined by the Landlord from time to time. However, despite any other provision of this Lease, as long as Sun Life Assurance Company of Canada or an affiliate thereof (as the term "affiliate" is defined in the Canada Business Corporations Act or the Insurance Companies Act (Canada)) is the Landlord, the Landlord may self-insure, in whole or in part, in respect of any and all casualties; in that event upon the request of the Tenant from time to time the Landlord will furnish a statement as to the perils in respect of which and the amounts to which it has insured the Project and the improvements and installations in the Premises, and also of the perils and amounts as to which the Landlord is self-insuring the Project and the improvements and installations in the Premises.

11.5 Insurance Risks

The Tenant shall not do, omit to do, or permit to be done or omitted to be done upon the Premises or any other portion of the Project anything that may contravene or be prohibited by any of the Landlord's insurance policies in force from time to time covering or relevant to any part of the Project or which would prevent the Landlord from procuring such policies with companies acceptable to the Landlord. If the occupancy of the Premises, the conduct of business in the Premises or any acts or omissions of the Tenant in the Premises or any other portion of the Project causes or results in any increase in premiums for any of the Landlord's insurance policies, hen, without limiting any other rights or remedies of the Landlord, the Tenant shall pay any such increase and a 15% administration fee thereon as Additional Rent forthwith upon receipt of the invoices of the Landlord for such additional premiums. A written report by an Expert at the Tenant's sole cost concerning the cause of any increase in premiums will be accepted as conclusive evidence of the cause for the purposes of determining the Tenant's liability to pay for increases as Additional Rent. If the Landlord has chosen to self-insure, the Tenant will pay to the Landlord, as Additional Rent forthwith upon receipt of the invoices of the Landlord setting out reasonable particulars, the charges that otherwise would have been payable under this subsection (including the 15% administration fee thereon) had the Landlord not chosen to self-insure.

11.6 Release of Landlord

The Tenant hereby releases the Landlord from any and all claims, actions, causes of action, damages, demands for damages and other liabilities, howsoever arising, that may be made by the Tenant against the Landlord under the provisions of this Lease to the extent of all insurance proceeds paid under the policies of insurance maintained by the Tenant or which would have been paid if the Tenant had maintained the insurance required under this Lease and had diligently processed any claims thereunder. In addition and without limitation, the Tenant agrees that the Landlord, regardless of negligence or alleged negligence on the part of the Landlord or any breach of the Lease by the Landlord and, notwithstanding anything else herein contained, shall not be liable for and hereby releases the Landlord from:

(a) any and all claims, actions, causes of action, damages, demands for damages and other liabilities:

  (i) for or related to any bodily injury, personal injury, illness or discomfort to or death of the Tenant or any of its agents, officers, contractors, employees, invitees, licensees and any other Person for whom the Tenant is legally responsible in or about the Project or the Premises; and

  (ii) for or related to any loss or damage to property owned by the Tenant or by others and for which property the Tenant is responsible in or about the Project or the Premises, and, without limiting the foregoing, the Landlord shall not be liable for any damage caused by steam, water, rain or snow which may leak into, issue or flow from part of the Project, including the Premises, or from the pipes or plumbing works thereof, or from any other place or for any damage caused by or attributable to the condition or arrangement of any electric or other wiring;

(b) any loss or damage caused as a result of any damage, destruction, construction, alteration, expansion, expropriation, reduction, repair or reconstruction from time to time of the Project, any parts or components of the Project or of improvements on adjoining properties or by anything done or omitted to be done by any other tenant or occupant;

(c) any act or omission (including theft, malfeasance or negligence) on the part of any agent, contractor or person from time to time employed by Landlord to perform cleaning/maintenance services, security services, supervision or any other work in or about the Premises or the Project;

(d) any loss or damage, however caused, to books of account, records, files, money, securities, negotiable instruments, papers, computer disks, tapes, software, data and other electronic files and their storage media of any kind or to other valuables of the Tenant including art, artworks, statuary, antiques, gems and precious metals of the Tenant and of others;

(e) any loss or damage arising from obstruction of deliveries to or from the Premises or interruption, cessation, faulty operation, breakdown or failure of any Building Systems, including but not limited to, the supply of any utilities, telecommunication services (whether controlled or owned by the Landlord or not) or other services in, to or serving the Project or the Premises, whether they are supplied by the Landlord or by others; and

(f) any indirect or consequential damages including, but not limited to, loss of profit.

11.7 Release of Tenant

The Landlord hereby releases the Tenant, and its agents, officers and employees, and any other Person for whom the Tenant is legally responsible from any liability or claim that may be made by the Landlord against the Tenant under the provisions of this Lease with respect to such loss to the extent of the lesser of: (a) the amount, if any, by which such loss exceeds the amount of insurance the Tenant is required to maintain under the terms of this Lease or actually maintains, whichever is greater; and (b) the proceeds actually paid to the Landlord with respect to such loss under the policies of insurance maintained by the Landlord pursuant to Section 11.4 or which would have been paid if the Landlord had maintained the insurance required under this Lease and had diligently processed any claims thereunder. This release shall be operative only if it is not prohibited by the Landlord's insurance policies and would not place the Landlord in breach of such policies or expose the Landlord to additional costs under or in connection with such policies.

11.8 Indemnity by Tenant

The Tenant shall indemnify and save harmless the Landlord from and against any and all claims, actions, causes of action, damages, demands for damages, losses and other liabilities and expenses (including, without limitation, those in connection with bodily injury (including death), personal injury, illness or discomfort or damage to property and legal fees on a solicitor and client basis) due to or arising from or out of all and any of.

(a) subject to Section 11.7, any occurrence in, on or at the Premises or the occupancy or use by the Tenant of the Premises or any other part of the Project or occasioned wholly or in part by any act or omission of the Tenant, its officers, employees, agents, contractors, invitees, licensees or by any Person permitted by the Tenant to be on the Premises or the Project or due to or arising out of any breach by the Tenant of this Lease; and

(b) any fault, default, negligence, gross negligence, wilful action or omission of the Landlord, its agents, servants, employees or anyone for whom at law the Landlord is liable, which causes interference with or obstruction of deliveries to or from the Premises or interruption, cessation, faulty operation, breakdown or failure of the Building Systems or utilities or services, including but not limited to telecommunication or similar services (whether they are part of the Building Systems or not) and suffered by customers, suppliers or other third parties with whom the Tenant or any occupant of the Premises conducts business or by other Persons who utilize any part of any telecommunications network to which the Tenant or any other occupant of the Project is or are connected.

ARTICLE 12 - ASSIGNMENT, SUBLETTING AND OTHER TRANSFERS

12.1 Transfers

The Tenant shall not enter into, consent to, or permit any Transfer without the prior written consent of the Landlord, which consent shall be subject to the Landlord's rights under Section 12.2. The Tenant shall pay to the Landlord the Transfer Application Fee in respect of the proposed Transfer. Notwithstanding any statutory provision to the contrary, it shall not be considered unreasonable for the Landlord to withhold its consent if, without limiting any other factors or circumstances which the Landlord may take into account:

(a) an Event of Default on the part of the Tenant hereunder has occurred and is continuing, or the Tenant has previously been in material or persistent breach of any of its obligations under this Lease;

(b) the proposed Transfer would be or could result in violation or breach of any covenants or restrictions made or granted by the Landlord to other tenants or occupants, or prospective tenants or occupants, of the Project;

(c) in the Landlord's opinion:

(i) either the financial background or the business history and capability of the proposed Tansferee is not satisfactory;

(ii) the nature or character of the proposed business of the proposed Transferee is such that it might harm the Landlord's business or reputation or reflect unfavourably on the Project, the Landlord, or other tenants of the Project, or the image of any of them, or is unethical, immoral or illegal;

(iii) the use of the Premises by the proposed Transferee could be incompatible with the other businesses or activities being carried on in the Project or could result in excessive demands being placed on the Building Systems or other Common Areas and Facilities; or

(iv) if the Transfer affects less than all of the Premises, the portion affected or the portion remaining are not acceptable in respect of size, access or configuration;

(d) the proposed Transferee or any principal of the proposed Transferee or any principal shareholder of the proposed Transferee has a history of defaults under other commercial leases or does not have a satisfactory history of compliance with laws;

(e) the Landlord at the time has~~•, or will have in the next ensuing three month period period,•~~ other premises in the Project suitable for leasing to the proposed Transferee;

(f) the basic and additional rent payable by the Transferee is less than the Basic Rent and Additional Rent payable by the Tenant hereunder as at the effective date of the Transfer except in the case where the Landlord determines, in its sole discretion, that payment of lesser rent by the Transferee will not detrimentally affect the leasing program for the Project; or

(g) the proposed Transfer is to: (i) an existing tenant or occupant of the Project; or (ii) a representative of a foreign government; or (iii) a proposed Transferee whose proposed use is one that the Landlord in its sole discretion determines involves more pedestrian or other traffic than would the operations of the Tenant; or (iv) a proposed Transferee whose proposed use is one that the Landlord in its sole discretion determines could place excessive burdens on the Building Systems, the Building or Project or result in Contaminants, environmental risks or impacts on the Premises, Building or Project.

Any consent by the Landlord to a Transfer shall not constitute a waiver of the necessity for such consent to any subsequent Transfer.

12.2 Tenant's Notice, Landlord's Right to Terminate

If the Tenant intends to effect a Transfer the Tenant shall give prior written notice to the Landlord of such intent specifying the identity of the Transferee, the type of Transfer contemplated, the part of the Premises affected and the financial and other terms of the Transfer, and shall provide such financial, business or other information relating to the proposed Transferee and its principals as the Landlord or any Mortgagee reasonably requires, together with copies of all documents which record the particulars of the proposed Transfer. The Landlord shall, within 30 days after having received such notice, the Transfer Application Fee and all requested information, notify the Tenant either that:

(a) it consents or does not consent to the Transfer in accordance with the provisions of this Lease; or

(b) it elects to terminate this Lease as to the part of the Premises affected by the proposed Transfer, or as to the whole Lease and Premises if the proposed Transfer affects all of the Premises.

If the Landlord elects to terminate this Lease it shall stipulate in its notice the termination date of this Lease, which date shall be the date of possession contemplated under the proposed Transfer (provided that if such date is less than 30 days or more than 90 days following the giving of notice of such election, the Landlord may elect to have the termination date 30 days or 90 days, respectively, following the giving of notice). If the Landlord elects to terminate this Lease, the Tenant may notify the Landlord in writing within ten days following receipt of such notice of the Tenant's intention to refrain from such Transfer and, if the Tenant provides such written notice within such time period, then the Landlord's election to terminate this Lease shall become void~ if the Tenant fails to deliver such notice within such time period, then this Lease shall, as to the whole or affected part of the Premises, as the case may be, be terminated on the date of termination stipulated by the Landlord in its notice of election to terminate. If the Tenant is required to deliver possession of a part only of the Premises, the Tenant shall pay all costs incurred in connection with rendering that part functionally separate and suitable for separate use and occupancy, including partitioning and providing entrances and services.

12.3 Conditions of Transfer

The following terms and conditions apply in respect of a Transfer:

(a) if the Transfer is an assignment of this Lease in whole or in part, the Tenant and the Transferee shall execute, prior to the Transfer being made, an agreement with the Landlord in the Landlord's form including the Transferee's covenant to be bound by all of the terms of this Lease;

(b) notwithstanding any Transfer, the Tenant shall remain liable under this Lease and shall not be released from performing any of the terms of this Lease. The Tenant's liability shall continue notwithstanding any amendment of this Lease throughout the Term and any exercise of any renewal or extension of the Term provided for herein, regardless of whether or when an amendment of this Lease is made (however the original Tenant's liability will not be increased by any amendment that it is not a party to) and notwithstanding that the Landlord may collect rent from the Transferee. Without limiting the foregoing, the Tenant shall be responsible for all acts or omissions of any subtenant, licensee or occupant;

(c) if the basic and additional rent (net of reasonable out of pocket costs for commissions, for cash allowances and for Alterations required by and made for the Transferee by the Tenant, amortized on a straight line basis over the term of the Transfer) to be paid by the Transferee under such Transfer exceeds the Basic Rent and Additional Rent payable by the Tenant hereunder, the amount of such excess shall be paid by the Tenant to the Landlord. If the Tenant receives from any Transferee, either directly or indirectly, any consideration other than basic rent or additional rent for such Transfer, either in the form of cash, goods or services, the Tenant shall immediately pay to the Landlord an amount equivalent to such consideration,

(d) if the Transfer is a sublease, the Transferee will execute a covenant in the Landlord's form and will agree to waive any statutory or other right to apply to a court or to otherwise elect to: (i) retain the unexpired term of the Lease or the unexpired term of the sublease; (ii) obtain any right to enter into any lease or other agreement directly with the Landlord, or (iii) otherwise remain in possession of any portion of the Premises, in any case where the Lease is terminated, surrendered or otherwise cancelled, including, without limitation, any disclaimer, repudiation, surrender or other termination (each of these transactions being referred to as an 'Early Termination') by any trustee in bankruptcy of the Tenant or a Transferee, by any court appointed officer, or by the Tenant or a Transferee in connection with any insolvency proceedings;

(e) if there is an Early Termination, the Tenant and any Transferee (except the bankrupt or insolvent Tenant or Transferee) to whom the Landlord gives notice within 60 days after the Early Termination, shall be considered to have entered into a lease with the Landlord on the same terms and conditions as are contained in this Lease except that the term of the lease shall commence on the date of the Early Termination and shall expire on the date this Lease would have expired but for the Early Termination, and

(t) notwithstanding the effective date of any permitted Transfer as between the Tenant and the Transferee, all Rent for the month in which such effective date occurs shall be paid in advance by the Tenant so that the Landlord will not be required to accept partial payments of Rent for such month from either the Tenant or the Transferee.

12.4 Corporate Records

Upon the Landlord's request, the Tenant shall: (a) deliver a statutory declaration by one of its senior officers setting forth the details of its corporate and capital structure, (b) make available to the Landlord or its representatives all of its corporate or partnership records, as the case may be, for inspection at all times, in order to ascertain whether any Change of Control has occurred; and (c) cause the Indemnifier(s), if any, to provide any of the foregoing in respect of such Indemnifier(s).

12.5 Permitted Transfers

Notwithstanding Section 12.1 and provided that the Required Conditions are satisfied and there is not then an Event of Default, the Tenant shall have the right on prior written notice to the Landlord, but without being required to obtain the Landlord's consent, to effect a Transfer in compliance with Section 12.3 in favour of a Permitted Transferee and the Landlord's right to terminate shall not apply to such a Transfer.

12.6 No Advertising

The Tenant shall not advertise that the whole or any part of the Premises are available for a Transfer and shall not permit any broker or other Person to do so unless the text and format of such advertisement is approved in writing by the Landlord. No such advertisement shall contain any reference to the rental rate of the Premises.

12.7 Sales or Dispositions by Landlord

The Landlord shall have the unrestricted right to sell, transfer, lease, license, charge or otherwise dispose of all or any part of its interest in the Project or any interest of the Landlord in this Lease. In the event of any sale, transfer, lease or other disposition the Landlord shall thereupon, and without further agreement, be released of all liability under this Lease arising from and after such disposition but only to the extent the purchaser or other transferee agrees to assume the Landlord's obligations under this Lease. If required by the Landlord in connection with any sale, transfer, charge or other disposition the Tenant shall, within five Business Days of request, provide to the Landlord, prospective purchasers and Mortgagees and their respective agents and consultants, access to the current financial statements of the Tenant and any Indemnifier. If the Tenant is listed on a recognized stock exchange in Canada or the United States, the Tenant agrees to provide instead copies of the Tenant's annual reports, quarterly reports and all other publicly distributed reporting materials.

ARTICLE 13 - LANDLORD FINANCING AND STATUS CERTIFICATES

13.1 Subordination and Postponement

(a) This Lease and the rights of the Tenant in this Lease shall be subject and subordinate to any and all Mortgages and the Tenant, on request by and without cost to the Landlord, shall, within five Business Days after such request, execute and deliver any and all instruments required by the

Landlord to evidence such subordination. Upon request by the Tenant at the time of any request for confirmation of subordination, the Landlord shall make reasonable efforts to obtain from any Mortgagee an acknowledgement and assurance in writing addressed to the Tenant, whereby such Mortgagee acknowledges that, in the event of any such Mortgagee realizing upon the security, it will not disturb the Tenant and will permit the Tenant to remain in possession under this Lease in accordance with its terms, so long as the Tenant is not in default.

(b) The Landlord, as to any Mortgage, and a Mortgagee, as to any Mortgage held by it may, by notice to the Tenant, elect that this Lease and the rights of the Tenant hereunder shall be prior to such Mortgage(s) and the Tenant, on request by and without cost to the Landlord, shall, within five Business Days after such request, execute and deliver any and all instruments required by the Landlord or the Mortgagee, as the case may be, to confirm priority to this Lease over the Mortgage(s).

13.2 Attornment

At any time after any of the following has occurred:

(a) if a Mortgagee delivers a notice of attornment;

(b) if a Mortgagee shall take possession of the Building or the Premises; or

(c) if the interest of the Landlord is transferred to any Person (in this Article referred to as a "Purchaser") by reason of foreclosure or other proceedings for enforcement of any Mortgage, or by delivery of a conveyance,

the Tenant shall, at the option of the Mortgagee or the Purchaser, as the case may be, exercisable by notice in writing to the Tenant, be deemed to have attorned to the Mortgagee or the Purchaser, as the case may be, upon receipt of such notice. The Landlord, the Mortgagee or the Purchaser, as the case maybe, may require the Tenant to enter into all instruments required by the Landlord, the Mortgagee or the Purchaser, as the case may be, to confirm such attornment. Upon such attornment the obligations of the Tenant under this Lease shall continue in full force and effect upon all the same terms, conditions and covenants in this Lease.

13.3 Status Certificates

The Tenant shall at any time and from time to time execute and deliver to the Landlord, or as the Landlord, a Mortgagee or a Purchaser may direct, within five Business Days after it is requested, a certificate of the Tenant, in the form supplied, addressed to the Landlord, the Mortgagee or the Purchaser, as the case may be, and/or any prospective purchaser, lessor or Mortgagee, certifying such particulars, information and other matters in respect of the Tenant (including its financial standing), the Premises and this Lease that the Landlord, the Mortgagee or the Purchaser, as the case may be, may request~ The Tenant will be liable for damages to the Landlord for failure to execute and deliver the requested certificate. Failure to execute the requested certificate within the stipulated five Business Day period is a default under this Lease and the Landlord may, at its option, terminate this Lease without incurring any liability for so doing.

13.4 Reliance

Notwithstanding that a Mortgagee or a Purchaser is not a party to this Lease, it shall be entitled to rely upon and enforce the provisions of this Lease which are stated to be for its benefit and, without limitation, the Mortgagee shall be entitled to act as agent for the Landlord to the extent necessary to enforce any such provisions.

ARTICLE 14 - DAMAGE, DESTRUCTION, DEMOLITION, EXPROPRIATION

14.1 Damage to Premises

If all or any material part of the Premises is rendered untenantable or completely inaccessible by damage from fire or other casualty to the Building or Project, then:

(a) if in the opinion of the Expert, the damage can be substantially repaired under Applicable Laws within 180 days from the date of such casualty (employing normal construction methods without overtime or other premium), the Landlord shall forthwith repair such damage other than damage to Leasehold Improvements and any other property that is not the responsibility of or is not owned by Landlord, and

(b) if in the opinion of the Expert, the damage cannot be substantially repaired under Applicable Laws within 180 days from the date of such casualty (employing normal construction methods without overtime or other premium), then:

(i) the Landlord may elect to terminate this Lease as of the date of such casualty by notice delivered to the Tenant not more than 20 days after receipt of the Expert's opinion; and

(ii) if such damage occurs during the last two Lease Years of the Term, the Tenant may elect to terminate this Lease as of the date of such casualty by notice delivered to Landlord not more than 20 days after receipt of the Expert's opinion,

failing which the Landlord shall forthwith repair such damage other than damage to Leasehold Improvements or property that is not the responsibility of or is not owned by landlord

14.2 Abatement

If the Landlord is required to repair damage to the Premises under Section 14.1 the Basic Rent payable by the Tenant shall be proportionately reduced to the extent that the Premises are rendered untenantable or inaccessible, from the date of the casualty until 30 days after completion by the Landlord of the repairs to the Premises or until the Tenant again uses the Premises (or the part thereof rendered untenantable), whichever first occurs. The Tenant shall effect its own repairs as soon as possible after completion of the Landlord's repairs. Notwithstanding the foregoing, there shall be no abatement or reduction of Rent where the Landlord's repairs to the Premises take less than ten days to complete after the damage occurs.

14.3 Termination Rights

Notwithstanding anything else contained in this Lease, if: (a) the Building is partially destroyed or damaged so as to affect 25% or more of the Rentable Area of the Building; or (b) in the opinion of the Expert the Building is unsafe or access or services are affected and, in either case, cannot be substantially repaired under Applicable Laws within 180 days from the date of such casualty (employing normal construction methods without overtime or other premium); or (c) the proceeds of insurance are substantially insufficient to pay for the costs of repair or rebuilding or are not payable to or received by the Landlord; or (d) any Mortgagee(s) or other Person entitled to the insurance proceeds shall not consent to the repair and rebuilding, then the Landlord may terminate this Lease by giving to the Tenant notice of such termination within 60 days of the damage or destruction, in which event the Tem shall cease and be at an end as of the date of such damage or destruction and the Rent and all other payments for which the Tenant is liable under the terms of this Lease shall be apportioned and paid in full to the date of termination (subject to any abatement under Section 14.2).

14.4 Landlord's Rights on Rebuilding

In the event of damage to the Building and if this Lease is not terminated in accordance with Sections 14.1 or 14.3, the Landlord shall forthwith repair any damage to the Building, but only to the extent of the Landlord's obligations under the terms of the various leases for premises in the Building (including this Lease) and exclusive of any tenant's responsibilities with respect to such repair. In repairing or rebuilding the Building or the Premises the Landlord may use drawings, designs, plans and specifications other than those used in the original construction and may alter or relocate the Building, the Common Areas and Facilities or any part thereof, and may alter or relocate the Premises, provided that the Building as repaired or rebuilt is of a similar standard and the Premises as altered or relocated shall be of approximately the same size as the original Premises.

14.5 Landlord's Demolition Rights

Despite any other provisions of this Lease, if the Landlord intends to demolish or renovate substantially the Building or a substantial portion of the Building, the Landlord may terminate this Lease on not less than 180 days' notice to the Tenant. The Tenant shall on the date set out in the notice from the Landlord vacate the Premises in accordance with the terms of this Lease. Also on such date, the Term shall cease and be at an end and the Rent and all other payments for which the Tenant is liable under the terms of this Lease shall be apportioned and paid in full to the date of termination.

14.6 Expropriation

The Landlord and the Tenant shall co-operate in respect of any expropriation of all or any part of the Premises or the Lands and Building so that each party may receive the maximum award to which it is entitled in law. If the whole or any part of the Premises or of the Lands and Building are expropriated, as between the parties hereto, their respective rights and obligations under this Lease shall continue until the day on which the expropriating authority takes possession thereof. If, in the case of partial expropriation of the Premises this Lease is not frustrated by operation of governing law and such expropriation does not render the remaining part of the Premises untenantable for the purposes of this Lease, the Tenant and the Landlord shall restore the part not so taken in accordance with their respective repair obligations under the provisions of Sections 14.l(a) and 14.2 of this Lease. In this Section 14.6 the word "expropriation" shall include a sale by the Landlord to any authority with powers of expropriation, in lieu of or under threat of expropriation.

ARTICLE 15 - DEFAULT AND REMEDIES

15.1 Events of Default

Any of the following constitutes an Event of Default under this Lease:

(a) any Rent (which term for this Article 15 shall include Rental Taxes) is in arrears and is not paid within five days after notice from the Landlord;

(b) the Tenant has breached any of its obligations in this Lease and, if such breach is capable of being remedied and is not otherwise listed in this Section 15.1, after notice from the Landlord:

(i) the Tenant fails to remedy such breach within ten days (or such shorter period as may be provided in this Lease); or

(ii) if such breach cannot reasonably be remedied within ten days or such shorter period, the Tenant fails to commence to remedy such breach within such ten days or shorter period or thereafter fails to proceed diligently to remedy such breach;

(c) the Lease or any goods, chattels or equipment of the Tenant is seized, taken or exigible in execution or in attachment or if a writ of execution or enforcement is issued against the Tenant and such writ is not stayed or vacated within ten days after the date of such issue;

(d) the Tenant or any Indemnifier becomes insolvent or commits an act of bankruptcy or takes the benefit of any statute for bankrupt or insolvent debtors or makes any proposal, assignment, compromise or arrangement with its creditors, or if a receiver is appointed for all or part of the business, property, affairs or revenues of the Tenant;

(e) the Tenant makes a bulk sale of its goods (other than in conjunction with a Transfer approved by the Landlord) or moves or commences, attempts or threatens to move its goods, chattels and equipment out of the Premises (other than in the normal course of its business);

(f) the Tenant fails to take possession of and occupy the Premises on the Commencement Date, or if thereafter the Tenant abandons or attempts to abandon the Premises or ceases to conduct business from the Premises, or the Premises become vacant or substantially unoccupied for a period of ten consecutive days; or

(g) the Tenant purports to effect a Transfer other than in compliance with the provisions of this Lease.

15.2 Remedies

If and whenever an Event of Default occurs, the Landlord shall have the following rights and remedies, exercisable immediately and without further notice and at any time while the Event of Default continues:

(a) to terminate this Lease and re-enter the Premises. The Landlord may remove all Persons and property from the Premises and store such property at the expense and risk of the Tenant or sell or dispose of such property in such manner as the Landlord sees fit without notice to the Tenant~ Notwithstanding any termination of this Lease, the Landlord shall be entitled to receive Rent and all Rental Taxes up to the time of termination plus accelerated Rent as provided in this Lease and damages including, without limitation: (i) damages for the loss of Rent suffered by reason of this Lease having been prematurely terminated; (ii) costs of reclaiming, repairing and re-leasing the Premises; and (iii) legal fees and disbursements on a solicitor and client basis;

(b) to enter the Premises as agent of the Tenant and to relet the Premises for whatever length of time and on such terms as the Landlord in its discretion may determine including, without limitation the right to: (i) take possession of any property of the Tenant on the Premises; (ii) store such property at the expense and risk of the Tenant; (iii) sell or otherwise dispose of such property in such manner as the Landlord sees fit; and (iv) make alterations to the Premises to facilitate the reletting. The Landlord shall receive the rent and proceeds of sale as agent of the Tenant and shall apply the proceeds of any such sale or reletting first, to the payment of any expenses incurred by the Landlord with respect to any such reletting or sale, second, to the payment of any indebtedness of the Tenant to the Landlord other than Rent and third, to the payment of Rent in arrears, with the residue to be held by the Landlord and applied to payment of future Rent as it becomes due and payable. The Tenant shall remain liable for any deficiency to the Landlord;

(c) to remedy or attempt to remedy the Event of Default for the account of the Tenant and to enter upon the Premises for such purposes. The Landlord shall not be liable to the Tenant for any loss, injury or damages caused by acts of the Landlord in remedying or attempting to remedy the Event of Default. The Tenant shall pay to the Landlord, on demand, all expenses incurred by the Landlord in remedying the Event of Default, together with an administration fee of 15% and interest at the Default Rate from the date such expense was incurred by Landlord;

(d) to recover from the Tenant all damages, costs and expenses incurred by the Landlord as a result of the Event of Default including any deficiency between those amounts which would have been payable by the Tenant for the portion of the Term following such termination and the net amounts actually received by the Landlord during such period of time with respect to the Premises; and

(e) to recover from the Tenant the full amount of the current month’s Rent together with the next three months’ instalments of Rent, which shall immediately become due and payable as accelerated rent.

15.3 Distress

Notwithstanding any provision of this Lease or any provision of any present or future Applicable Laws, none of the goods, chattels or trade fixtures on the Premises at any time during the Term shall be exempt from levy by distress for Rent in arrears, and the Tenant waives any such exemption. If the Landlord makes any claim against the goods and chattels of the Tenant by way of distress this provision may be pleaded as an estoppel against the Tenant in any action brought to test the right of the Landlord to levy such distress.

15.4 Interest and Costs

The Tenant shall pay to the Landlord upon demand: (a) interest at the Default Rate on all Rent required to be paid hereunder from the due date for payment until fully paid and satisfied; and (b) the Landlord's then current administration charge for each notice of default given by the Landlord to the Tenant under this Lease. The Tenant shall pay and indemnify the Landlord against damages, costs and expenses (including, without limitation, all legal fees on a solicitor and client basis) incurred in enforcing the terms of this Lease, or with respect to any matter or thing which is the obligation of the Tenant under this Lease, or in respect of which the Tenant has agreed to insure or to indemnify the Landlord.

15.5 Remedies Cumulative

No reference to or exercise of any specific right or remedy by the Landlord shall prejudice or preclude the Landlord from exercising or invoking any other remedy, whether allowed under this Lease or generally at law or in equity, and the express provisions of this Lease as to certain rights and remedies are not to be interpreted as excluding any other or additional rights and remedies available to the Landlord generally at law or in equity.

ARTICLE 16 - MISCELLANEOUS

16.1 Relationship of Parties

Nothing contained in this Lease shall create any relationship between the parties other than that of landlord and tenant, and, without limitation, nothing in this Lease shall be construed to constitute the Landlord and the Tenant as partners, joint venturers or members of a joint or common enterprise.

16.2 Consent Not to be Unreasonably Withheld

Except as otherwise specifically provided in this Lease, the Landlord and the Tenant, and each Person acting for them, in granting a consent or approval or making a determination, designation, calculation, estimate, conversion or allocation under this Lease, will act reasonably and in good faith and each Expert or other professional Person employed or retained by the Landlord will act in accordance with the applicable principles and standards of such Person's profession; however, the foregoing shall not apply in respect of any actions taken by or on behalf of the Landlord under Article 15. The Tenant's sole remedy against the Landlord in respect of any breach or alleged breach of this Section shall be an action for specific performance and, without limitation, the Landlord shall not be liable for damages and the Tenant shall not be entitled to any other rights or remedies.

16.3 Overholding

The Tenant has no right to remain in possession of the Premises after the end of the Term. If the Tenant remains in possession of the Premises after the end of the Term with the consent of the Landlord but without entering into a new lease or other agreement then, notwithstanding any statutory provisions, legal presumption or reasonableness requirement to the contrary, there shall be no tacit renewal of this Lease or the Term and the Tenant shall be deemed to be occupying the Premises as a tenant from month to month (with either party having the right to terminate such month to month tenancy at any time on 30 days' notice, whether or not the date of termination is at the end of a rental period) at a monthly Basic Rent payable in advance on the first day of each month equal to ~~•double•~~ **one hundred and fifty percent (150%)** of the monthly amount of Basic Rent payable during the last month of the Term (or which would have been payable but for any discount or rent-free period applicable to such last month) and otherwise upon the same terms, covenants and conditions as in this Lease insofar as these are applicable to a monthly tenancy and, for greater certainty, including liability for all Additional Rent.

16.4 Registration

Neither the Tenant nor anyone on the Tenant's behalf or claiming under the Tenant (including any Transferee) shall register this Lease or any Transfer against the Lands. The Tenant may at its sole cost register a notice or caveat of this Lease provided that: (a) a copy of the Lease is not attached; (b) no financial terms are disclosed; (c) the Landlord gives its prior written approval to the notice or caveat; and (d) the Tenant pays the Landlord's costs on account of the matter. The Landlord may limit such registration to one or more parts of the Lands. Upon the expiration or other termination of the Term the Tenant shall immediately discharge or otherwise vacate any such notice or caveat at its sole cost. If any part of the Lands which in the opinion of the Landlord are surplus is transferred, the Tenant shall forthwith at the request of the Landlord discharge or otherwise vacate any such notice or caveat as it relates to such part. If any part of the Lands are made subject to any easement, right-of-way or similar right, the Tenant at its sole cost shall immediately at the request of the Landlord, which request the Landlord may make in its sole discretion, postpone its registered interest to such easement, right-of-way or similar right.

16.5 Unavoidable Delay

If any party is bona fide delayed, or hindered in or prevented from the performance of any term, covenant or act required by this Lease by reason of any cause beyond the control of the patty affected including, without limitation, strikes, lockouts or other labour disputes, the enactment, amendment or repeal of any Applicable Laws, the failure of any existing tenant or occupant to vacate the Premises, shortages or unavailability of labour or materials, riots, insurrection, sabotage, rebellion, war, acts of terrorism, act of God, or any other similar reason ("Unavoidable Delay"), then performance of such term, covenant or act is excused for the period of the delay and the party so delayed, hindered or prevented shal1 be entitled to perform such term, covenant or act within the appropriate time period after the expiration of the period of such delay. However, the provisions of this Section do not operate to excuse the Tenant from the prompt payment of Rent and any other payments required by this Lease or from vacating the Premises as and when required pursuant to any provision of this Lease and Unavoidable Delay shall not include any delay caused by the parties' default or act or omission, any delay avoidable by the exercise of reasonable care by such patty or any delay caused by lack of funds of such party. The Landlord shall also be excused from the performance of any term, covenant or act required hereunder if the performance of such item would be in conflict with any directive, policy or request of any governmental or quasi-governmental authority in respect of any energy, conservation, safety or security matter.

16.6 Decisions of Experts; Arbitration

The decision of any Expert whenever provided for under this Lease and any certificate of an Expert shall be final and binding on the parties and there shall be no further right of dispute or appeal.

Wherever under any provision of this Lease it is stated that a matter is to be determined by Arbitration, it shall be determined by a single arbitrator appointed by the parties. If the parties cannot agree on a single arbitrator, then, upon the application of either party, a Justice of the superior court of the province in which the Premises are situate shall appoint an arbitrator whose sole determination shall be final. The arbitrator shall be a disinterested person of recognized competence in the real estate business where the Premises are situate. The expense of such arbitration shall be home equally by the Landlord and the Tenant.

16.7 Notices

Any notice, demand, statement or request ("Notice") required or permitted to be given under this Lease shall be in writing and shall be deemed to have been duly given if personally delivered, delivered by courier or mailed by registered prepaid post, in the case of Notice to the Landlord, to it at the address set out in Section 1.1(a)(ii) and in the case of Notice to the Tenant, to it at the Premises. Notice may not be given by facsimile transmission, electronic mail or any other electronic communication.

Any such Notice given in accordance with the above requirements shall be deemed to have been given, if mailed, on the fifth day following the date of such mailing or, if delivered, on the day on which it was delivered so long as such delivery was prior to 5:00 p.m. on a Business Day (and, if after 5:00 p.m. or if any such day is not a Business Day, then it shall be deemed to have been delivered on the next Business Day). Either party may from time to time by Notice change the address to which notices to it are to be given. Notwithstanding the foregoing, during any interruption or threatened interruption in postal services, any Notice shall be personally delivered or delivered by courier. If a copy of any Notice to the Tenant is to be sent to a second address or to another Person other than the Tenant, the failure to give any such copy shall not vitiate the delivery of the Notice to the Tenant.

16.8 Confidentiality

The Tenant shall keep confidential all financial information in respect of this Lease, provided that it may disclose such information to its auditors, consultants and professional advisors so long as they have first agreed to respect such confidentiality.

16.9 Power, Capacity and Authority

The Landlord and the Tenant covenant, represent and warrant to each other that they have the power, capacity and authority to enter into this Lease and to perform its obligations hereunder and that there are no covenants, restrictions or commitments given by it which would prevent or inhibit it from entering into this Lease.

16.10 Liability of Landlord

Any liability of the Landlord under this Lease shall be limited to its interest in the Building from time to time. If the Landlord consists of more than one Person, the liability of each such Person shall be several and be limited to its percentage interest in the Building.

SCHEDULES

“A”	Building Specific Information
“B”	Sketch Showing Premises
“C”	Rules and Regulations
“D”	Indemnity Agreement
“E”	Condition of Premises
“F”	Environmental Matters

IN WITNESS WHEREOF the parties hereto have executed this Lease.

SUN LIFE ASSURANCE COMPANY OF CANADA
by its duly authorized Agent
BENTALL LIMITED PARTNERSHIP
by its General Partner, Bentall G.P. Ltd.

Per: _____
Name:
Title:

We have the authority
to bind the corporation

Per: _____
Name:
Title:

AQUINOX PHARMACEUTICALS INC.
(Tenant)

Per: _____
Name:
Title:

I/We have the authority
to bind the corporation

Per: _____
Name:
Title:

SCHEDULE “A” BUILDING - SPECIFIC INFORMATION

Part 1: Legal Description of Building Lands:

Parcel Identifier. 016-649-427
Strata Lot 1, Section 5, Block 4 North, Range 5 West, New Westminster District, Plan NW3337, together with an interest in the common property in proportion to the unit entitlement of the strata lot as shown on Form 1

Part 2: Legal Description of Project Lands, if applicable:

CRESTWOOD 100

Parcel Identifier. 026-048-175
Parcel A, Section 5, Block 4 North, Range 5 West, New Westminster District, Plan BCP13483

CRESTWOOD 300

Parcel Identifier~ 016-510-135
Lot 25, Section 5, Block 4North, Range 5 West, New Westminster District, Plan 86865

CRESTWOOD 400

Parcel Identifier. 016-649-427
Strata Lot 1, Section 5, Block 4 North, Range 5 West, New Westminster District, Plan NW3337, together with an interest in the common property in proportion to the unit entitlement of the strata lot as shown on Form 1

CRESTWOOD 500

Parcel Identifier. 026-020-564
Strata Lot 1, Section 5, Block 4 North, Range 5 West, New Westminster District, Plan NW3337, together with an interest in the common property in proportion to the unit entitlement of the strata lot as shown on Form 1

CRESTWOOD 600

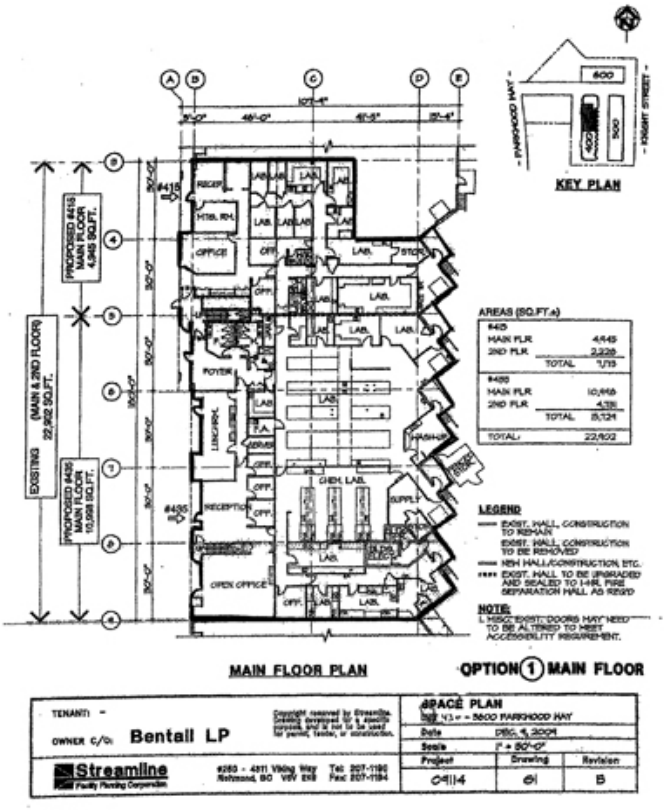
Parcel Identifier. 016-649-435
Strata Lot 1, Section 5, Block 4 North, Range 5 West, New Westminster District, Plan NW3337, together with an interest in the common property in proportion to the unit entitlement of the strata lot as shown on Form 1

Part 3: Measurement Standards:

Rentable Area includes all area from exterior of exterior walls and mid-point of demising walls plus a gross-up for building common mechanical, electrical rooms, and other areas for the benefit of more than one tenant including but not limited to vestibules.

SCHEDULE "B" SKETCH SHOWING PREMISES

MAIN FLOOR PREMISES



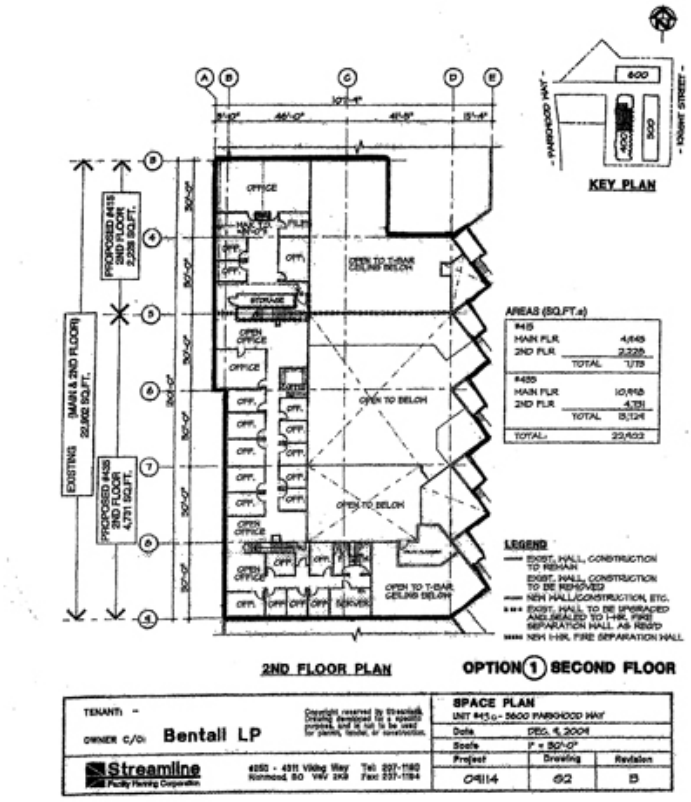
TENANT: -		SPACE PLAN	
OWNER c/o: Bentall LP		Date	DEC. 4, 2009
		Scale	1" = 50'-0"
Streamline Facility Planning Corporation	#250 - 4311 Viking Way Richmond, BC V6V 2K8 Tel: 207-1180 Fax: 207-1184	Project	Drawing / Revision
		04114	01 / B

Copyright reserved by Streamline Facility Planning Corporation. This drawing is not to be used for permit, tender, or construction.

G:\LSA\WINDOCS\LEASES\Crestwood Commerce\Aquinox_9-10 [FINAL].doc (tc)
1/29/09

INITIALS

SECOND FLOOR PREMISES



INITIALS
LL

SCHEDULE “C” RULES AND REGULATIONS

(1) **Security and Safety**

(a) The Landlord may from time to time adopt appropriate systems and procedures for the security and safety of the Building and the tenants and occupants and contents thereof, and the Tenant shall comply with the Landlord’s requirements in respect of such systems and procedures.

(b) The Tenant shall participate in fire drills and evacuations of the Building as directed by the Landlord. In the event of an emergency, the Tenant shall vacate the Building if the Landlord or any public authority so directs in the manner prescribed by the Landlord or such public authority.

(c) The Tenant shall not keep any inflammable oils or other inflammable, dangerous, corrosive or explosive materials in the Premises or the Project, save and except for amounts used in the Tenants business operations and kept and used in accordance with all Applicable Laws.

(2) **Use of Premises**

The Tenant shall not use or permit the Premises to be used for residential, lodging or sleeping purposes, or for the storage of personal effects or articles not required for business purposes. The Tenant shall not bring upon the Premises or the Project any equipment, motor or thing which might damage the Building or the Common Areas and Facilities. The Tenant shall not bring upon the Premises any propane tanks, propane-equipped fork lift tucks, or motor vehicles.

(3) **Washrooms and Water Fixtures**

The Tenant shall not use the washrooms or other water fixtures for any purposes other than those for which they were intended, and no sweepings, rubbish, rags, ashes or other substances shall be thrown into them.

(4) **Animals and Birds**

The Tenant shall not bring any animals (except dogs assisting the disabled) or birds within any part of the Lands or Project without the consent of the Landlord.

(5) **Antennae, Satellite Dish**

The Tenant shall not install any radio or television antenna or satellite dish on any part of the Lands or Project without the prior written consent of the Landlord.

(6) **Canvassing, Soliciting and Peddling**

Canvassing, soliciting and peddling in or about the Lands and Project are prohibited.

(7) **No Burning Trash**

The Tenant shall not bum any trash or garbage anywhere on the Project.

(8) **No Obstructions; Housekeeping**

The Tenant shall not keep or display any merchandise, supplies, materials, garbage, refuse or other chattels on, or otherwise obstruct, any part of the Project except as specifically permitted in the Lease. No such merchandise, supplies, materials, garbage, refuse or other chattels shall be allowed to remain on any loading dock or common area.

(9) **Employees, Agents and Invitees**

In these Rules and Regulations, ‘Tenant’ includes the employees, agents, invitees and licensees of the Tenant and others permitted by the Tenant to use or occupy the Premises.

(10) **Vehicles**

No motor vehicles or trailers may be parked overnight at the Premises or the Project.

SCHEDULE "D" INDEMNITY AGREEMENT

INDEMNITY AGREEMENT

This Agreement is made the * day of *, 20*,

Between:

*** [name and address of Indemnifier],**

(the "***Indemnifier***")

-and-

* [**name of Landlord**],

(the "***Landlord***").

WHEREAS:

A. The Landlord is the owner of the lands and premises known municipally as * [address of Building] (the "***Building***"); and

B. The Indemnifier and * [name of Tenant] (the "***Tenant***") have requested the Landlord to enter into a lease (the "***Lease***") dated *, 20* [date of Lease] between the Landlord, as landlord, and the Tenant, as tenant, relating to premises in the Building and the Landlord has agreed to do so only if the Indemnifier executes and delivers this Agreement in favour of the Landlord;

NOW THEREFORE for good and valuable consideration (the receipt and sufficiency of which are acknowledged by the Indemnifier), the Indemnifier agrees with the Landlord as follows:

1. The Indemnifier covenants with the Landlord that the Tenant will well and truly pay all Rent and other amounts payable under the Lease on the days and at the times and in the manner provided in the Lease, and will observe each and every covenant, proviso, condition, agreement and obligation contained in the Lease on the part of the Tenant to be performed and observed, and that if any default is made by the Tenant, whether in payment of monies or performance of obligations, the Indemnifier shall forthwith on demand pay to the Landlord such monies and perform such obligations and pay any and all damages resulting from any non-payment or non-performance.

2. The Indemnifier shall be jointly and severally liable with the Tenant for all of the Tenant's obligations under the Lease, as if it were separately named as a tenant under the Lease.

3. This Indemnity is absolute and unconditional and the obligations of the Indemnifier and the rights of the Landlord hereunder shall not be affected or in any way prejudiced or impaired by: (a) any neglect or forbearance by the Landlord in obtaining payment of Rent or other amounts or of enforcing the provisions of the Lease or the obligations of the Tenant or any waiver or failure to enforce any provision of this Agreement by the Landlord; (b) any extensions of time or other indulgences given by the Landlord to the Tenant; (c) any amendment of the Lease or other dealing between the Landlord and the Tenant with or without notice to the Indemnifier; (d) any assigning or subletting by the Tenant (with or without the Landlord's consent); or (e) any other act or failure to act by the Landlord which would release, discharge or affect the obligations of the Indemnifier if it were a mere surety, with the intent that the obligations of the Indemnifier shall continue and shall not be released, discharged or reduced or in any way impaired until such time as all of the obligations of the Tenant under the Lease, now existing or to arise at any time in the future, have been fully performed and satisfied.

4. The Indemnifier expressly waives notice of the acceptance of this Agreement and all notice of nonperformance, non-payment or non-observance on the part of the Tenant of the terms, covenants and conditions in the Lease. Without limiting the generality of the foregoing, any notice which the Landlord desires to give to the Indemnifier shall be sufficiently given if personally delivered, delivered by courier or mailed by registered prepaid post, to the Indemnifier at the Premises, and every such notice is deemed to have been given upon the day it was delivered, or if mailed, on the fifth day following the date of such mailing. The Indemnifier may designate by notice in writing a substitute address for that set forth above. If two or more persons are named as Indemnifier, such notice given hereunder or under the Lease shall be sufficiently given if delivered or mailed in the foregoing manner to any one of such Persons.

5. The obligations of the Indemnifier under this Agreement shall not be released, discharged or affected by the bankruptcy or insolvency of the Tenant or any proposal made by it to its creditors or any repudiation of the Lease pursuant to the Bankruptcy and Insolvency Act, S.C. 1992, or any successor or similar legislation, or any disclaimer by any trustee in bankruptcy of the Tenant or by the Tenant ceasing to exist (whether by winding-up, forfeiture, cancellation or surrender of charter, or any other circumstance) or by any event terminating the Lease including a reentry or termination. If the Lease is terminated prior to the end of its term, except by surrender duly accepted by the Landlord, then, at the option of the Landlord, the Indemnifier shall execute a new lease of the Premises between the Landlord as landlord and the Indemnifier as tenant for a term equal in duration to the residue of the term remaining unexpired at the date of such termination, and in all other respects upon the same terms and conditions as are set forth in the Lease.

6. The Landlord shall not be obliged to exercise its remedies against the Tenant or any other person or against the Premises or to exhaust any security given by the Tenant before demanding payment of monies or performance of covenants by the Indemnifier.

7. The Indemnifier's obligations under this Agreement bind the Indemnifier and its legal representatives, heirs, executors, administrators, successors and assigns (as the case may be) and may be assigned by the Landlord, and will benefit and be enforceable by the successors and assigns of the Landlord, and all parties who for the time being have the status of Landlord under the Lease, whether or not such parties receive a specific assignment of the Lease or of the Indemnifier's obligations, and whether or not notice of any assignment or change in ownership of the Premises or any project of which the Premises forms a part is given to the Indemnifier.

8. The grammatical changes required to make the provisions of this Agreement apply in the plural sense where the Indemnifier comprises more than one person and to corporations, firms, partnerships, or individuals male or female, will be assumed as though in each case fully expressed, and if the Indemnifier consists of more than one person, the obligations of the Indemnifier shall be deemed to be joint and several obligations of each such person. This Agreement shall be construed in accordance with the laws of the province in which the Building is located.

9. The Indemnifier acknowledges receipt of a copy of the Lease and covenants, represents and warrants that it has full power, capacity and authority to enter into this Agreement and to perform its obligations hereunder. No modification of this Agreement shall be effective unless it is in writing and is executed by both the Indemnifier and the Landlord.

10. Whenever any reference is made in this Agreement to the Lease or the obligations of the Tenant under the Lease, such reference shall be deemed to include any and all agreements and instruments executed by the Tenant in connection with the Lease or pursuant to the Lease and which relate to the Premises. Any capitalized word or phrase used in and not defined in this Agreement shall have the meaning given to it in the Lease.

IN WITNESS WHEREOF the Landlord and the Indemnifier have duly executed this Agreement.

SCHEDULE "E" CONDITION OF PREAUSES

CONSTRUCTION AND COMPLETION OF THE PREMISES

The Tenant acknowledges and agrees that it is accepting possession of the Premises in an "as is, where is" condition except that the Landlord shall provide and install to the Premises at the Landlord's expense and to its base building standard by August 31, 2010 on a reasonable commercial basis, the following work (the "Landlord's Work"):

(a) the work set out in the quote dated November 30, 2009 from Streamline attached hereto as Schedule "E-1". All mechanical, electrical, HVAC, plumbing systems and hot water supplies shall be properly separated from the adjacent tenancies as part of the demising work undertaken by the Landlord. Notwithstanding the aforementioned, the boiler and hot water tank located at grid line 8 on the second floor plan attached as Schedule "B" hereto shall remain in place and not be separated from the adjacent tenancy, at the Landlord's sole discretion;

(b) the work set out on Schedule "E-2" attached hereto; and

(c) all base building mechanical, electrical, HVAC and plumbing systems shall be in proper working order at the Commencement Date.

The Landlord makes no representation or warranty with respect to the usability of any existing phone lines and/or data cables within the Premises. The Tenant, at its expense, shall be responsible for all modifications required to reuse such phone lines and/or data cables. The Tenant shall be responsible for its own improvements to the Premises (the "Tenant's Work") and shall complete such Tenant's Work during the Fixturing Period. Should the Tenant require additional utilities, additional heating, ventilation or air conditioning because of the nature of its business, in excess of those already provided to the Premises, then the Tenant shall be responsible for the cost of installing and/or supplying such additional utilities, subject to the Landlord's prior approval. The Tenant's Work is subject to the Landlord's prior written approval and shall be made in accordance with Section 9.2 of the Lease the and the Crestwood Commerce Centre Tenant Guidelines. It is understood that the Landlord's contractor shall be utilized for all changes to the mechanical, electrical and life safety systems. All costs associated with the Tenant's Work shall be borne solely by the Tenant, including design and consultants' fees. The Tenant will be responsible for obtaining all necessary approvals and building permits from regulatory authorities for the commencement and completion of the Tenant's Work. No Tenant's Work shall commence until the Landlord receives proof of the Tenant's insurance. All terms of the Lease shall be applicable from the date the Tenant takes possession of the Premises including the Tenant's obligations to pay for all utilities and services, save for the payment of Basic Rent and the Tenant's share of Property Taxes and Operating Costs which shall be payable as of the Commencement Date.

SCHEDULE “E-2” LANDLORD’S WORK

The Landlord shall coordinate removal and/or correction of the following existing installations:

1. **Removal of the fenced storage located directly behind demising wall (7) as indicated on the main floor plan of Schedule “B” attached hereto.**
2. **Cap or seal the electrical supply to the compressor cage located behind demising wall (6) as indicated on the main floor plan of Schedule “B” attached hereto**

The Landlord shall coordinate correction of the following existing installations:

1. **Repair/replace cracked heat exchanger in shipping receiving area marked “SUPPLY” located between demising walls (7) and (S) at the rear of the Premises as indicated on the main floor plan of Schedule “B” attached hereto.**
2. **Electrical wiring from the electrical panels located directly adjacent to demising wall (6) north side at the rear of the Premises as indicated on the main floor plan of Schedule “B” attached hereto will be reconnected to supply power to the lab areas located between demising walls (7) and (5) as indicated on the main floor plan of Schedule “B” attached hereto.**
3. **Electrical power to be restored to fume hood located in lab room marked “LAB” located directly adjacent to demising wall (6) as indicated on the main floor plan of Schedule “B” attached hereto.**
4. **Correct exposed wiring in first aid room ceiling marked “F.A.” located between demising walls (6) and (7) as indicated on the main floor plan of Schedule “B” attached hereto.**
5. **Restore power to the south wing of the office area of the Premises between demising walls (S) and (9) as indicated on the second floor plan of Schedule “B” attached hereto.**
6. **All circuit breakers in electrical panels to be correctly mapped.**
7. **Make operational the HVAC system above the south wing of the office located between demising walls (8) and (9) as indicated on the second floor plan of Schedule “B” attached hereto.**

It is understood by the Landlord and the Tenant that it is the Tenant’s sole responsibility to purchase any non-base building systems from the existing tenant (if required) at the Tenant’s sole cost prior to the expiry of the existing tenant’s lease.

SCHEDULE "F" ENVIRONMENTAL MATTERS

1. **Representations and Warranties of Tenant**

Except as may be set out elsewhere in this Schedule, the Tenant represents and wan-ants as of the date of this Lease that:

(a) the Tenant has obtained all governmental approvals for its intended operation at the Premises required by any applicable Environmental Laws;

(b) **subject to paragraph 4 below**, the Tenant intends to use at the Premises no hazardous, dangerous, toxic or harmful substances or materials, except for limited quantities of cleaning fluids, solvents, batteries or similar products or substances ordinarily used by the Tenant and necessary in the conduct of its business; and

(c) the Tenant is not subject to, has no notice or knowledge of, and is not required to give any notice of any Environmental Claim involving the Tenant and there are no conditions or occurrences which could form the basis for an Environmental Claim against the Tenant.

2. **Covenants**

The Tenant covenants and agrees that

(a) **subject to paragraph 4 below**, the Tenant will not bring or permit to be brought or stored on the Project any hazardous, dangerous, toxic or harmful substances or materials, except for limited quantities of cleaning fluids, solvents, batteries or similar products or substances ordinarily used by the Tenant and necessary in the conduct of its business;

(b) the Tenant will not emit or discharge or permit to be emitted or discharged from the Project any Contaminant;

(c) the Tenant shall conduct all its operations on the Project in compliance with all Environmental Laws and it shall conduct such operations in accordance with prudent practices aimed at preventing any adverse effects as same may be defined under the environmental protection legislation in effect in the province in which the Project is situate, and without limiting the generality of the foregoing, shall obtain all requisite permits issued by environmental agencies and authorities with respect to its operations on the Project;

(d) the Tenant shall promptly, at its own expense remove any hazardous, dangerous, toxic or harmful substances brought or permitted to be brought by it upon the Project in a manner that conforms with all laws and regulations covering the removal and movement of same;

(e) the Tenant shall, at its own expense, expeditiously remove, remediate, clean up and abate any Contaminant and remedy to the reasonable satisfaction of the Landlord any damage to the Project and any surrounding property caused by, the presence or removal of any hazardous, dangerous, toxic or harmful substances brought, or permitted to be brought by it, upon the Project or by the emission or discharge by it or anyone permitted by it to be on the Project, of any Contaminant on or from the Project;

(f) within five (5) business days notify the Landlord in writing of and provide any reasonably requested documents upon learning of any of the following which arise in connection with the Project:

  (i) any liability for corrective action pursuant to any Environmental Laws;

  (ii) any Environmental Claims;

  (iii) any violation of an Environmental Law; or

  (iv) any environmental health or safety condition which could materially impair the condition of the Project;

(g) upon the written request of the Landlord, to provide at the Tenant's expense a report of environmental site assessment of reasonable scope, form and depth by a consultant reasonably acceptable to the Landlord as to:

  (i) any matter to the extent such matter arises during the Lease term and which may reasonably be believed by the Landlord to form the basis of an Environmental Claim in connection with the Project; and

  (ii) the general environmental condition of the Premises within one hundred and eighty (180) days of the termination date of the Lease.

If such a requested environmental report is not delivered within thirty (30) days after receipt of the Landlord's request; then the Landlord may arrange for same. The reasonable cost of any assessment arranged for or by the Landlord pursuant to this provision shall be payable by Tenant on demand;

(h) allow the Landlord or its representatives from time to time at Landlord's reasonable discretion and expense to inspect the Premises and conduct an environmental site assessment (including invasive soil or ground water sampling), including, without limitation, to facilitate any other sale or lease of the Premises; and

(i) provide the Landlord financial assurances adequate to secure the eventual satisfaction of any of the Tenant's obligations pursuant to this Schedule which have not been satisfied as of the termination date.

3. **Indemnification**

The Tenant shall indemnify and hold harmless the Landlord from any losses, costs or damages (including without limitation, reasonable solicitor's fees and disbursements on a solicitor and his client basis and any penalties or fines) to the extent they arise from events or conditions occurring or existing on or after the commencement date of this Lease and attributable to the conduct of the Tenant and relating to:

(a) the presence or disposal of any hazardous, dangerous, toxic or harmful substances or any Contaminant on the Premises;

(b) the operation or violation of any Environmental Law at the Premises;

(c) any Environmental Claim in connection with the Premises; or

(d) the inaccuracy of any representation or the breach by the Tenant of any warranty or covenant in this Schedule.

These indemnifications shall be binding upon the successors and assigns of the Tenant and enure to the benefit of the Landlord, its directors, officers, employees and agents and their successors and assigns and shall survive the expiration or termination of this Lease.

4. **to Use Hazardous Substances**

Notwithstanding anything to the contrary herein or in the Lease contained, the Landlord acknowledges and agrees that the Tenant uses certain substances and materials in the conduct of the Tenant's business which would be considered hazardous, dangerous, toxic or harmful substances or materials or any Contaminant hereunder. Accordingly, the Landlord hereby consents and agrees to the presence of such hazardous, dangerous, toxic or harmful substances or materials or any Contaminant upon the Project and the Premises, provided the following conditions are met:

(a) the Tenant shall only bring upon the Project and upon the Premises such hazardous, dangerous, toxic or harmful substances or materials or any Contaminant as are reasonably required for the conduct of its business operations within the Premises, and shall forthwith remove from the Project and from the Premises any hazardous, dangerous, toxic or harmful substances or materials or any Contaminant which are no longer required for such business operations;

(b) under no circumstances will the Tenant use the Premises or any portion thereof to stockpile or warehouse such hazardous, dangerous, toxic or harmful substances or materials or any Contaminant, other than in such reasonable quantities as may be required for its business operations within the Premises;

(c) the Tenant will comply fully with all Environmental Laws related to the transportation, storage, use and disposal of all hazardous, dangerous, toxic or harmful substances or materials or any Contaminant so brought upon the Project or the Premises by the Tenant; and

(d) save for the right to bring such hazardous, dangerous, toxic or harmful substances or materials or any Contaminant upon the Project and the Premises for use as aforesaid, the Tenant shall be bound by all of the other terms and conditions of this Schedule including, without limitation, the obligation to remedy any damage to the Premises or to the Project caused by the Tenant's exercise of its rights hereunder.

SCHEDULE "C"

Bentall LP
Project No. 09114
November 30, 2009

Option 1

Preliminary Construction Estimate - tenant demising / Improvements
(Option 1: demising wall along gridline 5 on main floor and second floor)
#425 - 5600 Parkwood Way, Richmond, B.C.
Order of Magnitude - subject to detailed design, details, and components

	Qty	Units	Cost / Unit	Total	
Demolition and make good affected areas	1	ls	$4,000.00	$ 4,000	
Full height demising walls - In warehouse (n/a)	0	lf		$ 0	
Full height demising walls - In office	8	lf	$ 200.00	$ 1,600	
Make good existing fire separation walls / fire dampers?	1	ls	$6,000.00	$ 6,000	
Revise unit washroom to accessible layout	1	ea	$8,000.00	$ 8,000	
Electrical - emergency & exit lighting & F/A	1	ls	$2,500.00	$ 2,500	
Misc. work	1	ls	$4,000.00	$ 4,000	
Sprinklers	1	ls	$2,500.00	$ 2,500	
* Electrical		allow	$8,000.00	$ 8,000	
* HVAC		allow	$4,000.00	$ 4,000	
Supervision (half time)	3	wks	$1,100.00	$ 3,300	
General Conditions (Insur., rentals, clean-up, tol, F/A etc)	5	%		$ 2,195	
Contractor Profit and Overhead	10	%		$ 4,610	
Total Construction				$50,705	
Planning and design drawings	1	ls	$5,000.00	$ 5,000	
Permits & disbursements	1	ea	$2,500.00	$ 2,500	
Contingency	5	%		$ 2,910	
Total Project Cost				$61,115	+GST
Cost/Square foot of rentable space	22,902	sq ft		$ 2.67	

* Basic demising costs allowance only. (Existing condition must be checked by distributed trades.)

Not included
- Telephone/data and security systems & wiring
- Signage
- Landlord / Property Management Fee

SCHEDULE “D”

The landlord shall coordinate removal and/or correction of the following existing installations:

1. Removal of the fenced storage located directly behind demising wall (7) detailed in SCHEDULE “A”
2. Cap or seal the electrical supply to the compressor cage located behind demising wall (6) detailed in SCHEDULE “A”

The landlord shall coordinate correction of the following existing Installations:

1. Repair/replace cracked heat exchanger in shipping receiving area marked “SUPPLY” located between demising walls (7) and (8) at the rear of unit detailed in SCHEDULE “A”
2. Electrical wiring from the electrical panels located directly adjacent to demising wall (6) north side at the rear of unit detailed in SCHEDULE “A” will be reconnected to supply power to the lab areas located between demising walls (7) and (5) detailed in SCHEDULE “A”
3. Electrical power to be restored to fume hood located in lab room marked “LAB” located directly adjacent to demising wall (6) detailed in SCHEDULE “A”
4. Correct exposed wiring in first aid room ceiling marked “F.A.” ” located between demising walls (6) and (7) detailed in SCHEDULE “A”
5. Power to the south wing of the office area located between demising walls (8) and (9) detailed in SCHEDULE “A” to be restored
6. All circuit breakers in electrical panels to be correctly mapped
7. HVAC system above the south wing of office located between demising walls (8) and (9) detailed in SCHEDULE “A” to be made operational

It is understood by the Landlord and Tenant that it is the Tenant’s sole responsibility to purchase any non-base building systems from the existing Tenant (if required) at the Tenant’s sole cost prior to the expiry of the existing tenant’s lease.

AMENDMENT TO OFFER TO LEASE AND
LANDLORD CONDITIONS PRECEDENT REMOVAL

Offer to Lease dated February 15, 2010 between Aquinox Pharmaceuticals Inc. (the "Tenant") and Sun Life Assurance Company of Canada (the "Landlord") for premises at Part Building 400, 5600 Parkwood Way, Richmond, B.C. (the "Offer to Lease")

Pursuant to the above Offer to Lease, the Landlord and Tenant hereby agree to extend the date for waiver of the conditions precedent contained therein to May 11, 2010.

Furthermore, the Landlord and Tenant hereby agree to amend the Offer to Lease as follows:

1. The following wording will be added as Clause 32:

"INDEMNITY

In consideration of the Landlord's execution of this Offer to Lease, **Aquinox Pharmaceuticals (USA) Inc.** agrees to indemnity and save harmless the Landlord with respect to any failure in the Tenant's observance and performance of all terms, covenants and conditions contained in the Offer to Lease and will execute and deliver (on or before the execution of the Lease) the Landlord's standard form Indemnity Agreement with respect to the Tenant's obligations under the Lease."

Furthermore, the parties agree to remove their respective conditions precedent contained therein, namely:

LANDLORD

As per Clause 13 of the Offer to Lease:

a. The Landlord's senior executive's final approval;

b. The Landlord reviewing and approving the cost of any work required to the Demised Premises to meet all applicable building, fire safety or handicap accessibility codes; and

c. the Landlord reviewing and approving the cost of any restoration required to the Demised Premises to accommodate the Tenant's tenancy.

The Landlord also confirms that it has reviewed the Tenant's financial information in accordance with Clause 10 of the Offer to Lease and the Landlord hereby removes its condition contained therein.

TENANT

As per Clause 12 of the Offer to Lease:

a. The approval of the Tenant's board of directors;

b. Review and approval of the Lease;

c. The Tenant finalizing a round of financing in an amount not less than Fourteen Million Five Hundred Thousand dollars ($14,500,000.00) by March 9, 2010;

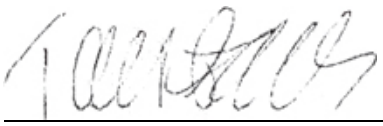
d. The Tenant approving the scope of any work required to the Demised Premises to meet any applicable building, fire safety or handicap accessibility codes;

e. The Tenant approving the scope of any restoration required to the Demised Premises to accommodate the Tenant's tenancy; and

f. The Tenant's review and approval of the costs associated with the acquisition and restoration (if any) of the existing Tenant's business and Trade Fixtures.

The Offer to Lease is now fully binding on and accepted by both the Landlord and Tenant.

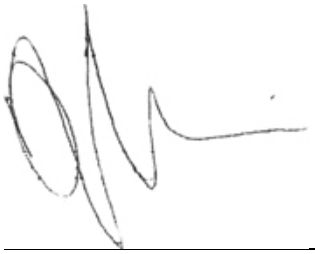
SUN LIFE ASSURANCE COMPANY OF CANADA
by its duly authorized Agent Dated this 10th day of May, 2010
BENTALL LIMITED PARTNERSHIP
By its General Partner, Bentall G.P. Ltd.



PER: _____
(AUTHORIZED SIGNATORY)

PER: _____
(AUTHORIZED SIGNATORY)

AQUINOX PHARMACEUTICALS INC. Dated this 11th day of May, 2010



PER: _____
(AUTHORIZED SIGNATORY)

PER: _____
(AUTHORIZED SIGNATORY)

AQUINOX PHARMACEUTICALS (USA) INC. Dated this 11th day of May, 2010

PER: _____
(AUTHORIZED SIGNATORY)

PER: _____
(AUTHORIZED SIGNATORY)

SUBJECT EXTENSION

CB Richard Ellis Limited
#600 - 1111 West Georgia Street
Vancouver, B.C.
V6E 4M3

Attention: Mr. Kevin Nelson

Re: Offer to Lease between Aquinox Pharmaceuticals Inc. (the "Tenant") and Sun Life Assurance Company of Canada (the "Landlord") for a portion of the building located at 5600 Parkwood Way, Richmond, BC, accepted March 3rd, 2010.

The Landlord and Tenant hereby agree to extend the Landlord and Tenant Conditions in the above noted Offer to Lease from March 24th, 2010 until April 7th, 2010.

"12. TENANT'S CONDITIONS

This Offer to Lease is subject to:

a.) The approval of the Tenant's board of directors;

b.) Review and approval of the Lease;

c.) The Tenant finalizing a round of financing in an amount not less than Fourteen Million Five Hundred Thousand Dollars ($14,500,000) by March 9th, 2010;

d.) The Tenant approving the scope of any work required to the Demised Premises to meet any applicable building, fire safety or handicap accessibility codes;

e.) The Tenant approving the scope of any restoration required to the Demised Premises to accommodate the Tenant's tenancy;

f.) The Tenant's review and approval of the costs associated with the acquisition and restoration (if any) of the existing Tenant's business and trade fixtures.

13. LANDLORD'S CONDITIONS

This Offer to Lease is subject to:

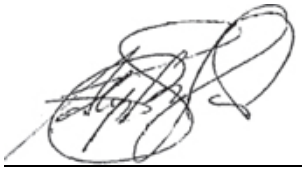
a.) The Landlord's senior executive final approval;

b.) The Landlord reviewing and approving the cost of any work required to the Demised Premises to meet any applicable building, fire safety and handicap accessibility codes; and

c.) The Landlord reviewing and approving the cost of any restoration required to the Demised Premises to accommodate the Tenant's tenancy."

AGREED to and EXECUTED at Vancouver, BC this 26th day of March, 2010.

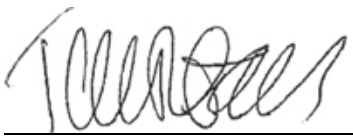
AQUINOX PHRMACEUTICALS INC.



Per: _____ _____
(Authorized Signatory) (Witness)

AGREED to and EXECUTED at Vancouver, BC this 26th day of March, 2010.

SUN LIFE ASSURANCE COMPANY OF CANADA



Per: _____ _____
(Authorized Signatory) (Witness)

Exhibit 21.1

List of Subsidiaries of Aquinox Pharmaceuticals (USA) Inc.

Subsidiaries	Incorporation
Aquinox Pharmaceuticals Inc.*	Canada

* Following the effectiveness of the exchange as described in the section of the prospectus included with this registration statement captioned “Description of Capital Stock—Exchangeable Shares”, Aquinox Pharmaceuticals Inc. will become a wholly owned subsidiary of Aquinox Pharmaceuticals (USA) Inc.