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

FORM 10-Q

(Mark one)

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

For the quarterly period ended March 31, 2017

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

For the transition period from _____ to _____.

Commission file number: 000-24477

DIFFUSION PHARMACEUTICALS INC.

(Exact name of registrant as specified in its charter)

Delaware	**30-0645032**
(State of other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

2020 Avon Court, #4
Charlottesville, VA 22902
(Address of principal executive offices, including zip code)

(434) 220-0718
(Registrant's telephone number including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No o

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

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

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

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

The number of shares of common stock outstanding at May, 5 2017 was 10,345,637 shares.

DIFFUSION PHARMACEUTICALS INC.
FORM 10-Q
MARCH 31, 2017

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Unless the context otherwise requires, in this report, references to the "Company," "we," "our" or "us" refer to Diffusion Pharmaceuticals Inc. and its subsidiaries and references to "common stock" refer to the common stock, par value $0.001 per share, of the Company. On August 17, 2016, the Company effected a 1-for-10 reverse split of its common stock. Unless noted otherwise, any share or per share amounts in this report, the accompanying unaudited condensed consolidated financial statements and related notes give retroactive effect to this reverse stock split.

This report contains the following trademarks, trade names and service marks of ours: Diffusion. All other trade names, trademarks and service marks appearing in this quarterly report on Form 10-Q are the property of their respective owners. We have assumed that the reader understands that all such terms are source-indicating. Accordingly, such terms appear without the trade name, trademark or service mark notice for convenience only and should not be construed as being used in a descriptive or generic sense.

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Diffusion Pharmaceuticals, Inc.
Condensed Consolidated Balance Sheets
(unaudited)

	March 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 12,212,025	$ 1,552,852
Subscription receivable	8,280,935	—
Prepaid expenses, deposits and other current assets	138,986	50,844
Total current assets	20,631,946	1,603,696
Property and equipment, net	79,524	79,755
Intangible asset	8,639,000	8,639,000
Goodwill	6,929,258	6,929,258
Other assets	63,815	232,675
Total assets	$ 36,343,543	$ 17,484,384
Liabilities, Convertible Preferred Stock and Stockholders' Equity (Deficit)		
Current liabilities:		
Current portion of convertible debt	$ 1,880,000	$ 1,880,000
Accounts payable	557,629	1,684,158
Accrued expenses and other current liabilities	1,016,263	874,264
Common stock warrant liability	48,145,520	—
Total current liabilities	51,599,412	4,438,422
Convertible debt, net of current portion	550,000	550,000
Deferred income taxes	3,279,363	3,279,363
Other liabilities	33,307	31,915
Total liabilities	55,462,082	8,299,700
Commitments and Contingencies		
Convertible preferred stock, $0.001 par value:		
Series A - 13,750,000 shares authorized, 12,376,329 issued and outstanding at March 31, 2017; No shares authorized, issued or outstanding at December 31, 2016 (liquidation value of $25,000,000 at March 31, 2017)	—	—
Total convertible preferred stock	—	—
Stockholders' Equity (Deficit):		
Common stock, $0.001 par value:		
1,000,000,000 shares authorized; 10,345,637 shares issued and outstanding	10,346	10,346
Additional paid-in capital	69,700,264	69,363,575
Accumulated deficit	(88,829,149)	(60,189,237)
Total stockholders' equity (deficit)	(19,118,539)	9,184,684
Total liabilities, convertible preferred stock and stockholders' equity (deficit)	$ 36,343,543	$ 17,484,384

See accompanying notes to unaudited condensed consolidated financial statements.

Diffusion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Operations
(unaudited)

	Three Months Ended March 31,	
	2017	**2016**
Operating expenses:		
Research and development	$ 1,007,571	$ 2,352,807
General and administrative	1,553,139	3,862,484
Depreciation	6,603	7,853
Loss from operations	2,567,313	6,223,144
Other expense:		
Interest expense, net	55,719	21
Change in fair value of warrant liabilities (Note 10)	12,919,674	—
Warrant related expenses (Note 7)	10,225,846	—
Other financing expenses	2,870,226	—
Net loss	$ (28,638,778)	$ (6,223,165)
Series A cumulative preferred dividends	(58,845)	—
Net loss attributable to common stockholders	$ (28,697,623)	$ (6,223,165)
Per share information:		
Net loss per share of common stock, basic and diluted	$ (2.78)	$ (0.62)
Weighted average shares outstanding, basic and diluted	10,337,726	9,996,381

See accompanying notes to unaudited condensed consolidated financial statements.

Diffusion Pharmaceuticals, Inc.
Condensed Consolidated Statement of Changes in Convertible Preferred Stock and Stockholders' Equity (Deficit)
Three Months Ended March 31, 2017
(unaudited)

	Convertible Preferred Stock		Stockholders' Equity (Deficit)				
	Series A		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Shares	Amount	Shares	Amount			
Balance at January 1, 2017	—	$ —	10,345,637	$ 10,346	$ 69,363,575	$ (60,189,237)	$ 9,184,684
Cumulative effect of change in accounting principle [(a)]	—	—	—	—	1,134	(1,134)	—
Sale of Series A convertible preferred stock and common stock warrants	12,376,329	—	—	—	—	—	—
Series A cumulative preferred dividend	—	—	—	—	(58,845)	—	(58,845)
Beneficial conversion feature for accrued interest of convertible debt	—	—	—	—	28,017	—	28,017
Stock-based compensation expense	—	—	—	—	366,383	—	366,383
Net loss	—	—	—	—	—	(28,638,778)	(28,638,778)
Balance at March 31, 2017	12,376,329	$ —	10,345,637	$ 10,346	$ 69,700,264	$ (88,829,149)	$ (19,118,539)

(a) In 2017, the Company adopted provisions of ASU 2016-09, *Improvements to Employee Share Based Payment Accounting*, resulting in a cumulative effect adjustment to Accumulated Deficit and Additional Paid-in Capital for previously unrecognized stock-based compensation expense. See Note 3 for further discussion of the impacts of this standard.

See accompanying notes to unaudited condensed consolidated financial statements.

Diffusion Pharmaceuticals, Inc.
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Three Months Ended March 31,	
	2017	**2016**
Operating activities:		
Net loss	$ (28,638,778)	$ (6,223,165)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	6,603	7,853
Stock-based compensation expense	366,383	393,471
Common stock issued for advisory services	—	487,500
Warrant related expense, change in fair value, and other financing expenses	26,015,746	—
Non-cash interest expense	57,185	3,383
Changes in operating assets and liabilities:		
Prepaid expenses, deposits and other assets	(99,737)	(97,058)
Accounts payable, accrued expenses and other liabilities	(1,123,303)	797,827
Net cash used in operating activities	(3,415,901)	(4,630,189)
Cash flows (used in) provided by investing activities:		
Purchases of property and equipment	(6,372)	(1,994)
Cash received in reverse merger transaction	—	8,500,602
Net cash (used in) provided by investing activities	(6,372)	8,498,608
Cash flows provided by financing activities:		
Proceeds from the sale of Series A convertible preferred stock, net	14,269,095	—
Payment of offering costs	(187,649)	—
Net cash provided by financing activities	14,081,446	—
Net increase in cash and cash equivalents	10,659,173	3,868,419
Cash and cash equivalents at beginning of period	1,552,852	1,997,192
Cash and cash equivalents at end of period	$ 12,212,025	$ 5,865,611
Supplemental disclosure of non-cash investing and financing activities:		
Reclassification of deferred offering costs upon completion of private placement	$ 180,456	$ —
Offering costs in accounts payable and accrued expenses	$ 178,258	$ —
Series A cumulative preferred dividends	$ (58,845)	$ —
Issuance of subscription receivable upon sale of Series A convertible preferred stock	$ (8,280,935)	$ —
Conversion of convertible notes and related accrued interest into common stock	$ —	$ 711,495
Consideration in connection with RestorGenex Corporation merger transaction	$ —	$ 21,261,000

See accompanying notes to unaudited condensed consolidated financial statements.

1. Organization and Description of Business

Diffusion Pharmaceuticals Inc. (“Diffusion” or the “Company”), a Delaware Corporation, is a clinical stage biotechnology company focused on extending the life expectancy of cancer patients by improving the effectiveness of current standard-of-care treatments, including radiation therapy and chemotherapy. The Company’s lead product candidate, trans sodium crocetinate (“TSC”), uses a novel mechanism to re-oxygenate the microenvironment of solid cancerous tumors, thereby enhancing tumor cells’ response to conventional treatment without additional side effects. TSC has received orphan drug designations for the treatment of glioblastoma multiforme (“GBM”) and metastatic brain cancer. The Company expects to enter a Phase III study in newly diagnosed GBM patients in the next twelve months.

On January 8, 2016, the Company completed a reverse merger (the Merger") with RestorGenex Corporation (“RestorGenex”) whereby the Company was considered the acquirer for accounting purposes. The operational activity of RestorGenex is included in the Company’s consolidated financial statements from the date of acquisition. Accordingly, all comparative period information presented in these unaudited condensed consolidated financial statements from January 1, 2016 through January 7, 2016 exclude any activity related to RestorGenex.

2. Liquidity

The Company has not generated any revenues from product sales and has funded operations primarily from the proceeds of private placements of its membership units (prior to the Merger), convertible notes and convertible preferred stock. Substantial additional financing will be required by the Company to continue to fund its research and development activities. No assurance can be given that any such financing will be available when needed or that the Company’s research and development efforts will be successful.

The Company regularly explores alternative means of financing its operations and seeks funding through various sources, including public and private securities offerings, collaborative arrangements with third parties and other strategic alliances and business transactions. In March 2017, the Company completed a $25.0 million private placement of its securities by offering units consisting of one share of the Company's Series A convertible preferred stock, par value $0.001 per share (“Series A Preferred Stock”) and a warrant to purchase one share of common stock for each share of Series A Preferred Stock purchased in the offering. The Company sold 12,376,329 units and received approximately $22.1 million in aggregate net cash proceeds from the private placement, after deducting commissions of approximately $2.4 million and offering expenses of approximately $0.5 million payable by the Company. The final closing of the private placement occurred on March 31, 2017, and the Company received $8.3 million of net proceeds on April 3, 2017. In addition, the Company granted to its placement agent in the offering warrants to purchase an aggregate 1,179,558 shares of common stock as compensation for its services.

The Company currently does not have any commitments to obtain additional funds and may be unable to obtain sufficient funding in the future on acceptable terms, if at all. If the Company cannot obtain the necessary funding, it will need to delay, scale back or eliminate some or all of its research and development programs or enter into collaborations with third parties to commercialize potential products or technologies that it might otherwise seek to develop or commercialize independently; consider other various strategic alternatives, including a merger or sale of the Company; or cease operations. If the Company engages in collaborations, it may receive lower consideration upon commercialization of such products than if it had not entered into such arrangements or if it entered into such arrangements at later stages in the product development process.

The Company has prepared its financial statements assuming that it will continue as a going concern, which contemplates realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred net losses since inception and it expects to generate losses from operations for the foreseeable future primarily due to research and development costs for its potential product candidates, which raises substantial doubt about the Company’s ability to continue as a going concern. Various internal and external factors will affect whether and when the Company’s product candidates become approved drugs and how significant their market share will be. The regulatory approval and market acceptance of the Company’s proposed future products (if any), length of time and cost of developing and commercializing these product candidates and/or failure of them at any stage of the drug approval process will materially affect the Company’s financial condition and future operations. The Company

believes its cash and cash equivalents at March 31, 2017, together with the subscription receivables related to the Series A private placement received in April 2017, are sufficient to fund operations and meet its research and development goals through March 2018.

3. Basis of Presentation and Summary of Significant Accounting Policies

The Summary of Significant Accounting Policies included in our Form 10-K for the year ended December 31, 2016, filed with the Securities and Exchange Commission on March 31, 2017, as amended to this date, have not materially changed, except as set forth below.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information as found in the Accounting Standard Codification ("ASC") and Accounting Standards Updates ("ASUs") of the Financial Accounting Standards Board ("FASB"), and with the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (the "SEC"). In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements of the Company include all normal and recurring adjustments (which consist primarily of accruals, estimates and assumptions that impact the financial statements) considered necessary to present fairly the Company's financial position as of March 31, 2017, its results of operations for the three months ended March 31, 2017 and 2016 and cash flows for the three months ended March 31, 2017 and 2016. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The unaudited interim condensed consolidated financial statements presented herein do not contain the required disclosures under GAAP for annual financial statements. The accompanying unaudited interim condensed consolidated financial statements should be read in conjunction with the annual audited financial statements and related notes as of and for the year ended December 31, 2016 filed with the SEC on Form 10-K on March 31, 2017.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date the financial statements and reported amounts of expense during the reporting period. Actual results could differ from those estimates. Due to the uncertainty of factors surrounding the estimates or judgments used in the preparation of the unaudited condensed consolidated financial statements, actual results may materially vary from these estimates. Estimates and assumptions are periodically reviewed and the effects of revisions are reflected in the unaudited condensed consolidated financial statements in the period they are determined necessary.

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, including cash equivalents, accounts payable, and accrued expenses approximate fair value due to the short-term nature of those instruments. As of March 31, 2017 and December 31, 2016, the fair value of the Company's outstanding convertible notes was approximately $3.5 million and $2.6 million, respectively. The fair value of the convertible notes is determined using a binomial lattice model that utilizes certain unobservable inputs that fall within Level 3 of the fair value hierarchy.

Offering Costs

Offering costs consist principally of legal costs incurred through the balance sheet date related to the Company's private placement financing and are recognized in other assets on the consolidated balance sheet. At December 31, 2016, there were $0.2 million in deferred offering costs. These costs were expensed upon completing the private placement of Series A Preferred Stock and common stock warrants in March 2017.

Intangible Assets and Goodwill

In connection with the Merger, the Company acquired RES-529 and RES-440, respectively, an $8.6 million and $1.0 million indefinite-lived In-Process Research and Development Asset ("IPR&D") and recognized $6.9 million in goodwill. In the third quarter of 2016, the IPR&D asset associated with RES-440 was abandoned and written down to $0. RES-529 and goodwill are assessed for impairment on October 1 of the Company's fiscal year or more frequently if impairment indicators exist. The Company has a single reporting unit and all goodwill relates to that reporting unit. There were no impairment indicators or impairments to RES-529 or goodwill during the three months ended March 31, 2017.

Net Loss Per Share

Basic net loss per share is computed by dividing net loss attributable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted net loss per share includes the effect, if any, from the potential exercise or conversion of securities, such as convertible debt, convertible preferred stock, common stock warrants, stock options and unvested restricted stock that would result in the issuance of incremental shares of common stock. In computing the basic and diluted net loss per share applicable to common stockholders, the weighted average number of shares remains the same for both calculations due to the fact that when a net loss exists, dilutive shares are not included in the calculation as the impact is anti-dilutive.

The following potentially dilutive securities outstanding as of March 31, 2017 and 2016 have been excluded from the computation of diluted weighted average shares outstanding, as they would be anti-dilutive:

	March 31,	
	2017	**2016**
Convertible debt	766,351	428,134
Convertible preferred stock	12,376,329	—
Common stock warrants	14,016,608	477,688
Stock options	2,304,132	1,796,360
Unvested restricted stock awards	7,665	13,802
	29,471,085	2,715,984

Amounts in the table reflect the common stock equivalents of the noted instruments.

Recent Accounting Pronouncements

In March 2016, the FASB issued ASU 2016-09, *Compensation – Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for employee share-based payment transactions including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is applicable to public business entities for fiscal years beginning after December 15, 2016 and interim periods within those years. The Company adopted this standard in 2017 by electing to account for forfeitures in the period that they occur. Under ASU 2016-09, accounting changes adopted using the modified retrospective method must be calculated as of the beginning of the period adopted and reported as a cumulative-effect adjustment. As a result, the Company recognized approximately $1,000 cumulative-effect adjustment on January 1, 2017.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued the update to require the recognition of lease assets and liabilities on the balance sheet of lessees. The standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within such fiscal years. The ASU requires a modified retrospective transition method with the option to elect a package of practical expedients. Early adoption is permitted. The Company is currently evaluating the potential impact of the adoption of this standard on its consolidated results of operations, financial position and cash flows and related disclosures.

4. Acquisition

Reverse Merger with RestorGenex

On January 8, 2016, the Company completed a reverse merger transaction with RestorGenex. The Company entered into the Merger transaction in an effort to provide improved access to the capital markets in order to obtain the resources necessary to accelerate development of TSC in multiple clinical programs and continue to build an oncology-focused company.

The purchase price was calculated as follows:

Fair value of RestorGenex shares outstanding	$	19,546,000
Estimated fair value of RestorGenex stock options outstanding		1,321,000
Estimated fair value of RestorGenex warrants outstanding		384,000
CVRs – RES-440 product candidate		10,000
Total purchase price	$	21,261,000

The reverse merger transaction has been accounted for using the acquisition method of accounting, which requires that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The valuation technique utilized to value the IPR&D was the cost approach.

The following table summarizes the allocation of the purchase price to the assets acquired and liabilities assumed as of the acquisition date:

Cash and cash equivalents	$	8,500,602
Prepaid expenses and other assets		195,200
Property and equipment		57,531
Intangible assets		9,600,000
Goodwill		6,929,258
Accrued liabilities		(377,432)
Deferred tax liability		(3,644,159)
Net assets acquired	$	21,261,000

Qualitative factors supporting the recognition of goodwill due to the reverse merger transaction include the Company’s anticipated enhanced ability to secure additional capital and gain access to capital market opportunities as a public company and the potential value created by having a more well-rounded clinical development portfolio by adding the earlier stage products acquired in the reverse merger transaction to the Company’s later state product portfolio. The goodwill is not deductible for income tax purposes.

Pro Forma Financial Information (Unaudited)

The following pro forma financial information reflects the condensed consolidated results of operations of the Company as if the acquisition of RestorGenex had taken place on January 1, 2016. The pro forma financial information is not necessarily indicative of the results of operations as they would have been had the transactions been effected on the assumed date.

	Three Months Ended March 31, 2016
Net revenues	$ —
Net loss	(4,655,944)
Basic and diluted loss per share	$ 0.47

Non-recurring pro forma transaction costs directly attributable to the Merger were $1.6 million for the three months ended March 31, 2016 and have been deducted from the net loss presented above. The costs deducted from the three months ended March 31, 2016 period includes a success fee of $1.1 million and approximately 46,000 shares of common stock with a fair market value of $0.5 million paid to a financial adviser upon the closing of the Merger on January 8, 2016. Additionally, RestorGenex incurred approximately $3.0 million in severance costs as a result of resignations of executive officers immediately prior to the Merger and approximately $2.7 million in share based compensation expense as a result of the acceleration of vesting of stock options at the time of the Merger. These costs are excluded from the pro forma financial information for the three months ended March 31, 2016. No such costs were recorded in the three months ended March 31, 2017.

5. Other Accrued Expenses and Liabilities

Other accrued expenses and liabilities consisted of the following:

	March 31, 2017	December 31, 2016
Accrued interest payable	$ 57,173	$ 29,359
Accrued Series A dividends	58,845	—
Accrued payroll and payroll related expenses	135,072	399,740
Accrued professional fees	185,163	72,855
Accrued clinical studies expenses	346,861	220,978
Other accrued expenses	233,149	151,332
Total	$ 1,016,263	$ 874,264

6. Convertible Debt

The following table provides the details of the convertible debt outstanding at March 31, 2017 and December 31, 2016:

Note	Issue Date	Maturity Date	Conversion Price	Interest Rate	Total Principal
2016 Convertible Notes	9/27/2016	9/27/2017	$ 3.50	6.00%	$ 1,880,000
Series B Note	3/15/2011	6/30/2018	$ 2.74	1.00%	550,000
Total principal amount					$ 2,430,000
Less current portion of convertible notes					(1,880,000)
Convertible notes, net of current portion					$ 550,000

The current and noncurrent portions of accrued interest related to the Company's Convertible Notes and 2016 Convertible Notes are included within other accrued expenses and liabilities and other liabilities, respectively, within the unaudited condensed consolidated balance sheets. As of March 31, 2017, the Company had accrued interest of approximately $90,000. During the three months ended March 31, 2017, the Company recorded noncash interest expense of approximately $28,000 in connection with a beneficial conversion feature associated with accrued interest that may be converted into shares of common stock

7. Convertible Preferred Stock and Common Stock Warrants

In contemplation of completing a private placement, the Company amended and restated its articles of incorporation and authorized 13,750,000 shares of Series A Preferred Stock. The Company has classified its Series A Preferred Stock outside of stockholders' equity (deficit) because the shares contain deemed liquidation rights that are contingent redemption features not solely within the control of the Company.

Series A Convertible Preferred Stock Transaction

In March 2017, the Company completed a $25.0 million private placement of its securities by offering units consisting of one share of the Company's Series A Preferred Stock and a warrant to purchase one share common stock for each share of Series A Preferred Stock purchased in the offering. Each share of Series A Preferred Stock entitles the holder to an 8.0% cumulative dividend payable in shares of our common stock on a semi-annual basis. The holders may, at their option, convert each share of Series A Preferred Stock into one share of the Company's common stock based on the initial conversion price of $2.02 per share, subject to adjustment. Each warrant entitles the holder to purchase one share of common stock at an initial exercise price of $2.22, subject to adjustment and expires on the fifth anniversary of their original issuance date.

Upon completing the private placement, the Company sold 12,376,329 units and received approximately $22.1 million in aggregate net cash proceeds from the private placement, after deducting commissions of approximately $2.4 million and offering expenses of approximately $0.5 million payable by the Company. The final closing of the private placement occurred on March 31, 2017, and the Company received $8.3 million of net proceeds on April 3, 2017. In addition, as compensation for its services, the Company granted to its placement agent in the offering warrants to purchase an aggregate of 1,179,558 shares of common stock at an initial exercise price of $2.22 per share, which expire on the fifth anniversary of their original issuance date.

During its evaluation of equity classification for the common stock warrants, the Company considered the conditions as prescribed within ASC 815-40, *Derivatives and Hedging, Contracts in an Entity's own Equity* ("ASC 815-40"). The conditions within ASC 815-40 are not subject to a probability assessment. As the Company is obligated to issue a variable number of shares to settle the cumulative Series A preferred dividends, the Company cannot assert there will be sufficient authorized shares available to settle the warrants issued in connection with the Series A offering. Accordingly, these warrants are classified as liabilities. The Company will continue to classify such warrants as liabilities until they are exercised, expire, or are no longer require to be classified as liabilities.

As the fair value of the warrants upon issuance was in excess of the proceeds of the Series A offering, there are no proceeds allocated to the Series A convertible preferred stock. The excess fair value of the warrants over the gross proceeds of the Series A offering and the fair value of the warrants granted to its placement agent was $10.2 million in the aggregate and was recorded as warrant related expenses in the statement of operations for the three months ended March 31, 2017.

Dividends

The Company shall pay a cumulative preferential dividend on each share of the Series A Preferred Stock outstanding at a rate of 8.0% per annum, payable only in shares of common stock, semi-annually in arrears on April 1 and October 1 of each year commencing on October 1, 2017. This cumulative preferential dividend is not subject to declaration. The Company accrued approximately $59,000 in dividends for the three months ended March 31, 2017.

Voting

Subject to certain preferred stock class votes specified in the Certificate of Designation of Preferences, Rights and Limitations of the Series A Convertible Preferred Stock (the "Certificate of Designation") or as required by law, the holders of the Series A Preferred Stock and common stock vote together on an as-converted basis. In accordance with NASDAQ listing rules, in any matter voted on by the holders of our common stock, each share of Series A Preferred Stock entitles the holder thereof to a number of votes based upon the closing price of our common stock on the NASDAQ Capital Market on the date of issuance. Accordingly, shares of Series A Preferred Stock issued in the initial closing of the private placement on March 14, 2017 are entitled to 0.84874 votes per share and shares of Series A Preferred Stock issued in the final closing of the private placement on March 31, 2017 are entitled to 0.50627 votes per share.

Liquidation Preference

The Series A Preferred Stock is senior to the common stock. In the event of a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or in the event of a deemed liquidation event, which includes a sale of the Company as defined in the Certificate of Designation, the holders of the Series A Preferred Stock shall be entitled to receive their original investment amount. If upon the occurrence of such event, the assets and funds available for distribution are insufficient to pay such holders the full amount to which they are entitled, then the entire remaining assets and funds legally available for distribution shall be distributed ratably among the holders of the Series A Preferred Stock in proportion to the full amounts to which they would otherwise be entitled.

Conversion

The Series A Preferred Stock is convertible, at the holder's option, into common stock. At the Company's option, the Series A convertible preferred stock can be converted into common stock upon (a) the thirty-day moving average of the closing price of the Company's common stock exceeding $8.00 per share, (b) a financing of at least $10.0 million or (c) upon the majority vote of the voting power of the then outstanding shares of Series A convertible preferred stock. The conversion price of the Series A Preferred Stock is subject to adjustment as described in the Certificate of Designation.

Upon any conversion, any unpaid dividends shall be payable to the holders of Series A preferred stock.

Make-Whole Provision

Until March 2020 and subject to certain exceptions, if the Company issues at least $10.0 million of its common stock or securities convertible into or exercisable for common stock at a per share price less than $2.02 (such lower price, the "Make-Whole Price") while any shares of Series A Preferred Stock remain outstanding, the Company will be required to issue to these holders of Series A Preferred Stock a number of shares of common stock equal to the additional number of shares of common stock that such shares of Series A Preferred Stock would be convertible into if the conversion price of such shares was equal to 105% of the Make-Whole Price (the "Make-Whole Adjustment"). The Make-Whole Adjustment was evaluated and was not required to be bifurcated from the Series A Preferred Stock.

Common Stock Warrants

As of March 31, 2017, the Company had the following warrants outstanding to acquire shares of its common stock:

	Outstanding	Range of exercise price per share
Common stock warrants issued prior to Merger	460,721	$20.00 - $750.00
Common stock warrants issued in Series A	13,555,887	$2.22
	14,016,608	

During the three months ended March 31, 2017, no warrants were exercised or expired. The common stock warrants issued prior to the Merger expire periodically through 2019. The common stock warrants issued in connection with the March 2017 Series A private placement expire in March 2022. During the three months ended March 31, 2017, the Company incurred $26.0 million in warrant related expenses associated with the private placement, which consisted primarily of the change in fair value of the common stock warrants from issuance and the excess fair value of the common stock warrants over the gross cash proceeds of the Series A offering.

8. Stock-Based Compensation

2015 Equity Plan

The Diffusion Pharmaceuticals Inc. 2015 Equity Plan, as amended (the "2015 Equity Plan"), provides for increases to the number of shares reserved for issuance thereunder each January 1 equal to 4.0% of the total shares of the Company's common stock outstanding as of the immediately preceding December 31, unless a lesser amount is stipulated by the Compensation Committee of the board of directors. Accordingly, 413,825 shares were added to the reserve as of January 1, 2017, which shares may be issued in connection with the grant of stock-based awards, including stock options, restricted stock, restricted stock units, stock appreciation rights and other types of awards as deemed appropriate, in each case, in accordance with the terms of the 2015 Equity Plan. As of March 31, 2017, there were 356,148 shares of common stock available for future issuance under the 2015 Equity Plan.

The Company recorded stock-based compensation expense in the following expense categories of its unaudited interim condensed consolidated statements of operations for the periods indicated:

	Three Months Ended March 31,	
	2017	2016
Research and development	$ 43,322	$ 242,277
General and administrative	323,061	151,194
Total stock-based compensation expense	$ 366,383	$ 393,471

The following table summarizes the activity related to all stock option grants to employees and non-employees for the three months ended March 31, 2017:

	Number of Options	Weighted average exercise price per share	Weighted average remaining contractual life (in years)
Balance at January 1, 2017	2,207,409	$ 8.09	
Granted	98,184	2.33	
Expired	(1,461)	15.00	
Outstanding at March 31, 2017	2,304,132	$ 7.84	7.6
Exercisable at March 31, 2017	1,548,216	$ 9.04	6.9

Non-employee Stock Options

Non-employee options are remeasured to fair value each period through operations using a Black-Scholes option-pricing model until the options vest. During the three months ended March 31, 2017, the Company granted 9,394 stock options to non-employees. Key assumptions used to estimate the fair value of the non-employee stock options granted during the three months ended March 31, 2017 included a risk-free interest rate of 2.4%, an expected volatility of 136.4%, no expected dividend yield and

an expected term equal to the remaining contractual option term. The total fair value of non-employee stock options vested during the three months ended March 31, 2017 and 2016 was approximately $53,000 and $0.3 million, respectively. At March 31, 2017, there were 27,561 unvested options subject to remeasurement and approximately $65,000 of unrecognized compensation expense that will be recognized over a weighted-average period of 2.0 years.

Employee Stock Options

The weighted average grant date fair value of stock option awards granted to employees was $2.08 during the three months ended March 31, 2017. The total fair value of options vested during the three months ended March 31, 2017 and 2016 was $0.2 million and $0.1 million, respectively. No options were exercised during any of the periods presented. At March 31, 2017, there was $2.9 million of unrecognized compensation expense that will be recognized over a weighted-average period of 5.8 years.

Options granted were valued using the Black-Scholes model and assumptions used to value the options granted during the first three months of 2017 were as follows:

Expected term (in years)	5.77
Risk-free interest rate	2.1%
Expected volatility	125.2%
Dividend yield	—%

Restricted Stock Awards

As of March 31, 2017, there were 7,665 unvested shares of restricted stock. During the three months ended March 31, 2017, there were 1,533 shares that vested and the Company recognized stock-based compensation expense of approximately $3,000. At March 31, 2017, there was approximately $15,000 of unrecognized compensation expense that will be recognized over a weighted-average period of 1.2 years.

9. Commitments and Contingencies

Office Space Rental

The Company leases office and laboratory facilities in Charlottesville, Virginia under a month-to-month cancelable operating lease. Rent expense related to the operating lease was $17,000 for the three months ended March 31, 2017 and 2016, respectively. On March 31, 2017, the Company entered into a lease for its office and laboratory facilities at a new location in Charlottesville, Virginia. Lease payments commence on May 1, 2017 and expire on April 30, 2022. The company will recognize rent expense on a straight-line basis over the lease period and will accrue for rent expense incurred but not yet paid. Future minimum rental payments under the Company's new noncancelable operating lease at March 31, 2017 was as follows:

	Rental Commitments
2017	$ 73,989
2018	112,354
2019	114,409
2020	116,464
2021	118,519
Thereafter	39,735
Total	$ 575,470

Legal Proceedings

On August 7, 2014, a complaint was filed in the Superior Court of Los Angeles County, California by Paul Feller, the Company's former Chief Executive Officer under the caption *Paul Feller v. RestorGenex Corporation, Pro Sports & Entertainment, Inc., ProElite, Inc. and Stratus Media Group, GmbH* (Case No. BC553996). The complaint asserts various causes of action, including, among other things, promissory fraud, negligent misrepresentation, breach of contract, breach of employment agreement, breach of the covenant of good faith and fair dealing, violations of the California Labor Code and common counts. The plaintiff is seeking, among other things, compensatory damages in an undetermined amount, punitive damages, accrued interest and an award of attorneys' fees and costs. On December 30, 2014, the Company filed a petition to compel arbitration and a motion to stay the action. On April 1, 2015, the plaintiff filed a petition in opposition to the Company's petition to compel arbitration and a motion to stay the action. After a hearing for the petition and motion on April 14, 2015, the Court granted the Company's petition to compel arbitration and a motion to stay the action. On January 8, 2016, the plaintiff filed an arbitration demand with the American Arbitration Association. No arbitration hearing has yet been scheduled. The Company believes this matter is without merit and intends to defend the arbitration vigorously. Because this matter is in an early stage, the Company is unable to predict its outcome and the possible loss or range of loss, if any, associated with its resolution or any potential effect the matter may have on the Company's financial position. Depending on the outcome or resolution of this matter, it could have a material effect on the Company's financial position.

10. Fair Value Measurements

Certain assets and liabilities are carried at fair value under GAAP. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Financial assets and liabilities carried at fair value are to be classified and disclosed in one of the following three levels of the fair value hierarchy, of which the first two are considered observable and the last is considered unobservable:

- Level 1—Quoted prices in active markets for identical assets or liabilities.

- Level 2—Observable inputs (other than Level 1 quoted prices), such as quoted prices in active markets for similar assets or liabilities, quoted prices in markets that are not active for identical or similar assets or liabilities, or other inputs that are observable or can be corroborated by observable market data.

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to determining the fair value of the assets or liabilities, including pricing models, discounted cash flow methodologies and similar techniques.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The following table presents the Company's assets and liabilities that are measured at fair value on a recurring basis:

	March 31, 2017		
	(Level 1)	(Level 2)	(Level 3)
Assets			
Cash and cash equivalents	$ 12,212,025	$ —	$ —
Liabilities			
Common stock warrant liability	$ —	$ —	$ 48,145,520

	December 31, 2016		
	(Level 1)	(Level 2)	(Level 3)
Assets			
Cash and cash equivalents	$ 1,552,852	$ —	$ —
Liabilities			
Common stock warrant liability	$ —	$ —	$ —

The reconciliation of the common stock warrant liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) is as follows:

	Common Stock Warrant Liability
Balance at December 31, 2016	$ —
Issued in connection with the Series A convertible preferred stock	35,225,846
Change in fair value	12,919,674
Balance at March 31, 2017	$ 48,145,520

The common stock warrants issued in connection with the Series A convertible preferred stock are classified as liabilities on the accompanying balance sheet at March 31, 2017. The liability is marked-to-market each reporting period with the change in fair value recorded as either income or expense in the accompanying statements of operations until the warrants are exercised, expire or other facts and circumstances lead the liability to be reclassified to stockholders' equity (deficit). The fair value of the warrant liability is estimated using the Black-Scholes model and assumptions used to value the warrants granted during the first three months of 2017 were as follows:

Stock price	$ 2.38
Exercise price	$ 2.22
Expected term (in years)	5
Risk-free interest rate	2.1%
Expected volatility	127.0%
Dividend yield	—

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations together with the unaudited interim condensed consolidated financial statements and the notes thereto included elsewhere in this report and other financial information included in this report. The following discussion may contain predictions, estimates and other forward looking statements that involve a number of risks and uncertainties, including those discussed under "*Part I — Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations—Special Note Regarding Forward Looking Statements*" in this report and under "*Part I — Item 1A. Risk Factors*" in our annual report on Form 10-K for the fiscal year ended December 31, 2016. These risks could cause our actual results to differ materially from any future performance suggested below.

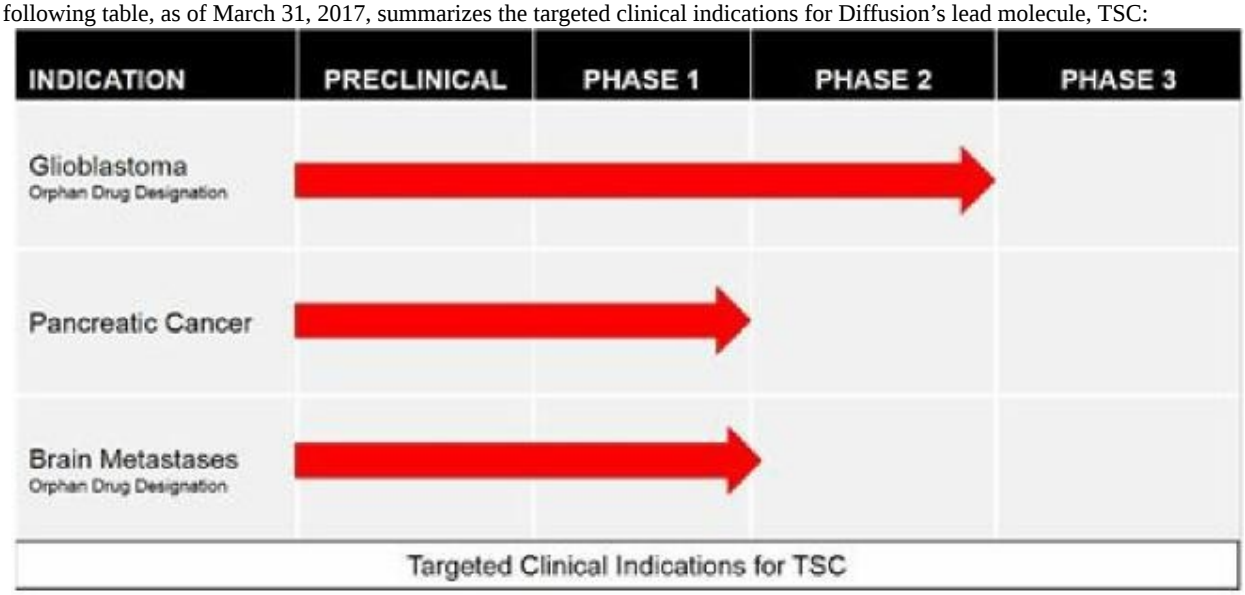
Business Overview

We are a clinical stage biotechnology company focused on extending the life expectancy of cancer patients by improving the effectiveness of current standard-of-care treatments, including radiation therapy and chemotherapy. We are developing our lead product candidate, *transcrocetinate sodium*, also known as *trans sodium crocetinate* ("TSC"), for use in the many cancer types in which tumor oxygen deprivation ("hypoxia") is known to diminish the effectiveness of current treatments. TSC is designed to target the cancer's hypoxic micro-environment, re-oxygenating treatment-resistant tissue and making the cancer cells more susceptible to the therapeutic effects of standard-of-care radiation therapy and chemotherapy.

Our lead development programs target TSC against cancers known to be inherently treatment-resistant, including brain cancers and pancreatic cancer. A Phase 2 clinical program, completed in the second quarter of 2015, evaluated 59 patients with newly diagnosed glioblastoma multiforme (GBM). This open label, historically controlled study demonstrated a favorable safety and efficacy profile for TSC combined with standard of care, including a 37% improvement in overall survival over the control group at two years. A particularly strong efficacy signal was seen in the inoperable patients, where survival of TSC-treated patients at two years was increased by 380% over the controls. At an End-Of-Phase 2 Meeting, the U.S. Food and Drug Administration provided Diffusion with extensive guidance on the design for a Phase 3 trial of TSC in newly diagnosed, inoperable GBM patients. We believe focusing on the inoperable patient group in Phase 3 should reduce the needed number of patients from over 400 to around 230, which is expected to provide real cost savings, while the strength of the Phase 2 efficacy signal should make the showing of significant clinical gain in Phase 3 more likely. Assuming FDA sign-off on our final protocol design, focusing on the inoperable patients, the study is planned to initiate by the end of 2017. Due to its novel mechanism of action, TSC has safely re-oxygenated a range of tumor types in our preclinical and clinical studies. Diffusion believes its therapeutic potential is not limited to specific tumors, thereby making it potentially useful to improve standard-of-care treatments of other life-threatening cancers. Additional planned studies include a Phase 2 trial in pancreatic cancer and a study in brain metastases, with a study initiation subject to receipt of additional funding or collaborative partnering. We also believe that TSC has potential application in other indications involving hypoxia, such as neurodegenerative diseases and emergency medicine. For example, our stroke program is now in advanced discussions with doctors from UCLA and the University of Virginia, with whom we have established a joint team dedicated to developing a program to test TSC in the treatment of stroke, with an in-ambulance trial of TSC in stroke under consideration.

Summary of Current Product Candidate Pipeline

The following table, as of March 31, 2017, summarizes the targeted clinical indications for Diffusion's lead molecule, TSC:



In addition to the TSC programs depicted in the table above, we are exploring alternatives regarding how best to capitalize upon the legacy RestorGenex product candidate, RES-529, a novel PI3K/Akt/mTOR pathway inhibitor which has completed two Phase I clinical trials for age-related macular degeneration and was in preclinical development in oncology, specifically GBM. RES-529 has shown activity in both in vitro and in vivo glioblastoma animal models and has been demonstrated to be orally bioavailable and can cross the blood brain barrier.

Financial Summary

In March 2017, we completed a $25.0 million private placement of our securities by offering units consisting of one share of our Series A convertible preferred stock, par value $0.001 per share ("Series A Preferred Stock") and a warrant to purchase one share of our common stock for each share of Series A Preferred Stock purchased in the offering. We sold 12,376,329 units and received approximately $22.1 million in aggregate net cash proceeds from the private placement, after deducting commissions of approximately $2.4 million and offering expenses of approximately $0.5 million. The final closing of the private placement occurred on March 31, 2017, and we received $8.3 million of net proceeds on April 3, 2017. In addition, we granted our placement agent in the offering warrants to purchase an aggregate of 1,179,558 shares of our common stock as compensation for its services.

At March 31, 2017, we had cash and cash equivalents balances of $12.2 million. We have incurred operating losses since inception, have not generated any product sales revenue and have not achieved profitable operations. We incurred a net loss of $28.6 million for the three months ended March 31, 2017. Our accumulated deficit as of March 31, 2017 was $88.8 million, and we expect to continue to incur substantial losses in future periods. We anticipate that our operating expenses will increase substantially as we continue to advance our lead, clinical-stage product candidate, TSC. We anticipate that our expenses will substantially increase as we:

- complete regulatory and manufacturing activities and commence our planned Phase II and III clinical trials for TSC;

- continue the research, development and scale-up manufacturing capabilities to optimize products and dose forms for which we may obtain regulatory approval;

- conduct other preclinical and clinical studies to support the filing of a New Drug Application ("NDA") with the FDA;
- maintain, expand and protect our global intellectual property portfolio;
- hire additional clinical, manufacturing, and scientific personnel; and
- add operational, financial and management information systems and personnel, including personnel to support our drug development and potential future commercialization efforts.

We intend to use our existing cash and cash equivalents for working capital and to fund the research and development of TSC for use in the treatment of GBM, pancreatic cancer and brain metastases. We believe that our cash and cash equivalents as of March 31, 2017, together with the subscription receivables related to the Series A private placement received in April 2017, will enable us to fund our operating expenses and capital expenditure requirements through March 2018. However, we will need to secure additional funding in the future, from one or more equity or debt financings, collaborations, or other sources, in order to carry out all of our planned research and development activities with respect to TSC and our other product candidates.

As disclosed in our definitive proxy statement (the "Proxy Statement") filed with the Securities and Exchange Commission ("SEC") on May 1, 2017, subject to the approval of our stockholders, we intend to offer up to $20 million shares of our Series B convertible preferred stock, $0.001 par value per share ("Series B Preferred Stock"), each share of Series B Preferred Stock being initially convertible into one share of our common stock, subject to adjustment, and for each share of Series B Preferred Stock purchased in the offering, a 5-year warrant to purchase one share of common stock. The proposed terms of this offering are described in more detail in the Proxy Statement.

THE FOREGOING STATEMENT IS NOT AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SHARES OF OUR PREFERRED STOCK, SHARES OF OUR COMMON STOCK OR ANY OTHER SECURITIES.

Financial Operations Overview

Revenues

We have not yet generated any revenue from product sales. We do not expect to generate revenue from product sales for the foreseeable future.

Research and Development Expense

Research and development costs are charged to expense as incurred. These costs include, but are not limited to, impairment of our in-process research and development, or IPR&D, assets, employee-related expenses, including salaries, benefits, stock-based compensation and travel expense reimbursement, as well as expenses related to third-party contract research arrangements. Research and development activities are central to our business model. 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. As we advance our product candidates, we expect the amount of research and development costs will continue to increase for the foreseeable future.

General and Administrative Expense

General and administrative expenses consist principally of salaries and related costs for executive and other personnel, including stock-based compensation, expenses associated with investment bank and other financial advisory services, and travel

expenses. Other general and administrative expenses include costs associated with the Merger, professional fees that were incurred in connection with preparing to operate and operating as a public company, facility-related costs, communication expenses and professional fees for legal, patent prosecution and maintenance, and consulting and accounting services.

Interest Expense, Net

Interest expense, net consists principally of the interest expense recorded in connection with our convertible debt instruments offset by the interest earned from our cash and cash equivalents.

Change in Fair Value of Warrant Liabilities, Warrant Related Expenses, and Other Financing Expenses

In connection with our private placement in March 2017, we recorded warrant expense associated with the change in fair value of the common stock warrants from issuance, the excess fair value of the common stock warrants over the gross cash proceeds from the Series A preferred stock offering, and placement agent commissions and other offering costs.

Results of Operations for Three Months Ended March 31, 2017 Compared to Three Months Ended March 31 2016

The following table sets forth our results of operations for the three months ended March 31, 2017 and 2016.

	Three Months Ended March 31, 2017		
	2017	**2016**	**Change**
Operating expenses:			
Research and development	$ 1,007,571	$ 2,352,807	$ (1,345,236)
General and administrative	1,553,139	3,862,484	(2,309,345)
Depreciation	6,603	7,853	(1,250)
Loss from operations	2,567,313	6,223,144	(3,655,831)
Other expense:			
Interest expense, net	55,719	21	55,698
Change in fair value of warrant liabilities	12,919,674	—	12,919,674
Warrant related expenses	10,225,846	—	10,225,846
Other financing expenses	2,870,226	—	2,870,226
Net loss	$ (28,638,778)	$ (6,223,165)	$ (22,415,613)
Series A cumulative preferred dividends	(58,845)	—	(58,845)
Net loss attributable to common stockholders	$ (28,697,623)	$ (6,223,165)	$ (22,474,458)

We recognized $1.0 million in research and development expenses during the three months ended March 31, 2017 compared to $2.4 million during the three months ended March 31, 2016. The decrease in research and development expense was attributable to a $0.9 million decrease in expense related to our pancreatic cancer program and a $0.3 million decrease in animal toxicology expenses. In addition, we had approximately $43,000 of research and development stock-based compensation expense during the three months ended March 31, 2017 compared to $0.2 million during the same period in 2016. We expect that our research and development expenses will increase significantly in future periods compared to prior year periods due to our anticipated efforts to advance our technologies and product candidates.

General and administrative expenses were $1.6 million during the three months ended March 31, 2017 compared to $3.9 million during the three months ended March 31, 2016. The decrease in general and administrative expense was primarily due to a $2.4 million decrease in costs attributable to the reverse merger transaction in January 2016. We had $0.3 million of general and administrative stock-based compensation expense during the three months ended March 31, 2017 compared to $0.2 million during the comparable period in 2016.

The change in interest expense for the three months ended March 31, 2017 compared to the three months ended March 31, 2016 is primarily attributable to the issuance of our convertible promissory note with a notional value of $1.9 million in September 2016.

In connection with the private placement of our Series A preferred stock and common stock warrants, we determined the warrants to be classified as liabilities and subject to remeasurement at each reporting period. As a result of the liability classification, we recognized $10.2 million in excess fair value of the common stock warrants over the gross proceeds from our private placement. We also recognized $2.9 million in placement agent commission and other offering costs. For the three months ended March 31, 2017, we recorded a $12.9 million expense for the change in fair value of our common stock warrant liabilities which was primarily attributable to the increase in the market price for our common stock

The Company shall pay a cumulative preferential dividend on each share of the Series A Preferred Stock at a rate of 8.0% per annum, payable in shares of common stock, semi-annually in arrears on April 1 and October 1 of each year commencing on October 1, 2017. The Company accrued approximately $59,000 in dividends for the three months ended March 31, 2017 related to the dividends.

Liquidity and Capital Resources

Working Capital

We have funded our operations primarily through the sale and issuance of preferred stock, common stock and convertible promissory notes. In March 2017, we sold 12,376,329 units in the Series A Private placement and received approximately $22.1 million in aggregate net cash proceeds, after deducting commissions of approximately $2.4 million and offering expenses of approximately $0.5 million payable by the Company. The final closing of the private placement occurred on March 31, 2017, and the Company received $8.3 million in net proceeds on April 3, 2017. As of March 31, 2017, we had $12.2 million in cash and cash equivalents, working capital deficit of $31.0 million and an accumulated deficit of $88.8 million. We expect to continue to incur net losses for the foreseeable future. We intend to use our existing cash and cash equivalents to fund our working capital and research and development of our product candidates.

Cash Flows

The following table sets forth our cash flows for the three months ended March 31, 2017 and 2016:

	Three Months Ended March 31,	
Net cash (used in) provided by:	**2017**	**2016**
Operating activities	$ (3,415,901)	$ (4,630,189)
Investing activities	(6,372)	8,498,608
Financing activities	14,081,446	—
Net increase in cash and cash equivalents	$ 10,659,173	$ 3,868,419

Operating Activities

Net cash used in operating activities of $3.4 million during the three months ended March 31, 2017 was primarily attributable to our net loss of $28.6 million and our net change in operating assets and liabilities of $1.2 million. This amount was offset by $26.0 million in non-cash, warrant related and other financing expenses and $0.4 million in stock-based compensation expense. The net change in our operating assets and liabilities is primarily attributable to the decrease in our accounts payable and accrued expenses due to the payments of employee bonuses and payments to our vendors for professional services and costs associated with our clinical and preclinical activities.

Net cash used in operating activities of $4.6 million during the three months ended March 31, 2016 was primarily attributable to our net loss of $6.2 million that was offset by $0.9 million of non-cash charges and $0.7 million for the net change

in our operating assets and liabilities. Non-cash charges primarily consisted of stock-based compensation and common stock issued for advisory services.

Investing Activities

During the three months ended March 31, 2017, we had approximately $6,000 in fixed asset purchases. During the three months ended March 31, 2016, net cash provided by investing activities was $8.5 million and was attributable to the cash acquired in connection with the reverse merger transaction with RestorGenex.

Financing Activities

Net cash provided by financing activities was $14.1 million during the three months ended March 31, 2017 which was attributable to the $14.3 million in proceeds received upon the initial closing of our Series A private placement on March 14, 2017 (but does not include additional amounts received upon the final closing of the private placement on March 31, 2017), offset by $0.2 million in payments for related offering costs. There were no cash related financing activities during the three months ended March 31, 2016.

Capital Requirements

We expect to continue to incur substantial expenses and generate significant operating losses as we continue to pursue our business strategy of developing our lead product candidate, TSC, for use in the treatment of GBM, pancreatic cancer and brain metastases.

To date, we have primarily used debt and equity financings to fund our ongoing business operations and short-term liquidity needs. We expect to continue this practice for the foreseeable future. We believe our cash and cash equivalents as of March 31, 2017, together with the subscription receivables related to the Series A private placement received in April 2017 will be sufficient to fund our planned operations through March 2018.

As of March 31, 2017, we did not have credit facilities under which we could borrow funds or any other sources of committed capital. We may seek to raise additional funds through various sources, such as equity and debt financings, or through strategic collaborations and license agreements. We can give no assurances that we will be able to secure additional sources of funds to support our operations, or if such funds are available to us, that such additional financing will be sufficient to meet our needs or be on terms acceptable to us. This risk may increase if economic and market conditions deteriorate. If we are unable to obtain additional financing when needed, we may need to terminate, significantly modify or delay the development of our product candidates and our operations, or we may need to obtain funds through collaborators that may require us to relinquish rights to our technologies or product candidates that we might otherwise seek to develop or commercialize independently. If we are unable to raise any additional capital in the near-term and/or we cannot significantly reduce our expenses and are forced to terminate our operations, investors may experience a complete loss of their investment.

To the extent that we raise additional capital through the sale of our common stock, the interests of our current stockholders may be diluted. If we issue additional preferred stock or convertible debt securities, it could affect the rights of our common stockholders or reduce the value of our common stock or any outstanding classes of preferred stock. In particular, specific rights granted to future holders of preferred stock or convertible debt securities may include voting rights, preferences as to dividends and liquidation, conversion and redemption rights, sinking fund provisions, and restrictions on our ability to merge with or sell our assets to a third party. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends.

As disclosed in the Proxy Statement, subject to the approval of our stockholders, we intend to offer up to $20 million shares of our Series B Preferred Stock, each share of Series B Preferred Stock being initially convertible into one share of our common stock, subject to adjustment, and for each share of Series B Preferred Stock purchased in the offering, a 5-year warrant to purchase one share of common stock. The proposed terms of this offering are described in more detail in the Proxy Statement.

THE FOREGOING STATEMENT IS NOT AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY SHARES OF OUR PREFERRED STOCK, SHARES OF OUR COMMON STOCK OR ANY OTHER SECURITIES.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by the rules and regulations of the SEC that have or are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources. As a result, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in these arrangements.

Critical Accounting Policies

The Critical Accounting Policies included in our Form 10-K for the year ended December 31, 2016, filed with the SEC pursuant to Section 13 or 15(d) under the Securities Act on March 31, 2017, as amended to this date, have not changed, except as follows:

Estimated fair value of Common Stock Warrants

Common stock warrants issued in conjunction with our Series A convertible preferred stock are accounted for as freestanding financial instruments. These warrants are classified as liabilities on our condensed consolidated balance sheet and are recorded at their estimated fair value. At the end of each reporting period, changes in the estimated fair value during the period are recorded in our condensed consolidated statement of operations. We will continue to adjust these liabilities for changes in fair value until the earlier of their exercise, termination, or other form of settlement. The estimated fair value of common stock warrants is determined by using the Black-Scholes option-pricing model.

Special Note Regarding Forward-Looking Statements

This report includes forward-looking statements. We may, in some cases, use terms such as “believes,” “estimates,” “anticipates,” “expects,” “plans,” “intends,” “may,” “could,” “might,” “will,” “should,” “approximately” or other words that convey uncertainty of future events or outcomes to identify these forward-looking statements. Forward-looking statements appear in a number of places throughout this Quarterly Report 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 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, financial condition, liquidity, prospects, growth and strategies, the industry in which we operate and the trends that may affect the industry or us.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events, competitive dynamics and industry change, and depend on the economic circumstances that may or may not occur in the future or may occur on longer or shorter timelines than anticipated. Although we believe that we have a reasonable basis for each forward-looking statement contained in this Quarterly Report, we caution you that forward-looking statements are not guarantees of future
performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate may differ materially from the forward-looking statements contained in this Quarterly Report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this Quarterly Report, they may not be predictive of results or developments in future periods.

Actual results could differ materially from our forward-looking statements due to a number of factors, including risks related to:

- our ability to obtain additional financing;
- our estimates regarding expenses, future revenues, capital requirements and needs for additional financing;
- the success and timing of our preclinical studies and clinical trials;
- the difficulties in obtaining and maintaining regulatory approval of our products and product candidates, and the labeling under any approval we may obtain;
- our plans and ability to develop and commercialize our product candidates;
- our failure to recruit or retain key scientific or management personnel or to retain our executive officers;
- the accuracy of our estimates of the size and characteristics of the potential markets for our product candidates and our ability to serve those markets;
- regulatory developments in the United States and foreign countries;
- the rate and degree of market acceptance of any of our product candidates;

- obtaining and maintaining intellectual property protection for our product candidates and our proprietary technology;
- our ability to operate our business without infringing the intellectual property rights of others;
- future legislation regarding the healthcare system;
- the success of competing products that are or may become available; and
- the performance of third parties, including contract research organizations, collaborators and manufacturers.

You should also read carefully the factors described in the “Risk Factors” section of our Annual Report on Form 10-K filed with the SEC on March 31, 2017, as amended, and elsewhere in our public filings to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements. As a result of these factors, we cannot assure you that the forward-looking statements in this Quarterly Report on Form 10-Q will prove to be accurate. Furthermore, if our forward-looking statements prove to be inaccurate, the inaccuracy may be material. In light of the significant uncertainties in these forward-looking statements, you should not regard these statements as a representation or warranty by us or any other person that we will achieve our objectives and plans in any specified timeframe, or at all.

Any forward-looking statements that we make in this Quarterly Report speak only as of the date of such statement, and, except as required by applicable law, we undertake no obligation to update such statements to reflect events or circumstances after the date of this Quarterly Report or to reflect the occurrence of unanticipated events. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

This Item 3 is not applicable to us as a smaller reporting company and has been omitted.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed to provide reasonable assurance that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we are required to apply our judgment in evaluating the cost-benefit relationship of possible internal controls. Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered in this report. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of such period to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

Change in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended) that occurred during the quarter ended March 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For this item, please refer to Note 9, Commitments and Contingencies to the Notes to the Unaudited Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes in our assessment of risk factors affecting our business since those presented in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016 as filed with the SEC on March 31, 2017. The information set forth in this report should be read in conjunction with the risk factor set forth below and the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2016.

If we cannot continue to satisfy the NASDAQ Capital Market continued listing standards and other NASDAQ rules, our common stock could be delisted, which would harm our business, the trading price of our common stock, our ability to raise additional capital and the liquidity of the market for our common stock.

In order to maintain our listing on the NASDAQ Capital Market, we are required to comply with NASDAQ rules which include rules regarding minimum stockholders' equity, minimum share price and certain corporate governance requirements. We may not be able to continue to satisfy the listing standards of the NASDAQ Capital Market and other applicable NASDAQ rules. For example, the accounting treatment of the preferred stock and warrants issued in connection with our March 2017 private placement requires, as a technical accounting matter, that the warrants be recorded as a liability, which has resulted in a reduction of our stockholders' equity, as of March 31, 2017, below the applicable required level under NASDAQ's continued listing standards. While we are currently exploring alternatives to regain compliance with this listing standard, if we are unable to satisfy the NASDAQ criteria for maintaining listing, our common stock could be subject to delisting. If our common stock is delisted, trading, if any, of our common stock would thereafter be conducted in the over-the-counter market. As a consequence of any such delisting, our share price could be negatively affected and our stockholders would likely find it more difficult to dispose of, or to obtain accurate quotations as to the prices of, our common stock. In addition, it may be difficult to raise additional capital, if needed, as a company whose stock is not listed on NASDAQ or another exchange.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Unregistered Sales of Equity Securities

In March 2017, the Company completed a $25.0 million private placement of its securities by offering units consisting of one share of the Company's Series A Preferred Stock and a warrant to purchase one share of common stock for each share of Series A Preferred Stock purchased in the offering. The Company sold 12,376,329 units and received approximately $22.1 million in aggregate net cash proceeds from the private placement, after deducting placement agent commissions and other offering costs. The final closing of the private placement occurred on March 31, 2017, and the Company received $8.3 million of net proceeds on April 3, 2017. In addition, the Company granted an aggregate of 1,179,558 shares of common stock as compensation to its placement agent in the offering for its services. The securities were issued to accredited investors in reliance upon an exemption pursuant to Section 4(2) of the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

Issuer Purchases of Equity Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

See attached Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 15, 2017

DIFFUSION PHARMACEUTICALS INC.

By: /s/ David G. Kalergis

David G. Kalergis
Chairman and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Ben L. Shealy

Ben L. Shealy
Senior Vice President, Finance,
Treasurer and Secretary
(Principal Financial Officer)

DIFFUSION PHARMACEUTICALS INC.

QUARTERLY REPORT ON FORM 10-Q
EXHIBIT INDEX

Exhibit No.	Description	Method of Filing
3.1	Certificate of Incorporation of Diffusion Pharmaceuticals Inc., as amended	Incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as amended
3.2	Certificate of Designation of Preferences, Rights and Limitations of the Series A Convertible Preferred Stock of Diffusion Pharmaceuticals Inc.	Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on March 15, 2017
4.1	Form of Warrant issued to Investors in the 2017 Series A Private Placement by Diffusion Pharmaceuticals Inc.	Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on March 15, 2017
4.2	Form of Registration Rights Agreement entered into by and among the Company and Investors in the 2017 Series A Private Placement	Filed herewith
10.1	Form of 2017 Series A Private Placement Subscription Agreement	Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on March 15, 2017
10.2	Placement Agency Agreement, dated January 27, 2017, by and between Diffusion Pharmaceuticals Inc. and Maxim Merchant Capital, a division of Maxim Group LLC, with respect to the Series A Private Placement	Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on March 15, 2017
10.3	Amendment to the Placement Agency Agreement, dated March 14, 2017, by and between Diffusion Pharmaceuticals Inc. and Maxim Merchant Capital, a division of Maxim Group LLC, with respect to the Series A Private Placement	Incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2016, as amended
10.4	Lease Agreement, dated March 31, 2017, by and between Diffusion Pharmaceuticals Inc. and One Carlton LLC	Filed herewith
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and SEC Rule 13a-14(a)	Filed herewith
31.2	Certification of principal financial officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 and SEC Rule 13a-14(a)	Filed herewith
32.1	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	Certification of principal financial officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101	The following materials from Diffusion's quarterly report on Form 10-Q for the quarter ended March 31, 2017, formatted in XBRL (Extensible Business Reporting Language): (i) the Unaudited Condensed Consolidated Balance Sheets, (ii) the Unaudited Condensed Consolidated Statements of Operations, (iii) the Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity (Deficit), (iv) the Unaudited Condensed Consolidated Statements of Cash Flows, and (v) Notes to Unaudited Condensed Consolidated Financial Statements	Filed herewith

DIFFUSION PHARMACEUTICALS INC.

REGISTRATION RIGHTS AGREEMENT

DATED [●], 2017

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REGISTRATION RIGHTS AGREEMENT

This REGISTRATION RIGHTS AGREEMENT (this "***Agreement***") is made as of the last date set forth on the signature page hereof by and between Diffusion Pharmaceuticals Inc., a Delaware corporation (the "***Company***"), and the undersigned investor in the Offering (the "***Investor***").

W I T N E S S E T H:

WHEREAS, the Company is conducting an Offering of up to $15,000,000 of its Series A Convertible Preferred Stock, which amount may be increased to $25,000,000 at the discretion of the Placement Agent and the Company;

WHEREAS, the Investor has purchased or intends to purchase shares of Preferred Stock in accordance with the terms of that certain subscription agreement related to the Offering by and between the Company and the Investor (the "***Subscription Agreement***");

WHEREAS, as additional, supplemental consideration for Investor's purchase of Securities, the Company has agreed to provide the Investor with certain registration rights with respect to Investor's Registrable Shares (as defined herein) on the terms set forth herein; and

WHEREAS, capitalized terms used and not otherwise defined herein have the respective meanings given to them in the Subscription Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual representations and covenants hereinafter set forth, the parties hereto do hereby agree as follows:

Section 1. GENERAL.

1.1. Definitions. As used in this Agreement the following terms shall have the following respective meanings:

(a) ***"Common Stock"*** means the Common Stock of the Company.

(b) ***"Effectiveness Deadline"*** means, with respect to the Registration Statement, the ninetieth (90^{th}) calendar day following the Final Closing (or, in the event the Commission reviews and has written comments to the Registration Statement, the one hundred twentieth (120^{th}) calendar day following the Final Closing); *provided, however*, that if the Company is notified by the Commission that the Registration Statement will not be reviewed or is no longer subject to further review and comments, the Effectiveness Deadline as to such Registration Statement shall be the fifth (5^{th}) Trading Day following the date on which the Company is so notified if such date precedes the dates otherwise required above; *provided, further*, that if the Effectiveness Deadline falls on a Saturday, Sunday or other day that the Commission is closed for business, the Effectiveness Deadline shall be extended to the next Trading Day on which the Commission is open for business

(c) ***"Exchange Act"*** means the Securities Exchange Act of 1934, as amended.

(d) ***"Filing Deadline"*** means, with respect to the Registration Statement required to be filed pursuant to Section 2(a), May 17, 2017.

(e) ***"Form S-3"*** means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

(f) ***"Holder"*** means any person owning of record Securities issued in the Offering that has executed and delivered to the Company a registration rights agreement with the Company in the form hereof prior to April 26, 2017.

(g) ***"Preferred Stock"*** means the Series A Convertible Preferred Stock, par value $0.001 per share, issued in the Offering.

(h) ***"Prospectus"*** means the prospectus included in a Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Shares covered by a Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

(i) ***"Registrable Shares"*** means the shares of Common Stock of any Holder that are (a) issued and outstanding, or issuable, pursuant to any conversion of the Preferred Stock, (b) issued and outstanding, or issuable, pursuant to any exercise of the Warrants and (c) issued and outstanding pursuant to the cumulative preferred dividend on each share of the Preferred Stock; provided, that any such shares of Common Stock shall cease to be Registrable Shares on the date which such shares of Common Stock may be sold or otherwise transferred, without volume or manner-of-sale restrictions, pursuant SEC Rule 144. The Registrable Shares described in clause (b) are sometimes referred to herein as the "***Registrable Warrant Shares***" and the Registrable Shares described in clauses (a) and (c) are sometimes referred to herein, collectively, as the "***Registrable Preferred Shares***"

(j) ***"Registration Expenses"*** means all expenses incurred by the Company in complying with Section 2.1 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses and the expense of any special audits incident to or required by any such registration (but excluding any transfer taxes, and Selling Expenses applicable to the sale).

(k) ***"SEC"*** or ***"Commission"*** means the Securities and Exchange Commission.

(l) ***"SEC Rule 144"*** means Rule 144 promulgated by the SEC under the Securities Act.

(m) ***"Securities Act"*** means the Securities Act of 1933, as amended.

(n) ***"Selling Expenses"*** means all underwriting discounts and selling commissions applicable to the sale.

(o) ***"Trading Day"*** means a day on which the principal Trading Market is open for trading.

(p) ***"Trading Market"*** means the NASDAQ Capital Market; provided, that if the Common Stock ceases to be listed thereon, "Trading Market" shall mean (i) any other securities market or exchange on which the Common Stock is principally listed or quoted for trading on the date in question, including the NYSE MKT, the Nasdaq Global Market or the Nasdaq Global Select Market (or any successors to any of the foregoing) or (ii) if the Common Stock is not then listed or quoted for trading on any such securities market or exchange and if prices for the Common Stock are then reported in the "Pink Sheets," OTC Markets, Inc. (or a similar organization or agency succeeding to its functions of reporting prices).

(q) ***"Warrants"*** means the 5-year warrants received by each Holder to purchase one share of Common Stock for each share of Preferred Stock purchased by such Holder in the Offering.

SECTION 2. REGISTRATION; RESTRICTIONS ON TRANSFER.

2.1. Registration.

(a) On or prior to the Filing Deadline, the Company shall prepare and file with the SEC a registration statement (including any related prospectus, amendments and supplements to such registration statement, and including pre- and post-effective amendments, and all exhibits and all material incorporated by reference in such registration statement, the "***Registration Statement***") to register, in accordance with the Securities Act, a number of shares of Common Stock equal to the number of Registrable Shares (a "***Registration***"). The Registration Statement shall be on Form S-3 (except if the Company is then ineligible to register for resale the Registrable Shares on Form S-3, in which case such registration shall be on such other form available to register for resale the Registrable Shares as a secondary offering) subject to the provisions of Section 2.1(c). Notwithstanding the registration obligations set forth in this Section 2.1, in the event the SEC informs the Company that all of the Registrable Shares cannot, as a result of the application of Rule 415 promulgated under the Securities Act, as such Rule may be amended from time to time, be registered for resale as a secondary offering on a single registration statement, the Company agrees to promptly (i) inform each of the Holders thereof and use its commercially reasonable efforts to file amendments to the Registration Statement as required by the SEC and/or (ii) withdraw the Registration Statement and file an alternative registration statement (the "***Alternative Registration Statement***"), in either case, covering the maximum number of Registrable Shares permitted to be registered by the SEC on Form S-3 or such other form available to register for resale the Registrable Shares as a secondary offering; *provided*, *however*, that prior to filing such amendment or Alternative Registration Statement, the Company shall be obligated to use its commercially reasonable efforts to advocate with the SEC for the registration of all of the Registrable Shares in accordance with the SEC Guidance, including without limitation, Compliance and Disclosure Interpretation 612.09. Notwithstanding any other provision of this Agreement, if any SEC Guidance sets forth a limitation of the number of Registrable Shares permitted to be registered on the Registration Statement as a secondary offering (and notwithstanding that the Company used diligent efforts to advocate with the

SEC for the registration of all or a greater number of Registrable Shares), unless otherwise directed in writing by a Holder as to its Registrable Shares, the number of Registrable Shares to be registered on such Registration Statement will be allocated to the Holders of such Registrable Shares in the following order of priority: first, on a pro rata basis based on the number of Registrable Warrant Shares held by all such Holders; and second, on a pro rata basis based on the number of Registrable Preferred Shares held by all such Holders. Any Registrable Shares excluded or withdrawn from such Registration Statement shall be withdrawn from the Registration and the Company shall have no obligation to register such securities with the SEC. For the avoidance of doubt, the Holders are not entitled to participate in any registration of the Company's capital stock other than a registration resulting from this Section 2.1. In the event the Company amends the Registration Statement or files an Alternative Registration Statement, as the case may be, under clauses (i) or (ii) above, the Company will use its commercially reasonable efforts to file with the Commission, as promptly as allowed by Commission or SEC Guidance provided to the Company or to registrants of securities in general, one or more registration statements on Form S-3 or such other form available to register for resale those Registrable Shares that were not registered for resale on the Registration Statement, as amended, or the Alternative Registration Statement, as amended (the "***Remainder Registration Statements***")

(b) The Company shall use its commercially reasonable efforts to cause the Registration Statement to be declared effective by the Commission as soon as practicable and, with respect to the Registration Statement or the Alternative Registration Statement, as applicable, no later than the Effectiveness Deadline (including filing with the SEC a request for acceleration of effectiveness in accordance with Rule 461 promulgated under the Securities Act), and shall use its commercially reasonable efforts to and keep such Registration Statement effective for as long as such shares of Common Stock are Registrable Shares (the "***Effectiveness Period***"). The Company, in its sole discretion, may deregister all shares that are no longer Registrable Shares. The Company shall telephonically request effectiveness of the Registration Statement as of 4:00 P.M. New York City time on a Trading Day. The Company shall promptly notify the Holders via facsimile or electronic mail file of the effectiveness of the Registration Statement within three (3) Trading Days that the Company telephonically confirms effectiveness with the SEC. The Company shall, by 5:30 P.M. New York City time on the second Trading Day after the Effective Date, file a final Prospectus with the SEC, as required by Rule 424(b) promulgated under the Securities Act.

(c) In the event that Form S-3 is not available for the registration of the resale of Registrable Shares hereunder, the Company shall use commercially reasonable efforts to (i) register the resale of the Registrable Shares on another appropriate form and (ii) undertake to register the Registrable Shares on Form S-3 after such form is available, provided that the Company shall maintain the effectiveness of the Registration Statement then in effect until such time as a Registration Statement on Form S-3 covering the Registrable Shares has been declared effective by the SEC.

(d) Each Holder agrees to furnish to the Company the information set forth in the Acknowledge, Notice and Questionnaire at the end of this Agreement. The Company will notify each Holder of any information the Company requires from that Holder other than the information contained herein, if any, which shall be completed and delivered to the Company promptly upon request and, in any event, within two (2) Trading Days after such notification. Each Holder further agrees that it shall not be entitled to be named as a selling security holder in the Registration Statement or use the Prospectus for offers and resales

of Registrable Shares at any time, unless such Holder has returned to the Company a completed and signed this Agreement (including the Acknowledgement, Notice and Questionnaire at the end of this Agreement) and a response to any requests for further information as described in the previous sentence. The Company has no obligation to include any such Holder as a selling security holder in the Registration Statement or any pre-effective or post-effective amendment or supplement thereto or to include (to the extent not theretofore included) in the Registration Statement the Registrable Shares identified in such request for further information. Each Holder acknowledges and agrees that the information provided by such Holder herein or in any request for further information as described in this Section 2(d) will be used by the Company in the preparation of the Registration Statement and hereby consents to the inclusion of such information in the Registration Statement.

(e) If the Company intends to distribute the Registrable Shares by means of an underwriting, it shall have sole discretion to select such underwriters. In such event, the right of any Holder to include its Registrable Shares in such Registration shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Shares in the underwriting to the extent provided herein. Any Registrable Shares excluded or withdrawn from such underwriting shall be withdrawn from the Registration.

2.2. Registration Procedures. In connection with the Company's registration obligations hereunder, the Company shall use its commercially reasonable efforts to:

(a) Cause its officers and directors, counsel and independent registered public accountants to respond to such inquiries as shall be necessary, in the reasonable opinion of the Company, to conduct a reasonable investigation within the meaning of the Securities Act.

(b) (i) Prepare and file with the SEC such amendments (including post-effective amendments) and supplements, to the Registration Statement and the Prospectus used in connection therewith as may be necessary to keep such Registration Statement continuously effective as to the applicable Registrable Shares for its Effectiveness Period; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement (subject to the terms of this Agreement), and, as so supplemented or amended, to be filed pursuant to Rule 424 promulgated under the Securities Act; (iii) respond as promptly as reasonably practicable to any comments received from the SEC with respect to the Registration Statement or any amendment thereto and, as promptly as reasonably possible, provide the Holders true and complete copies of all correspondence from and to the Commission relating to such Registration Statement that pertains to the Holders as "Selling Stockholders" but not any comments that would result in the disclosure to the Holders of material and non-public information concerning the Company; and (iv) comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Shares covered by the Registration Statement until such time as all of such Registrable Shares shall have been disposed of (subject to the terms of this Agreement) in accordance with the intended methods of disposition by the Holders thereof as set forth in such Registration Statement as so amended or in such Prospectus as so supplemented; *provided, however*, that each Holder shall be responsible for the delivery of the Prospectus to the Persons to whom such Holder sells any Registrable Shares (including in accordance with Rule 172 promulgated under the Securities Act), and each Holder agrees to dispose of Registrable Shares in compliance with the "Plan of Distribution" described in the Registration Statement and otherwise in compliance with

applicable federal and state securities laws. In the case of amendments and supplements to a Registration Statement which are required to be filed pursuant to this Agreement (including pursuant to this Section 2.2(b)) by reason of the Company filing Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K or any analogous report under the Exchange Act, the Company shall have incorporated such report by reference into such Registration Statement, if applicable, or shall file such amendments or supplements with the SEC as promptly as reasonably possible.

(c) Notify, as promptly as reasonably practicable, each Holder of Registrable Shares covered by such Registration Statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act 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 the light of the circumstances then existing. The Company will use commercially reasonable efforts to amend or supplement 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 the light of the circumstances then existing.

(d) Avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of a Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Shares for sale in any jurisdiction, as soon as practicable.

(e) If requested by a Holder, furnish to such Holder, without charge, at least one conformed copy of each Registration Statement and each amendment thereto and all exhibits to the extent requested by such person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the SEC; provided, that the Company shall have no obligation to provide any document pursuant to this clause that is available on the SEC's EDGAR system.

(f) Prior to any resale of Registrable Shares by a Holder, register or qualify or cooperate with the selling Holders in connection with the registration or qualification (or exemption from the registration or qualification) of such Registrable Shares for the resale by the Holder under the securities or Blue Sky laws of such jurisdictions within the United States as any Holder reasonably requests in writing, to keep each registration or qualification (or exemption therefrom) effective during the Effectiveness Period and to do any and all other acts or things reasonably necessary to enable the disposition in such jurisdictions of the Registrable Shares covered by each Registration Statement; *provided*, *however* that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified, subject the Company to any material tax in any such jurisdiction where it is not then so subject or file a general consent to service of process in any such jurisdiction.

(g) If requested by a Holder, cooperate with such Holder to facilitate the timely preparation and delivery of certificates or book-entry statements representing Registrable Shares to be delivered to a transferee pursuant to the Registration Statement.

(h) Cooperate with any registered broker through which a Holder proposes to resell its Registrable Shares in effecting a filing with Financial Industry Regulatory Authority ("***FINRA***") pursuant

to FINRA Rule 2710 as requested by any such Holder; *provided, however*, that the Holder shall pay the filing fee required.

2.3. Expenses of Registration. Except as specifically provided herein, all Registration Expenses incurred in connection with any Registration, qualification or compliance pursuant to Section 2.1 herein shall be borne by the Company. All Selling Expenses incurred in connection with any Registration hereunder, shall be borne by the Holders.

2.4. Delay of Registration; Agreement to Furnish Information; Suspension of Sales.

(a) No Holder shall have any right to obtain or seek an injunction restraining or otherwise delaying any such Registration as the result of any controversy that might arise with respect to the interpretation or implementation of this Section 2.

(b) It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2.1 that the selling Holders shall furnish to the Company such information regarding themselves and the Registrable Shares held by them as shall be required to effect the Registration of their Registrable Shares, including but not limited to the information required pursuant to Section 2.1(d). Each Holder acknowledges and agrees that the information provided to the Company will be used by the Company in the preparation of the Registration Statement and hereby consents to the inclusion of such information in the Registration Statement.

(c) Each Holder agrees to execute and deliver such other agreements as may be reasonably requested by the Company or the underwriter that are consistent with the Holder's obligations under Section 2.7 below or that are necessary to give further effect thereto, including but not limited to powers of attorney and the Acknowledgement, Notice and Questionnaire at the end of this Agreement. The Company may impose stop-transfer instructions with respect to the shares of Common Stock subject to the foregoing restriction until the end of said one hundred eighty (180) calendar day period set forth in Section 2.7.

(d) Each Holder agrees that any transferee who has become such other than pursuant to the Registration Statement of any shares of Registrable Shares shall be bound by this Section 2.4 and Section 2.7. The underwriters of the Company's stock are intended third party beneficiaries of this Section 2.4 and Section 2.7 and shall have the right, power and authority to enforce the provisions hereof as though they were a party hereto.

(e) The Company may require each selling Holder to furnish to the Company a certified statement as to (i) the number of shares of Common Stock beneficially owned by such Holder and any affiliate thereof, (ii) any FINRA affiliations, (iii) any natural persons who have the power to vote or dispose of the Common Stock and (iv) any other information as may be requested by the Commission, FINRA or any state securities commission.

(f) Upon notification by the Company pursuant to Section 2.2(c), the Holders shall suspend all transactions under the Registration Statement until such time as the Company has amended or supplemented such Registration Statement in accordance with its obligations under Section 2.2(c).

2.5. Indemnification. In the event any Registrable Shares are included in a Registration Statement under Section 2.1:

(a) To the extent permitted by law, the Company will indemnify and hold harmless each Holder, the partners, members, officers and directors of each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "***Violation***") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such Registration Statement or incorporated by reference therein, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such Registration Statement; and the Company will reimburse each such Holder, partner, member, officer, director, underwriter or controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; *provided however*, that the indemnity agreement contained in this Section 2.5(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such Registration by such Holder, partner, member, officer, director, underwriter or controlling person of such Holder.

(b) To the extent permitted by law, each Holder will, if Registrable Shares held by such Holder are included in the securities as to which such Registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such Registration Statement or any of such other Holder's partners, directors or officers or any person who controls such Holder, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any of the following statements: (i) any untrue statement or alleged untrue statement of a material fact contained in such Registration Statement or incorporated by reference therein, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act (collectively, a "***Holder Violation***"), in each case to the extent (and only to the extent) that such Holder Violation occurs in reliance

upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such Registration; and each such Holder will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Holder Violation; *provided however*, that the indemnity agreement contained in this Section 2.5(b) shall not apply to 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 shall not be unreasonably withheld; provided further, that in no event shall any indemnity under this Section 2.5 exceed the net proceeds from the offering received by such Holder.

(c) Promptly after receipt by an indemnified party under this Section 2.5 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 2.5, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; *provided, however,* that an indemnified party shall have the right to 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 between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if materially prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 2.5, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 2.5.

(d) If the indemnification provided for in this Section 2.5 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) or Holder Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law 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; *provided, that* (i) in no event shall any contribution by a Holder hereunder exceed the net proceeds from the offering received by such Holder and (ii) no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation; and provided further that in no event shall a Holder's liability pursuant to this Section

2.5(d), when combined with the amounts paid or payable by such Holder pursuant to Section 2.5(b), exceed the proceeds from the offering received by such Holder, except in the case of willful misconduct or fraud by such Holder.

(e) The obligations of the Company and Holders under this Section 2.5 shall survive completion of any offering of Registrable Shares in a Registration Statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

2.6. Assignment of Registration Rights. The rights to cause the Company to register Registrable Shares pursuant to Section 2.1 may be assigned by a Holder to a transferee or assignee of Registrable Shares (for so long as such shares remain Registrable Shares) that (a) is a subsidiary, parent, general partner, limited partner, retired partner, member or retired member, or stockholder of a Holder that is a corporation, partnership or limited liability company or (b) is a Holder's family member or trust for the benefit of an individual Holder; *provided, however,* (i) the transferor shall, prior to consummating such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the Securities with respect to which such registration rights are being assigned, (ii) such transferee shall agree to be subject to all restrictions and obligations set forth in this Agreement and (iii) such transferee shall agree not to sell such Registrable Shares under the Registration Statement until such time as the Company has concluded that the transferee is eligible to sell such Registrable Shares under the Registration Statement.

2.7. Market Stand-Off Agreement. If requested by an underwriter, each Holder hereby agrees that such Holder shall not sell, transfer, make any short sale of, grant any option for the purchase of, or enter into any hedging or similar transaction with the same economic effect as a sale, any Common Stock of the Company held by such Holder for a period specified by the representative of the underwriters of Common Stock of the Company not to exceed one hundred twenty (120) calendar days following the effective date of a Registration Statement of the Company filed under the Securities Act.

2.8. Termination of Registration Provisions. With respect to any Holder, all provisions in Section 2 of this Agreement (other than Section 2.5 and 2.7) shall expire and terminate upon the earlier of (i) sixty-six (66) months after the issue date of the Preferred Stock or (ii) when all Registrable Shares of such Holders are eligible to be sold without restriction under SEC Rule 144 or another similar exemption under the Securities Act of the Securities Act.

SECTION 3. MISCELLANEOUS.

3.1. Governing Law. Any action, arbitration, claim, hearing, litigation or suit (whether civil, criminal, administrative, judicial or investigative, whether formal or informal, whether public or private) commenced, brought, conducted or heard by or before any federal, state, local or foreign government or any court of competent jurisdiction, administrative or regulatory body, agency, bureau, or commission in any domestic or foreign jurisdiction, any appropriate division of any of the foregoing or any arbitrator, or other legal action (each, a "***Proceeding***") relating to this Agreement shall be governed by and construed and

enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflicts of law thereof. Each party agrees that all Proceedings concerning the interpretations, enforcement and defense of the actions contemplated by this Agreement (whether brought against a party hereto or its affiliates, directors, officers, shareholders, employees or agents) shall be commenced exclusively in the state and federal courts sitting in the Southern District of New York. Each party hereby irrevocably submits to the exclusive jurisdiction of the state and federal courts sitting in the Southern District of New York for the adjudication of any Proceeding related to this Agreement or the actions contemplated hereby, and hereby irrevocably waives, and agrees not to assert in any Proceeding that it is not personally subject to the jurisdiction of any such court, that Proceeding is improper or is an inconvenient venue for such Proceeding.

3.2. Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the parties hereto and their respective successors, assigns, heirs, executors, and administrators and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Shares from time to time; *provided, however,* that prior to the receipt by the Company of adequate written notice of the transfer of any Registrable Shares specifying the full name and address of the transferee, the Company may deem and treat the person listed as the holder of such shares in its records as the absolute owner and holder of such shares for all purposes, including the payment of dividends or any redemption price. Before the Company records a stock transfer on its corporate record books or issues shares of its capital stock to any person following such transfer or issuance and such person is not a party to this Agreement, such person shall be required to first execute and deliver to the Company a counterpart signature page to this Agreement pursuant to which such person agrees to be bound by all of the terms and conditions of this Agreement (as it may have been amended), and the failure of any such person to do so shall preclude the Company from recording such a transfer or issuance on its corporate record books. The addition of any such person as a party to this Agreement shall not be deemed an amendment to this Agreement pursuant to Section 3.5 of this Agreement and shall not require the consent of any of the other parties to this Agreement.

3.3. Entire Agreement. This Agreement, the Subscription Agreement and the other documents delivered pursuant thereto constitute the full and entire understanding and agreement between the parties with regard to the subjects hereof and no party shall be liable or bound to any other in any manner by any oral or written representations, warranties, covenants and agreements except as specifically set forth herein and therein. Each party expressly represents and warrants that it is not relying on any oral or written representations, warranties, covenants or agreements outside of this Agreement.

3.4. Severability. If any provision of this Agreement, or the application of such provision to any person or circumstance, shall be held invalid by a court of competent jurisdiction, the remainder of this Agreement, or the application of such provision to persons or circumstances other than those to which it is held invalid by such court, shall not be affected thereby.

3.5. Amendment and Waiver.

(a) Except as otherwise expressly provided, this Agreement may be amended or modified only upon the written consent of the Company and the Holders of at least a majority of the Registrable Shares.

(b) Except as otherwise expressly provided, the obligations of the Company and the rights of the Holders under this Agreement may be waived only with the written consent of the Holders of at least a majority of the Registrable Shares.

(c) For the purposes of determining the number of Holders entitled to exercise any rights hereunder, the Company shall be entitled to rely solely on the list of record holders of its stock as maintained by or on behalf of the Company.

3.6. Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any party, upon any breach, default or noncompliance by another party under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any party's part of any breach, default or noncompliance under the Agreement or any waiver on such party's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to any party, shall be cumulative and not alternative.

3.7. Notices. Any notice or other communication given hereunder shall be deemed sufficient if in writing and sent by registered or certified mail, return receipt requested, delivered by hand against written receipt therefor, or sent in portable document format ("***pdf***") via electronic mail, addressed as follows:

if to the Company, to it at:

Diffusion Pharmaceuticals Inc.
2020 Avon Court, Suite 4
Charlottesville, Virginia 22902
Attn: David Kalergis, Chief Executive Officer
Email: dkalergis@diffusionpharma.com

With a copy to (which shall not constitute notice):

Dechert LLP
1095 Avenue of the Americas
New York, New York 10036
Attn: David Rosenthal, Esq.
Email: david.rosenthal@dechert.com

if to the Investor, to the Investor's address indicated on the signature page of this such Investor's Subscription Agreement.

Notices shall be deemed to have been given or delivered (i) on the third (3rd) business day following the date of postmark in the case of delivery by registered or certified mail, (ii) on the date of delivery in the case of delivery by hand or (iii) on the date of delivery if delivered by electronic mail; provided that if such e-mail is received after 4:00 p.m. Eastern Time on a business day or at any time on a non-business day, such notice shall be deemed delivered on the following business day.

3.8. Titles and Subtitles. The titles of the sections and subsections of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

3.9. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but such counterparts together shall constitute one and the same instrument. Delivery of executed signature pages hereof by facsimile transmission or pdf shall constitute effective and binding execution and delivery of this Agreement.

3.10. Pronouns. All pronouns contained herein, and any variations thereof, shall be deemed to refer to the masculine, feminine or neutral, singular or plural, as to the identity of the parties hereto may require.

[THIS SPACE INTENTIONALLY LEFT BLANK]

The undersigned hereby acknowledges and is advised of the following Interpretation A.65 of the July 1997 SEC Manual of Publicly Available Telephone Interpretations regarding short selling:

"An Issuer filed a Form S-3 registration statement for a secondary offering of common stock which is not yet effective. One of the selling stockholders wanted to do a short sale of common stock "against the box" and cover the short sale with registered shares after the effective date. The issuer was advised that the short sale could not be made before the registration statement become effective, because the shares underlying the short sale are deemed to be sold at the time such sale is made. There would, therefore, be a violation of Section 5 if the shares were effectively sold prior to the effective date."

By returning an executed copy of this Agreement, the undersigned will be deemed to be aware of the foregoing interpretation and to have confirmed that, to the best of the undersigned's knowledge and belief, the foregoing statements (including without limitation the answers to this Acknowledgment, Notice and Questionnaire) are true, correct and complete.

PLEASE FAX OR E-MAIL A COPY OF THE COMPLETED AND EXECUTED ACKNOWLEDGEMENT, NOTICE AND QUESTIONNAIRE, AS WELL AS THE SIGNATURE PAGE THAT FOLLOWS, AND RETURN THE ORIGINAL BY OVERNIGHT MAIL, TO:

Kevin Silk
Dechert LLP
2929 Arch Street
Philadelphia, Pennsylvania 19104
Fax: 215-655-2506
Email: kevin.silk@dechert.com

****

IN WITNESS WHEREOF the undersigned, by authority duly given, has caused this Agreement to be executed and delivered either in person or by its duly authorized agent.

_____	_____
Signature	Signature (if shares are held jointly)
_____	_____
Name Typed or Printed	Name Typed or Printed
_____	_____
Title (if Investor is an Entity)	Title (if Investor is an Entity)

AGREED AND ACCEPTED:

DIFFUSION PHARMACEUTICALS INC.

By:_____

Name:

Title:

Dated: _____, 2017

DEED OF LEASE

THIS DEED OF; LEASE (this “Lease”) is entered into as of the 31st day of March 2017, between ONE CARLTON, LLC, Aa Virginia Limited liability company ("Landlord"), and DIFFUSION PHARMACEUTICALS INC., a Delaware corporation (“Tenant”).

In consideration of the mutual covenants stated below, and intending to be legally bound, the parties covenant and agree as follows:

1. PREMISES. Landlord leases to Tenant, and Tenant leases from Landlord, for the Tenant and upon the terms and subject to the conditions of this Lease, the entire second floor of the Building (as shown on Exhibit A attached hereto) but exclusive of the mezzanine space, known-as Suite 400 which the parties stipulate and agree consist of approximately 8,221 rentable square feet of space (the "Premises") in the Building. The “Building” is the building known as 1317 Carlton Avenue, Charlottesville, Virginia 22902. The "Project' " is the land on which the Building is located, -together with the Building and all other improvements thereon. The Premises are delivered "As ls".

2. TERM.

(a) The term of this Lease (the "Term") shall commence on April 15,2017 (the "Commencement Date"). The terms and provisions of this Lease are binding on the parties upon Tenant's and Landlord's execution of this Lease notwithstanding a later Commencement Date for the Term. The Commencement Date and Rent Commencement Date (as hereinafter defined) shall be confirmed by Landlord and Tenant by the execution of a Confirmation of Lease Term (the “COLT") in the form attached hereto as Exhibit B.*1f* Tenant fails *to* execute or object to the COLT within ten (I 0) business days of its delivery, Landlord's determination of such dates shall be deemed accepted.

(b) The Term shall end on April 30, 2022, unless extended or sooner terminate pursuant to the term of this Lease.

(c) Provided Tenant is Diffusion Pharmaceuticals, Inc., or any Affiliate (as defined in Section 9(b) below) or Surviving Entity (as defined in Section 9(d) below), Tenant is neither in default at the time of exercise nor has Tenant ever been in default beyond notice and cure (irrespective of the fact that Tenant later cured such default after the applicable cure period expired) of any monetary obligations under the Lease more than twice during the Term, Tenant is fully occupying the Premises and the Lease is in full force and effect, Tenant shall have the right to extend the Term (the "First Extension Option") for sixty (60) months beyond the end of the Term as extended by this option (i.e., from May I, 2022 to April 30, 2027) the "First Extension Term"). Tenant shall furnish written notice to Landlord of intent to extend the Term ("Tenant's First Extension Notice") no later than May 1, 2021, failing which the First Extension Option shall be deemed waived; time being of the essence. The terms and conditions of the Lease during the First Extension Term shall remain unchanged except that the annual Fixed Rent for each twelve (12)-month period of the First Extension Term shall be the amount as set forth in Section 3 (a) below.

(d) Provided Tenant is Diffusion Pharmaceuticals Inc., or any Affiliate or Surviving Entity, Tenant is neither in default at the time of exercise nor has Tenant ever been in default beyond notice and cure (irrespective of the fact that Tenant later cured such default after the applicable cure period expired) of any monetary obligations under the Lease more than twice during the

Term, Tenant is fully occupying the Premises and the Lease is in full force and effect, Tenant shall have the right to extend the Term (the "Second Extension Option") for sixty (60) months beyond the end of the Term as extended by this second option *(i.e.,* from May 1, 2027 to April 30, 2032) the "Second Extension Term"). Tenant shall furnish written notice to Landlord of intent to extend the Term ("Tenant's Second Extension Notice") no later than May l, 2026, failing which the Second Extension Option shall be deemed waived; time being of the essence. The terms and conditions of the Lease during the Second Extension Term shall remain unchanged except that the annual Fixed Rent for each twelve (12)-month period of the Second Extension Term shall be the amount as set forth in Section 3(a) below. Notwithstanding anything to the contrary herein, Tenant shall have no right to extend the Term other than or beyond the two (2), sixty (60)-month extension terms described in this and the preceding paragraph.

(e) Upon Tenant's timely and proper exercise of the First Extension Option (and, if timely and properly exercised, the Second Extension Option) pursuant to the terms above and satisfaction of the above conditions, the "Term" shall include the First Extension Term (and the Second Extension Term), and Landlord and Tenant shall execute prior to the expiration of the then-expiring Term an appropriate amendment to this Lease, in form and content reasonably satisfactory to both Landlord and Tenant, memorializing the extension of the Term for the ensuing First or Second Extension Term. Notwithstanding the foregoing, failure of either of the parties to timely execute the said amendment shall not affect the validity of an Extension Term provided Tenant has met the requirements of Section 2(c) or 2(d) above.

3. FIXED RENT; SECURITY DEPOSIT; GUARANTY.

(a) Tenant covenants and agrees to pay to Landlord, commencing on May 1, 2017 (the "Rent Commencement Date") and continuing during the Term, without notice, demand, set-off, deduction or counterclaim, fixed rent ("Fixed Rent") in the amounts set forth below, payable in accordance with Section 3(b):

TIME PERIOD	RENT PER R.S.F.	MONTHLY INSTALLMENTS	ANNUAL FIXED RENT
5/1/17 – 4/30/18	$13.50	$9,248.63	$110,983.50
5/1/18 – 4/30/19	$13.75	$9,419.90	$113,038.75
5/1/19 – 4/30/20	$14.00	$9,591.17	$115,094.00
5/1/20 – 4/30/21	$14.25	$9,762.44	$117,149.25
5/1/21 – 4/30/22	$14.50	$9,933.71	$119,204.50
(1st x ext) 5/1/22 – 4/30/23	$14.75	$10,104.98	$121,259.75
(1st x ext) 5/1/23 – 4/30/24	$15.00	$10,276.25	$123,315.00
(1st x ext) 5/1/24 – 4/30/25	$15.25	$10,447.52	$125,370.25
(1st x ext) 5/1/25 – 4/30/26	$15.50	$10,618.79	$127,425.50
(1st x ext) 5/1/26 – 4/30/27	$15.75	$10,790.06	$129,480.75
(2nd x ext) 5/1/27 – 4/30/32	Market, but not lower than $16.00 sf for 1st year with annual increases of $.25 sf	--	--

(b) Monthly installments of Fixed Rent shall be payable in advance on or before the first day of each month of the Term by wire transfer or ACH of immediately available funds to the account at Bank of America account of Henry Liscio Company Escrow Account no.435019970194, ABA wire routing number 026009593 (ACH ABA routing number 05100017), or as otherwise directed in writing by Landlord to Tenant.

(c) Together with Tenant's execution of this Lease, Tenant shall pay to Landlord the installment of Fixed Rent due for May,2017, and the Security Deposit (as defined below) by two separate checks. If any installment of Fixed Rent is not paid by the fifth of the month, or any other amount due from Tenant is not paid to Landlord when due, Tenant shall also pay as Additional Rent (as defined in Article 4) a late fee of ten percent (10%) of the total payment then due. Tenant shall be required to pay a security deposit of $9,248.63 (the "Security Deposit"), as security for the prompt and complete performance by Tenant of every provision of this Lease. No interest shall be paid to Tenant on the Security Deposit. If Tenant fails to perform any of its obligations hereunder, Landlord may use, apply or retain the whole or any part of the Security Deposit for the payment of: (i) any rent or other sums of money that Tenant may not have paid

when due; (ii) any sum expended by Landlord in accordance with the provisions of this Lease; and/or (iii) any sum that Landlord may expend or be required to expend by reason of Tenant's default. The use of the Security Deposit by Landlord shall not prevent Landlord from exercising any other remedy provided by this Lease or by law and shall not operate as either liquidated damages or as a limitation on any recovery to which Landlord may otherwise be entitled. If any portion of the Security Deposit is used, applied or retained by Landlord, Tenant agrees, within ten (10) days after the written demand therefor is made by Landlord, to deposit cash with Landlord in an amount sufficient to restore the Security Deposit *to* its original amount. In addition to the foregoing, if Tenant defaults (irrespective of the fact that Tenant cured such default) more than once in its performance of a monetary obligation and such monetary defaults aggregate in excess of $15,000.00 under this Lease, Landlord may require Tenant to increase the Security Deposit to the greater of twice the: (i) Fixed Rent paid monthly; or (ii) the initial amount of the Security Deposit. If Tenant shall fully comply with all of the provisions of this Lease, the Security Deposit, *or* any balance thereof shall be returned to Tenant within a reasonable time after the later of the end of the Term or Tenant's delivery of the Premises to Landlord as required hereunder. Upon the return of the Security Deposit to the original Tenant hereunder, or the remaining balance thereof, Landlord shall be completely relieved of liability with respect to the Security Deposit In the event of a transfer of the Building, Landlord shall have the right to transfer the Security Deposit and Landlord shall thereupon be released by Tenant from all liability for the return of such Security Deposit. Upon the assumption of such Security Deposit by the transferee, Tenant agrees to look solely to the new landlord for the return of such Security Deposit.

4, ADDITIONAL RENT.

(a) Commencing on the Commencement Date: and in each calendar year thereafter during the Term, Tenant covenants and agrees to pay in advance on a monthly basis to Landlord Tenant's Share of Operating Expenses, without deduction, counterclaim or set off. "Tenant's Share" equals the number of rentable square feet of the Premises divided by the number of rentable square feet office Building (which the parties confirm contains approximately 78,454 rentable square feet). Tenant's Share on the date of this Lease is stipulated to be 10.48%.

"Operating Expenses" are: (i) all reasonable operating costs and expenses related to the maintenance, operation and repair of the Project incurred by Landlord, including but not limited to a management fee not to exceed five percent *(5%)* of gross rents and revenues from the Project; utilities; and capital expenditures and capital repairs and replacements, which capital items shall be included as operating expenses solely to the extent of the amortized costs of same over the useful life of the improvement in accordance with generally accepted accounting principles; (ii) all insurance premiums payable by Landlord for insurance with respect to the Project; and (iii) taxes payable on the Project. Each of the Operating Expenses shall for all purposes be treated and considered as Additional Rent. Tenant shall pay, in monthly installments in advance, on account of Tenant's Share of Operating Expenses, the estimated amount of the Operating Expenses for such year as determined by Landlord in its reasonable discretion. Prior to the end of the calendar year in which the Lease commences and thereafter for each successive calendar year during the Term (each, a "Lease Year'), or part thereof: or as soon as administratively available thereafter, Landlord shall send to Tenant a statement of projected Operating Expenses and shall indicate what Tenant's Share of Operating Expenses shall be. As soon as administratively available, Landlord shall send to Tenant a statement of actual Operating Expenses for the prior Lease Year showing the actual amount due from Tenant. In the event the amount prepaid by Tenant exceeds the amount that was actually due then Landlord shall issue a credit to Tenant in an amount equal to the overcharge, which

credit Tenant may apply to future payments on account of Operating Expenses until Tenant has been fully credited with the overcharge. If the credit due to Tenant is more than the aggregate total of future rental payments, Landlord shall pay to Tenant the difference between the credit and such aggregate total. In the event Landlord has undercharged Tenant, then Landlord shall send Tenant an invoice with the additional amount due, which amount shall be paid in full by Tenant within twenty (20) days of receipt. Tenant's obligations under this Article 4 shall survive the expiration or sooner termination of this Lease.

(b) ln calculating the Operating Expenses, if for thirty (30) or more days during the preceding Lease Year less than ninety-five percent (95%) of the rentable area of the Building was occupied by tenants, then the Operating Expenses attributable to the Project shall be deemed for such Lease Year to be amounts equal to the Operating Expenses that would normally be expected to be incurred bad such occupancy of the Building beep at least ninety-five percent (95%) throughout such year, as reasonably determined by Landlord *(i.e.,* taking into account that certain expenses depend on occupancy *(e.g.,* janitorial) and certain expenses do not *(e.g.,* landscaping)).
Furthermore, if Landlord shall not furnish any item or items of Operating Expenses to any portions of the Building because such portions are not occupied or because such item is not required by the tenant of such portion of the Building, for the purposes of computing Operating Expenses, an equitable adjustment shall be made so that the item of Operating Expense in question shall be shared only by tenants actually receiving the benefits thereof.

(c) All costs and expenses other than Fixed Rene that Tenant assumes or agrees to pay and any other sum payable by Tenant pursuant to this Lease, including, without limitation, pursuant to this Article 4, shall be deemed "Additional Rent", and all remedies applicable to the nonpayment of Fixed Rent shall be applicable thereto. Fixed Rent and Additional Rent are herein referred to collectively as "Rent". Landlord may apply payments received from Tenant to any obligations of Tenant then accrued, without regard to such obligations as may be designated by Tenant. Additional Rent shall be paid by Tenant in the same manner as Fixed Rent, without any prior notice or demand therefor and without deduction, set-off or counterclaim and without relief from any valuation or appraisement laws.
(d) Notwithstanding the foregoing definition of Operating Expenses, for purposes of this lease, “Operating Expenses” shall not include the following:

(i) the cost of any special work or service performed for any tenant (including Tenant) at such tenant's cost;
(ii) any real estate brokerage commissions or other costs incurred m procuring tenants or any fee lieu of such commission;

(iii) the cost of correcting defects in construction of the Project or the Building;
(iv) compensation paid to officers and executives of Landlord;

(v) the cost of any items for which Landlord is reimbursed by insurance, condemnation or otherwise;
(vi) the cost of any additions, changes, replacements and other items which are solely made in order to prepare for a new tenant’s occupancy;

(vii) interest on debt or amortization payments on any mortgage or deed to secure debt and rental under any ground lease or other underlying lease;

(viii) capital expenditures to the common areas of the Project, unless such capital

expenditures are aimed at reducing Operating Expenses, maintenance of existing equipment, improving safety, or compliance with governmental rules and regulations (such as the installation of low energy lights in the parking area on the Project);

(ix) capital expenditures made as part of the acquisition or redevelopment of the Project;

(x) any expenses for repairs or maintenance which are covered by warranties and service contracts, to the extent such maintenance and repairs are made at no cost to Landlord;

(xi) legal expenses arising solely out of the construction of the improvements on the Project the entering into or enforcement of the provisions of any lease of space within the Building, including without limitation this Lease;

(xii) any advertising expe3nses incurred in connection with the marketing of any rentable space; and

(xiii) rental payments for base building equipment such as HVAC equipment and elevators.

5. UTILITIES.

(a) Landlord shall use commercially reasonable efforts to sub meter utilities to the Premises, in which case Tenant shall make arrangements with the applicable service provider to provide such services to the Premises in Tenant's name, and Tenant shall pay directly to such service providers the cost of all service connection fees and utilities consumed at the Premises throughout the Term. If any utility service is not separately metered, Landlord shall pay such bills and Tenant shall pay to Landlord within fifteen (15) days after actual receipt of the amount due from Landlord an amount based on the actual usage by Tenant (as determined by submeter read by Landlord) and the actual rate charged to Landlord by the utility provider without additional fee from Landlord. If Tenant fails to pay in a timely manner any sum required under this. Article 5. Landlord shall have the right, but not me obligation, to pay any such sum. Any sum so paid by Landlord shall be deemed to be owing by Tenant to Landlord and due and pc1yable as Additional Rent within ten (l 0) days after demand therefor. Notwithstanding anything herein to the contrary, any supplemental heating and/or cooling systems and equipment serving the Premises shall be separately metered to the Premises at Tenant's cost, and Tenant shall be solely responsible for all electricity registered by such meters. Landlord shall not be liable for any interruption or delay in electric or any other utility service for any reason unless caused by the gross negligence or willful misconduct of Landlord.

(b) Use of the-Premises-, or any part thereof, in a manner exceeding the design conditions (including occupancy and connected electrical load) for the heating, ventilation and air conditioning ("HV*AC")* units serving the Premises, or rearrangement of partitioning which interferes with normal operation of the *HV*AC system serving the Premises, may require changes in the HVAC system serving the Premises. Landlord has no obligation to keep cool any of Tenant's information technology equipment that is placed together in one room, on a rack, or in any similar manner ("IT Equipment"), and Tenant waives any claim against Landlord in connection with Tenant's IT Equipment. If Tenant exceeds the design conditions for the heating or cooling unts in the Premises or introduces into the Premise’s equipment that overloads the system. and/or in any oilier way causes the system not adequately to perform their proper functions, supplementary systems may at Landlord' s option be provided by Landlord at Tenant's expense. Tenant shall not change or adjust any closed or sealed thermostat or other element of the HV AC system without Landlord's express prior written consent. Landlord may install and

operate meters or any other reasonable system for monitoring or estimating any services or utilities used by Tenant in excess of those required to be provided by Landlord (including a system for Landlord's engineer reasonably to estimate any such excess usage). If such system indicates such excess services or utilities, Tenant shall pay Landlord1s reasonable charges for installing and operating such system and any supplementary air conditioning, ventilation., beat, electrical, or other systems or equipment {or adjustments or modifications to the existing Building systems and equipment), and Landlord's reasonable charges for such amount of excess services or utilities used by Tenant

6. SIGNS: USE OF PREMISES AND COMMON AREAS. At Tenant's cost, Landlord shall provide Tenant with Building-standard identification signage on all Building directories and at the entrance to the Premises. No other signs shall be placed, erected or maintained by Tenant at any place upon the Premises, Building or Project. Tenant's use of the Premises shall be limited to general office and laboratory, including, without limitation, medical testing, use (the "Permitted Use"). The Permitted Use shall be subject to all applicable Laws (as defined in Article 21) and to all reasonable requirements of the insurers of the Building. Without Landlord's prior written consent, Tenant shall not install in or for the Premises any equipment that requires more electric current than is standard in the Building. Tenant shall have the right, non-exclusive and in common with others, to use: (i) the exterior paved driveways and walkways of the Building for vehicular and pedestrian access to the Building; (ii) the internal common area, if any; and (iii) the designated parking areas of the Project for the parking of automobiles of Tenant and its employees and business visitors and vendors; provided Landlord shall have the right in its sole discretion and from time to time, to construct, maintain, operate, repair, close, limit, take out of service, alter, change, and modify all or any part of the common areas of the Project, including without limitation, restricting or limiting Tenant's utilization of the parking areas in the event the same become overburdened and in such case to equitably allocate on proportionate basis or assign parking spaces among Tenant and the other tenants of the Building. Tenant shall be solely responsible for installation of its data/te1ecommurucation systems and wiring at the Premises, which shall be done in compliance with all applicable Laws. Subject to Landlord' s reasonable approval, Tenant may use the vendor of its choice for such installation, Landlord shall mark the spaces outside the front door of the Building as reserved for visitors. In no event will Landlord reduce the ratio of parking spaces to rentable square feet of the Project below the ratio that exists as of the date of this Lease. Tenant shall be given four (4) reserved parking spaces in the parking lot closest to the entrance to the Premises.

7. ENVIRONMENTAL MATTERS. Tenant shall not use, generate, manufacture, refine, transport, treat, store, handle, dispose, bring or otherwise cause to be brought or permit any of its agents, employees, subtenants, contractors or invitees to bring, in, on or about any part of the Project, any hazardous. waste, hazardous substances, toxic substances, oil, asbestos or other hazardous material, pollutant or contaminant as defined by 42 U.S.C. Sections 960 1 *et seq.*, as the same may from time to time be amended, and the regulations promulgated pursuant thereto (CERCLA), or now or hereafter regulated by any Law. Notwithstanding the foregoing, Tenant shall be permitted to bring onto the Premises Hazardous Materials (as defined below) used in connection with its business provided Tenant shall at all times comply \with all Laws (including, without limitation laws gove1ning the use of laboratory space) pertaining to the storage handling, use and application of such Hazardous Materials. This Article 7 shall survive the expiration or sooner termination of this Lease. In no event shall Landlord be required to consent to the installation or use of any Hazardous Material storage tanks at the Project. Tenant, at its sole cost

and expense, shall remediate in a manner satisfactory to the applicable governmental agencies any Hazardous Materials released on or from the Project by Tenant, its agents, employees, contractors, assignees, subtenants or invitees. Tenant shall complete and certify disclosure statements as requested by Landlord from time to time relating to Tenant's transportation, storage, use, generation, manufacture or release of Hazardous Materials at the Premises. As defined in any applicable Laws, Tenant is and shall be deemed to be the "operator" of Tenant's "facility" and the "owner" **of** a1J Hazardous Materials brought on the Premises by Tenant, its agents, employees, contractors, assignees, subtenants, or invitees, and the wastes, byproducts, or residues generated, resulting, or produced therefrom. "Hazardous Materials" means any flammable items, explosives, radioactive materials, hazardous or toxic substances, material or waste or related materials, including any substances defined as or included in the definition of "hazardous substance", "hazardous wastes/' "hazardous material", or "toxic substances" now or subsequently regulated under any applicable federal, state or local Laws or regulations, including without limitation petroleum based products, paints, solvents, lead, cyanide, DDT, printing inks, acids, pesticides, ammonia compounds and other chemical products, asbestos, PCBs and similar compounds. and including any different products and materials that are subsequently found to have adverse effects on the environment or the health and safety of persons. In the event that Hazardous Materia1s are discovered that (i) are located in the Premises and pre-date Tenant's occupancy of the Premises; or, (ii) are located in the Premises and were introduced by Landlord., its agents, employees, or contractors, such Hazardous Materials shall be remediated by Landlord in a manner satisfactory to the applicable governmental agencies at Landlord1s sole cost and expense. Landlord represents and warrants to Tenant that it has received no notice and has no knowledge of any violations of any federal state or local laws, ordinances, orders, regulations and requirements affecting the Premises, the Building, or the Project.

8. TENANT'S ALTERATIONS. Tenant shall not cut, drill into or secure any fixture, apparatus or equipment or make alterations, improvements or physical additions (collectively, "Alterations") of any kind to any part of the Premises without first obtaining the written consent of Landlord, such consent not to be unreasonably withheld, Alterations shall be in compliance with all Laws. With respect to all Alterations made after the date hereof, other than those expressly made by Landlord pursuant to this Lease, Tenant acknowledges and agrees that
(i) Tenant is not, under any circumstance, acting as the agent of Landlord; (ii) Lru1d!ord did not cause or request such Alterations to be made; *(iii)* Landlord has not ratified such work; and (iv) Landlord did not authorize such Alterations within the meaning of Section 43 3 of the Code of Virginia or any amendment thereof All Alterations (whether temporary or permanent in character) made in or upon the Premises, either by Landlord or Tenant, shall be Landlo1'd's property upon installation and shall remain on the Premises without compensation to Tenant unless Landlord provides written notice to Tenant to remove same at the expiration or sooner termination of this Lease, in which event Tenant shall promptly remove such Alterations and restore the Premises to good order and condition. Notwithstanding the foregoing, Landlord has consented to Tenant's initial up-fit of the Premises pursuant to the plans attached hereto as Exhibit "D" ("Tenant's Initial Work"). Further, the following items of Tenant's Initial Work shall at all times remain Tenant's property and may be removed on or before the expiration of the Temby Tenant, at Tenant's sole cost and e:XJ>ense, and so long as Tenant repairs any damage occasioned by the removal of such item, s and restores_ the Premises to at least as good of a condition as existed as the date of this Lease, ordinary wear and tear excepted: All parts of Tenant's laboratory space.

9. ASSIGNMENT Mm SUBLETTING.

(a) Except as o otherwise expressly provided in this Article 9, neither Tenant nor Tenant's legal representatives or successors-in-interest by operation of law or otherwise, shall sell, assign, transfer, hypothecate, mortgage, encumber, grant concessions or licenses, sublet, or otherwise dispose of all or any interest in this Lease or the Premises, or permit any person or entity other than Tenant to occupy any portion of the Premises, without Landlord's prior written consent, which consent shall not be unreasonably withheld, conditioned or delayed. Any of the foregoing acts (a "Transfer" to a "Transferee") without such consent shall constitute an Event of Default and shall, at Landlord's option, be void and/or terminate this Lease. Landlord and Tenant acknowledge that Tenant is a publicly traded entity and so long *as* Tenant remains a publicly traded entity an assignment shall not include any assignment by operation of law, any merger, consolidation, or asset sale involving Tenant, any direct or indirect transfer of control of Tenant and any transfer of a majority of the ownership interests in Tenant. Consent by Landlord to any Transfer shall be held to apply only to the specific Transfer authorized. Such consent shall not be construed as a waiver of the duty of Tenant, or Tenant's legal representatives or assigns, to obtain from Landlord consent to any other or subsequent Transfers, or as modifying or limiting the rights of Landlord under the foregoing covenant by Tenant not *to* Transfer without Landlord's consent. The acceptance of rental by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision hereof.

(b) If at any time during the Term Tenant desires to consummate a Transfer which requires Landlord consent, Tenant shall give notice to Landlord of such desire, including the name, address and contact party for the proposed Transferee, the effective date of the proposed Transfer (including the proposed occupancy date by the proposed Transferee), and in the instance of a proposed sublease, the square footage to be subleased, a floor plan professonally drawn to scale depicting the proposed sublease area and a statement of the duration of the proposed sublease (which shall in any and all events expire by its terms prior to the scheduled expiration of this Lease, and immediately upon the sooner termination hereof). Landlord may, at its option, exercisable by notice given to Tenant within forty-five (45) days following Landlord's receipt of Tenant's notice, elect to recapture the Premises if Tenant is proposing to sublet, or terminate this Lease in the event of an assignment.

(c) Regardless of Landlord's consent, no Transfer shall release Tenant of Tenant's obligation or alter the primary liability of Tenant to pay the Rent and to perform all other obligations to be performed by Tenant hereunder, and DIFFUSlON PHARMACEUTICALS INC. and all assignees shall be jointly and severally liable for all Tenant obligations under this Lease, In connection with each proposed Transfer requiring Landlord approval and regardless of whether consent is given, Tenant shall pay to Landlord: (i) an administrative fee of $1,000 per request in order to defer Landlord's administrative expenses arising from such request; plus (ii) Landlord's reasonable attorneys' fees. Any sums or other economic consideration received by Tenant as a result of any Transfer (except payments that are unrelated to Tenant's leasehold interest in the Premises (such as cash consideration for Tenant's stock), and rental or other payments received that are attributable to the amortization of the cost of leasehold improvements made to the transferred portion of the Premises by Tenant to the Transferee, and other reasonable expenses incident to the Transfer, including standard leasing commissions) whether denominated rentals under the sublease or otherwise, that exceed, in the aggregate, the total sums which Tenant is obligated to pay Landlord under this Lease (prorated to reflect obligations allocable to that portion of the Premises subject to such Transfer) shall be divided evenly between Landlord and

Tenant, with Landlord's portion being payable to Landlord as Additional Rent without affecting or reducing any other obligation of Tenant .hereunder.

(d) Notwithstanding the foregoing, Tenant shall have the right without the prior consent of Landlord, but after at least fifteen (15) days' prior written notice to Landlord, *to* assign this Lease or sublet any portion of the Premises to any Affiliate (as defined below), or an entity (the "Surviving Entity") into which Tenant merges or that acquires substantially all of the assets or stock of1'enant; provided: (i) such assignee shall, in writing, assume and agree to perform all of the obligations of Tenant under this Lease, and it shall deliver a copy of such assignment and assumption agreement to Landlord within ten (10) days thereafter, together with a certificate of insurance evidencing the assignee's compliance with the insurance requirements of Tenant under this Lease; (ii) the Surviving Entity shall have a tangible net worth at least equal to the greater of the net worth of Tenant on the date of this Lease or on the date of such Transfer; (iii)DIFFUSION PHARMACEUTICALS INC. and any subsequent Tenant/assignor shall not be released or discharged from any liability under this Lease by reason of such Transfer; (iv) the use of the Premises shall be for the Permitted Use; and (v) if the assignment or subletting is to an Affiliate, such assignee or subtenant shall remain an Affiliate1hroughout the Term and if such assignee or subtenant shall cease being an Affiliate, Tenant shall notify Landlord in writing of such change and such transfer shall be deemed an Event of Default if Landlord's consent thereto is not given in writing within ten (l 0) business days of such notification. An "Affiliate" shall mean: (i) an entity which is 50% or more owned by those owning 50% or more of Tenant; (ii) a subsidiary of Tenant, (ill) a parent entity of Tenant; or, (iv) a subsidiary of the parent entity of Tenant.

10. LANDLORD'S RIGHT OF ENTRY. Landlord and persons autb01ized by Landlord may enter the Premises at all reasonable times upon reasonable advance notice with the accompaniment by a Tenant representative or specific written consent of the Tenant to the areas where Landlord and persons authorized by Landlord will be allowed to enter (or any time without notice in the case of an emergency). Landlord shall not be liable for inconvenience to or disturbance of Tenant by reason of any such entity; provided, however, in the case of repairs or work, such shall be done, so far as practicable, so as to not unreasonably interfere with Tenant's use of the Premises. Notwithstanding the foregoing, Landlord and Tenant acknowledge that, as a result of the nature of Tenant's business operations in the Premises, Tenant is required by applicable laws and regulations to restrict access to the Premises and to comply with other extraordinary security procedures. Accordingly, Landlord expressly acknowledges that as a material condition of the Lease, it shall comply with Tenant's security provisions when accessing the Premises for any reason, however, in the event of an emergency, Landlord may use any means necessary to access the Premises. Landlord agrees that if it accesses the Premises in the event of an emergency, Landlord shall immediately or as soon as reasonably practical, notify Tenant of such access. Tenant deals with sensitive non-public information in the conduct of the Permitted Use and Landlord shall, and shall require its contractors' agents, and employees to, keep confidential any items observed, seen, l1eard, or learned while inside the Premises.

11. REPAJRS AND MAINTENANCE.

(a) Tenant, at its sole cost and exp.en.se and throughout the Term, shall keep and maintain the interior of the Premises and mechanical, plumbing and electrical systems exclusively serving the Premises (including; without limitation, HVAC systems and equipment serving the Premises) in good order and condition, free of rubbish, and shall promptly make all non-structural repairs

necessary to keep and maintain such good order and condition. When used in this Article II, the term “repairs" shall include replacements and renewals when necessary. All repairs made by Tenant stall utilize materials and equipment that area least equal in quality and usefulness to those originally used in constructing the Building and the Premises. Landlord shall not be liable to Tenant for any damage caused to Tenant and its property due to the Building or any part or appurtenance thereof being improperly constructed or being or becoming out of repair, or arising from the leaking of gas, water, sewer or steam pipe s, or from problems with electrical service, so long as Landlord diligently remedies such defect to the extent under Landlord's control.

(b) Tenant shall, at its expense, enter into contracts (or, at. Landlord’s option, accept the assignment and responsibility for existing contracts) for: (i) preventive maintenance and service for regularly scheduled maintenance of all HVAC systems and equipment serving the Premises; and (ii) termite and pest prevention and extermination services to the Premises. The contractors and the terms and conditions of the contracts, including the scope of services and the maintenance or service schedule, shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld. The contracts must be in effect and a fully executed copy thereof must be provided to Landlord within thirty (30) days after the Commencement Date. Tenant shall provide or cause the contractors to provide Landlord with copies of all work orders and other maintenance or service records for all work performed within the Premises promptly following each maintenance or service activity. If Tenant shall fail to perform any of its obligations hereunder, Landlord may cure such default on behalf of Tenant, and Tenant shall reimburse Landlord upon demand for any sums paid or costs incurred by Landlord in cure such default, including attorneys' fees and other legal expenses, together with interest at the Default Rate (as defined in Section 19(b) below).

(c) Landlord shall make allnecessary repairs to thefooti(c) Landlord shall make all necessary repairs to the footings and foundations and the steel columns and girders forming a part of the Premises, and to the Building outside of the Premises and repairs made necessary by a negligent or willful act or omission of Tenant or any employee, agent, contractor, or invitee of Tenant shall be made at sole cost and expense of Tenant, except to the extent of insurance proceeds received by Landlord. Landlord represents and warrants to the best of Landlord’s knowledge that, as of the date of this Lease, for buildings, of like age and class, all structural parts of the Premises, including but not limited to the foundation, roof, exterior walls, plumbing and electrical systems meet and comply with all federal, state, and local laws, ordinances and regulations, all handicapped accessibility standards, including but not limited to the Americans with Disabilities Act (“ADA”) accessibility requirements, and are in good, sanitary order, condition, and repair.

(d) Landlord shall deliver the Premises with the HVAC systems and equipment serving the Premises in good working order. If me cost of any one (l) repair to the HVAC systems and equipment serving the Premises incurred by Tenant during the first twelve (12) months after the Commencement Date exceeds Five Hundred andNoll00 Dollars ($500.00), then Land1ord shall reimburse Tenant for such costs incurred in excess of Five Hundred and Noll00 Dollars ($500.00) within thirty (30) days after receipt of an invoice therefor together with reasonable supporting documentation. If the costs of any series of repairs or replacements to the HVAC systems exceeds $1,500 in any twelve (12) month period during the Term, Landlord shall reimburse Tenant for such costs incurred in excess of $1,500 within thirty (30) days after receipt of an invoice therefor together with reasonable supporting documentation. Notwithstanding the foregoing, Landlord's obligation to reimburse Tenant is expressly conditioned on; (i) Tenant maintaining a preventative maintenance contract on the HVAC units; (ii) the cause for the repairs or replacements not being the negligence or willful misconduct of Tenant or its agents, employees or contractors; and (iii) Landlord being given the opportunity to inspect the applicable and equipment and proposals prior to

either party incurring costs.

12. INSURANCE: SUBROGATION RIGHT'S. Tenant shall obtain and keep in force at all times during the Term, at its own expense, commercial general liability insurance including contractual liability and personal injury1iability and all similar coverage, with combined single limits of $2,000,0Qp.oo .on account of bodily injury to or death of one or more persons as the result of any one accident or disaster and on account of damage to property, together with an umbrella policy of$4,000,000.00, or in such other amounts as Landlord may from time to time require. Tenant shall also require its movers to procure and deliver to Landlord a certificate of insurance covering. Landlord as an additional insured. Tenant shall, at its sole cost and expense, maintain in full force and effect on al} Tenant's trade fixtures, equipment and personal property in the Premises, a policy of "special form" property insurance covering the full replacement value of such property. All liability insurance required hereunder shall IlQ1 be subject to cancellation without at least thirty (30) days' prior notice to all insureds, and shall name Tenant as insured, and Landlord and Landlord's property manager as additional insureds, and, if requested by Landlord, shall also name as an additional insured any mortgagee or holder of any mortgage that may be or become a lien upon any part of the Premises. Prior to the commencement of the Term, Tenant shall provide Landlord with certificates that evidence that the coverages required have been obtained for the policy periods. Tenant shall also furnish.to Landlord or Landlord's designated agent throughout the Term replacement certificates at least thirty (30) days prior to the expiration dates of the then-current policy or policies. All the insurance required under this Lease shall be issued by insurance companies authorized to do business in the Commonwealth of Virginia with a financial rating of at least an A-X as rated in the most recent edition of Best's Insurance Reports and in business for the past five (5) years. The limit of any such insurance shall not limit the liability of Tenant hereunder. If Tenant fails to maintain such insurance, Landlord may but is not required to, procure and maintain the same, at Tenant's expense to be reimbursed by Tenant as Additional Rent within ten (I 0) days of written demand. Any deductible under such insurance policy in excess of Twenty-Five Thousand Dollars ($25,000) must be approved by Landlord in writing prior to issuance of such policy. Tenant shall not self-insure-without Landlord's prior written consent Landlord and Tenant shall each procure an appropriate clause in or endorsement to any property insurance covering the Project or any portion thereof and personal property, fu.1Ures and equipment located therein, wherein the insurer waives subrogation or consents to a waiver of right of recovery. Both Landlord and Tenant agree to immediately give each insurance company which has issued to it policies of fire and extended coverage insurance written notice of the terms of such mutu.al waivers and to cause such insurance policies to be properly endorsed, if necessary, to prevent the invalidation thereof by reason of such waivers and shall furnish to the other party written evidence of such foregoing endorsements or that such endorsement is not required. Landlord and Tenant hereby waive and agree not to make any claim against, or seek to recover from, the other for any loss or damage to its property or the property of others resulting from tire or other hazards to the e>..1:ent covered (or would have been covered if the party had obtained and maintained the insurance it was required to carry under this Lease or if Tenant did not elect to self-insure for any such matter or risk) by the property insurance that was required co be carried by that party under the terms of this Lease. The foregoing waivers shall not apply to Joss or damage in excess of actual or required policy limits (whichever is greater) or to the first $25,000.00 of any deductible, co-insurance or self-insured retentions applicable under any policy maintained by Landlord. Landlord. will maintain a policy of "special form:" property insurance covering the full replacement value of Landlord's interest in the Project with a deductible in an amount not to exceed $25,000. Landlord will maintain a commercial general liability insurance policy for the Project in a reasonable amount.

13. INDEMNIFICATION.

(a) Tenant shall defend, indemnify and bold harmless Landlord, Landlord's property manager and each of Landlord's directors, officers, members, partners, trustees, employees and agents (collectively, the "Landlord Indemnitees") from and against any and all third-party claims, actions, damages, liabilities and expenses (including all reasonable costs and expenses (including reasonable attorneys' fees)) arising from: (i) Tenant's breach of this Lease; (ii) any negligence or willful act of Tenant, any Tenant Indemnitees (as defined in Section 13(b) below), or any of Tenant's invitees, subtenants, or contractors; provided, however, Tenant's indemnity obligations shall not

extend to loss of business, loss of profits, or other consequential damages that may be suffered by Landlord and (iii) any acts or omissions occurring at, or the condition, use or operation of, the Premises, except to the extent arising from Landlord's negligence or willful misconduct. If Tenant fails to promptly defend a Landlord Indemnitee following written demand by the Landlord Indemnitee, the Landlord Indemnitee shall defend the same at Tenant's expense, by retaining or employing counsel reasonably satisfactory to such Landlord Indemnitee.

(b) Landlord shall defend, indemnify and hold harmless Tenant and each of Tenant's directors, officers, members, partners, trustees,employees and agents (collectively, the "Tenant Indemnitees") from and against any and all third-party claims, actions, damages, liabilities and expenses (including all reasonable costs and expenses (including reasonable attorneys' fees)) arising from: (i) Landlord's breach of this Lease; and (ii) any negligence or willful misconduct of Landlord or any Landlord indemnitees; provided, however Landlord's
indemnity obligations shall not extend to loss of business, loss of profits, or other consequential damages that may be suffered by Tenant. If Landlord fails to promptly defend a Tenant Indemnitee following written demand by the Tenant indemnitee, the Tenant Indemnitee shall defend the same at Landlord's expense, by retaining or employing counsel reasonably satisfactory to such Tenant Indemnitee.

(c) The provisions of this Article 13 shall survive the expiration or earlier termination of this Lease

14. FIRE DAMAGE. If there occurs any casualty to the Premises and: {i) the casualty damage *is* of a
nature or extent that, in Landlord's reasonable judgment, the repair and restoration work would require more than two hundred ten (210) consecutive days to complete after the casualty (assuming normal work crews not engaged in overtime); or (ii) more than thirty (30%) percent of the total area of the Building is extensively damaged; or (iii) the casualty occurs in the last Lease Year of the Term and Tenant bas not exercised a renewal right; or (iv) insurance proceeds are unavailable or insufficient, either party shall have the right to terminate this Lease and all the unaccrued obligations of the parties hereto, by sending written notice of such termination to the other within thirty
(30) days of the date of casualty. Such notice is to specify a termination date no less1han fifteen (15) days after its
transmission. Notwithstanding the foregoing, if the casualty was caused by the act or omission of Tenant or any of Tenant's agents, employees, invitees, assignees, subtenants, licensees or contractors, Tenant shall have no right to terminate th.is Lease due to the casualty. In the event of damage or destruction to the Premises or any part thereof and neither *party* has terminated this Lease, Tenant's obligation to pay Fixed Rent and Additional Rent shall be equitably adjusted or abated.

15. SUBORDINATION AND NON-DISTURBANCE: RIGHTS OF MORTGAGEE. Provided the holder of a mortgage or Deed of Trust (as hereinafter defined) agrees to recognize ibis Lease in the event of a foreclosure or deed in lieu of foreclosure, this Lease shall be subordinate at all times to the lien of any mortgages now or hereafter placed upon the Premises, Building and/or Project and land of which they are a part without the necessity of any further instrument or act on the part of Tenant to effectuate such subordination. Tenant further agrees to execute and deliver within ten (10) days of demand such further instrument evidencing such subordination, non-disturbance and attornment as shall be reasonably required by any mortgagee. If Landlord shall be or is alleged to be in default of any of its obligations owing to Tenant under this Lease, Tenant shall give to the holder (the "Mortgagee") of any mortgage or deed of trust now or here after placed upon the Premises, Building and/or Project (provided Tenant has received written notice of the name and address of such Mortgagee), notice by overnight mail of any such default that Tenant shall have served upon Landlord. Tenant shall not be entitled to terminate this Lease because of any default by Landlord without having given such notice to the Mortgagee. If Landlord shall fail to cure such default, prior t0 Tenant terminating the Lease, the Mortgagee shall have forty-five (45) additional days within which to cute such default. In addition, the Mortgagee (or a trustee on behalf of the Mortgagee), may, at its option, execute and record among the land records of the jurisdiction where the Premises are located a subordination statement or statements with respect to this Lease whereby this Lease will be made superior to the lien of the deed of trust or the mortgage held by the Mortgagee and encumbe1ing the: Project (the "Deed of Trust"). Tenant acknowledges the right of the Mortgagee to file such a subordination statement, and agrees that from and after the recordation of such a subordination statement, this Lease shall be superior in lien and in dignity to the lien of the Deed of Trust, and shall not be affected by any foreclosure of the Deed of Trust.

16. CONDEMNATION. If a taking renders the Building reasonably unsuitable for the Permitted Use, this Lease shall, at either party's option, terminate as of the date title to condemned real estate vests in the condemner, the Rent herein reserved shall be apportioned and paid in full by Tenant to Landlord to such date, all Rent prepaid for period beyond that date shall forthwith be repaid by Landlord to Tenant, and neither party shall thereafter have any liability for any unaccrued obligations hereunder. If this Lease is not terminated after a condemnation, the Fixed

Rent and the Additional Rent shall be equitably reduced in proportion to the area of the Premises that has been taken for the balance of the Term. Tenant shall have the right to make a claim against the condemner for moving expenses and business dislocation damages to the extent that such claim does not reduce the sums otherwise payable by the condemner to Landlord.

17. ESTESTOP£'.E.L CERTIFICATE. Each party agrees at any time and from time to time, within ten (10) days after the other party's written request, to execute and deliver of the other party a written instrument: in recordable form certifying all information reasonably requested..

18. DEFAULT.

(a) An "Event of Default" shall be deemed to exist and Tenant shall be in default hereunder if: CO Tenant fails to pay any Rent when due and such failure continues for more than three (3) business days after Landlord bas given Tenant written notice of such failure; provided, however, in no event shall Landlord have any obligation to give Tenant more than two (2) such notices in any twelve (12)-month period, after which there shall be an Event of Default if Tenant fails to pay any 'Rent when due, regardless of Tenant's receipt of notice of such non- payment; (ii) Tenant ceases to use the Premises for its Permitted Use or removes substantially all of its furniture, equipment and personal property from the Premises (other than in the case of a permitted subletting or assignment)t or permits the same to be unoccupied; (iii) Tenant fails to bond over -a construction or mechanics lien within ten (10) days of demand; (iv) any assignment or subletting (regardless of whether the same might be void under this Lease) in violation of the terms of this Lease; (v) the occurrence of any default beyond any applicable notice and/or cure period under any guaranty executed in connection with this Lease; (vi)Tenant fails to deliver any Landlord requested estoppel certificate or subordination agreement within ten (10) business days after receipt of notice that such document was not received within the time period required under this Lease; or (vii) Tenant fails to observe or perform any of Tenant's other non-monetary agreements or obligations herein contained within ten (l0) days after written notice specifying the default, or the expiration of such additional time period as is reasonably necessary to cure such default (not to exceed ninety (90) days), provided Tenant immediately commences and thereafter proceeds with all due diligence and in good faith to cure such default, h

(b) If an Event of Default shall occur, the following provisions shall apply and Landlord shall have, in addition to all other rights and remedies available at law or in equity, including the right to terminate this Lease. the rights and remedies set forth herein, which may be exercised upon or at any rime following the occurrence of an Event of Default. 1. Acceleration of Rent. Landlord shall have the right to accelerate all Rent and all expenses due hereunder and otherwise payable in installments over the remainder of the Term. The amount of accelerated rent to the termination da te, without further notice or demand for payment, shall be due and payable by Tenant within five (5) days after Landlord has so notified Tenant. If Tenant has paid to Landlord all accelerated rent for the balance of the Term and if Landlord shall subsequently lease the Premises or a portion thereof for the balance of the Term or portion thereof: Landlord shall pay Tenant 50% of any such rent actually collected. Additional Rent that has not been included, in whole or in part, in accelerated rent, shall be due and payable by Tenant during the remainder of the Term, in the amounts and at the times otherwise provided for in this Lease. 2. Termination of Lease; Termination of Possession. Landlord shall have the right to terminate this Lease and recover all damages caused by Tenant' s breach, including consequential damages for lost future rent, and/or repossess the Premises, with or without terminating, and relet the Premises at such amount as Landlord deems reasonable, and/or seize and bold any personal property of Tenant located in the Premises and assert against the same a lien for monies due Landlord, and/or lock the Premises and deny Tenant access thereto without obtaining any court authorization, and/or obtain an order for unlawful detainer from any court of competent jurisdiction without prejudice to Landlord's rights to otherwise collect Rent or breach of contract damages from Tenant, and/or pursue any other remedy available in law or equity. 3. Landlord's Damages. The damages that Landlord shall be entitled to recover from Tenant shall be the sum of: (i) all Fixed Rent and Additional Rent accrued and unpaid as of the termination date; (ii) all costs and expenses incurred by Landlord in recovering possession of the Premises, including legal fees, and removal and storage of Tenant's property; (iii) the costs and expenses of restoring the Premises to the condition in which the same were to have been surrendered by Tenant as of the expiration of the Term; (iv) the costs of reletting commissions; (v) all Fixed Rent and Additional Rent otherwise payable by Tenant over the remainder of the Term as reduced to present value and all consequential damages relating to Tenant's breach of this Lease; (vi) all legal fees and court costs incurred by Landlord in connection with the Event of Default; *plus* (vii) the unamortized portion (as reasonably determined by Landlord) of brokerage commissions and consulting fees incurred by Landlord, and tenant concessions including free rent given by Landlord, in connection with th.is Lease. Less deducting from the total determined under subsections (i) through (vii) above, all Rent that Landlord receives from other tenant(s) by reason of the leasing of the Premises during any period falling within the otherwise remainder of the Term. 4. Landlord's Right to Cure. Without limiting the generality of the foregoing, if Tenant shall fail to perform any of its obligations

hereunder, Landlord may, in addition to any other rights it may have in law or in equity, cure such default on behalf of Tenant, and Tenant shall reimburse Landlord upon demand for any sums paid or costs incurred by Landlord in curing such default, including attorneys' fees and other legal expenses, together with interest at twelve percent (12%) (the "Default Rate") from1he dates of Landlord's incurring of costs or expenses. 5. Interest on Damage Amounts. Any sums payable by Tenant hereunder that are not paid after the same shall be due shall bear interest at the Default Rate. 6. No Waiver by Landlord. No delay or forbearance by Landlord in exercising. any right or remedy hereunder, or Landlord's undertaking or performing any act or matter that is not expressly required to be undertaken b y Landlord shall be construed, respectively, to be a waiver of Landlord's rights or to represent any agreement by Landlord to undertake or perform such act or matter thereafter. Waiver by Landlord of any breach by Tenant of any covenant or condition herein contained (which waiver shall be effective only if so expressed in writing by Landlord) or failure by Landlord to exercise any right or remedy in respect of any such breach shall not constitute a waiver or relinquishment for the future of Landlord's right to have any such covenant or condition duly performed or observed by Tenant, or of Landlord's rights arising because of any subsequent breach of any such. covenant or condition nor bar any right or remedy of Landlord in respect of such breach or any subsequent breach. All tights and remedies of Landlord are cumulative, and the exercise of any one shall not be an election excluding Landlord at any other time from exercise of a different or inconsistent remedy.

(c) If Landlord is compelled to engage the services of attorneys (either outside counsel or in house counsel) to enforce the provisions of this Lease, to the extent that Landlord incurs any cost or expense in connection with such enforcement, including without limitation instituting, prosecuting or defending its rights in any action, proceeding or dispute by reason of any default by Tenant, the sum or sums so paid or billed to Landlord, together with all interest, costs and disbursements, shall be due from Tenant immediately upon receipt of an invoice therefor following the occurrence of such expenses. If, in the context of a bankruptcy ca se Landlord is compelled at any time to incur any expense, including attorneys' fees, in enforcing or attempting to enforce the terms of this Lease or to enforce or attempt to enforce any actions required under the Bankruptcy Code to be taken by the trustee or by Tenant, as debtor-in-possession then the sum so, paid by Landlord shall be awarded to Landlord by the Bankruptcy Court and shall be immediately due and payable by the trustee or by Tenant's bankruptcy estate to Landlord in accordance with the terms of the order of the Bankruptcy Court.

(d) If Landlord fails to pay when due any sum due Tenant hereunder, which failure continues for a

period of fifteen (15) days after receipt of written notice of such failure from Tenant to Landlord, or if Landlord fail to keep, perform or observe any of the other covenants to be kept, observed or performed by Landlord hereunder, which failure continues for a period of thirty (30) days after written notice of such failure from Tenant to Landlord (unless such failure is of such a nature that it will require more than thirty (30) days to cure, in which case such cure period shall be extended for so long as Landlord shall promptly commence and diligently prosecute the cure of such failure, and while doing so shall continue to perform all of its monetary obligations hereunder, but in no event to exceed one hundred twenty (120) days), then, in either of such events, an "Event of Default by Landlord" shall exist hereunder.

(e) If an Event of Default by Landlord exists, then Tenant may exercise any and all remedies available at law or in equity, including, without limitation, any one or more of the following remedies, while such default is continuing or remains uncured:

(i) to commence an action for specific performance against Landlord; and/or

(ii) to commence an action for damages suffered or incurred by Tenant as a result of Landlord's default; and/or

(iii) to itself perform, or cause to be performed, the covenant, performance or condition required to be kept, observed or performed by Landlord and which is in default and to thereafter pursue a court action against Landlord for amounts expended on Landlord's account.

19. SURRENDER. No later than upon the expiration or earlier termination of the Term or Tenant's right to possession of the Premises, Tenant shall vacate and surrender the Premises to Landlord in good order and condition and in conformity with the applicable provisions of this Lease, including without limitation Article 11. Tenant shall have no right to hold over beyond the expiration of the Term, and if Tenant does not vacate as required such failure shall be deemed an Event of Default and Tenant's occupancy shall not be construed to effect or constitute anything other than a tenancy at sufferance. During any period of occupancy beyond the expiration or earlier termination of the Term the amount of Rent owed by Tenant. a Landlord shall be one hundred fifty percent (150%) of the Rent that would otherwise be due under this Lease, without prorating for any partial month of holdover. The acceptance of

Rent by Landlord or the failure or delay of Landlord in notifying or evicting Tenant following the expiration or earlier termination of the Term shall not create any tenancy rights in Tenant and any such payments by Tenant may be applied by Landlord against its costs and expenses, including reasonable attorneys' fees, incurred by Landlord as a result of such holdover. The provisions of this section shall not constitute a waiver by Landlord of any right of re-entry as set forth in this Lease; nor shall receipt of any Rent or any other act in apparent affirmance of the tenancy operate as a waiver of Landlord's right to terminate this Lease for a breach of any of the terms, covenants, or obligations herein on Tenant's part to be performed. In addition, if Tenant fails to vacate and surrender the Premises as herein required, Tenant shall indemnify, defend and hold harmless Landlord from all costs, losses, expenses or liabilities incurred as a result of such failure, including without limitation, claims made by any succeeding tenant and real estate brokers' claims and reasonable attorneys' fees. At the end of the Term or sooner termination of Tenant's right to possession of the Premises, Tenant shall, at Landlord's option, remove all furniture, movable trade fixtures and equipment (including telephone security and communication equipment system wiring and cabling) in a good and workmanlike manner so as not to damage the Premises or Building and in such manner so as not to disturb other tenants in the Building. Tenant's obligation to pay Rent and to perform all other Lease obligations for the period up to and including the expiration or earlier termination of this Lease, and the provisions of this Article 19. sha11survive the expiration or earlier termination of this Lease.

20. RULES AND REGULATIONS. At all times during the Term, Tenant, its employees, agents, subtenants, invitees and licensees shall comply with all rules and regulations specified on Exhibit G attached hereto and such other written rules and regulations established by Landlord for the Project from time to time (provided, no later adopted rules shall interfere with Tenant' s use of the Premises for the Permitted Use). In.the event of an inconsistency between the rules and regulations and this Lease, the provisions of this Lease shall control.

21. GOVERNMENTAL REGULATIONS. Tenant shall. in the use and occupancy of the Premises and the conduct of Tenant's business or profession therein, at all times comply with all applicable laws, ordinances, orders, notices, rules and regulations of the federal, state and municipal governments (collectively, "Laws"). Landlord shall be responsible for compliance with Title III of the Americans with Disabilities Act of 1990, 42 U.S.C. §12181 *et seq*. and its regulations (collectively, the "ADA"): (a) as to the design and construction of exterior and interior common areas (e.g. sidewalks, parking areas and common area bathrooms); and (b) with respect to the design and construction of the Premises as of the date of this Lease. Except as set forth above in the preceding sentence, Tenant shall be responsible for compliance with the ADA in all other respects concerning the use and occupancy of the Premises, which. Compliance shall include, without limitation: (i) provision for full and equal enjoyment of the goods, services, facilities, privileges, advantages or accommodations of the Premises as contemplated by and to the extent required by the ADA; (ii) compliance relating to requirements under the ADA or amendments thereto arising after the date of this Lease; and (iii) compliance re1ating to the design, layout, renovation redecorating, refurbishment, alteration, or improvement to the Premises made or requested by Tenant.

22. NOTICES. Wherever in this Lease it shall be required or permitted that notice or demand be given or served by either party to this Lease to or on the other party, such notice or demand shall be duly given or served if in writing and either: (i) personally served; (ii) delivered by pre-paid nationally recognized overnight courier service *(e.g.,* Federal Express) with evidence of receipt required for delivery; (ill) forwarded by registered or certified mail, return receipt requested, postage prepaid; (iv) sent by facsimile with a copy mailed by first class United States mail; or (v) if an e-mail address is provided, e-mailed with evidence of receipt and delivery of a copy of the notice by first class mail in all such cases addressed to the parties at the addresses set forth below_ Each such notice shall be deemed to have been given to or served upon the party to which addressed on the date the same is delivered or delivery is refused. Each party shall have the right to change its address for notices (provided such new address is in the continental United States) by a writing sent to the other party in accordance with this Article 22, and each party shall, if requested, within ten (10) days confirm to the other its notice address. Notices from Landlord may be given by either an agent or attorney acting on behalf of Landlord.

Tenant: DIFFUSION PHARMACEUTICALS INC,
Attn: David Kalergis
1317 Carlton Avenue, Suite400
Charlottesville, VA 22902
Pax No: (434) 220-0722
E-mail: dkalergis@diffusionpharma.com

Landlord: ONE CARLTO N, LLC
Attn: Frayser White
1100 Harris Street
Charlottesville, VA 22903
E-mail: frayser.white@!!lilaiLcom

With a copy to: Henry Lisico
Henry Lisico Company
12704 Crimson Ct., Suite 101
Richmond, VA.23233-7657
E-mail: henrviisjco@verizon.net

23. BROKERS. Landlord and Tenant each represents and warrants to the other that such party has had no dealings, negotiations or consultations with respect to the Premises *or* this transaction wi.th any broker or finder other than Cushman & Wakefield/Thalhimer. Each party shall indemnify and hold the other harmless from and against all liability, cost and expense, including attorneys' fees and court *costs*, arising out of any misrepresentation or breach of warranty under this Article.

24. LANDLORD'S LIABILITY. Landlord's obligations hereunder shall be binding upon Landlord only for the period of time that Landlord is in ownership of the Building, and upon termination of that ownership, Tenant except as to any obligations that are then due and owing, shall look solely to Landlord's successor-in-interest in ownership of the Building for the satisfaction of each and every obligation of Landlord hereunder. Upon request and without charge, Tenant shall attorn to any successor to Landlord's interest in this Lease and, at the option of any Mort gees, to such Mortgagees. Landlord shall have no personal liability under any of the terms, conditions or covenants of this Lease and Tenant shall look solely to the equity of Landlord in the Building and/or the proceeds therefrom for the satisfaction of any claim, remedy or cause of action of any kind whatsoever arising from the relationship between the parties or any rights and obligations they may have relating to the Project, this Lease, or anything related to either, including without limitation as a result of the breach of any section of this Lease by Landlord. In addition, no recourse shall be had for an obligation of Landlord hereunder, or for any claim based thereon or otherwise in respect thereof or the relationship between the parties, against any past, present or future Landlord Indemnitee (other than Landlord), whether by virtue of any statute or rule of law, or by the enforcement of any assessment or penalty or otherwise, all such other liability being expressly waived and released by Tenant with respect to the Landlord Indemnitees (other than Landlord).

25. MISCELLANEOUS PROVISIONS. (a) Successors. The respective rights and obligations provided in this Lease shall bind and inure to the benefit of the parties hereto, their successors and assigns; provided; however, no rights shall inure to the benefit of any successors or assigns of Tenant unless Landlord's written consent for the transfer to such successor and/or assignee has first been obtained as provided in Article *9* hereof. (b) Governing Law. This Lease shall be construed, governed and enforced in accordance with the laws of the Commonwealth of Virginia, without regard to principles relating to conflicts of l aw. (c) Entire Agreement. The exhibits attached to this Lease are expressly incorporated into this Lease. This Lease supersedes any prior discussions, proposals, negotiations and discussions between the parties, and this Lease contains all the agreements, conditions, understandings, representations and warranties made between the parties hereto with respect to the subject matter hereof, and may not be modified orally or in any manner other than by an agreement in writing signed by both parties hereto or their respective successors in interest. Without in any way limiting the generality of the foregoing, this Lease can only be extended pursuant to the terms hereof, with the due exercise *of.* an option(if any) contained herein or pursuant to a written agreement signed by both Landlord and Tenant specifically extending the term. No negotiations, correspondence by Landlord or offers to extend the term shall be deemed an extension of the termination date for any period whatsoever. (d) Time of the Essence. **TXME IS OF THE ESSENCE** IN **ALL PROVISIONS OF THIS LEASE, INCLUDING ALL NOTICE PROVISIONS.** (e) Accord and Satisfaction. No

payment by Tenant or receipt by Landlord of a lesser-amount than any payment of Fixed Rent *or* Additional Rent herein stipulated shall be deemed to be other than on ac-count of the earliest stipulated Fixed Rent or Additional Rent due and payable hereunder, nor shall any endorsement or statement or any check or any letter accompanying any check or payment as Rent be deemed an accord and satisfaction. Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such Rent or pursue any other right or remedy provided for in this Lease, at law or in equity. (f) Guaranty. Intentionally deleted. (g) Force Majeure. Whenever a party hereto is required by the provisions of this Lease to perform an obligation and such party is prevented beyond its reasonable control from doing so by reason of a Force Majeure Event (as defined below), such party shall be temporarily relieved of its obligation to perform the obligation provided such party promptly notifies the other party of the specific delay and exercises due diligence to remove or overcome it. In no event, however, shall Tenant be excused from paying Rent because of a Force Majeure Event. A "Force Majeure Event" shall mean any and all delays beyond a party's reasonable control, including without limitation, delays caused by the other party, governmental restrictions, governmental regulations and controls, order of civil, military or naval authority, governmental preemption, strikes, labor disputes, lock-outs, acts of God, fire, earthquake, floods, e:xplosions, extreme weather conditions, enemy action, and civil commotion, riot or insurrection, but expressly excluding insufficiency of funds, inability to obtain financing. casualty and condemnation. (h) Financial Statements. Tenant shall furnish to Landlord, the Mortgagee, prospective mortgagee or purchaser reasonably requested financial information; provided, so long as Tenant is publicly traded, Tenant's financial statements which are publicly available on the SEC website shall be all that Tenant is required to provide. (i) Authority. Each of Tenant and Landlord represents and warrants to the other that: (i) it is duly organized, validly existing in its state of incorporation/organization and legally authorized to do business in the Commonwealth of Virginia; and (ii) the persons executing this Lease are duly authorized to execute and deliver this Lease on behalf of such party. (j) Attorneys' Fees. In connection with any litigation arising out of this Lease, the prevailing pa1iy, Tenant or Landlo, rd shall be entitled to recover all costs incurred, including reasonabl1;1 attorneys' fees. (k) Waiver: of Jury Trial. To the extent permitted by applicable law, Landlord and Tenant hereby waive trial by jury in any action, proceeding or counterclaim brought by either against the other on any matter arising out of or in any way connected with this Lease, the relationship of Landlord and Tenant, or Tenant's use or occupancy of the Building, any claim or injury or damage, or any emergency or other statutory remedy with respect thereto. (1) Press Releases. Landlord shall have the right, without further notice to Tenant, to include general information relating to this Lease including without limitation Tenant's name, the Building and the square footage of the Premises, in press releases relating to Landlord's and its affiliates' leasing activity. Information relating to rates will not be released without Tenant's prior written consent, such consent not to be unreasonably withheld, conditioned or delayed. (m) Calculation of Time. Io computing any period of time prescribed or allowed by any provision of this Lease, the day of the act, event or default from which the designated period of time begins to run shall not be included. The last day of the period so computed shall be included, unless it is a Saturday, Sunday or a legal holiday, in which event the period runs until the end of the next day which is not a Saturday, Sunday; or legal holiday. Unless otherwise provided herein, all notices and other periods expire as of 5:00 p.ro.. (local time in Charlottesville, Virginia) on the last day of the notice or other period. (n) Landlord's Consent. Under no circumstances shall Landlord be liable to Tenant for any failure or refusal to grant its consent when consent is required hereunder. Tenant shall not claim any money damages by way of setoff, counterclaim or defense, based on any claim that Landlord unreasonably withbe1d its consent, in which case Tenant' s sole and exclusive remedy shall be an action for specific performance, injunction or declaratory judgment. (o) Landlord's Fees. Whenever Tenant requests Landlord to take any action not required of it hereunder or give any consent required or permitted under this Lease, Tenant shall reimburse Landlord for Landlord's reasonable, out of-pocket costs incurred by Landlord in reviewing the proposed action or consent. including reasonable attorneys', engineers' or architects' fees; within thirty (30) days after Landlord's delivery to Tenant of a statement of such costs. Tenant shall make such reimbursement without regard to whether Landlord consents to any such proposed action. Tenant shall not owe any fees to Landlord for review and approval of Tenant's Initial Work. (p) Confidentiality. Tenant acknowledges and agrees that the terms of this Lease (and any preliminary drafts hereof) are confidential and constitute proprietary information of Landlord, and may not be disclosed by Tenant to anyone except to Tenant's employees, brokers, accountants, attorneys, and permitted assignees and subtenants, who have each been informed of the confidentiality clause in this Lease, by any manner or means, directly or indirectly, without Landlord's prior written consent except as and to the extent required by court order. The consent by Landlord to any disclosures shall not be deemed to be a waiver on the part of Landlord of any prohibition against any future disclosure. Disclosure of thee ter.ms of 'this Lease could adversely affect the ability of Landlord to negotiate other leases and may impair Landlord's relationship with other tenants. It is understood and agreed that damages alone would be an inadequate remedy for the breach of this provision by Tenant, and Landlord shall also have the right to seek specific performance of this provision and injunctive relief to prevent its breach or continued breach.

26. CONSENT TO 1URISD1CTION. Landlord and Tenant hereby consent to the exclusive jurisdiction of the state courts located in the jurisdiction in which the Project is located. For purposes of Section 55-2 of the Code of Virginia (1950), as amended from time to time, this Lease is and shall be deemed to be a deed of lease.

27. OFAC/PATRIOT ACT COMPLIANCE. Tenant represents, warrants and covenants that neither Tenant nor any of its partners, officers, or directors: (i) is listed on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Asset Control, Department of the Treasury ("OFAC") pursuant to Executive Order No. 13224, 66 Fed. Reg. 49079 (Sept 25, 2001) t' Order") and all applicable provisions of Title III of the USA Patriot Act (Public Law No. 107-56 (October26, 2001)); (ii) is listed on the Denied :Persons List and Entity List maintained by the United States Department of Commerce; (iii) is listed on the List of Terrorists and List of Disbarred Parties maintained by the United States Department of State; (iv) is listed on any listor qualification of "Designated Nationa1s" as defined in the Cuban Assets Control Regulations 31 C,F.R.. Part 515; (v) is listed on any other publicly available List of terrorists, terrorist organizations or narcotics traffickers maintained by the United States Department of State, the United States Department of Commerce or any other governmental authority or pursuant to the Order, the rules and regulations of OFAC (including without limitation the Trading with the Economy Act, *50* U.S.C. App. 1-44; the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701-06; the unrepealed provision of the Iraq Sanctions Act, Pub .L. , No. 101-513; the United Nations Participation Act, 22 U.S.C. *§* 2349 as-9; The Cuban Democracy Act, 22 V.S.C. §§ 6001-10; The Cuban Liberty and Democratic Solidarity Act, 18U.S.C. §§ 2332d and 233; and The Foreign Narcotic Kingpin Designation Act, Pub. L. No. 106- 120 and 107-108, all as may be amended from time to time); or any other applicable requirements contained in any enabling legislation or other Executive Orders in respect of the Order (the Order and such other rules, regulations; legislation or orders are collectively called the "Orders"); (vi) is engaged in activities prohibited in the Orders; or (vii) has been convicted, pleaded *nolo contendere*, indicted, arraigned or custodially detained on charges involving money laundering or predicate crimes to money laundering, drug trafficking, terrorist-related activities or other money laundering predicate crimes or in connection with the Bank Secrecy Act (31 U.S.C. *§§* 5311 *et* seq.). Tenant shall defend, indemnify, and hold harmless Landlord from and against any and all claims, damages, losses, risks, liabilities, and expenses (including attorneys' fees and costs) arising from or related to any breach of the foregoing representation, warranty and covenant. The breach of this representation, warranty and covenant by Tenant shall be an immediate Event of Default under this Lease without cure.

28. QUIET ENJOYMENT. Provided Tenant has performed all of the terms and conditions of this Lease10 be performed by Tenant, including the payment of Rent, Tenant shall peaceably and quietly hold and enjoy the Prem1ses for the Term, without hindrance from Landlord or anyone claiming by through or under Landlord, under and subject to the terms and conditions of this Lease and of any deeds of trust now or hereafter affecting all or any portion of the Premises.

29. RIGHT OFFIRST OFFER.

a. If at any time or times during the Term or any renewal term: (i) any area becomes available for lease on Floor 1 in the Building, and (1i) no event of default by Tenant shall have occurred with.in the preceding thirty (30) months and no event of default by Tenant shall have occurred and be continuing hereunder, all applicable cure periods having expired,, and (iii) such space is not subject to an expansion option or renewal option or agreement for expansion or relocation in favor of another tenant existing as the date of this Lease, or a lease term is extended for a then existing tenant, Landlord shall not enter into a lease of any such space except upon compliance with the following procedures.

b. Each such time any such space becomes available for direct lease (whether or not Tenant has previously declined to lease such space), Landlord shall give written notice to Tenant of such fact at least sixty (60) days before marketing the space, such notice to set out the amount and location of the space, the date that the present tenant1s lease expires, -and the proposed Rent for the space. Tenant shall have a period of ten (10) days from the receipt of such notice from Landlord, within which to elect to include all of such space under this Lease (the “Right of First Offering"). If Tenant does not timely exercise its option under this paragraph, then Landlord shall be free to lease the space to a third party upon terms acceptable to Landlord provided the Rent shall not be more than 10% less than the Rent offered to Tenant without re-offering the space to Tenant.

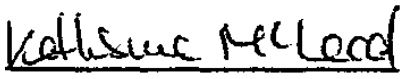
c. In the event Tenant elects to lease such space, an amendment of this Lease shal1 be executed by Landlord and Tenant no later than fifteen (15) days after Landlord shall have submitted to Tenant copies of a draft of such amendment for execution purposes. *1f* Tenant exercises its option to lease such additional space: (i) the lease term for such space and Rent shall commence upon Landlord's ability to deliver such space to Tenant ready for alteration and finish-out, and (ii) all such space shall be tendered by Landlord and accepted by Tenant in an "as-is" condition.

[SIGNATURES ON FOLLOWING- PAGE]

1N WITNESS WHEREOF, the parties hereto have executed this Lease, under Seal, the day and year first above written.

WITNESS:

LANDLORD:
ONB CARLTON, LLC, a Virginia limited liability company



WITNESS:

TENANT:
DIFFUSION PHARMACEUTICALS INC., a Delaware corporation

By:____ __
Name: David Kalergis
Title: Chief Executive Officer
Date:____

IN WITNESS WHEREOF, the parties hereto have executed this Lease, under Seal, the day and year first above, written.

WITNESS:

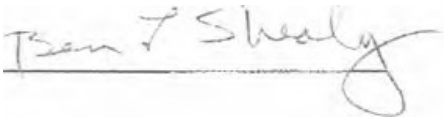
LANDLORD:
ONB CARLTON, LLC, a Virginia limited liability company

By: _ _ _ _ _ _ _ _ _ _ _ _ _ _ _
Name: _ _ _ _ _ _ _ _ _ _ _ _ _ _
Title: _ _ _ _ _ _ _ _ _ _ _ _ _ _
Date: _ _ _ _ _ _ _ _ _ _ _ _ _ _

WITNESS:

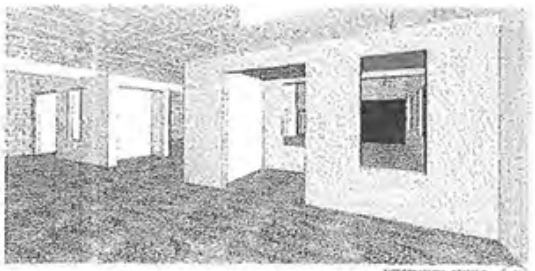
TENANT:
DIFFUSION PHARMACEUTICALS INC., a Delaware corporation

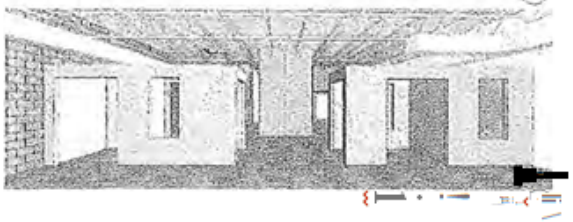
By: f) Name: David Kalergis
Title: Chief Executive Officer
Date: 03 / 81 / c, ti

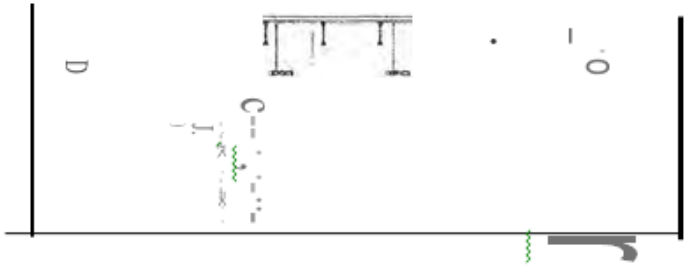


EXHIBITA
LOCATION PLAN (NOT TO SCALE)

[Attached]







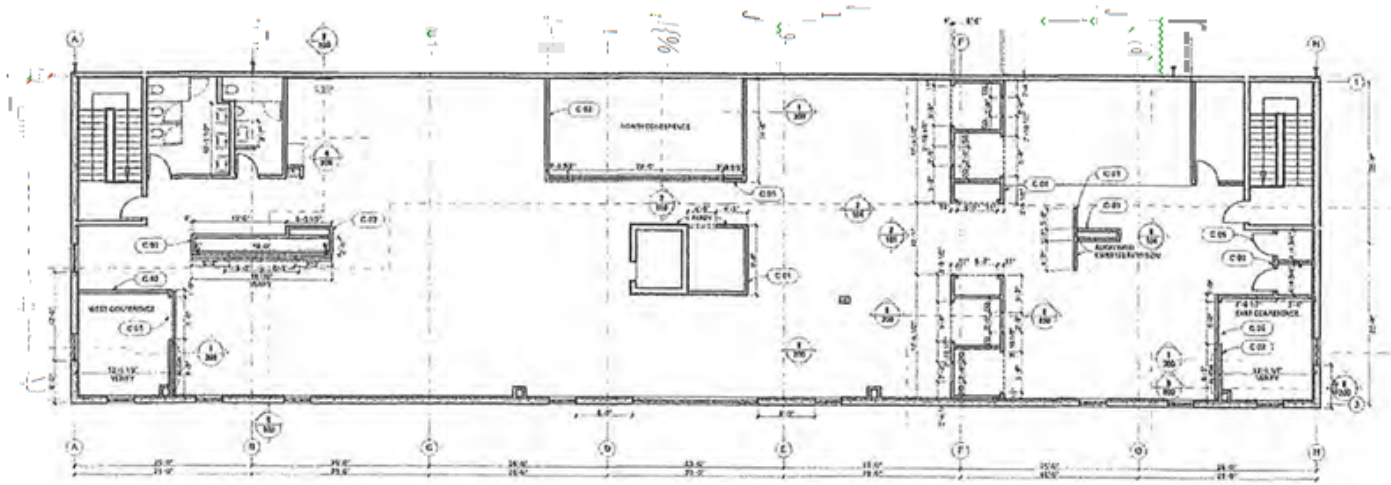


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EXHIBIT B
CONFIR.t\1ATION OF LEASE TERM

THIS MEMORANDUM is made as of the **2,1** !a y of **March** 20I7, between ONE CARLTON, LLC, a Virginia limited liability company ("Landlord"), and DIFFUSIONPHARMA.CEUTICALS INC., a Delaware corporation ("Tenant"), who entered into a Deed of Lease (the "Lease") dated as of "' " ***1,*** , 201 covering premises located at 1317 Carlton Avenue, Suite 400, Charlottesville, Virginia 22902. All capitalized terms, if not defined herein, shall be defined as they are defined in the Lease.

1. The parties to this Memorandum hrre agree that the date of ***April 15*** , 2017 is the Commencement Date of the Term, and the date Apfl I 3 0 , 2 02-2.is the expiration date of the Lease.

2. Tenant hereby confirms the following:

a. That it has accepted possession of the Premises pursuant to the terms of the Lease;

b. That the improvements, if any, required to be furnished according to the Lease by Landlord have been Substantially Completed;

c. That Landlord has fulfilled all of its duties of an inducement nature or as otherwise set forth in the Lease;

d. That there are no offsets or credits against rentals, and the $9,248.63Sccurity Deposit has been paid as provided in the Lease;

e. That there is no default by Landlord or Tenant under the Lease and the Lease is in full force and effect.

3. Landlord hereby confirms to Tenant that its Lease number is _____ . This information must accompany each Rent check or wire payment.

4. This memorandum, each and all of the provisions here of shall inure to the benefit, or bind, as the case may require, the parties hereto, and their respective successors and assigns, subject to the restirctions upon assinment and subletting contained in the Lease.

IN WITNESS \\'HEREOF, the parties hereto have executed this Memorandum, under Seal, the day and year first above written.

WITNESS:

LANDLORD:
ONB CARLTON, LLC, a Virginia limited liability company

By: _ _ _ _ _ _ _ _ _ _ _ _ _
Name: _ _ _ _ _ _ _ _ _ _ _ _ _
Title: _ _ _ _ _ _ _ _ _ _ _ _ _
Date: _ _ _ _ _ _ _ _ _ _ _ _ _

WITNESS:

TENANT:
DIFFUSION PHARMACEUTICALS INC., a Delaware corporation

By: David G. Kalergis
Name: David G. Kalergis
Title: CEO
Date: 03/31/2017

EXHIBIT B

CONFIRMATION Of LEASE TERM

THIS MEMORANDUM is made as of the day of 2017, between ONE CARLTON, LLC, **a Virginia** limited liability company ("Landlord) 1, and DIFFUSION PHARMACEUTICALS INC"II a Delaware corporation ·).who entered into a Deed of Lease(the" dated as of ,..., 2012. covering premises located at 131? Carlton Avenue, Suite 400, Charlottesville, Virginia 22902. All capitalized terms, if not defined herein, shall be defined as they are defined in the Lease.

1. The parties to this Memorandum hereby agree that the date of 2017 is the Commencement Date of the Term, and the date 20_is the expiration date of the Lease.

2. Tenant hereby confirms the following:

a. That it has accepted possession of the Premises pursuant to the terms of the Lease;

b. That the improvements. if any, required to be: furnished a according to the Lease by Landlord have been Substantially Completed;

c. That Lanlord has fulfilled all of its duties of an inducement nature or as otherwise set forth in the Lease;

d. That there are no offsets or credits against rentals, and the S9,248.63 Secwity Deposit has been paid as provided the Lease;

e. That there is no default by the Landlord or Tenant under the Lease and the Lease is in full force and effect.

3. Landlord hereby confirms to Tenant that its Lease number is _____ . This information must accompany each Rent check or wire payment.

4. This Memorandum, each and all of the provisions hereof: shall inure to the benefit, or bind, as the caes may require, the parties herto, and their respective successors and assigns, subject to the restrictions upon assignment and subletting contained in the Lease.

IN WITNESS WHEROF, the parties hereto have executed this Memorandum, under Seal, the day and year first above wrtieen.

WITNESS:

LANDLORD:
ONB CARLTON, LLC, a Virginia limited liability company

WITNESS:

TENANT:
DIFFUSION PHARMACEUTICALS INC., a Delaware corporation

By: _ _ _ _ _ _ _ _ _ _ _ _ _ _
Name: _ _ _ _ _ _ _ _ _ _ _ _ _ _
Title: _ _ _ _ _ _ _ _ _ _ _ _ _ _
Date: _ _ _ _ _ _ _ _ _ _ _ _ _ _

EXHIBITC

BUILDING RULES AND REGULATIONS LAST REVISION: DECEMBER 17. 2003

Landlord reserves the right to rescind any of these rules and make such other and further rules and regulations as in the judgment of Landlord shall from time to time be needed for the safety, protection, care and cleanliness of the Project, the operations thereof, the preservation of good order therein and the protection and comfort of its tenants, their agents, employees and invitees, which rules when made and notice thereof given to Tenant shall be binding upon Tenant in a like manner as if originally prescribed.

l. Sidewalks, entrances, passages, elevators, vestibules, stairways, corridors, halls, lobby and -any other part of the Building shall not be obstructed or encumbered by any tenant or used for any purpose other than ingress or egress to and from each tenant's premises. Landlord shall have the right to control and operate the common portions of the Building and exterior facilities furnished for common use of the tenants {such as the eating, smoking, and parking areas) in such a manner as Landlord deems appropriate.

2. No awnings or o her projections shall be attached to the outside walls of the B1.1ilding without the prior written consent of Landlord. All drapes, or window blinds, must be of a quality, type and design color and attached in a manner approved by Landlord.

3. No showcases or other articles shall be put in front of or affixed to any part of the exterior of the Building, or placed in hallways or vestibules without prior written consent of Landlord.

4. Rest rooms and other plumbing fixtures shall not be used for any purposes other than those for which they were constructed and no debris, robbi.sh, rags or other substances shall be thrown therein. Only standard toilet tissue may be flushed in commodes. All damage resulting from any misuse of these fixtures shall be the responsibility of the tenant who, or whose employees, agents, visitors, clients, or licensees shall have caused same.

5. No tenant, without the prior consent of Landlord, shall mark, paint, drill into, bore, cut or string wires or in any way deface any part of the Premises or the Building of which they form a part except for the reasonable hanging of decorative or instructional materials on the walls of the Premises.

6. Tenants shall not construct or maintain, use or operate many part of the Project any electrical device, wiring or other apparatus in connection with a loud speaker system or other sound/communication system which may be heard outside the Premises. Any such communication system to be installed within the Premises shall require prior written approval of Landlord.

7. No mopeds, skateboards, scooters, roller blades or other vehicles and no animals, birds or other pets of any kind shall be brought into, used or kept in or about the Building other than a service animal performing a specified task. Notwithstanding the foregoing, Diffusion Pharmaceuticals' Inc (and its permitted successors and assigns) shall be permitted to use animals for medical testing purposes in the ordinary course of its business, provided such animals are handled in such a manner as to (i) keep them confined in vivariums, (ii) prevent any sound or smell originating from the animals from intruding into the common areas of the Building, (iii) ensure any dead animals are properly disposed of by a professional disposal company and not as part of the Building trash collection, and (v) otherwise comply with generally accepted practices in handling animals as part of medical testing.

S. No tenant shall cause or permit any unusual or objectionable odors to be produced upon or permeate from its premises.

9. No space in the Building shall be used for the sale at auction of merchandise, goods or property of any kind.

11. No tenant, or employee, s of tenant, shall make any unseemly or disturbing noises or disturb or interfere with the occupants of this or neighboring buildings or residences by voice, musical instrument, radio,

talking machines, whistling, singing, or in any way. All passage through the Building' s hallways, elevators, and main lobby shall be conducted in a quiet, business-like manner.

12. No tenant shall throw anything out of the doors, windows, or down corridors or stairs of the Building.

13. Except in connection with the Permitted Use and in compliance with an applicable Laws, Tenant shall not p)ace, install or operate on the Premises or in any part of the Project, any engine, stove or machinery or conduct mechanical operations or cook thereon or therein (except for coffee machine, microwave oven, and/or vending machine), or place or use in or about the Premises any explosives, gasoline, kerosene oil, acids, caustics or any other flammable., explosive or hazardous material, without prior written consent of Landlord. Landlord consents to the use of (i) Hazardous Materials in accordance with Section 7 of the Lease; (ii) the kitchen in the Premises, and (iii) lab equipment m the ordinary course of Tenant's business.

l 3. Tenants are not to install any additional locks or bolts of any kind upon any door or window of the Building without prior written consent of Landlord. Each tenant must, upon the termination of tenancy, return to the Landlord all keys for the Premises, either furnished to or otherwise procured by such tenant, and all security access cards to the Building. Landlord hereby consents to Tenant installing **a** key card security system as *part* of Tenant's Initial Work.

14. All doors to hallways and corridors shall be kept closed during business hours except as they may be used for ingress or egress.

15. Tenant shall not use the name of the Building1 Project, Landlord or Landlord's Agent in any way in connection with its business except as the address thereof. Landlord shall also have the right to prohibit any advertising by tenant, which, in. its sole opinion, tends to impair the reputation of the Building or its desirability as a building for offices, and upon written notice. from Landlord, tenant shall refrain from or discontinue such advertising.

16. All deliveries by vendors, couriers, clients, employees or visitors to the Building which involve the use of a hand cart, hand truck, or other heavy equipment or device must be made via the freight elevator, if such freight elevator exists in the Building. Tenant shall be responsible to Landlord for any loss or damage resu1ting from any deliveries made by or for tenant to the Building. Tenant shall procure and deliver a certificate of insurance from tenant's movers which certificate shall name Landlord as an additional insured.

17, Landlord reserves the right to exclude from the Building at all times any person who is not known or does not properly identify himself to Landlord' s management or security personnel.

18. No *space* within the Building, or in the common areas such as the parking lot, may be used at any time for the purpose of lodging, sleeping, or for any immoral or illegal purposes.

1 9. No canvassing, soliciting or peddling is permitted in the Building or its common areas by tenants, their employees, or other persons.

20. No mats, trash, or other objects shall be placed in the public corridors, hallways, stairs, or other common areas of the Building.

21. if Landlord elects to have in effect a recycling program, Tenant must place all recyclable items of cans, bottles, plastic and office recyclable paper in appropriate containers provided by Landlord in each tenant' s space.

22. Landlord does not maintain suite finishes which are non-standard, such as kitchens, bathrooms, wallpaper; special lights, etc. However, should the need arise for repair of items not maintained by Landlord, Landlord -at its sole option, may arrange for the work to be done at tenants' expense.

23. No pictures, signage, advertising, decals, banners, etc. are permitted to be placed in or on windows in such a manner as they are visible from the exterior, without the prior written consent of Landlord.

24. Tenant shall be responsible to Landlord for any acts of vandalism performed in the Building by its Employees, agents, invitees or visitors.

25. Landlord's employees shall not perform any work or do anything outside of their regular duties unless under special instructions from Landlord. Requests for such requirements must be submitted in writing to Landlord.

26. Landlord will not be responsible foi:1ost or stolen persona! property, equipment, money or jewelry from tenant's area or common areas of the Project regardless of whether such loss occurs when area is locked against entry or not.

27. Landlord will not permit entrance to tenant's premises by use of passkey controlled by Landlord, to any person at any time without written permission of tenant, except employees, contractors or service personnel supervised or employed by Landlord.

28. Te11ant and its agents, employees and invitees shall observe and comply with the driving and parking signs and markers on the Building grounds and surrounding areas.

29. Tenant and its employees, invitees, agents, etc. shall not enter other separate tenants' hallways, restrooms or premises unless they have received prior approval from Landlord's managemen.t

30. Tenant shall not use or permit the use of any portion of the Premises for outdoor storage.

31. Tenant shall not overload any floor in the Premises or the Building, including any public corridors or elevators therein, by bringing in, placing, storing; installing or removing any large or heavy articles, and La11dlord may prohibit, or may direct and control the location and size of, safes and all other heavy articles, and may require, at tenant's sole cost and expense, supplementary supports of such material and dimensions as Landlord may deem necessary to properly distribute the weight.

32. Tenant shall not commit or suffer any waste upon the Premises, Building or Project or a:ny nuisance, or do any other act or thing that may disturb the quiet enjoyment of any other tenant in the Building or Project.

Exhibit D

Tenant's Initial Work

Tenant shall do all construction and alterations that are part of Tenant's Initial Work in compliance with all building rules and regulations, consistent with existing building systems and in a manner aimed at limiting disruption to existing tenants of the Building. Landlord understands the attached plans are schematic and minor modifications are acceptable. Tenant will provide Landlord with revised plans as they become available.

[Approved Plans to be Attached]

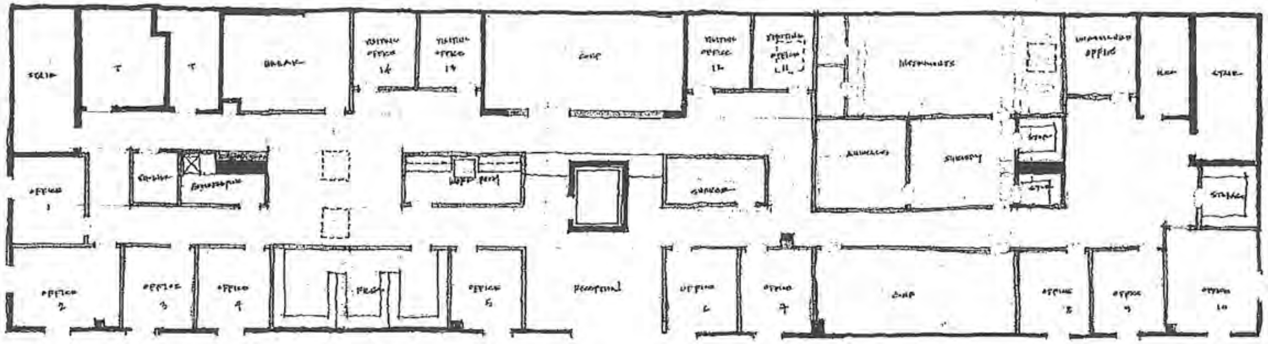

Exhibit 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002 AND SEC RULE 13a-14(a)

I, David G. Kalergis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diffusion Pharmaceuticals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2017

/s/ David G. Kalergis

David G. Kalergis
Chairman and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES OXLEY ACT OF 2002 AND SEC RULE 13a-14(a)

I, Ben L. Shealy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Diffusion Pharmaceuticals Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 15, 2017

/s/ Ben L. Shealy

Ben L. Shealy
Senior Vice President, Finance, Treasurer and Secretary
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Diffusion Pharmaceuticals Inc. (the "Company") for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David G. Kalergis, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David G. Kalergis

David G. Kalergis

Chairman and Chief Executive Officer

May 15, 2017

Exhibit 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Diffusion Pharmaceuticals Inc. (the "Company") for the quarter ended March 31, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ben L. Shealy, Senior Vice President, Finance, Treasurer and Secretary of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ben L. Shealy

Ben L. Shealy

Senior Vice President, Finance, Treasurer and Secretary

May 15, 2017