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

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**FORM 6-K**

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**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13A-16 OR 15D-16 UNDER THE  
SECURITIES EXCHANGE ACT OF 1934**

Dated November 12, 2014

Commission File Number 001-36421

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**AURINIA PHARMACEUTICALS INC.**

(Exact name of Registrant as specified in its charter)

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N/A

(Translation of Registrant's Name)

#1203-4464 Markham Street  
Victoria, British Columbia  
V8Z7X8

(250) 708-4272

(Address and telephone number of registrant's principle executive offices)

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

Form 20-F       Form 40-F

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

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

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes       No

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable.

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**SIGNATURES**

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

Dated: November 12, 2014

**Aurinia Pharmaceuticals Inc.**

By: /s/ Dennis Bourgeault \_\_\_\_\_

Name: Dennis Bourgeault

Title: Chief Financial Officer

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## EXHIBIT INDEX

<u>Exhibit</u>	<u>Description of Exhibit</u>
99.1	News Release - Aurinia Reports Third Quarter 2014 Financial Results, dated November 12, 2014
99.2	Interim Financial Statements, dated November 12, 2014
99.3	MD&A, dated November 12, 2014
99.4	Certification of Interim Filings - Chief Executive Officer, dated November 12, 2014
99.5	Certification of Interim Filings - Chief Financial Officer, dated November 12, 2014

**NEWS RELEASE****AURINIA REPORTS THIRD QUARTER 2014 FINANCIAL RESULTS**

**Victoria, British Columbia – November 12, 2014:** Aurinia Pharmaceuticals Inc. (NASDAQ: AUPH, TSX: AUP) has released its financial results for the third quarter ended September 30, 2014. All financial numbers are presented in U.S. dollars.

**Selected Third Quarter 2014 Highlights**

On September 2, 2014 the Company commenced trading on the NASDAQ Global Market under the trading symbol “AUPH”.

On July 29, 2014, Mr. Charles A. Rowland, Jr. was appointed to the Board of Directors and has assumed the role of Audit Committee Chair. Mr. Rowland, a CPA, has over 32 years of diversified financial experience and most recently was Vice-President and CFO of ViroPharma Inc. which was acquired in January of 2014 by Shire PLC for over \$4.2 billion.

The Company has cash, cash equivalents and short term investments of \$35.5 million at September 30, 2014. Aurinia believes its cash position will be sufficient to finance its operational needs until at least December 31, 2016. However, future cash requirements could vary materially from current estimations due to a number of factors including the costs associated with its clinical trial and strategic opportunities.

The Company is focused on the patient recruitment, enrollment and treatment activities for its global Phase 2b clinical trial to evaluate the efficacy of its drug, voclosporin, as a treatment for lupus nephritis (“LN”).

**Financial Results**

The Company reported a consolidated net loss of \$2.5 million or \$0.08 per common share for the three months ended September 30, 2014, as compared to consolidated net income of \$792,000 or \$0.15 per common share for the three months ended September 30, 2013. For the nine months ended September 30, 2014, the consolidated net loss was \$12.3 million or \$0.41 per common share compared to a consolidated net loss of \$964,000 or \$0.22 per common share for the comparable period in 2013. The higher consolidated net loss reflects a significant increase in operational activities in 2014 when compared to 2013 as the Company conducts its current Phase 2b LN clinical trial.

Research and development expenditures increased to \$2.4 million in the third quarter of 2014, compared to \$524,000 in the third quarter of 2013. The Company incurred net research and development expenditures of \$6.0 million for the nine months ended September 30, 2014, as compared to \$1.3 million for the same period in 2013. Research and development expenditures for the three months ended September 30, 2014 reflected higher Phase 2b LN trial costs as the patient recruitment, enrollment and treatment activities continued to expand during the quarter. There were no clinical trials in progress for the comparable period in 2013.

Corporate, administration and business development expenditures increased to \$1.4 million for the third quarter of 2014, compared to \$492,000 for the third quarter of 2013. The Company incurred corporate, administration and business development expenditures of \$5.5 million for the nine months ended September 30, 2014, as compared with \$1.5 million for the same period in fiscal 2013.

Corporate, administration and business development expenditures in the third quarter ended September 30, 2014 were higher than the comparable period in 2013 as a result of increased business activity levels as the Company continued to implement its strategic plan and support the Phase 2b LN trial.

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Other expense (income) reflected income of \$1.7 million for the third quarter ended September 30, 2014 compared to other expense of \$702,000 for the same period in 2013. The Company recorded a gain on extinguishment of warrant liability of \$1.7 million as a result of obtaining the NASDAQ listing in the quarter. There was no similar item for the comparable period in 2013.

For further discussion of the Company's financial results for the three and nine months ended September 30, 2014, the unaudited interim condensed consolidated financial statements and the management's discussion and analysis are accessible on Aurinia's website at [www.auriniapharma.com](http://www.auriniapharma.com), on SEDAR at [www.sedar.com](http://www.sedar.com) or on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar).

### ***About Aurinia***

Aurinia is a clinical stage pharmaceutical company focused on the global nephrology market. It is currently enrolling patients in its Phase 2b clinical trial to evaluate the efficacy of its drug, voclosporin, as a treatment for LN. LN is an inflammation of the kidneys, that if inadequately treated can lead to end-stage renal disease, making LN a serious and potentially life-threatening condition.

Voclosporin is a novel and potentially best in class calcineurin inhibitor ("CNI") with extensive clinical data in over 2,600 patients in other indications. Voclosporin is made by a modification of a single amino acid of the cyclosporine molecule (a CNI approved for use in transplant patients since 1983). This modification results in a more predictable pharmacokinetic and pharmacodynamic relationship, an increase in potency vs. cyclosporine, an altered metabolic profile, and potential for flat dosing.

We seek Safe Harbor.

### **For More Information:**

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**Aurinia Pharmaceuticals Inc.**

Interim Condensed Consolidated Financial Statements  
*(Unaudited)*

(Expressed in thousands of United States (U.S.) dollars)

Third quarter ended September 30, 2014

**Aurinia Pharmaceuticals Inc.**

## Interim Condensed Consolidated Statements of Financial Position

*(Unaudited)**(Expressed in thousands of U.S. dollars)*

	September 30, 2014 \$	December 31, 2013 \$ (restated-note 3a)	January 1, 2013 \$ (restated-note 3a)
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	25,533	1,821	185
Short term investment (note 6)	9,994	—	—
Accounts receivable	50	106	184
Prepaid expenses	1,604	169	75
	<u>37,181</u>	<u>2,096</u>	<u>444</u>
<b>Non-current assets</b>			
Property and equipment	52	37	88
Intangible assets	18,878	20,882	3,031
Prepaid deposits	284	152	—
Investment	—	—	595
	<u>—</u>	<u>—</u>	<u>595</u>
<b>Total assets</b>	<u>56,395</u>	<u>23,167</u>	<u>4,158</u>
<b>Liabilities and Shareholders' Equity (Deficit)</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	2,283	2,904	1,623
Current portion of deferred revenue	217	228	340
Provision for restructuring costs (note 10)	155	—	—
Drug supply loan	—	1,318	1,707
Contingent consideration (note 8)	—	1,600	—
	<u>2,655</u>	<u>6,050</u>	<u>3,670</u>
<b>Non-current liabilities</b>			
Deferred revenue	901	1,114	2,606
Provision for restructuring costs (note 10)	155	—	—
Contingent consideration (note 8)	3,368	2,690	—
	<u>7,079</u>	<u>9,854</u>	<u>6,276</u>
<b>Shareholders' equity (deficit)</b>			
Share capital			
Common shares (note 9)	257,790	220,908	204,684
Warrants (note 9)	11,691	2,256	417
Contributed surplus	12,093	10,074	9,844
Accumulated other comprehensive loss	(805)	(200)	—
Deficit	<u>(231,453)</u>	<u>(219,725)</u>	<u>(217,063)</u>
<b>Total shareholders' equity (deficit)</b>	<u>49,316</u>	<u>13,313</u>	<u>(2,118)</u>
<b>Total liabilities and shareholders' equity</b>	<u>56,395</u>	<u>23,167</u>	<u>4,158</u>

**Subsequent event (note 16)***The accompanying notes are an integral part of these interim condensed consolidated financial statements.*

**Aurinia Pharmaceuticals Inc.**

Interim Condensed Consolidated Statements of Operations and Comprehensive loss

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(Expressed in thousands of U.S. dollars, except per share data)*

	Three months ended		Nine months ended	
	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a and note 5)	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a and note 5)
<b>Revenue (note 7)</b>				
Licensing revenue	29	58	88	175
Research and development revenue	25	26	75	80
Contract services	18	—	47	2
	<u>72</u>	<u>84</u>	<u>210</u>	<u>257</u>
<b>Expenses</b>				
Research and development	2,433	524	6,020	1,301
Corporate, administration and business development	1,405	492	5,491	1,477
Restructuring and acquisition costs (note 10)	60	1,406	1,032	1,406
Amortization of intangible assets	359	67	1,077	202
Amortization of property and equipment	14	12	34	39
Contract services	11	—	29	1
Other expense (income) (note 11)	(1,690)	702	(1,745)	706
	<u>2,592</u>	<u>3,203</u>	<u>11,938</u>	<u>5,132</u>
<b>Loss before income taxes</b>	<b>(2,520)</b>	<b>(3,119)</b>	<b>(11,728)</b>	<b>(4,875)</b>
<b>Income tax recovery</b>	<b>—</b>	<b>3,911</b>	<b>—</b>	<b>3,911</b>
<b>Net income (loss) for the period</b>	<b>(2,520)</b>	<b>792</b>	<b>(11,728)</b>	<b>(964)</b>
<b>Other comprehensive income (loss)</b>				
<b>Item that will not be reclassified subsequently to loss</b>				
Translation adjustment	—	140	(605)	288
<b>Item that may be reclassified subsequently to loss</b>				
Net change in fair value on investment	—	221	—	—
	<u>—</u>	<u>361</u>	<u>(605)</u>	<u>288</u>
<b>Comprehensive income (loss) for the period</b>	<b>(2,520)</b>	<b>1,153</b>	<b>(12,333)</b>	<b>(676)</b>
<b>Net income (loss) per share (note 12) (expressed in \$ per share)</b>				
<b>Basic and fully diluted net income (loss) per common share</b>	<b>(0.08)</b>	<b>0.15</b>	<b>(0.41)</b>	<b>(0.22)</b>

*The accompanying notes are an integral part of these interim condensed consolidated financial statements.*



**Aurinia Pharmaceuticals Inc.**

## Interim Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficit)

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(Expressed in thousands of U.S. dollars)*

	Common Shares \$	Warrants \$	Contributed surplus \$	Deficit \$	Accumulated Other Comprehensive Loss \$	Shareholders' Equity (deficit) \$
<b>Balance – January 1, 2013</b>	204,684	417	9,844	(217,063)	—	(2,118)
Stock-based compensation	—	—	105	—	—	105
Net loss for the period	—	—	—	(786)	—	(786)
Comprehensive loss for the period	—	—	—	—	(130)	(130)
<b>Balance – March 31, 2013</b>	204,684	417	9,949	(217,849)	(130)	(2,929)
Stock-based compensation	—	—	79	—	—	79
Issuance of units	866	—	—	—	—	866
Net loss for the period	—	—	—	(970)	—	(970)
Comprehensive loss for the period	—	—	—	—	57	57
<b>Balance – June 30, 2013</b>	205,550	417	10,028	(218,819)	(73)	(2,897)
Issuance of first offering units	(458)	458	—	—	—	—
Issuance of second offering units	4,179	1,363	—	—	—	5,542
Issuance of common shares to IJJIN	3,671	—	—	—	—	3,671
Issuance of common shares and warrants on acquisition of Aurinia Pharma Corp.	—	—	7,959	18	—	7,977
Stock-based compensation	—	—	29	—	—	29
Net income for the period	—	—	—	792	—	792
Comprehensive income for the period	—	—	—	—	361	361
<b>Balance – September 30, 2013</b>	220,901	2,256	10,057	(218,027)	288	15,475
<b>Balance – January 1, 2014</b>	220,908	2,256	10,074	(219,725)	(200)	13,313
Comprehensive loss for the period (note 3a)	—	—	—	—	(605)	(605)
Issue of units (note 9a)	38,748	10,418	—	—	—	49,166
Share issue costs (note 9a)	(2,751)	(739)	—	—	—	(3,490)
Exercise of warrants (note 9)	179	(49)	—	—	—	130
Stock-based compensation	—	—	1,298	—	—	1,298
Net loss for the period	—	—	—	(5,191)	—	(5,191)
<b>Balance – March 31, 2014</b>	257,084	11,886	11,372	(224,916)	(805)	54,621
Exercise of warrants (note 9)	47	(13)	—	—	—	34
Stock-based compensation	—	—	435	—	—	435
Net loss for the period	—	—	—	(4,017)	—	(4,017)
<b>Balance – June 30, 2014</b>	257,131	11,873	11,807	(228,933)	(805)	51,073
Exercise of warrants (note 9b)	659	(182)	—	—	—	477
Stock-based compensation	—	—	286	—	—	286
Net loss for the period	—	—	—	(2,520)	—	(2,520)
<b>Balance – September 30, 2014</b>	257,790	11,691	12,093	(231,453)	(805)	49,316

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

**Aurinia Pharmaceuticals Inc.**

## Interim Condensed Consolidated Statements of Cash Flow

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(Expressed in thousands of U.S. dollars)*

	Three months ended September 30, 2014 \$	September 30, 2013 \$ (restated-notes 3 and 5)	Nine months ended September 30, 2014 \$	September 30, 2013 \$ (restated-notes 3 and 5)
<b>Cash flow provided by (used in)</b>				
<b>Operating activities</b>				
Net income (loss) for the period	(2,520)	792	(11,728)	(964)
Adjustments for:				
Amortization of deferred revenue	(54)	(84)	(163)	(255)
Amortization of property and equipment	14	12	34	39
Amortization of intangible assets	359	67	1,077	202
Amortization of deferred lease inducements	—	—	—	(8)
Revaluation of contingent consideration	105	—	743	—
Provision for restructuring costs	33	—	310	—
Gain on warrant liability	(1,750)	—	(2,834)	—
Share issue costs allocated to warrant liability	—	—	203	—
Stock-based compensation	286	29	2,019	213
Deferred income tax recovery	—	(3,911)	—	(3,911)
Gain on acquisition of Aurinia Pharma Corp.	—	(3,500)	—	(3,500)
Loss on contract settlement with ILJIN	—	4,266	—	4,266
Gain on disposal of property and equipment	(2)	(2)	(3)	(68)
	(3,529)	(2,321)	(10,342)	(3,986)
Net change in other operating assets and liabilities (note 14)	(495)	846	(3,218)	1,919
<b>Net cash used in operating activities</b>	<b>(4,024)</b>	<b>(1,485)</b>	<b>(13,560)</b>	<b>(2,067)</b>
<b>Investing activities</b>				
Purchase of short-term investment	(9,994)	—	(9,994)	—
Cash acquired from Aurinia Pharma Corp.	—	4	—	4
Purchase of capital assets	(7)	—	(51)	—
Proceeds of disposal of equipment	2	2	3	68
Patent costs	(14)	(36)	(18)	(89)
<b>Net cash generated from (used in) investing activities</b>	<b>(10,013)</b>	<b>(30)</b>	<b>(10,060)</b>	<b>(17)</b>
<b>Financing activities</b>				
Payment of financing milestone to ILJIN	—	—	(1,600)	—
Proceeds from issuance of units, net	—	5,542	52,000	6,017
Proceeds from issuance of promissory notes	—	—	—	391
Share issue costs related to issuance of units	—	—	(3,693)	—
Proceeds from exercise of warrants	477	—	641	—
Principal payments under capital lease	—	(15)	—	(27)
<b>Net cash generated from financing activities</b>	<b>477</b>	<b>5,527</b>	<b>47,348</b>	<b>6,381</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>—</b>	<b>48</b>	<b>(16)</b>	<b>33</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(13,560)</b>	<b>4,060</b>	<b>23,712</b>	<b>4,330</b>
<b>Cash and cash equivalents – beginning of period</b>	<b>39,093</b>	<b>455</b>	<b>1,821</b>	<b>185</b>
<b>Cash and cash equivalents – end of period</b>	<b>25,533</b>	<b>4,515</b>	<b>25,533</b>	<b>4,515</b>

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

(Unaudited)

**For the three and nine month periods ended September 30, 2014 and 2013**

(amounts in tabular columns expressed in thousands of U.S. dollars)

**1. Corporate information**

Aurinia Pharmaceuticals Inc. or the "Company" is a biopharmaceutical company with its registered office located at 5120 – 75 Street, Edmonton, Alberta T6E 6W2. The Company has its head office located at #1203-4464 Markham Street, Victoria, British Columbia V8Z 7X8 which incorporates clinical, regulatory and business development functions of the Company.

Aurinia Pharmaceuticals Inc. is incorporated pursuant to the *Business Corporations Act* (Alberta). The Company's Common Shares are currently listed and traded on the Toronto Stock Exchange ("TSX") under the symbol AUP. The Company commenced trading on NASDAQ under the symbol AUPH on September 2, 2014 upon obtaining its NASDAQ Global Market listing approval. The Company's primary business is the development of a therapeutic drug to treat autoimmune diseases, in particular lupus nephritis.

On October 23, 2013 the Company consolidated its outstanding common shares on a 50:1 basis. Accordingly, all share and per share references in these financial statements are presented on a post-conversion basis.

These interim condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Aurinia Pharma Corp. (formerly Aurinia Pharmaceuticals Inc.), Aurinia Pharmaceuticals, Inc. (Delaware incorporated) and Aurinia Pharma Limited (UK incorporated).

These interim condensed consolidated financial statements were authorized for issue by the audit committee on November 10, 2014.

**2. Basis of presentation**

These interim condensed consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as applicable to interim financial reports including IAS 34, Interim Financial Reporting, and should be read in conjunction with the annual financial statements of the Company for the year ended December 31, 2013 which have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board ("IASB").

**3. Significant accounting policies****(a) Functional currency and change in presentation currency**

Effective January 31, 2014, the Company changed its functional currency from the Canadian dollar ("CDN\$") to the United States dollar ("US\$"). The change in functional currency, which has been accounted for prospectively, is to better reflect the Company's business activities which are primarily denominated in US\$ and to improve investors' ability to compare the Company's financial results with other publicly traded entities in the biotech industry. In addition, the Company changed its presentation currency to US\$ and followed the guidance in IAS 21 *The Effects of Changes in Foreign Exchange Rates*. Accordingly, the Company has applied the change retrospectively as if the new presentation currency had always been the Company's presentation currency. In accordance with IAS 21, the financial statements for all years and periods presented have been translated to the US\$ presentation currency. For the 2013 comparative balances, assets and liabilities have been translated into US dollars at the rate of exchange prevailing at the reporting date. The statements of comprehensive income (loss) were translated at the average exchange rates for the reporting period, or at the exchange rates prevailing at the date of significant transactions. Exchange differences arising on translation were taken to cumulative translation adjustment in shareholders' equity. The Company has presented a third statement of financial position as at January 1, 2013 without the related notes except for the disclosure requirements outlined in IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. In addition, the Company adopted a policy of not reassessing classification of warrants after initial issuance and therefore there is no effect to previously issued warrants exercisable in CDN\$.

**(b) Accounting standards and amendments issued but not yet adopted**

**IFRS 9, *Financial Instruments***, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the

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**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The effective date of IFRS 9 has been deferred until 2018.

**IFRS 15, Revenue from Contracts with Customers**, was issued in May 2014 by the IASB and supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. We are currently in the process of evaluating the impact that IFRS 15 may have on our consolidated financial statements.

#### **4. Critical accounting estimates and judgments**

##### ***Revenue recognition***

Management's assessments related to the recognition of revenues for arrangements containing multiple elements are based on estimates and assumptions. Judgment is necessary to identify separate units of accounting and to allocate related consideration to each separate unit of accounting. Where deferral of upfront payments or license fees is deemed appropriate, subsequent revenue recognition is often determined based upon certain assumptions and estimates, the Company's continuing involvement in the arrangement, the benefits expected to be derived by the customer and expected patent lives. To the extent that any of the key assumptions or estimates change future operating results could be affected.

##### ***Contingent consideration***

Contingent consideration is a financial liability recorded at fair value (see note 8). The amount of contingent consideration to be paid is based on the occurrence of future events, such as the achievement of certain development, regulatory and sales milestones. Accordingly, the estimate of fair value contains uncertainties as it involves judgment about the likelihood and timing of achieving these milestones as well as future foreign exchange rates and the discount rate used. Changes in fair value of the contingent consideration obligation result from changes to the assumptions used to estimate the probability of success for each milestone, the anticipated timing of achieving the milestones, and the discount period and rate to be applied. A change in any of these assumptions could produce a different fair value, which could have a material impact to the results from operations.

The key assumptions used by management include the probability of success for each milestone (35% - 70%) and a discount rate of 10%. For the three months ended September 30, 2014 there were no changes made to the key assumptions used at June 30, 2014. If the probability for success were to increase by a factor of 10% for each milestone this would increase the obligation by approximately \$650,000 at September 30, 2014. If the probability for success were to decrease by a factor of 10% for each milestone this would decrease the obligation by approximately \$650,000 at September 30, 2014. If the discount rate were to increase to 12%, this would decrease the obligation by approximately \$212,000. If the discount rate were to decrease to 8%, this would increase the obligation by approximately \$232,000.

##### ***Fair value of stock options***

Determining the fair value of stock options on the grant date, including performance based options, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, liabilities or other components of shareholders' equity. The key assumption used by management is the stock price volatility. If the stock price volatility was higher by a factor of 10% on the grant date of February 14, 2014 this would increase annual stock compensation expense by approximately \$120,000. If the stock price volatility was lower by a factor of 10% on grant date this would have decreased annual stock compensation expense by approximately \$117,000.

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)****Fair value of warrants***

Determining the fair value of warrants requires judgment related to the choice of a pricing model, the estimation of stock price volatility, expected term of the underlying instruments and the probability factors of success in achieving the objectives for contingently issuable warrants. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results, liabilities or other components of shareholders' equity. If the stock price volatility was higher by a factor of 10% this would have increased the value of the warrants (equity component) by approximately \$680,000. If the stock price volatility was lower by a factor of 10% this would have decreased the value of the warrants (equity component) by approximately \$674,000.

***Goodwill and business combinations***

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. Management makes judgments and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognized as goodwill and if negative, it is recognized as a gain in the Statement of Operations.

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of assets and liabilities is based, to a considerable extent, on management's judgment. Allocation of the purchase price affects the results of the Company as finite life intangible assets are amortized, whereas indefinite life intangible assets, including goodwill, are not amortized and could result in differing amortization charges based on the allocation to indefinite life and finite life intangible assets.

**5. Plan of Arrangement and Acquisition of Aurinia Pharma Corp.**

On September 20, 2013 the Company completed a plan of arrangement with ILJIN Life Science Co., Ltd. ("ILJIN") and Aurinia Pharma Corp. and acquired Aurinia Pharma Corp.

The preliminary fair value of the reacquired rights, intellectual know-how and goodwill was determined to be \$7,719,000 at September 20, 2013. However, at September 30, 2013 management was still in process of determining the fair value of the assets and liabilities acquired and therefore the allocation between these asset categories was subject to change. Management completed the evaluation and made the final purchase price allocation adjustments in the fourth quarter of 2013.

As these adjustments relate to the third quarter ended September 30, 2013 the Company has restated the comparable figures for the third quarter ended September 30, 2013 as indicated in the Tables below:

	<b>Preliminary Fair value adjustments</b>	<b>Revisions to preliminary adjustments</b>	<b>Final fair value Adjustments</b>
	\$	\$	\$
<b>Balance sheet</b>			
Intangible asset -reacquired rights from Aurinia Pharma Corp.	7,505	7,566	15,071
Intangible asset -reacquired rights from ILJIN	8,257	(3,980)	4,277
Contingent consideration	—	(376)	(376)
Deficit	—	(3,145)	(3,145)
Accumulated other comprehensive income	—	(65)	(65)
<b>Total</b>	<b><u>15,762</u></b>	<b><u>—</u></b>	<b><u>15,762</u></b>

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

	Three months ended September 30, 2013 \$	Nine months ended September 30, 2013 \$
<b>Revisions to preliminary adjustments on Statement of Operations</b>		
<b>Original net loss for period</b>	<b>(2,353)</b>	<b>(4,109)</b>
Revisions to preliminary adjustments affecting the following:		
Other income ( loss)		
Loss on contract settlement with ILJIN	(4,266)	(4,266)
Gain on acquisition of Aurinia Pharma Corp	3,500	3,500
Income tax recovery	3,911	3,911
<b>Total amount of adjustments</b>	<b>3,145</b>	<b>3,145</b>
<b>Net income (loss) as restated for the period</b>	<b>792</b>	<b>(964)</b>

**6. Short term investment**

The short term investment, which is recorded at fair value, consists of a HSBC Bank US denominated discount note with a face value of \$10,000,000 and a cost of \$9,991,000. The note is due February 3, 2015 and has an effective interest rate of 0.18%.

**7. Revenue**

Revenue is comprised of:

	Three months ended		Nine months ended	
	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a)	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a)
<b>Licensing revenue</b>				
3SBio	29	31	88	96
Aurinia	—	12	—	34
Lux	—	15	—	44
	<u>29</u>	<u>58</u>	<u>88</u>	<u>174</u>
<b>Research and development revenue</b>				
Paladin	25	26	75	81
<b>Contract services</b>	<u>18</u>	<u>—</u>	<u>47</u>	<u>2</u>
	<u>72</u>	<u>84</u>	<u>210</u>	<u>257</u>

Licensing revenue and research and development revenues represent the amortization of deferred revenue from fee payments received by the Company. The deferred revenue is amortized as revenue as the Company incurs the costs related to meeting its obligations under the terms of the applicable agreements.

**8. Contingent consideration**

The Company has recorded the contingent consideration payable to ILJIN resulting from the Arrangement Agreement completed on September 20, 2013 between the Company, Aurinia Pharma Corp., and ILJIN, at fair value.

There were two categories of contingent consideration. The first was a financing milestone of \$1,600,000 payable upon the Company completing a financing of up to \$10,000,000. The Company closed a \$52,000,000 private placement on February 14, 2014 and accordingly this financing milestone was paid to ILJIN by the Company in February of 2014.

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

The second category of contingent consideration relates to payments of up to \$10,000,000 to be paid in five equal tranches according to the achievement of pre-defined clinical and marketing milestones. If all milestones are met, the timing of these payments is expected to occur as follows:

2016	\$ 2,000,000
2017	2,000,000
2019	4,000,000
2020	2,000,000

The fair value of this portion of contingent consideration at September 30, 2014 was estimated to be \$3,368,000 (December 31, 2013: \$2,690,000) and was determined by applying the income approach. The estimate has increased by \$105,000 from that used at June 30, 2014 to reflect the reduction in time until reaching the milestone dates, with the Company recording a revaluation expense adjustment on contingent consideration of \$105,000 in other expense (income) in the third quarter ended September 30, 2014. The fair value estimates at September 30, 2014 were unchanged from those used at June 30, 2014 and were based on a discount rate of 10% and an assumed probability-adjusted payment range between 35% and 70%. This is a level 3 recurring fair value measurement. As a result of reducing the discount rate to 10% at March 31, 2014 from 15% at December 31, 2013, with the probabilities for payments being the same, the Company had previously recorded a revaluation expense adjustment on contingent consideration of \$533,000 in other expense (income) in the first quarter ended March 31, 2014. The revaluation expense adjustment for the nine months ended September 30, 2014 was \$743,000.

**9. Share Capital****(a) Common shares****Authorized**

The Company is authorized to issue an unlimited number of common shares without par value.

Issued	Common Shares	
	# (in thousands)	\$
<b>Balance at January 1, 2013</b>	3,857	204,684
Issued pursuant to June 26, 2013 Private Placement	453	407
Issued to ILJIN pursuant to plan of arrangement	1,694	3,671
Issued on acquisition of Aurinia Pharma Corp.	3,682	7,960
Issued pursuant to September 20, 2013 Private Placement	2,687	4,179
Issued pursuant to exercise of stock options	2	7
<b>Balance at December 31, 2013</b>	<u>12,375</u>	<u>220,908</u>
<b>Balance at January 1, 2014</b>	12,375	220,908
Issued pursuant to February 14, 2014 Private Placement	18,919	38,748
Share issue costs related to Private placement	—	(2,751)
Issued pursuant to exercise of warrants	60	179
<b>Balance at March 31, 2014</b>	<u>31,354</u>	<u>257,084</u>
Issued pursuant to exercise of warrants	15	47
<b>Balance at June 30, 2014</b>	<u>31,369</u>	<u>257,131</u>
Issued pursuant to exercise of warrants	208	659
<b>Balance at September 30, 2014</b>	<u>31,577</u>	<u>257,790</u>

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**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

On February 14, 2014, the Company completed a \$52,000,000 private placement (the "Offering"). Under the terms of the Offering, the Company issued 18,919,404 units (the "Units") at a subscription price per Unit of \$2.7485, each Unit consisting of one common share and one-quarter (0.25) of a common share purchase warrant (a "Warrant"), exercisable for a period of five years from the date of issuance at an exercise price of \$3.2204. In addition, the Company signed a Registration Rights Agreement with subscribers to register its common shares with the Securities and Exchange Commission ("SEC").

Share issue costs included a 7.5% cash commission of \$3,495,000 paid to the placement agents and filing, legal and escrow fees of \$198,000 directly related to the Offering of which \$203,000 were allocated to the contingent warrants and expensed in the period.

In addition, in the event that the Company would not be able to reduce the size of its Board of Directors to seven directors within 90 days following closing of the Offering, an additional 0.1 Warrants would be issued for each Unit purchased by a subscriber for every additional 90 day period delay, up to a maximum of 0.35 Warrants per Unit. This represented a maximum of 6,621,791 additional Warrants ("Board Warrants").

If the Company did not obtain approval to list its common shares on NASDAQ within 12 months following the closing of the Offering, the Company agreed to issue an additional 0.1 Warrants for each Unit purchased by a subscriber for every 90 day period delay, up to a maximum of 0.35 Warrants per Unit. This represented a maximum of 6,621,791 additional Warrants ("NASDAQ Warrants"). All securities issued in connection with the Offering were subject to a four month hold period from the date of issuance in accordance with applicable securities law, which expired on June 15, 2014.

The Board Warrants and NASDAQ Warrants were contingently issuable and since the number of warrants to be issued was variable, they met the definition of financial liabilities under IFRS, which needed to be measured at fair value at each reporting period. As such, the warrant liabilities were recurring fair value measures categorized in level 3 of the fair value hierarchy. The value of each warrant was calculated using the Black-Scholes method (with significant assumptions as disclosed above) which resulted in an individual warrant value of \$2.20. The number of warrants expected to be issued, which is dependent on the probability of the expected outcomes and timing of those outcomes, was an unobservable input which was initially estimated at February 14, 2014.

As there was a degree of uncertainty in achieving the reduction of its Board to seven directors and obtaining a NASDAQ listing, the Company recorded an initial warrant liability of \$2,834,000 related to the contingently issuable warrants. Management used weighted average probability factors of 3% for Board Warrants and 16% for NASDAQ Warrants in determining the contingent settlement liability. The probabilities were not revised as at March 31, 2014 since management's expectations regarding the outcomes had not changed from the closing of the Offering, and as a result there was no gain or loss recorded in the three months ended March 31, 2014.

On May 7, 2014 the Company held its Annual General and Special Shareholder Meeting at which the shareholders approved the composition of the Board at seven directors, therefore extinguishing the Board Warrant liability relating to this condition. As a result the Company recorded a gain on extinguishment of warrant liability of \$438,000 in other expense (income) in the second quarter ended June 30, 2014.

On September 2, 2014 the Company obtained a listing on the NASDAQ Global Market, therefore extinguishing the warrant liability relating to the condition of obtaining a NASDAQ listing. As a result the Company recorded a gain on extinguishment of warrant liability of \$1,750,000 in other expense (income) in the third quarter ended September 30, 2014. The Company had previously recorded a gain on re-measurement of warrant liability of \$646,000 in other expense (income) in the second quarter ended June 30, 2014.



**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)***(b) Warrants**

Issued	Warrants	
	# (in thousands)	\$
<b>Balance at January 1, 2013</b>	387	417
Issued pursuant to June 26, 2013 Private Placement	472	458
Issued on acquisition of Aurinia Pharma Corp.	14	18
Issued pursuant to September 20, 2013 Private Placement	1,445	1,363
<b>Balance at December 31, 2013</b>	<u>2,318</u>	<u>2,256</u>
<b>Balance at January 1, 2014</b>	2,318	2,256
Issued pursuant to February 14, 2014 Private Placement	4,730	10,418
Share issue costs allocated to warrants	—	(739)
Warrants exercised	(60)	(49)
<b>Balance at March 31, 2014</b>	6,988	11,886
Warrants exercised	(15)	(13)
<b>Balance at June 30, 2014</b>	6,973	11,873
Warrants exercised	(208)	(182)
<b>Balance at September 30, 2014</b>	<u>6,765</u>	<u>11,691</u>

The Company uses the Black-Scholes pricing model to estimate the fair value of the warrants. The following weighted average assumptions were used to estimate the fair value of the warrants granted for the nine months ended September 30, 2014:

Annualized volatility	85%
Risk-free interest rate	1.52%
Expected life of warrants in years	5 years
Dividend rate	0.0%
Exercise price	\$ 3.22
Market price on date of grant	\$ 3.27
Fair value per common share warrant	\$ 2.20

Expiry date:	Number (in 000's)	Weighted average exercise price \$
<b>Exercisable in CDNS</b>		
October 17 and 31, 2014 (\$2.50 CDN)	305	2.23
June 18, 2015 (\$50 CDN)	8	44.65
September 20, 2016 (\$2.25 CDN and \$2.50 CDN)	1,371	2.23
June 26, 2018 (\$2.25 CDN and \$2.50 CDN)	337	2.23
December 31, 2018 (\$2.00 CDN)	14	1.79
<b>Exercisable in US\$</b>		
February 14, 2019	4,730	3.22
	<u>6,765</u>	<u>2.97</u>

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)***(c) Stock options and compensation expense**

The maximum number of Common Shares issuable under the Stock Option Plan is equal to 10% of the issued and outstanding Common Shares at the time the Common Shares are reserved for issuance. As at September 30, 2014 there were 31,577,000 Common Shares of the Company issued and outstanding, resulting in a maximum of 3,158,000 options available for issuance under the 2012 Stock Option Plan. An aggregate total of 1,356,000 options are presently outstanding, representing 4.3 % of the issued and outstanding Common Shares of the Company.

The Stock Option Plan requires the exercise price of each option to be determined by the Board of Directors and not to be less than the closing market price of the Company's stock on the day immediately prior to the date of grant. Any options which expire may be re-granted. The Board approves the vesting criteria and periods at its discretion. The options issued under the plans are accounted for as equity-settled share-based payments.

A summary of the status of the Company's stock option plans as of September 30, 2014 and 2013 and changes during the periods ended on those dates is presented below:

	<u>September 30, 2014</u>		<u>September 30, 2013 (restated-note 3a)</u>	
	#	Weighted average exercise price In CDN \$	#	Weighted average exercise price In CDN \$
Outstanding – Beginning of period	276	5.04	321	5.50
Granted	1,192	3.50	—	—
Expired	(34)	7.50	(7)	16.00
Forfeited and cancelled	(78)	4.06	(19)	6.50
Outstanding – End of period	<u>1,356</u>	<u>3.68</u>	<u>295</u>	<u>5.00</u>
Options exercisable – End of period	<u>767</u>	<u>3.73</u>	<u>215</u>	<u>5.00</u>

On February 18, 2014, the Company granted 1,192,200 stock options to certain directors and officers of the Company at a price of \$3.19 (CDN\$3.50) per common share. The options are exercisable for a term of ten years. For the nine months ended September 30, 2013, the Company did not grant any stock options.

Application of the fair value method resulted in charges to stock-based compensation expense of \$286,000 and \$2,019,000 for the three and nine months ended September 30, 2014 respectively, (2013 – \$29,000 and \$213,000) with corresponding credits to contributed surplus. For the three and nine month periods ended September 30, 2014, stock compensation expense has been allocated to research and development expense in the amounts of \$Nil and \$Nil respectively, (2013 – \$13,000 and \$89,000) and corporate and administration expense in the amounts of \$286,000 and \$1,766,000 respectively, (2013 – \$16,000 and \$124,000) and restructuring costs in the amounts of \$Nil and \$253,000 respectively (2013-\$Nil and \$Nil).

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted to certain officers and directors on February 18, 2014.

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

The following weighted average assumptions were used to estimate the fair value of the options granted during the nine month period ended September 30, 2014:

Annualized volatility	85%
Risk-free interest rate	1.74%
Expected life of options in years	7.1 years
Estimated forfeiture rate	11.9%
Dividend rate	0.0%
Exercise price	\$ 3.19
Market price on date of grant	\$ 3.19
Fair value per common share option	\$ 2.39

The Company considers historical volatility of its common shares in estimating its future stock price volatility. The risk-free interest rate for the expected life of the options was based on the yield available on government benchmark bonds with an approximate equivalent remaining term at the time of the grant. The expected life is based upon the contractual term taking into account expected employee exercise and expected post-vesting employment termination behaviour.

**10. Restructuring and acquisition costs**

	Three months ended		Nine months ended	
	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a)	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a)
<b>Restructuring and acquisition costs comprised of</b>				
Severance, moving costs and other	(3)	1,262	439	1,262
Provision for loss on sublease agreement	63	—	340	—
Stock compensation expense	—	—	253	—
Acquisition costs	—	144	—	144
	<u>60</u>	<u>1,406</u>	<u>1,032</u>	<u>1,406</u>

The Company recorded restructuring costs of \$60,000 for the three month period ended September 30, 2014 compared to \$1,406,000 for the three month period ended September 30, 2013. The restructuring cost incurred for the three months ended September 30 was primarily for an adjustment to the estimated loss on the Edmonton sublease agreement during the quarter. The Company recorded restructuring costs of \$1,406,000 for the three months ended September 30, 2013 which consisted primarily of severance provisions resulting from personnel changes upon completion of the plan of arrangement and acquisition of Aurinia Pharma Corp on September 20, 2013.

The Company had also recorded restructuring costs for previous periods in 2014 which included moving costs, retention and/or severance costs and a provision for estimated losses on the sublease agreement related to the Edmonton lab facility due to the move of the head office to Victoria and the divesture of its early stage NICAMs assets as noted below.

On February 14, 2014 the Company signed a NICAMs Purchase and Sale Agreement with Ciclofilin Pharmaceuticals Corp. (“Ciclofilin”), a company controlled by the former Chief Executive Officer and Chief Scientific Officer, whereby it divested its early stage research and development Non-Immunosuppressive Cyclosporine Analogue Molecules (“NICAMs”) assets, consisting of intellectual property, including patent applications and know-how to Ciclofilin. There was no upfront consideration received by the Company and future consideration will consist of milestones relating to the clinical and marketing success of NICAMs and a royalty. Due to NICAMs’ early stage of development, the Company estimated the fair value of the consideration to be \$nil at the time.

The Company recorded \$216,000 of restructuring costs related to the NICAMs in the first quarter ended March 31, 2014. These restructuring costs consisted of severances of \$115,000 paid to the three employees working on the NICAMs and \$101,000 of

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

other NICAMs related expenses, including wage and patent costs incurred from January 1, 2014 to the divestiture date. The Company also recorded as restructuring costs in the first quarter ended March 31, 2014, stock compensation expense of \$253,000 related to stock options granted in February 2014 to the former Chief Executive Officer and Chief Scientific Officer pursuant to his termination agreement.

**11. Other expense (income)**

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	\$	\$ (restated-notes 3a and 5)	\$	\$ (restated-note 3a and 5)
<b>Other expense (income) comprised of:</b>				
<b>Finance income</b>				
Interest income on short-term bank deposits	(16)	—	(48)	—
<b>Finance costs</b>				
Interest on drug supply payable	—	24	30	72
Interest on finance lease	—	—	—	1
	—	24	30	73
<b>Other</b>				
Gain on extinguishment of warrant liability (note 9a)	(1,750)	—	(2,188)	—
Gain on re-measurement of warrant liability (note 9a)	—	—	(646)	—
Revaluation adjustment on contingent consideration (note 8)	105	—	743	—
Foreign exchange loss (gain)	(27)	(11)	164	10
Loss on contract settlement with ILJIN	—	4,266	—	4,266
Realized gain on disposal of investment in Aurinia Pharma Corp.	—	(75)	—	(75)
Gain on acquisition of Aurinia Pharma Corp.	—	(3,500)	—	(3,500)
Share issue costs allocated to warrant liability	—	—	203	—
Gain on disposal of equipment	(2)	(2)	(3)	(68)
	(1,674)	678	(1,727)	633
	(1,690)	702	(1,745)	706

**12. Net income (loss) per common share**

Basic and diluted net loss per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. In determining diluted net income (loss) per common share, the weighted average number of common shares outstanding is adjusted for stock options and warrants eligible for exercise where the average market price of common shares for the three months and nine month periods ended September 30, 2014 and September 30, 2013 exceeds the exercise price. Common shares that could potentially dilute basic net income (loss) per common share in the future that could be issued from the exercise of outstanding stock options and warrants were not included in the computation of the diluted net income (loss) per common share for the three and nine months ended September 30, 2014 and September 30, 2013 because to do so would be anti-dilutive.

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)*

The numerator and denominator used in the calculation of historical basic and diluted net income (loss) amounts per common share are as follows:

	Three months ended		Nine months ended	
	September 30, 2014 \$	September 30, 2013 \$ (restated-notes 3a and 5)	September 30, 2014 \$	September 30, 2013 \$ (restated-notes 3a and 5)
<b>Net income (loss) for the period</b>	<u>(2,520)</u>	<u>792</u>	<u>(11,728)</u>	<u>(964)</u>
	# In thousands	# In thousands	# In thousands	# In thousands
Weighted average common shares outstanding	<u>31,516</u>	<u>5,197</u>	<u>28,276</u>	<u>4,312</u>
<b>Net income (loss) per common share</b>	<u>\$(0.08)</u>	<u>\$0.15</u>	<u>\$(0.41)</u>	<u>\$(0.22)</u>

The outstanding number and type of securities that could have potentially diluted basic income (loss) per common share in the future and which were not included in the computation of diluted income (loss) per share, are as follows:

	Three months ended		Nine months ended	
	September 30, 2014 # In thousands	September 30, 2013 # In thousands	September 30, 2014 # In thousands	September 30, 2013 # In thousands
Stock options	<u>1,356</u>	<u>295</u>	<u>1,356</u>	<u>295</u>
Warrants	<u>6,765</u>	<u>2,402</u>	<u>6,765</u>	<u>2,402</u>
	<u>8,121</u>	<u>2,697</u>	<u>8,121</u>	<u>2,697</u>

**13. Segment disclosures**

The Company's operations comprise a single reporting segment engaged in the research, development and commercialization of therapeutic drugs. As the operations comprise a single reporting segment, amounts disclosed in the financial statements represent those of the single reporting unit. In addition, all of the Company's long-lived assets are located in Canada.

The following geographic area data reflects revenue based on customer location.

**Geographic information**

	Three months ended		Nine months ended	
	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a)	September 30, 2014 \$	September 30, 2013 \$ (restated-note 3a)
<b>Revenue</b>				
Canada	<u>42</u>	<u>38</u>	<u>122</u>	<u>116</u>
China	<u>30</u>	<u>31</u>	<u>88</u>	<u>96</u>
United States	<u>—</u>	<u>15</u>	<u>—</u>	<u>45</u>
	<u>72</u>	<u>84</u>	<u>210</u>	<u>257</u>

**Aurinia Pharmaceuticals Inc.**

Notes to Interim Condensed Consolidated Statements

*(Unaudited)***For the three and nine month periods ended September 30, 2014 and 2013***(amounts in tabular columns expressed in thousands of U.S. dollars)***14. Supplementary cash flow information**

Net change in other operating assets and liabilities:

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2014	2013	2014	2013
	\$	\$	\$	\$
		(restated-note 3a)		(restated-note 3a)
Accounts receivable	64	103	52	104
Prepaid expenses and deposits	(198)	(10)	(1,581)	17
Accounts payable and accrued liabilities	(361)	716	(492)	1,818
Drug supply loan	—	(37)	(1,197)	(20)
	<u>(495)</u>	<u>846</u>	<u>(3,218)</u>	<u>1,919</u>

**15. Foreign exchange risk**

The Company is exposed to financial risk related to the fluctuation of foreign currency exchange rates. Foreign currency risk is the risk that variations in exchange rates between the Company's functional currency and foreign currencies will affect the Company's operating and financial results.

As a result of the change in the functional currency to U.S. dollars as of January 31, 2014, the Company has foreign exchange exposure to the CDN dollar as follows:

	September 30, 2014 \$
Cash and cash equivalents	194
Accounts receivable	27
Accounts payable and accrued liabilities	<u>(552)</u>
Net exposure	<u>(331)</u>
	<b>Reporting date rate</b>
	<b>September 30,</b>
	<b>2014</b>
	<b>\$</b>
\$CA - \$US	<u>0.893</u>

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the U.S. dollar would have decreased the net loss by \$33,000 assuming that all other variables remained constant. An assumed 10 % weakening of the U.S. dollar would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

**16. Subsequent event**

Subsequent to September 30, 2014, the Company issued 240,000 common shares upon the exercise of 240,000 warrants for gross proceeds of \$541,000.



**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL  
CONDITION AND RESULTS OF OPERATIONS FOR THE THIRD  
QUARTER ENDED SEPTEMBER 30, 2014**

*The following Management's Discussion and Analysis of Financial Condition or MD&A and Results of Operations provides information on the activities of Aurinia Pharmaceuticals Inc. ("Aurinia" or the "Company") on a consolidated basis and should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and accompanying notes for the three months ended September 30, 2014. All amounts are expressed in United States (U.S.) dollars unless otherwise stated. Dollar amounts in tabular columns are expressed in thousands of U.S. dollars. On October 23, 2013 the outstanding common shares were consolidated on a 50:1 basis. Accordingly, all shares and per share references in this MD&A are on a post-conversion basis, unless otherwise noted. This document is current in all material respects as of November 10, 2014.*

The Company prepares its consolidated financial statements in accordance with the CICA Handbook.

Accordingly, the financial information contained in this MD&A and in the Company's interim condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards or IFRS as issued by the International Accounting Standards Board or IASB. The interim condensed consolidated financial statements and MD&A have been reviewed by our Audit Committee and approved by the Board of Directors.

**Forward-looking Statements**

*The forward-looking statements and information contained in this document are subject to a number of significant risks and uncertainties that could cause actual results to differ materially from those anticipated including, among others, the Company's belief as to the potential of voclosporin in its clinical trial for lupus nephritis (LN) the size the LN market, and in the potential value of the Company's LN program, its ability to protect its intellectual property rights related to voclosporin, securing and maintaining corporate alliances and partnerships and the effect of capital market conditions and other factors on capital availability, the success and timely completion of clinical studies and trials, and the Company's and its partners' ability to successfully obtain regulatory approvals and commercialize voclosporin on a timely basis and have sufficient financial resources to complete the required development work.*

*Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements or information prove incorrect, actual results may vary materially from those described herein.*

*For additional information on risks and uncertainties please see the "Risks and Uncertainties" section of this MD&A. Although the Company believes that the expectations reflected in such forward-looking statements and information are reasonable, undue reliance should not be placed on forward-looking statements or information because the Company can give no assurance that such expectations will prove to be correct.*

*Forward-looking statements reflect current expectations regarding future events and speak only as of the date of this MD&A and represent the Company's expectations as of that date. Investors should also consult the Company's ongoing quarterly filings, annual reports and the Annual Information Form and other filings found on SEDAR at [www.sedar.com](http://www.sedar.com) and on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar).*

## OVERVIEW

### THE COMPANY

#### Corporate Structure

##### *Name, Address and Incorporation*

Aurinia Pharmaceuticals Inc. or the “Company” is a biopharmaceutical company with its head office located at #1203-4464 Markham Street, Victoria, British Columbia which incorporates clinical, regulatory, corporate and business development functions of the Company. The Company’s registered and administration office is located at 5120-75 Street Edmonton, Alberta.

Aurinia Pharmaceuticals Inc. is incorporated pursuant to the *Business Corporations Act* (Alberta). The Company’s Common Shares are currently listed and traded on the Toronto Stock Exchange (“TSX”) under the symbol “AUP” and on the NASDAQ Global Market (“NASDAQ”) under the symbol “AUPH”. The Company’s primary business is the development of a therapeutic drug to treat autoimmune diseases, and in particular lupus nephritis (“LN”).

The Company has the following wholly-owned subsidiaries: Aurinia Pharma Corp. (formerly Aurinia Pharmaceuticals Inc.), Aurinia Pharmaceuticals, Inc. (Delaware incorporated) which was incorporated on November 4, 2013, and Aurinia Pharma Limited (UK incorporated).

##### *Summary Description of Business*

Aurinia is focused on the development of its novel therapeutic immunomodulating drug candidate, voclosporin, which is a next generation calcineurin inhibitor. The mechanism of action of voclosporin, a calcineurin inhibitor (CNI), has been validated with certain first generation CNIs for the prevention of rejection in patients undergoing solid organ transplants and in several autoimmune indications, including atopic dermatitis, Keratoconjunctivitis sicca, Psoriasis, Rheumatoid Arthritis, and for LN in Japan. The Company’s lead program is for the treatment of LN. The Company believes that voclosporin possesses particular pharmacologic properties that have the potential to demonstrate best-in-class differentiation globally and first-in-class status for the treatment of LN outside of Japan.

## CORPORATE DEVELOPMENTS

#### NASDAQ listing

The Company received approval from the NASDAQ Listing Qualifications Department to list its common shares on the NASDAQ Global Market and commenced trading on September 2, 2014 under the trading symbol “AUPH”. The Company’s shares will continue to trade on the TSX under the trading symbol “AUP”.

As a result of obtaining the NASDAQ listing the Company extinguished the remaining warrant liability which the Company recorded upon completion of the February 14, 2014 private placement financing. As a result the Company recorded a gain on extinguishment of warrant liability of \$1,750,000 in other expense (income) in the third quarter ended September 30, 2014.

#### Functional currency and change in presentation currency

Effective January 31, 2014, the Company changed its functional currency from the Canadian dollar (“CDN\$”) to the United States dollar (“US\$”). The change in functional currency, which has been accounted for prospectively, better reflects the Company’s current business activities which are primarily denominated in US\$ and to improve investors’ ability to compare the Company’s financial results with other publicly traded entities in the biotechnology industry. In addition, the Company changed its presentation currency to US\$ and followed the guidance in IAS21-*The Effects of Changes in Foreign Exchange Rates*. Accordingly, the Company has applied the change retrospectively as if the new presentation currency had always been the Company’s presentation currency.



### Addition to the Board of Directors

On July 29, 2014 Mr. Charles A. Rowland, Jr. joined the Board of Directors and assumed the role of Audit Committee Chair. Mr. Rowland has over 32 years of diversified financial experience. Most recently Mr. Rowland was Vice President and Chief Financial Officer of ViroPharma Inc., which was acquired in January of 2014 by Shire PLC for over \$4.2 billion. He has also served as interim Co-CEO and CFO at Endo Pharmaceuticals Inc., and CFO at Biovail Pharmaceuticals Corporation (acquired by Valeant Pharmaceuticals International Inc.). Mr. Rowland is a CPA and holds an M.B.A. from Rutgers University and a B.S. in Accounting from Saint Joseph's University in Philadelphia. Mr. Rowland brings a high level of financial expertise and a breadth of experience within our business sector. His addition to the Board will provide greater financial oversight and Board independence to Aurinia.

### STRATEGY

The Company's business strategy is to optimize the clinical and commercial value of voclosporin, its late stage clinical candidate. In particular, the Company is focused on the development of voclosporin as an add-on therapy to the current standard of care, CellCept®, which was developed by the Aurinia Pharma Corp. management team during its tenure at Aspreva Pharmaceuticals Inc.

The key elements of the Company's corporate strategy include:

- Focusing the Company's resources on advancing voclosporin through a robust Phase 2b LN study.
- Mitigate development risk by leveraging the ALMS database and management team's experience – The Company has certain rights to utilize the ALMS database including its use in planning, designing and informing the Phase 2b LN study.
- Evaluate other voclosporin indications – While the Company intends to deploy its operational and financial resources to develop voclosporin for LN, the Company believes that recent granted formulation patents regarding the delivery of voclosporin to the ocular surface for conditions such as dry eye have the potential to be of therapeutic value. The Company will explore its strategic options to exploit shareholder value from this intellectual property. The Company also believes that voclosporin has further potential to be of therapeutic value in other autoimmune indications and in the prevention of transplant rejection. Management will consider strategic opportunities for these other potential indications on an ongoing basis.

### About Lupus Nephritis

The Lupus Foundation of America ("LFA") estimates that approximately 1.5 million people in the United States of America and up to 5.0 million people worldwide suffer from systemic lupus erythematosus ("SLE"). Approximately 90% of patients suffering from SLE are women of child-bearing age. The disease causes severe impairments on quality of life and wellbeing. Of the patients suffering from SLE, 40-60% experience renal manifestations of the disease resulting in inflammation of the kidney. These patients are considered to have LN and have a high probability of advancing to end stage renal disease and dialysis if left untreated.

Based on the work performed by the former Aspreva team, the ALMS data has been reported in several respected journals, including, the New England Journal of Medicine (*Dooley MA, Jayne D, Ginzler EM, Isenberg D, Olsen NJ, Wofsy D, Solomons, N et al; ALMS Group. Mycophenolate versus azathioprine as maintenance therapy for lupus nephritis. N Engl J Med. 2011 Nov 17;365(20):1886-95*) and the Journal of the American Society of Nephrology (*Appel GB, Contreras G, Dooley MA, Ginzler EM, Isenberg D, Jayne D, Solomons N et al; Aspreva Lupus Management Study Group. Mycophenolate mofetil versus cyclophosphamide for induction treatment of lupus nephritis. J Am Soc Nephrol. 2009 May;20(5):1103-12. Epub 2009 Apr 15.*) These publications and subsequent alterations in treatment strategies by physicians caring for patients suffering from LN have established CellCept® (mycophenolate mofetil) as the standard of care for the treatment of LN. This shift in the treatment paradigm for LN and the establishment of CellCept® use as a relatively uniform treatment approach for these patients has, in the view of the Company, caused the LN market to evolve into an attractive and mature market opportunity.

Despite CellCept® being the current standard of care for the treatment of LN, it remains far from adequate with fewer than 20% of patients on therapy actually achieving disease remission after six months of therapy. Data suggests that a LN patient who does not achieve rapid disease remission upon treatment is more likely to experience renal failure or require dialysis at 10 years (*Chen YE, Korbet SM, Katz RS, Schwartz MM, Lewis EJ; the Collaborative Study Group. Value of a complete or partial remission in severe lupus nephritis. Clin J Am Soc Nephrol. 2008;3:46-53.*). Therefore, it is critically important to achieve disease remission as quickly and as effectively as possible. The data suggests that the majority of patients in the United States suffering from lupus will not achieve complete remission and are not adequately treated (BioTrends® Research Group In., ChartTrends® SLE, December 2010).

## CNIs and Lupus Nephritis

Aurinia's lead drug, voclosporin, belongs to a class of drugs called calcineurin inhibitors ("CNIs"). There are only two other oral marketed CNIs available, cyclosporine and tacrolimus. Cyclosporine was introduced to the marketplace in the early 1980s while tacrolimus was first marketed in the mid-1990s. Both cyclosporine and tacrolimus have lost key patent protection and have not been approved for the treatment of LN outside of Japan. For the past 20 years these products, in combination with CellCept® (mycophenolate mofetil or "MMF") and steroids have been the cornerstone for the prevention of renal transplant rejection with greater than 90% of all renal transplant patients leaving hospital on lifelong CNI plus MMF therapy (UNOS database).

In 2008, the Japanese Health Authority became the first major jurisdiction in 50 years to approve a pharmaceutical agent for the treatment of LN. This product was the calcineurin inhibitor tacrolimus. In addition to this approval, a substantial amount of recent data has been generated, primarily from investigator initiated trials, that support the use of either cyclosporine or tacrolimus for the treatment of various forms of lupus including LN. The addition of tacrolimus, layered on top of MMF and steroids akin to the widely accepted and utilized transplantation regimen, appears to dramatically improve complete response/remission rates in LN (*Bao H, Liu ZH, Xie HL, Hu WX, Zhang HT, Li LS. Successful treatment of class V+IV lupus nephritis with multitarget therapy. J Am Soc Nephrol. 2008 Oct;19(10):2001-10. Epub 2008 Jul 2 and .Liu, Zhi-Hong et al., 2012 ASN Abstract SA-OR097*). This approach to treatment can be considered a multi-targeted therapeutic ("MTT") approach to treating LN as is routinely used in transplantation. Complete remission rates of up to 50% have been reported utilizing this approach. Long term follow-up studies in LN suggest that the early reduction in proteinuria as seen in complete remission leads to improved renal outcome at ten years. (*Houssiau FA, Vasconcelos C, D'Cruz D, Sebastiani GD, de Ramon Garrido E, Danieli MG, et al. Early response to immunosuppressive therapy predicts good renal outcome in lupus nephritis. Lessons from long-term followup of patients in the Euro-lupus nephritis trial. Arthritis Rheum. 2004 Dec;50(12):3934-40*).

The Company plans to utilize this MTT approach to treating LN patients with its novel CNI, voclosporin.

## About voclosporin

Voclosporin is an oral drug, administered twice daily. It is structurally similar to cyclosporine A ("CsA"), but is chemically modified on the amino acid-1 residue. This modification leads to a number of advantages the Company believes offer relevant clinical benefits as compared to the older off-patent CNIs.

## Voclosporin mechanism of action

Voclosporin reversibly inhibits immunocompetent lymphocytes, particularly T-Lymphocytes in the G0 and G1 phase of the cell-cycle, and also reversibly inhibits the production and release of lymphokines. Through a number of processes voclosporin inhibits and prevents the activation of various transcription factors necessary for the induction of cytokine genes during T-cell activation. It is believed that the inhibition of activation of T-cells will have a positive modulatory effect in the treatment of LN. In addition to these immunologic impacts recent data suggests that CNIs have another subtle but important impact on the structural integrity of the podocytes (*Faul C, et al. The actin cytoskeleton of kidney podocytes is a direct target of the antiproteinuric effect of cyclosporine A. Nat Med. 2008 Sep;14(9):931-8. doi: 10.1038/nm.1857*). This data suggests that inhibition of calcineurin in patients with autoimmune kidney diseases helps stabilize the cellular actin-cytoskeleton of the podocytes thus having a structural impact on the podocyte and the subsequent leakage of protein into the urine, which is a key marker of patients suffering from LN.

## Potential voclosporin clinical benefits

The Company believes that voclosporin has shown a number of key clinical benefits over the existing commercially available CNIs (tacrolimus & cyclosporine). Firstly, CNI assay results have indicated that voclosporin is approximately four times more potent than its parent molecule cyclosporine, which would indicate an ability to give less drug and produce fewer potentially harmful metabolites. Secondly, cyclosporine inhibits the enterohepatic recirculation of mycophenolic acid ("MPA"), the active metabolite of MMF. The net effect of co-administration of CsA with MMF is reduced MPA systemic exposure by as much as 50% (*D. Cattaneo et al. American Journal of Transplantation, 2005;12(5);2937-2944*). This drug interaction has not been observed with voclosporin and it is not expected that MPA blood exposure levels will be reduced with voclosporin co-administration. This is an extremely important fact to consider as most patients being treated with voclosporin for LN will already be taking MMF. Furthermore, pharmacokinetic and pharmacodynamics ("PK-PD") analysis indicate lower PK-PD variability for voclosporin versus tacrolimus or cyclosporine, to the extent that the Company believes flat-dosing can be achieved for voclosporin. The currently available CNIs require extensive therapeutic drug monitoring which can often be costly, confusing and time consuming for treating physicians.

In a head-to-head study comparing voclosporin against cyclosporine in the treatment of psoriasis, cyclosporine was shown to cause significant increases in lipid levels as compared to voclosporin. The difference was statistically significant. This is important considering the fact that most lupus patients die of cardiovascular disease. In another study comparing voclosporin against tacrolimus in patients undergoing renal transplantation, the voclosporin group experienced a statistically significantly lower incidence of glucose intolerance and diabetes than tacrolimus treated patients. Additionally, in the Japanese tacrolimus study that led to the approval of this drug in Japan, almost 15% of tacrolimus patients experienced glucose intolerance (*Miyasaka N, Kawai S, Hashimoto H. Efficacy and safety of tacrolimus for lupus nephritis: a placebo-controlled double-blind multicenter study. Mod Rheumatol. 2009;19(6):606-15. Epub 2009 Aug 18*). This is a major limitation for physicians wanting to use this agent in lupus and is a well described side effect of tacrolimus.

The Company believes that voclosporin can be differentiated from the older CNIs and thus possess a unique position with the market.

### Voclosporin development history

More than 2,600 patients have been administered voclosporin. The safety and tolerability profile of the drug therefore is well characterized. Phase 2 or later clinical studies that have been completed include studies in the following indications:

**Psoriasis:** To date, two Phase 3 studies in patients with moderate to severe psoriasis have been completed. The primary efficacy endpoint in both studies was a reduction in Psoriasis Area and Severity Index (“PASI”), which is a common measure of psoriasis disease severity. The first study treatment with voclosporin resulted in statistically significantly greater success rates than treatment with placebo by the twelfth week. In a second study comparing voclosporin against cyclosporine, the drug was not shown to be statistically non-inferior to cyclosporine in terms of efficacy; however voclosporin proved superior in terms of limiting elevations in hyperlipidemia. Due to the evolving psoriasis market dynamics and the changing standard of care for the treatment of this disease the Company has decided not to pursue further Phase 3 development.

**Renal Transplantation:** A Phase 2b trial in de novo renal transplant recipients was completed. Study ISA05-01, the PROMISE Study (*Busque S, Cantarovich M, Mulgaonkar S, Gaston R, Gaber AO, Mayo PR, et al; PROMISE Investigators. The PROMISE study: a phase 2b multicenter study of voclosporin (ISA247) versus tacrolimus in de novo kidney transplantation. Am J Transplant. 2011 Dec;11(12):2675-84*) was a six month study with a six month extension comparing voclosporin directly against tacrolimus on a background of MMF and corticosteroids. Voclosporin was shown to be equivalent in efficacy, but superior to tacrolimus with respect to the incidence of new onset diabetes after transplantation (“NODAT”). In 2010, tacrolimus lost its exclusivity in most world markets and as a result, the competitive pricing environment for voclosporin for this indication has come into question. Additionally, the more expensive development timelines for this indication has made it a less attractive business proposition as compared to the LN indication, even when considering the fact that a Special Protocol Assessment has been agreed to by the FDA for this indication.

**Uveitis:** Multiple studies in various forms of non-infectious uveitis have been completed over the past several years by a licensee of the Company indicating mixed efficacy. In all but one of the studies, completed by the licensee, an impact on disease activity was shown in the voclosporin group. However achievement of the primary end-points in multiple studies could not be shown. Uveitis is a notoriously difficult disease to study due to the heterogeneity of the patient population and the lack of validated clinical end-points. However in all of the uveitis studies completed, the safety results were consistent and the drug was well tolerated as expected. The Company has now successfully terminated its licensing agreement with Lux BioSciences, Inc. (“Lux”). In conjunction with this termination the Company has retained a portfolio of additional patents that Lux had been prosecuting that are focused on delivering effective concentrations of voclosporin to various ocular tissues. The Company will continue to evaluate these patents and make strategic recommendations on how they fit into the ongoing strategic directives of the Company.

### Scientific Rationale for Treatment of LN with voclosporin

SLE including LN is a heterogeneous autoimmune disease with often multiple organ and immune system involvement. T-cell mediated immune response is an important feature of the pathogenesis of LN while the podocyte injury that occurs in conjunction with the ongoing immune insult in the kidney is an important factor in the clinical presentation of the disease.

The use of voclosporin in combination with the current standard of care for the treatment of LN provides a multi-targeted approach to treating this heterogeneous disease (similar to the standard approach in preventing kidney transplant rejection). Voclosporin has shown to have potent effects on T-cell activation leading to its immunomodulatory effects. Additionally, recent evidence suggests that inhibition of calcineurin has direct physical impacts on the podocytes within the kidney. Inhibition of calcineurin within the podocytes can prevent the dephosphorylation of synaptopodin which in turn inhibits the degradation of the actin cytoskeleton within the podocyte. This process is expected to have a direct impact on the levels of protein in the urine which is a key marker of LN disease activity.

**Status of the Company's Development Program in LN**

The Company's clinical strategy involves layering voclosporin on top of the current standard of care (CellCept®/MMF and steroids) as MTT to induce and maintain remission in patients suffering from active LN. In 2012, the Company gained alignment with both the Cardio-Renal and Pulmonary, Allergy, and Rheumatology Products divisions of the FDA on its proposed Phase 2b protocol. The Company has an active IND and is currently recruiting patients for the Phase 2b LN trial.

With the existing evidence that supports the utility of CNIs in combination with MMF in treating LN, the robust safety data base of voclosporin and the fact that CellCept®/MMF in combination with the other CNIs is the standard of care in transplant, it is reasonable to consider that voclosporin is a risk mitigated clinical asset for the treatment of LN.

**RESULTS OF OPERATIONS**

For the three months ended September 30, 2014, the Company reported a consolidated net loss of \$2.52 million or \$0.08 per common share, as compared to an adjusted consolidated net income of \$792,000 or \$0.15 per common share for the three months ended September 30, 2013.

For the nine months ended September 30, 2014, the Company reported a consolidated net loss of \$12.33 million or \$0.41 per common share, as compared to a consolidated net loss of \$964,000 or \$0.22 per common share for the nine months ended September 30, 2013.

Overall, the Company's current activities in 2014 are significantly changed from those in 2013 as the Company completed a private placement on February 14, 2014 which provided funding for the Company to become fully engaged in launching its Phase 2b LN clinical trial in the second quarter ended June 30, 2014.

This process has increased the level of activity generally across all functions of the Company and as a result the levels of expenditures are higher when compared to the previous year, particularly in the research and development expenditures which are all related to the Phase 2b trial activities. As a result, the net losses for the three and nine month periods ended September 30, 2014 are significantly higher than the comparable figures for 2013.

**Revenue and deferred revenue**

The Company recorded revenues of \$72,000 and \$210,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$84,000 and \$257,000 for the comparable periods in 2013.

The remaining deferred revenue related to the 3SBio Inc. and Paladin Labs Inc. fee payments is being amortized on a straight line basis. The deferred revenue is amortized as revenue as the Company incurs the costs related to meeting its obligations under the terms of the applicable agreements.

**Research and Development**

Net research and development expenditures increased to \$2.43 million and \$6.02 million respectively for the three and nine month periods ended September 30, 2014 compared to \$524,000 and \$1.30 million respectively for the three and nine month periods ended September 30, 2013. The expenditures in 2014 reflect required costs related to patient recruitment, enrollment and treatment activities for the Phase 2b LN clinical trial for both the three and nine month periods ended September 30, 2014. These activities included site selections and initiations, site contract approvals, CRO contract approvals and various other activities conducted by the Company in order to enroll patients. There were no costs of this nature incurred in comparable periods in 2013.

Contract Research Organization ("CRO") and other third party clinical trial costs were \$1.73 million and \$4.14 million respectively for the three and nine month periods ended September 30, 2014. The Company was not involved in any clinical trials in 2013 so therefore there were no comparable costs in 2013.

The Company incurred drug supply costs, primarily for packaging and drug stability, of \$318,000 and \$630,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$102,000 and \$124,000 for the comparable periods in 2013.

Salaries and employee benefits were \$173,000 and \$641,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$246,000 and \$595,000 for the comparable periods in 2013.

Travel expenses related to research and development also increased to \$92,000 and \$122,000 respectively for the three and six month periods ended June 30, 2014 compared to \$1,000 and \$9,000 for the comparable periods in 2013. This increase is a reflection of the additional travel incurred to date for the Phase 2b LN trial by the Company's staff.

#### **Corporate, Administration and Business Development**

Corporate, administration and business development expenditures were \$1.40 million and \$5.49 million respectively for the three and nine month periods ended September 30, 2014 compared to \$492,000 and \$1.48 million for the comparable periods in 2013.

The largest change related to non-cash stock option expense which increased to \$286,000, and \$1.77 million for the three and nine month periods ended September 30, 2014 compared to \$16,000 and \$124,000 for the comparable periods in 2013. The stock compensation expense in 2014 resulted from the grant of options to the new Chief Executive Officer and the Board of Directors on February 18, 2014. There were no options granted in 2013.

Salaries and employee benefits increased to \$460,000 and \$1.44 million respectively for the three and nine month periods ended September 30, 2014 compared to \$278,000 and \$559,000 for the same comparable periods in 2013. The increase in 2014 reflected the salary of the new Chief Executive Officer and bonuses, paid and accrued, to corporate and administration personnel.

Trustee fees, filing fees and other public company costs increased to \$199,000 and \$642,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$92,000 and \$155,000 for the same comparable periods in 2013, primarily due to incurring initial listing fees related to its NASDAQ listing in the third quarter ended September 30, 2014 and listing fees of \$184,000 incurred upon obtaining its TSX listing in the second quarter of 2014.

Professional and consulting fees increased to \$224,000 and \$520,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$17,000 and \$246,000 for the same comparable periods in 2013. This increase was due to legal and audit costs associated with the NASDAQ application process, higher audit and other advisory fees incurred for the 2013 audit resulting from the Plan of Arrangement and merger with Aurinia and ILJIN, the timing of audit fees incurred and higher legal fees related to the divestiture of the NICAMs assets, termination of the Lux license agreement, public disclosure documents such as the Annual Information Form and general legal advice requirements. The Company also incurred consulting fees during the three and nine month periods ended September 30, 2014 for various business development activities. There were no similar expenses in 2013.

Director fees increased to \$86,000 and \$341,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$59,000 and \$136,000 for the periods in 2013. Director fees in 2014 reflected changes to the compensation and composition of the Board in preparation for the Company's planned NASDAQ listing which resulted in an increase in director fee expense as well as Directors' and Officers' insurance.

Travel expenses related to corporate, administration and business development also increased to \$43,000 and \$192,000 respectively for the three and nine month periods ended September 30, 2014 compared to \$9,000 and \$46,000 for the comparable periods in 2013. This increase is a reflection of the additional travel incurred to date related to investor relations and business development activities in 2014.

#### **Stock-based Compensation expense**

For stock option plan information and outstanding stock option details refer to note 9 of the interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2014.

The Company did not issue any stock options for the three month period ended September 30, 2014. Previously in the first quarter ended March 31 2014 the Company had granted 1.19 million stock options to certain Directors and Officers of the Company at \$3.19 (CDN\$3.50) per share. The Company had not granted any stock options for the comparable periods in 2013.

Application of the fair value method resulted in charges to stock-based compensation expense of \$286,000 and \$2.02 million for the three and nine months ended September 30, 2014 respectively, (2013 – \$29,000 and \$213,000) with corresponding credits to contributed surplus. For the three and nine month periods ended September 30, 2014, stock compensation expense has been allocated to research and development expense in the amounts of \$Nil and \$Nil respectively, (2013 – \$13,000 and \$89,000) and corporate, administration and business development expense in the amounts of \$286,000 and \$1.77 million respectively, (2013 – \$16,000 and \$124,000) and restructuring costs in the amounts of \$Nil and \$253,000 respectively (2013-\$Nil and \$Nil).

**Amortization of intangible assets**

Amortization of intangible assets of \$359,000 and \$1.08 million for the three and nine month periods ended September 30, 2014 increased compared to \$67,000 and \$202,000 recorded for the comparable periods in 2013. The increase reflects the higher balance of intangible assets being amortized in 2014 compared to the same period in 2013 as a result of the plan of arrangement completed with Aurinia Pharma Corp. on September 20, 2013.

**Restructuring costs**

The Company recorded restructuring costs of \$60,000 and \$1.03 million for the three and nine month periods ended September 30, 2014 compared to \$1.41 million and \$1.41 million recorded for the comparable periods in 2013.

The restructuring cost incurred for the three months ended September 30 was primarily for an adjustment to the estimated provision for loss on the Edmonton sublease agreement during the quarter. The Company recorded restructuring costs of \$1.41 million for the three months ended September 30, 2013 which consisted primarily of severance provisions resulting from personnel changes upon completion of the plan of arrangement and acquisition of Aurinia Pharma Corp on September 20, 2013.

The Company had also recorded restructuring costs for previous periods in 2014 which included moving costs, retention and/or severance costs and a provision for estimated losses on the sublease agreement related to the Edmonton lab facility due to the move of the head office to Victoria and the divestiture of its early stage NICAMs assets as noted below.

On February 14, 2014 the Company signed a NICAMs Purchase and Sale Agreement with Ciclofilin Pharmaceuticals Corp. ("Ciclofilin"), a company controlled by the former Chief Executive Officer and Chief Scientific Officer, whereby it divested its early stage research and development Non-Immunosuppressive Cyclosporine Analogue Molecules ("NICAMs") assets, consisting of intellectual property, including patent applications and know-how to Ciclofilin. There was no upfront consideration received by the Company and future consideration will consist of milestones relating to the clinical and marketing success of NICAMs and a royalty. Due to NICAMs' early stage of development, the Company estimated the fair value of the consideration to be \$Nil at the time of divestment.

The Company recorded \$216,000 of restructuring costs related to the NICAMs in the first quarter ended March 31, 2014. These restructuring costs consisted of severances of \$115,000 paid to the three employees working on the NICAMs and \$101,000 of other NICAMs related expenses, including wage and patent costs incurred from January 1, 2014 to the divestiture date. The Company also recorded as restructuring costs in the first quarter ended March 31, 2014, stock compensation expense of \$253,000 related to stock options granted in February 2014 to the former Chief Executive Officer and Chief Scientific Officer pursuant to his termination agreement.

The restructuring costs included an additional provision for loss on sublease agreement of \$62,000 such that at as September 30, 2014 the total provision for restructuring costs related to the Edmonton sublease was \$310,000, of which \$155,000 is expected to be settled in the next year. See "operating lease obligation" section later in this document for further details.

**Other expense (income)**

The Company recorded other income of \$1.69 million and \$1.75 million respectively for the three and nine month periods ended September 30, 2014 compared to other expense of \$702,000 and \$706,000 recorded for the comparable periods in 2013

Other expense (income) for the three and nine month periods ended September 30, 2014 reflected gains on extinguishment of warrant liability of \$1.75 million and \$2.19 million respectively and a gain on re-measurement of warrant liability of \$Nil and \$646,000 respectively. The warrant liability arose pursuant to the February 14, 2014 private placement. For a detailed discussion of the warrant liability and the related accounting treatment please refer to note 9(a) of the interim condensed consolidated financial statements for the three and nine month periods ended September 30, 2014.

The Company also recorded an expense of \$105,000 for the three months ended September 30, 2014 on a revaluation adjustment on long term contingent consideration to ILJIN. For the nine months ended September 30, 2014 the Company recorded an expense of \$743,000 on revaluation adjustments on long term contingent consideration to ILJIN. It also recorded as an expense of \$203,000 related to share issue costs allocated to the warrant liability for the nine month period ended September 30, 2014. There were no similar items for the comparable period in 2013.

In addition, the Company recorded a foreign exchange gain of \$27,000 and a loss of \$164,000 respectively for the three and nine month periods ended September 30, 2014 compared to a foreign exchange gain of \$10,000 and a foreign exchange loss of \$11,000

for the same periods in 2013. Effective January 31, 2014 the Company's functional currency is the United States dollar. It incurs foreign exchange gains or losses depending on the fluctuations of the USD-Canadian dollar exchange rates. The Company incurred a foreign exchange gain in the third quarter of 2014 due to a decrease in the Canadian Dollar relative to the US dollar during the period.

## LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2014, the Company had cash, term deposits and a short term investment (HSBC discount note) totalling \$35.53 million compared to \$39.09 million at June 30, 2014 and \$1.82 million at December 31, 2013. The Company used \$3.56 million of cash in the third quarter ended September 30, 2014.

We believe that our cash position will be sufficient to finance our operational and capital needs, including completion of the Phase 2b LN trial until at least December 31, 2016.

The Company is in the development stage and is devoting substantially all of its financial and operational resources and efforts towards the development activities for its drug, voclosporin. The recoverability of amounts expended on research and development to date, including capitalized intellectual property, is dependent on the ability of the Company to complete the required development activities.

### Sources and Uses of Cash for the three and nine month periods ended September 30, 2014 and September 30, 2013:

Sources and Uses of Cash (in thousands of dollars)	Three months ended September 30			Nine months ended September 30		
			Increase			Increase
	2014	2013	(Decrease)	2014	2013	(Decrease)
	\$	\$	\$	\$	\$	\$
Cash used in operating activities	(4,024)	(1,486)	(2,538)	(13,560)	(2,068)	(11,492)
Cash provided by (used in) investing activities	(10,013)	(30)	(9,983)	(10,060)	(17)	(10,043)
Cash provided by financing activities	477	5,527	(5,050)	47,348	6,381	40,967
Effect of foreign exchange rate on cash and cash equivalents	—	49	(49)	(16)	34	(50)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(13,560)</b>	<b>4,060</b>	<b>(17,620)</b>	<b>23,712</b>	<b>4,330</b>	<b>19,382</b>

Net cash used in operating activities for the three and nine month periods ended September 30, 2014, was \$4.02 and \$13.56 million respectively compared to cash used in operating activities of \$1.49 million and \$2.07 million respectively for the three and nine month periods ended September 30, 2013. Cash used in operating activities in 2014 and 2013 was composed of net loss, add-backs or adjustments not involving cash and net change in non-cash working items, which for 2014 included repayment of the drug supply loan in the amount of \$1.20 million.

Cash generated by financing activities for the three and nine month periods ended September 30, 2014, was \$477,000 and \$47.35 million respectively compared to cash generated by financing activities of \$5.53 million and \$6.38 million for the three and nine month periods ended September 30, 2013. On February 14, 2014, the Company received net proceeds of \$48.31 million from the private placement equity financing and in turn paid out the financing milestone to ILJIN (contingent consideration) of \$1.6 million in the same period. The Company also received \$477,000 and \$641,000 for the exercise of warrants for the three and nine month periods ended September 30, 2014 respectively. The Company for the three months ended September 30, 2013 completed a private placement financing for net proceeds of \$5.54 million.

## CONTRACTUAL OBLIGATIONS

The following table presents contractual and purchase obligations arising from agreements other than amounts already recorded as liabilities currently in force as at September 30, 2014. The purchase obligations relate primarily to contractual commitments for services and materials for the Phase 2b LN trial.

(in thousands of dollars)	<u>Total</u>	<u>Less than one year</u>	<u>Two to three years</u>	<u>Greater than three years</u>
	\$	\$	\$	\$
Operating lease obligations	798	358	440	—
Purchase obligations	493	478	15	—

### Operating lease obligations

The Company entered into an agreement, effective June 1, 2014, to sublease 4,418 square feet of office and storage space at its head office location in Victoria, British Columbia. The sublease is for a term of five years, with the Company having the right to terminate after the third year at no cost. Therefore the estimated base rent plus operating costs cost on a monthly basis for the three year period is as follows:

June 1, 2014 to May 31, 2015-\$10,000 per month,  
June 1, 2015 to May 31, 2016-\$10,000 per month  
June 1, 2016 to May 31, 2017-\$11,000 per month

On October 1, 2013 the Company reduced its leased premises costs in Edmonton, Alberta by entering into a three year sublease with the head lessee for approximately 9,000 square feet while vacating the remaining 16,318 square feet it had previously been leasing. The Sublease cost is approximately \$20,000 monthly and includes base rent, utilities and operating costs. The Company has paid the head lessee a deposit of \$145,000 for the last 7.4 months of rent which has not been reflected in the operating lease obligation figures above.

The Company in turn, effective October 15, 2014 has subleased out this 9,000 square feet space for approximately \$8,000 per month for the remaining term of the sublease which runs until September 30, 2016. This sublease revenue has not been netted in the operating lease obligations noted above.

The Company is currently renting office premises in Edmonton on a month to month basis at a cost of approximately \$4,000 per month.

## CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about and apply assumptions or subjective judgment to future events and other matters that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's interim condensed consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the interim condensed consolidated financial statements are presented fairly and in accordance with IFRS.

Critical accounting estimates and judgments are those that have a significant risk of causing material adjustment and are often applied to matters or outcomes that are inherently uncertain and subject to change. As such, management cautions that future events often vary from forecasts and expectations and that estimates routinely require adjustment.

Management considers the following areas to be those where critical accounting policies affect the significant judgments and estimates used in the preparation of the Company's interim condensed consolidated financial statements.



## Critical judgments in applying the Company's accounting policies

### *Revenue recognition*

Management's assessments related to the recognition of revenues for arrangements containing multiple elements are based on estimates and assumptions. Judgment is necessary to identify separate units of accounting and to allocate related consideration to each separate unit of accounting. Where deferral of upfront payments or license fees is deemed appropriate, subsequent revenue recognition is often determined based upon certain assumptions and estimates, the Company's continuing involvement in the arrangement, the benefits expected to be derived by the customer and expected patent lives. To the extent that any of the key assumptions or estimates change future operating results could be affected.

### *Contingent consideration*

Contingent consideration is a financial liability recorded at fair value (see note 8 to interim condensed consolidated financial statements for the third quarter ended September 30, 2014). The amount of contingent consideration to be paid is based on the occurrence of future events, such as the achievement of certain development, regulatory and sales milestones. Accordingly, the estimate of fair value contains uncertainties as it involves judgment about the likelihood and timing of achieving these milestones as well as future foreign exchange rates and the discount rate used. Changes in fair value of the contingent consideration obligation result from changes to the assumptions used to estimate the probability of success for each milestone, the anticipated timing of achieving the milestones, and the discount period and rate to be applied. A change in any of these assumptions could produce a different fair value, which could have a material impact to the results from operations.

The key assumptions used by management include the probability of success for each milestone (35% - 70%) and a discount rate of 10%. For the three months ended September 30, 2014 there were no changes made to the key assumptions used at June 30, 2014. If the probability for success were to increase by a factor of 10% for each milestone this would increase the obligation by approximately \$650,000 at September 30, 2014. If the probability for success were to decrease by a factor of 10% for each milestone this would decrease the obligation by approximately \$650,000 at September 30, 2014. If the discount rate were to increase to 12%, this would decrease the obligation by approximately \$212,000. If the discount rate were to decrease to 8%, this would increase the obligation by approximately \$232,000.

### *Fair value of stock options*

Determining the fair value of stock options on the grant date, including performance based options, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, liabilities or other components of shareholders' equity. The key assumption used by management is the stock price volatility. If the stock price volatility was higher by a factor of 10% on the grant date of February 14, 2014 this would increase annual stock compensation expense by approximately \$120,000. If the stock price volatility was lower by a factor of 10% on grant date this would have decreased annual stock compensation expense by approximately \$117,000.

### *Fair value of warrants*

Determining the fair value of warrants requires judgment related to the choice of a pricing model, the estimation of stock price volatility, expected term of the underlying instruments and the probability factors of success in achieving the objectives for contingently issuable warrants. Any changes in the estimates or inputs utilized to determine fair value could have a significant impact on the Company's future operating results, liabilities or other components of shareholders' equity. If the stock price volatility was higher by a factor of 10% this would have increased the value of the warrants (equity component) by approximately \$680,000. If the stock price volatility was lower by a factor of 10% this would have decreased the value of the warrants (equity component) by approximately \$674,000.

### *Goodwill and business combinations*

The recognition of business combinations requires the excess of the purchase price of acquisitions over the net book value of assets acquired to be allocated to the assets and liabilities of the acquired entity. Management makes judgments and estimates in relation to the fair value allocation of the purchase price. If any unallocated portion is positive it is recognized as goodwill and if negative, it is recognized as a gain in the Statement of Operations.

The amount of goodwill initially recognized as a result of a business combination is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of assets and liabilities is based, to a considerable extent, on management's judgment. Allocation of the purchase price affects the results of the Company as finite life intangible assets are amortized, whereas indefinite life intangible assets, including goodwill, are not amortized and could result in differing amortization charges based on the allocation to indefinite life and finite life intangible assets.

## RISKS AND UNCERTAINTIES

The Company has invested a significant portion of its time and financial resources in the development of voclosporin. The Company anticipates that its ability to generate revenues and meet expectations will depend primarily on the successful development and commercialization of voclosporin. The successful development and commercialization of voclosporin will depend on several factors, including the following:

- successful completion of its clinical program in LN;
- receipt of marketing approvals from the FDA and other regulatory authorities with a commercially viable label;
- securing and maintaining partners with sufficient expertise and resources to help in the continuing development and eventual commercialization of voclosporin;
- maintaining suitable manufacturing and supply agreements to ensure commercial quantities of the product through validated processes;
- acceptance and adoption of the product by the medical community and third-party payors; and
- the Company's ability to raise future financial resources if and when required. Future additional sources of capital could include payments from potential new licensing partners, equity financings, debt financings and/or the monetization of the Company's intangible assets. There is no assurance of obtaining additional future financing through these arrangements or any arrangements on acceptable terms.

A detailed list of the risks and uncertainties affecting the Company can be found in the Company's Annual Information Form which is filed on SEDAR and EDGAR. Additional risks and uncertainties of which the Company is unaware, or that it currently deems to be immaterial, may also become important factors that affect the Company.

### **Capital management**

The Company's objective in managing capital is to ensure a sufficient liquidity position to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company defines capital as net equity, comprised of issued common shares, warrants, contributed surplus and deficit.

The Company's objective with respect to its capital management is to ensure that it has sufficient cash resources to maintain its ongoing operations and finance its research and development activities, corporate, administration and business development expenses, working capital and overall capital expenditures.

Since inception, the Company has primarily financed its liquidity needs through public offerings of common shares and private placements. The Company has also met its liquidity needs through non-dilutive sources, such as debt financings, licensing fees from its partners and research and development fees.

There have been no changes to the Company's objectives and what it manages as capital since the prior fiscal period. The Company is not subject to externally imposed capital requirements.

### **Financial risk factors**

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk. Risk management is carried out by management under policies approved by the board of directors. Management identifies and evaluates the financial risks. The Company's overall risk management program seeks to minimize adverse effects on the Company's financial performance.

#### ***Liquidity risk***

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through the management of its capital structure and financial leverage. The Company successfully completed a \$52 million private placement on February 14, 2014 which is expected to provide the Company with sufficient

financial resources to conduct the Phase 2b LN trial and other corporate, administration and business development activities at least December 31, 2014. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the Audit Committee reviews and approves the Company's operating budgets, as well as any material transactions out of the ordinary course of business. The Company invests its cash in term deposits and bank discount notes with 30 to 180 day maturities to ensure the Company's liquidity needs are met.

The Company's activities have been financed through a combination of the cash flows from licensing and development fees and the issuance of equity and/or debt. All of the Company's financial liabilities are due within one year except for the long term Contingent Consideration.

#### ***Interest rate risk***

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Financial assets and financial liabilities with variable interest rates expose the Company to cash flow interest rate risk. The Company's cash and cash equivalents are comprised of highly liquid investments that earn interest at market rates. Accounts receivable, accounts payable and accrued liabilities bear no interest.

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid in term deposits and bank discount notes.

#### ***Foreign currency risk***

The Company is exposed to financial risk related to the fluctuation of foreign currency exchange rates. Foreign currency risk is the risk that variations in exchange rates between the Company's functional currency and foreign currencies will affect the Company's operating and financial results.

As a result of the change in the functional currency to U.S. dollars as of January 31, 2014, the Company has foreign exchange exposure to the CDN dollar as follows:

	<b>September 30,</b>
	<b>2014</b>
	<b>\$</b>
Cash and cash equivalents	194,000
Accounts receivable	27,000
Accounts payable and accrued liabilities	<u>(552,000)</u>
Net exposure	<u>(331,000)</u>
	<b>Reporting date rate</b>
	<b>September 30,</b>
	<b>2014</b>
	<b>\$</b>
\$CA - \$US	<u>0.893</u>

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the U.S. dollar would have decreased the net loss by \$33,000 assuming that all other variables remained constant. An assumed 10 percent weakening of the U.S. dollar would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

#### ***Credit risk***

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash and cash equivalents. The Company's cash and cash equivalents were held at a major Canadian Bank. The Company regularly monitors the credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss.

### CONTINGENCIES

- i) The Company may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the interim condensed consolidated financial position of the Company.
- ii) The Company entered into indemnification agreements with its officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company does maintain liability insurance to limit the exposure of the Company.
- iii) The Company has entered into license and research and development agreements with third parties that include indemnification and obligation provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. These provisions may survive termination of the underlying agreement. The nature of the obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any payments under such agreements and no amount has been accrued in the accompanying interim condensed consolidated financial statements.

### ADDITIONAL COMPANY INFORMATION

Additional information on the Company may be found in its regulatory filings including its Annual Information Form, quarterly reports and proxy circulars filed on SEDAR at [www.sedar.com](http://www.sedar.com), on EDGAR at [www.sec.gov/edgar](http://www.sec.gov/edgar) or at the Company's Web site at [www.auriniapharma.com](http://www.auriniapharma.com).

### UPDATED SHARE INFORMATION

As at November 10, 2014, the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	31,818,000
Convertible equity securities	
Warrants	6,454,000
Stock options	1,356,000

The Company issued 240,000 shares upon the exercise of 240,000 warrants and received proceeds of \$541,000 subsequent to the quarter end. In addition, 71,000 warrants expired on October 17, 2014.

## Quarterly Information

(expressed in thousands except per share data)

Set forth below is selected unaudited consolidated financial data for each of the last eight quarters:

	Three months ended							
	2014			2013				2012
	Sept 30	Jun 30	Mar 31	Dec 31**	Sep 30**	Jun 30*	Mar 31*	Dec 31*
Revenue	72	71	67	713	84	85	89	151
Research and development costs	2,433	2,547	1,040	690	524	442	335	3,337
Corporate, administration and business development costs	1,405	1,713	2,373	899	492	413	494	938
Restructuring costs	60	403	569	29	1,406	78	—	—
Other expense (income)	(1,690)	(954)	899	200	702	43	(38)	894
Income tax recovery	—	—	—	—	3,911			
Net income (loss) for the period	(2,520)	(4,017)	(5,191)	(1,698)	792	(970)	(786)	(5,233)
Per common share (\$)								
Net earnings (loss) – basic and diluted	(0.08)	(0.13)	(0.24)	(0.14)	0.15	(0.25)	(0.20)	(1.39)
Common Shares outstanding	31,577	31,369	31,354	12,375	12,374	4,311	3,857	3,857
Weighted average number of common shares outstanding	31,516	31,359	21,848	12,374	5,197	3,877	3,857	3,772

\* These figures have been restated from those originally presented as more fully described in note 3A to the interim condensed consolidated financial statements for the third quarter ended September 30, 2014.

\*\* These figures have been restated from those originally presented as more fully described in notes 3A and 5 to the interim condensed consolidated financial statements for the third quarter ended September 30, 2014.

## Summary of Quarterly Results

The primary factors affecting the magnitude of the Company's losses in the various quarters are noted below and include the amortization of deferred revenue to revenues, the timing of research and development costs associated with the clinical development programs, timing of stock compensation expense and timing and gains (losses) on financial instrument derivatives and fair value changes in these derivatives.

Other expense (income) reflected a gain on extinguishment of warrant liability of \$1.75 million for the three months ended September 30, 2014.

Research and development costs for the three months ended June 30, 2014 reflected costs associated with the commencement of the recruitment and enrollment phase of the Phase 2b LN clinical trial.

Other expense (income) reflected gains on extinguishment of warrant liability and re-measurement of warrant liability of \$438,000 and \$646,000 respectively for the three months ended June 30, 2014.

The net loss for the three months ended June 30, 2014 included a non-cash stock option compensation expense of \$435,000 while the net loss for the three months ended March 31, 2014 included a non-cash stock option compensation expense of \$1.30 million related to the issuance of 1.19 million stock options in the first quarter of 2014.

The restated net income for the three months ended September 30, 2013 included acquisition and restructuring costs of \$1.41 million, a gain on acquisition of Aurinia Pharma Corp. of \$3.50 million, a loss on contract settlement with ILJIN of \$4.27 million and a non-cash deferred income tax recovery of \$4.11 million.

The net loss for the three months ended December 31, 2012 included a provision on drug supply inventory of \$2.76 million which was recorded in research and development costs and an additional provision of \$867,000 on the Lux receivable related to the sale of API to Lux in 2012 (the Company had previously recorded a provision of \$445,000 on this receivable in the second quarter of 2012).

## OUTLOOK

Our focus in the first quarter of 2014 was on completing a private placement financing that would provide the Company with sufficient funding to allow us to carry out our strategic plan of developing voclosporin as a therapy for the treatment of LN and initiating the Phase 2b trial in LN in a timely fashion thereafter. We closed the private placement financing on February 14, 2014 for gross proceeds of \$52 million.

Aurinia is using the net proceeds from the financing primarily to advance the development of voclosporin as a therapy for LN and for corporate and working capital purposes. Since the completion of the financing the Company has been fully engaged in its Phase 2b LN clinical trial and is currently in the patient recruitment, enrollment and treatment phases of the trial.

While there have been a number of advances in the treatment of this devastating disease, there is no question that significant unmet medical need remains. Almost 90% of LN patients are not achieving optimal results from the current standard of care. It is our belief that layering voclosporin on top of the current standard of care for patients suffering from LN in a multi-target approach has the potential to rapidly and significantly improve patient outcomes in this devastating disease. Our goal is to complete the enrollment of patients required for the trial as quickly as possible and to that end we are actively engaged in the process of site selection and initiations, site regulatory approvals and all the other site set-up activities required for the timely recruitment and enrollment of patients in the phase 2b study of voclosporin in LN.

On September 2, 2014 the Company listed its shares on NASDAQ. We believe that this US listing, over the longer term, should help to improve the liquidity and visibility of the Company in the United States.

The Company's focus moving forward is on the executional and tactical aspects of its strategic plan.



**FORM 52-109F2  
CERTIFICATION OF INTERIM FILINGS  
FULL CERTIFICATE**

I, STEPHEN W. ZARUBY, Chief Executive Officer of AURINIA PHARMACEUTICALS INC., certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A, (together, the “interim filings”) of **Aurinia Pharmaceuticals Inc.** (the “issuer”) for the interim period ended **September 30, 2014**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the end of the period covered by the interim filings
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

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(b) designed ICFR, or caused it 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 the issuer's GAAP.

5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the COSO control framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

5.2 N/A

5.3 N/A

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on **July 1, 2014** and ended on **September 30, 2014** that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: **November 12, 2014**

Signed: "*Stephen W. Zaruby*"

\_\_\_\_\_  
Stephen W. Zaruby

Chief Executive Officer





**FORM 52-109F2  
CERTIFICATION OF INTERIM FILINGS  
FULL CERTIFICATE**

I, DENNIS BOURGEAULT, Chief Financial Officer of AURINIA PHARMACEUTICALS INC., certify the following:

1. **Review:** I have reviewed the interim financial report and interim MD&A, (together, the “interim filings”) of **Aurinia Pharmaceuticals Inc.** (the “issuer”) for the interim period ended **September 30, 2014**.
2. **No misrepresentations:** Based on my knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings.
3. **Fair presentation:** Based on my knowledge, having exercised reasonable diligence, the interim financial report together with the other financial information included in the interim filings fairly present in all material respects the financial condition, financial performance and cash flows of the issuer, as of the date of and for the periods presented in the interim filings.
4. **Responsibility:** The issuer’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as those terms are defined in National Instrument 52-109 *Certification of Disclosure in Issuers’ Annual and Interim Filings*, for the issuer.
5. **Design:** Subject to the limitations, if any, described in paragraphs 5.2 and 5.3, the issuer’s other certifying officer(s) and I have, as at the end of the period covered by the interim filings
  - (a) designed DC&P, or caused it to be designed under our supervision, to provide reasonable assurance that
    - (i) material information relating to the issuer is made known to us by others, particularly during the period in which the interim filings are being prepared; and
    - (ii) information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted by it under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

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(b) designed ICFR, or caused it 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 the issuer's GAAP.

5.1 **Control framework:** The control framework the issuer's other certifying officer(s) and I used to design the issuer's ICFR is the COSO control framework published by the Committee of Sponsoring Organizations of the Treadway Commission.

5.2 N/A

5.3 N/A

6. **Reporting changes in ICFR:** The issuer has disclosed in its interim MD&A any change in the issuer's ICFR that occurred during the period beginning on **July 1, 2014** and ended on **September 30, 2014** that has materially affected, or is reasonably likely to materially affect, the issuer's ICFR.

Date: **November 12, 2014**

Signed: "*Dennis Bourgeault*"

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Dennis Bourgeault, C.A.  
Chief Financial Officer