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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 24, 2021

AURINIA PHARMACEUTICALS INC.

(Exact name of registrant as specified in its charter)

Canada	**001-36421**	**46-4129078**
(State or Other Jurisdiction of Incorporation)	(Commission File No.)	(IRS Employer Identification No.)

#1203-4464 Markham Street
Victoria, British Columbia
V8Z 7X8
(250) 708-4272
(Address and telephone number of registrant's principal executive offices)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Shares, without par value	**AUPH**	**The Nasdaq Stock Market LLC**
Common Shares, without par value	**AUP**	**Toronto Stock Exchange**

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company ☐

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

Item 7.01 Regulation FD Disclosure

On February 24, 2021, the Company issued a press release announcing its fourth quarter and full year 2020 financial results and recent operational highlights. A copy of the press release is furnished herewith as Exhibit 99.1 and is incorporated herein by reference.

Item 8.01 Other Events

The Company historically qualified as a "foreign private issuer" for purposes of reporting under the Securities Exchange Act of 1934, as amended (the Exchange Act) and filing registration statements under the Securities Act of 1933. As of the end of the Company's second fiscal quarter in 2020, the Company ceased to qualify as a foreign private issuer and accordingly, effective as of January 1, 2021, the Company became obligated to file reports with the SEC as a "domestic issuer". As a result of the Company's status change, the Company was also required to change the accounting standards in which it prepares its financial statements from International Financial Reporting Standards (IFRS) to generally accepted accounting principles in the United States (U.S. GAAP).

In accordance with Canadian securities laws, the Company restated and re-filed its unaudited condensed consolidated financial statements, now prepared in accordance with U.S. GAAP, for the three months ended March 31, 2020 and 2019, for the three and six months ended June 30, 2020 and 2019, and for the three and nine months ended September 30, 2020 and 2019. Copies of these restated financial statements are attached hereto as Exhibits 99.2, 99.3 and 99.4, respectively, and are incorporated herein by reference.

The information contained in this Current Report on Form 8-K under Item 7.01 and Item 8.01, including Exhibits 99.1, 99.2, 99.3 and 99.4, is being furnished pursuant to Item 7.01 and Item 8.01 of Form 8-K and shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities of that section. The information contained in this Current Report on Form 8-K under Item 7.01 and Item 8.01, including Exhibits 99.1, 99.2, 99.3 and 99.4, shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, whether made before or after the date hereof, except as shall be expressly set forth by specific reference in such a filing.

Item 9.01 Financial Statements and Exhibits

(d) Exhibits.

Exhibit No.	Title
99.1	Aurinia reports fourth quarter and full year 2020 financial results and recent operational highlights.
99.2	Unaudited condensed consolidated financial statements, prepared in accordance with US. GAAP, for the three months ended March 31, 2020 and 2019.
99.3	Unaudited condensed consolidated financial statements, prepared in accordance with US. GAAP, for the three and six months ended June 30, 2020 and 2019.
99.4	Unaudited condensed consolidated financial statements, prepared in accordance with U.S. GAAP, for the three and nine months ended September 30, 2020 and 2019.
104	Cover Page Interactive Data File (the cover page XBRL tags are embedded within the Inline XBRL document)

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 hereunto duly authorized.

Date: February 24, 2021

AURINIA PHARMACEUTICALS INC.

By: */s/ Joseph Miller*
Name: Joseph Miller
Title: Chief Financial Officer

AURINIA REPORTS FOURTH QUARTER AND FULL YEAR 2020 FINANCIAL RESULTS AND RECENT OPERATIONAL HIGHLIGHTS

- LUPKYNIS™ is the first FDA-approved oral therapy for lupus nephritis (LN), a condition that causes irreversible kidney damage and increases the risk of kidney failure, cardiac events, and death -

- Cash, cash equivalents, and investments of $423 million at December 31, 2020 –

- Conference call to be hosted today at 4:30 p.m. ET -

VICTORIA, British Columbia – February 24, 2021 - Aurinia Pharmaceuticals Inc. (NASDAQ: AUPH / TSX: AUP) ("Aurinia" or the "Company") today issued its financial results for the fourth quarter and year ended December 31, 2020. Amounts, unless specified otherwise, are expressed in U.S. dollars.

"Over the past year, Aurinia matured into a fully-integrated biopharmaceutical company with capabilities spanning R&D, clinical, regulatory, CMC, and commercial. The recent FDA approval and immediate launch of LUPKYNIS underscores the exemplary performance and expertise of the Aurinia team," commented Peter Greenleaf, President and Chief Executive Officer of Aurinia. "During 2020, we made calculated investments following the positive AURORA clinical trial results by building out a world-class commercial team, signing a major ex-US partnership with Otsuka, and ensuring we can meet future market demand for LUPKYNIS by securing our supply chain by expanding our manufacturing agreement with Lonza. After just 30 days, we are pleased by the uptake of LUPKYNIS by the healthcare community and believe we are on track to meet our internal expectations."

"Launching LUPKYNIS within hours of our approval allows us to focus on getting LN patients who need intervention onto therapy as soon as possible," said Max Colao, Chief Commercial Officer at Aurinia. "We look forward to translating years of innovation and development work, and our early preparation and planning for launch, into commercial success for LUPKYNIS."

Recent Highlights

FDA Approval and Commercial Launch of LUPKYNIS™

On January 22, 2021, the FDA approved LUPKYNIS in combination with a background immunosuppressive therapy regimen to treat adult patients with active LN. LUPKYNIS was approved by the FDA under Priority Review and was previously granted Fast Track designation from the Agency in 2016.

Collaboration and Licensing Agreement with Otsuka Pharmaceutical Co., Ltd.

On December 17, 2020, Aurinia announced it had entered into a collaboration and licensing agreement with Otsuka Pharmaceutical Co., Ltd., for the development and commercialization of oral LUPKYNIS for the treatment of LN in the European Union (EU), Japan, as well as the United Kingdom, Russia, Switzerland, Norway, Belarus, Iceland, Liechtenstein, and Ukraine.

As part of the agreement, Aurinia received an upfront cash payment of $50 million for the license agreement, and has the potential to receive up to an additional $50 million in regulatory milestones. Aurinia will receive tiered royalties on future sales ranging from 10 to 20 percent on net sales upon commercialization, along with additional milestone payments based on the attainment of certain annual sales by Otsuka. In addition, Aurinia will provide LUPKYNIS to Otsuka via a supply agreement under a cost plus arrangement.

Agreement for Dedicated LUPKYNIS Manufacturing Capacity

On December 15, 2020, Aurinia entered into a collaborative agreement with Lonza Ltd. (Lonza) to build a dedicated manufacturing capacity within Lonza's existing small molecule facility in Visp, Switzerland. The dedicated facility (also referred to as "monoplant") will be equipped with state-of-the-art manufacturing equipment to provide cost and production efficiency for the manufacture of LUPKYNIS, while expanding existing capacity and providing supply security to meet

future commercial demand. Upon completion of the monoplant, Aurinia will have the right to maintain exclusive use of the monoplant by paying a quarterly fixed facility fee. The first capital expenditure payment was made in February 2021.

Financial Liquidity at December 31, 2020

As of December 31, 2020, Aurinia had cash, cash equivalents and investments of $423 million compared to $306 million at December 31, 2019. Net cash used in operating activities was $69.9 million for the year ended December 31, 2020 compared to $63.6 million for the year ended December 31, 2019.

The Company believes that it has sufficient financial resources to fund its current plans, which include funding commercial launch activities, manufacturing and packaging of commercial drug supply, conducting our planned R&D programs, and operating activities into at least 2023.

Financial Results for the Year Ended December 31, 2020

For the year ended December 31, 2020, Aurinia recorded a consolidated net loss of $102.7 million or $0.87 per common share.

Revenues were $50.1 million and $0.3 million for the years ended December 31, 2020 and 2019, respectively. The increase of $49.8 million in 2020 was due to the upfront license payment received from Otsuka of $50 million, recorded as licensing revenue in the fourth quarter of 2020.

Research and development (R&D) expenses decreased to $50.3 million for the year ended December 31, 2020 compared to $52.9 million for the year ended December 31, 2019. The primary driver for the decrease of $2.5 million in R&D spend in 2020 was a decrease in drug manufacturing and supply costs, lower Contract Research Organization (CRO) expenses and other third party clinical trial expenses, partially offset by an increase in regulatory related costs as Aurinia prepared for FDA approval.

Corporate, administration and business development expenses increased to $96 million for the year ended December 31, 2020 compared to $22.3 million for the year ended December 31, 2019. The primary driver for the increase of $73.6 million was the build out of commercial infrastructure in advance of approval, which included an increase in salaries and employee benefits, share based compensation expense and professional fees incurred during the year.

Financial Results for the Fourth Quarter Ended December 31, 2020

For the three months ended December 31, 2020, Aurinia recorded a consolidated net loss of $8.1 million or $0.05 per common share.

Revenues were $50 million and $0.03 million for the three months ended December 31, 2020 and 2019, respectively. The increase of $50 million in 2020 was due to the upfront payment from Otsuka of $50 million recorded as licensing revenue.

R&D expenses decreased to $13.2 million for the three months ended December 31, 2020 compared to $13.3 million for the three months ended December 31, 2019. The primary drivers for the slight decrease in R&D spend in 2020 was a decrease in drug manufacturing and supply costs, lower CRO expenses and other third party clinical trial expenses, partially offset by an increase in regulatory related costs as Aurinia prepared for FDA approval.

Corporate, administration and business development expenses increased to $38.8 million for the three months ended December 31, 2020 compared to $7.3 million for the three months ended December 31, 2019. The primary driver for the increase of $31.5 million in 2020 was the build out of commercial infrastructure in advance of approval, which included an increase in salaries and employee benefits, share based compensation expense and professional fees incurred during the quarter.

This press release is intended to be read in conjunction with the Company’s audited financial statements and the Management's Discussion and Analysis for the year ended December 31, 2020 in the Company’s Annual Report on Form 10-K, which is accessible on Aurinia's website at www.auriniapharma.com, on SEDAR at www.sedar.com or on EDGAR at www.sec.gov/edgar.

Aurinia will host a conference call and webcast to discuss the fourth quarter and year ended December 31, 2020 financial results today, Wednesday, February 24, 2020 at 4:30 p.m. ET. This event can be accessed on the investor section of the Aurinia website at www.auriniapharma.com.

About Lupus Nephritis
LN is a serious progression of systemic lupus erythematosus (SLE), a chronic and complex autoimmune disease. About 200,000-300,000 people live with SLE in the U.S. and approximately one out of three of these individuals have already developed LN at the time of SLE diagnosis. If poorly controlled, LN can lead to permanent and irreversible tissue damage within the kidney, resulting in kidney failure. Black and Asian individuals with SLE are four times more likely to develop LN and individuals with Hispanic ancestry are approximately twice as likely to develop the disease when compared with Caucasian individuals. Black and Hispanic individuals with SLE also tend to develop LN earlier and have poorer outcomes when compared to Caucasian individuals.

About Aurinia
Aurinia Pharmaceuticals is a fully integrated biopharmaceutical company focused on delivering therapies to treat targeted patient populations that are impacted by serious diseases with a high unmet medical need. The Company has introduced LUPKYNIS (voclosporin), the first FDA-approved oral therapy dedicated for the treatment of adult patients with active LN. The Company's head office is in Victoria, British Columbia, its U.S. commercial hub is in Rockville, Maryland, and the Company focuses its development efforts globally.

Forward-Looking Statements
Certain statements made in this press release may constitute forward-looking information within the meaning of applicable Canadian securities law and forward-looking statements within the meaning of applicable United States securities law. These forward-looking statements or information include but are not limited to statements or information with respect to: Aurinia's estimates as to the number of patients with SLE in the U.S. and the proportion of those persons who will develop LN; Aurinia's belief that it is on track to meet its internal expectations for the prescribing of LUPKYNIS; Aurinia will receive certain payments (including royalties and milestones) from its agreement with Otsuka; that operational qualification of the monoplant facility is expected in 2023; Aurinia's belief that it has sufficient financial resources to fund its current plans until 2023. It is possible that such results or conclusions may change based on further analyses of these data. Words such as "anticipate", "will", "believe", "estimate", "expect", "intend", "target", "plan", "goals", "objectives", "may" and other similar words and expressions, identify forward-looking statements. We have made numerous assumptions about the forward-looking statements and information contained herein, including among other things, assumptions about: the accuracy of reported data from third party studies and reports; that Aurinia's intellectual property rights are valid and do not infringe the intellectual property rights of third parties; Aurinia's assumptions relating to the capital required to fund operations into 2023; the assumption that Aurinia's current good relationships with its suppliers, service providers and other third parties will be maintained; assumptions relating to the burn rate of Aurinia's cash for operations; that Aurinia's third party service providers will comply with their contractual obligations. Even though the management of Aurinia believes that the assumptions made, and the expectations represented by such statements or information are reasonable, there can be no assurance that the forward-looking information will prove to be accurate.

Forward-looking information by their nature are based on assumptions and involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance, or achievements of Aurinia to be materially different from any future results, performance or achievements expressed or implied by such forward-looking information. Should one or more of these risks and uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those described in forward-looking statements or information. Such risks, uncertainties and other factors include, among others, the following: difficulties Aurinia may experience in completing the commercialization of voclosporin; the market for the LN business may not be as estimated; Aurinia may have to pay unanticipated expenses; Aurinia may not be able to obtain sufficient supply to meet commercial demand for voclosporin in a timely fashion; unknown impact and difficulties imposed by the COVID-19 pandemic on Aurinia's business operations including nonclinical, clinical, regulatory and commercial activities; the results from Aurinia's clinical studies and from third party studies and reports may not be accurate; Aurinia's third party service providers may not, or may not be able to, comply with their obligations under their agreements with Aurinia; and Aurinia's assets or business activities may be subject to disputes that may result in litigation or other legal claims. Although Aurinia has attempted to identify factors that would cause actual actions, events, or results to differ materially from those described in forward-looking statements and information, there may be other factors that cause actual results, performances, achievements, or events to not be as anticipated, estimated or intended. Also, many of the factors are beyond Aurinia's control. There can be no assurance that forward-looking statements or information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, you should not place undue reliance on forward-looking statements or information.

All forward-looking information contained in this presentation is qualified by this cautionary statement. Additional information related to Aurinia, including a detailed list of the risks and uncertainties affecting Aurinia and its business, can

be found in Aurinia's most recent Annual Report on Form 10-K available by accessing the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) website at www.sedar.com or the U.S. Securities and Exchange Commission's Electronic Document Gathering and Retrieval System (EDGAR) website at www.sec.gov/edgar, or on Aurinia's website at www.auriniapharma.com.

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Aurinia Pharmaceuticals Inc.
Condensed Consolidated Balance Sheets
(unaudited – amounts in thousands of U.S. dollars)

	December 31, 2020 $	December 31, 2019 $
Assets		
Cash, cash equivalents and short term investments	**398,329**	306,019
Accrued interest and other receivables	**1,018**	368
Inventories	**13,927**	—
Prepaid expenses and deposits	**6,153**	8,750
Total current assets	**419,427**	315,137
Long term investments	**24,380**	—
Other non-current assets	**247**	209
Property and equipment	**4,786**	93
Acquired intellectual property and other intangible assets	**9,332**	8,862
Right of use asset	**5,489**	—
Total assets	**463,661**	324,301
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	**24,797**	11,177
Other current liabilities	**7,200**	118
Total current liabilities	**31,997**	11,295
Other non-current liabilities	**23,914**	14,406
Total liabilities	**55,911**	25,701
Shareholders' equity	**407,750**	298,600
Total liabilities and shareholders' equity	**463,661**	324,301

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Operations
(unaudited – amounts in thousands of U.S. dollars, except per share data)

	Three months ended		Years ended	
	Dec. 31, 2020	**Dec. 31, 2019**	**Dec. 31, 2020**	**Dec. 31, 2019**
	$	**$**	**$**	**$**
Revenue				
Licensing revenue	**$ 50,030**	$ 29	**$ 50,118**	$ 318
Expenses				
Research and development	**13,173**	13,292	**50,327**	52,866
Corporate, administration and business development	**38,779**	7,294	**95,983**	22,338
Amortization of intangible assets	**387**	284	**1,289**	1,138
Other expenses, net	**5,743**	14,000	**6,809**	14,919
Total operating expenses	**58,082**	34,870	**154,408**	91,261
Loss from operations	**(8,052)**	(34,841)	**(104,290)**	(90,943)
Interest income	**135**	467	**1,516**	2,702
Loss before income taxes	**(7,917)**	(34,374)	**(102,774)**	(88,241)
Income tax benefit (expense)	**(157)**	(85)	**94**	(144)
Net loss and comprehensive loss	**(8,074)**	(34,459)	**(102,680)**	(88,385)
Net loss (expressed in $ per share)				
Basic and diluted loss per Common Share	**$ (0.05)**	$ (0.36)	**$ (0.87)**	$ (0.95)
Weighted average number of Common Shares outstanding	**126,618**	97,936	**118,473**	93,024

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Balance Sheets
(In thousands of United States dollars)
(Unaudited)

	March 31, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**$ 274,207**	$ 306,019
Short term investments	**11,913**	—
Accrued interest and other receivables	**3,513**	368
Prepaid expenses and deposits	**8,266**	8,750
Total current assets	**297,899**	315,137
Non-current assets		
Other non-current assets	**209**	209
Property and equipment, net	**160**	93
Acquired intellectual property and other intangible assets, net	**8,710**	8,862
Right of use asset	**5,764**	—
Total assets	**$ 312,742**	$ 324,301
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**12,411**	11,177
Other current liabilities (of which $2,000 due to related party in 2020)	**2,118**	118
Total current liabilities	**14,529**	11,295
Non-Current liabilities		
Other non-current liabilities (of which $4,000 and $6,000 due to related party in 2020 and 2019, respectively)	**4,176**	6,206
Royalty obligation	**9,100**	8,200
Operating lease liability	**5,851**	—
Total liabilities	**33,656**	25,701
SHAREHOLDERS' EQUITY		
Common shares - no par value, unlimited shares authorized, 112,487 and 111,798 issued and outstanding as at March 31, 2020 and December 31, 2019, respectively	**750,940**	746,487
Additional paid in capital	**27,359**	25,394
Accumulated other comprehensive loss	**(805)**	(805)
Accumulated deficit	**(498,408)**	(472,476)
Total shareholder’s equity	**279,086**	298,600
Total liabilities and shareholders’ equity	**$ 312,742**	$ 324,301

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands of United States dollars, except per share data)
(Unaudited)

	Three Months Ended March 31	
	2020	**2019**
Revenue	**$ 30**	$ 30
Operating expenses:		
Research and development	**13,835**	10,631
General and administrative	**11,053**	3,945
Amortization of intangible assets	**286**	283
Other expense, net	**1,916**	62
Total operating expenses	**27,090**	14,921
Loss from operations	**(27,060)**	(14,891)
Interest income	**(890)**	(812)
Net loss before income taxes	**(26,170)**	(14,079)
Income tax benefit (expense)	**238**	(18)
Net loss and comprehensive loss	**$ (25,932)**	$ (14,097)
Basic and diluted loss per share	**$ (0.23)**	$ (0.16)

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Shareholder's Equity
(In thousands of United States dollars)
(Unaudited)

	Common Shares (in thousands)		Additional paid in capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders Deficit
	Shares	Amount $	$	$	$	$
Balance at January 1, 2020	111,798	$ 746,487	$ 25,394	$ (805)	$ (472,476)	$ 298,600
Shares issued on exercise of stock options	688	4,450	(1,530)	—	—	2,920
Exercise of warrants	1	3	(1)	—	—	2
Share-based compensation		—	3,496	—	—	3,496
Net loss and comprehensive loss for the period		—	—	—	(25,932)	(25,932)
Balance at March 31, 2020	**112,487**	**$ 750,940**	**$ 27,359**	**$ (805)**	**$ (498,408)**	**$ 279,086**
Balance at January 1, 2019	85,500	488,744	31,869	(805)	(384,091)	135,717
Issue of common shares	4,608	30,000	—	—	—	30,000
Share issue costs		(1,170)	—	—	—	(1,170)
Exercise of warrants	1,151	5,049	(3,557)	—	—	1,492
Shares issued on exercise of stock options	387	2,170	(819)	—	—	1,351
Shared-based compensation		—	1,604	—	—	1,604
Net loss and comprehensive loss for the period		—	—	—	(14,097)	(14,097)
Balance at March 31, 2019	**91,646**	**$ 524,793**	**$ 29,097**	**$ (805)**	**$ (398,188)**	**$ 154,897**

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands of United States dollars)
(Unaudited)

	Three Month Ended March 31,	
	2020	**2019**
Cash flows from operating activities		
Net loss	**$ (25,932)**	$ (14,097)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment	**12**	10
Amortization of acquired intellectual property and other intangible assets	**286**	283
Royalty obligation expense	**900**	—
Share-based compensation	**3,496**	1,604
Other, net	**(30)**	(30)
Changes in operating assets and liabilities:		
Accrued interest and other receivables	**(3,145)**	(159)
Prepaid expenses and deposits	**484**	61
Right of use assets	**(5,764)**	(398)
Accounts payable and accrued liabilities	**1,234**	(866)
Lease liabilities	**5,851**	421
Net cash used in operating activities	**(22,608)**	(13,171)
Cash flows from investing activities:		
Purchase of short term investments	**(11,913)**	—
Purchase of equipment	**(79)**	(12)
Purchase of computer based arrangements	**(86)**	—
Capitalized patent costs	**(48)**	(8)
Proceeds on maturity of short term investment	**—**	3,910
Net cash (used in) provided by investing activities	**(12,126)**	3,890
Cash flows from financing activities:		
Proceeds from exercise of stock options	**2,920**	1,351
Proceeds from exercise of warrants	**2**	1,492
Net proceeds from issuance of common shares	**—**	28,830
Net cash provided by financing activities	**2,922**	31,673
Net (decrease) increase in cash and cash equivalents	**(31,812)**	22,392
Cash and cash equivalents, beginning of period	**306,019**	117,967
Cash and cash equivalents, end of period	**$ 274,207**	$ 140,359
Supplemental cash flow information		
Non-cash investing and financing activities		
Cash received for interest	**$ 891**	$ 811

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

1. NATURE OF OPERATIONS

Aurinia Pharmaceuticals Inc. (Aurinia) or the Company is a commercial-stage biopharmaceutical company focused on developing and commercializing therapies to treat targeted patient populations that are suffering from serious diseases with a high unmet medical need.

Aurinia's head office is located at #1203-4464 Markham Street, Victoria, British Columbia, Canada and its registered office is located at #201, 17873-106 A Avenue, Edmonton, Alberta. Aurinia also has a U.S. Commercial office located at 77 Upper Rock Circle, Rockville, Maryland.

Aurinia is incorporated pursuant to the Business Corporations Act (Alberta). The Company's common shares are currently listed and traded on the Nasdaq Global Market (Nasdaq) under the symbol AUPH and on the Toronto Stock Exchange (TSX) under the symbol AUP.

Coronavirus pandemic (COVID-19)

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) virus a global pandemic. This outbreak is causing major disruptions to businesses and markets worldwide as the virus continues to spread. A number of countries as well as certain states and cities within the United States and Canada have enacted temporary closures of businesses, issued quarantine or shelter-in-place orders and taken other restrictive measures in response to COVID-19.

The interim condensed consolidated financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's estimates related to the lease liability (note 7), royalty obligation (note 9) and ILJIN agreement (note 12) or results of operations will depend on future developments that are uncertain at this time. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in future periods.

2. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements for the three months ended March 31, 2020 have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) for interim financial information. Previously, the Company prepared its consolidated financial statements under International Financial Reporting Standards (IFRS) as permitted by securities regulators in Canada, as well as in the United States for as long as the Company qualified as a Foreign Private Issuer as defined by the United States Securities and Exchange Commission (SEC). At the end of the second quarter of 2020, the Company determined that it no longer qualified as a Foreign Private Issuer under the SEC rules. As a result, beginning January 1, 2021 the Company is required to report with the SEC on domestic forms and comply with domestic company rules in the United States. The transition to US GAAP was made retrospectively for all periods from the Company's inception.

In the opinion of the Company, the accompanying unaudited condensed financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of March 31, 2020, and its results of operations for the three months ended March 31, 2020 and 2019, and cash flows for the three months ended March 31, 2020 and 2019. The condensed balance sheet at December 31, 2019, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements.

These interim consolidated financial statements do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for fair presentation have been included. For further information, refer to the Consolidated Financial Statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2020.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aurinia Pharma U.S., Inc. (Delaware incorporated) and Aurinia Pharma Limited (UK incorporated). All material intercompany balances and transactions have been eliminated during consolidation.

The success of the Company depends on its ability to develop its technologies to the point of U.S. Food and Drug Administration (FDA) approval and subsequent revenue generation and, the Company must raise enough capital to finance these efforts. Based on management's cash flow projections, the Company believes that its cash and cash equivalents and marketable securities are sufficient to fund the Company's planned operations for at least the next 12 months. However, in the future, the Company may need to raise additional capital to finance the continued operating and capital requirements of the Company. There can be no assurances that the Company will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs. If the Company cannot obtain adequate working capital, it may need to reevaluate its planned business operations.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim unaudited condensed consolidated financial statements follow the same accounting policies and methods of the application as the December 31, 2020 annual audited consolidated financial statements filed on Form 10-K with the SEC.

4. NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

On January 1, 2019, the Company adopted ASC 842 using the modified retrospective transition approach as of the period of adoption. The Company's financial statements prior to January 1, 2019 were not modified for the application of the new lease standard. Upon adoption of ASC 842, the Company elected the "package of practical expedients," which allowed the Company to not reassess (a) whether expired or existing contracts as of January 1, 2019 are or contain leases, (b) the lease classification for any expired or existing leases as of January 1, 2019, and (c) the treatment of initial direct costs relating to any existing leases as of January 1, 2019. The package of practical expedients was made as a single election and was consistently applied to all leases that commenced before January 1, 2019. As part of the transition, the Company completed a comprehensive review of its lease portfolio, including significant leases by geography and by asset type that were impacted by the new guidance, and enhanced its controls around leasing. Furthermore, management reviewed all of the Company's non-facility contracts to determine whether any agreements will impact the Company's consolidated financial statements. The adoption of ASC 842 did not result in a material change to the statement of financial position, as majority of the Company's leases as of January 1, 2019 had a term of less than 12 months, with the exception of the Victoria office lease that did not result in a material adjustment to the statement of financial position.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-12). The FASB subsequently issued amendments to ASU 2016-13, which has an effective date for year ends beginning after December 15, 2019, and ASU 2016-12, which has an effective date for year ends beginning after December 15, 2020. These standards require that credit losses be reported using an expected losses model rather than the incurred losses model that is currently used, and establishes additional disclosures related to credit risks. For available-for-sale debt securities with unrealized losses, these standards now require allowances to be recorded instead of reducing the amortized cost of the investment. These standards limit the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and requires the reversal of previously recognized credit losses if fair value increases. The adoption of these standards as of January 1, 2020 did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurement. The Topic 820 requires to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issued of Level 3 assets and liabilities. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when the restrictions from redemptions might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. The new standard also amends that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The new standard is effective

(In thousands of United States dollars)

for fiscal years beginning after December 15, 2019. The standard should be applied retrospectively to the date of initial application of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to adopt the amendment as of January 1, 2020, which did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 (ASU 2018-15) "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)-Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company adopted ASU 2018-15 effective January 1, 2020 and applied the standard prospectively to implementation costs incurred in its cloud computing arrangements, resulting in capitalized costs of $86,000 for the three months ended March 31, 2020.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangement (Topic 808): Clarifying the Integration between Topic 808 and Topic 606. The new standard clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is customer in the context of a unit of account. Further, to add a unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 when an entity is assessing whether the collaborative arrangement or part of the arrangement is within the scope of Topic 606. The new standard requires that in transactions with a collaborative arrangement participant that is not directly related to sales to third parties, presenting under Topic 606 is precluded if the collaborative arrangement participant is not a customer. The new standard is effective for fiscal years beginning after December 15, 2019. The standard should be applied retrospectively to the date of initial application of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to adopt the amendment as of January 1, 2020, which did not have a material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which clarifies and simplifies certain aspects of the accounting for income taxes. The standard is effective for years beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2020. The Company is evaluating this standard and does not anticipate adoption will have a material impact on the Company's consolidated financial statements.

5. SHORT-TERM INVESTMENTS

At March 31, 2020, we had $11.9 million of short-term investments. These instruments are carried at fair market value which is approximately equal to amortized cost. We had no investments as of December 31, 2019. The average weighted duration of the interest-bearing securities held at March 31, 2020 was 0.75 years and the weighted average yield to maturity was 1.68%.

	March 31, 2020	December 31, 2019
Government Bond	$ 9,913	$ —
Cashable Guaranteed Investment Certificate (GIC)	2,000	—
	$ 11,913	$ —

(In thousands of United States dollars)

6. ACCRUED INTEREST AND OTHER RECEIVABLES

	March 31, 2020	December 31, 2019
FDA application fee recoverable	$ 2,943	$ —
Other receivables	225	163
Accrued interest receivables	188	205
Income taxes recoverable	157	—
	$ 3,513	$ 368

FDA application fee recoverable

The Prescription Drug User Fee Act (PDUFA) was a law passed by the United States Congress in 1992 which allowed the Food and Drug Administration (FDA) to collect fees from drug manufacturers to fund the new drug approval process. During the first quarter ended March 31, 2020 the Company paid the human drug application fee for new drug application (NDA) of $2,943,000 to the FDA. The Company also applied for a fee waiver under the small business waiver provision, section 736(d)(1)(C)2 of the Federal Food, Drug, and Cosmetic Act (the FD&C Act) and was granted that waiver on March 26, 2020. As a result the Company has recorded all fees paid to the FDA related to NDA as recoverable application fees.

7. LEASES

All of the Company's existing leases as of March 31, 2020 are classified as operating leases. Rent expense during the three months ended March 31 ,2020 and 2019 was approximately $142,000 and $67,000, respectively. Rent expense includes short term leases and variable lease costs that are not included in the lease obligation.

Short-term leases are leases having a term of twelve months or less. The Company recognizes the short term leases on a straight-line basis and does not record a related lease asset or liability for such leases. Our head office location in Victoria, British Columbia has a sublease agreement which will terminate effective December 31, 2020. The estimated base rent plus operating costs on a monthly basis for the period from January 1, 2020 to May 31, 2020 is approximately $21,000 per month increasing to approximately $22,000 per month for the period of June 1, 2020 to December 31, 2020. On October 1, 2019, we entered into an agreement to lease premises at #201, 17873 - 106A Avenue, Edmonton, Alberta, consisting of 2,248 square feet of office space, for a term commencing October 1, 2019 to September 30, 2020 at a cost of approximately $2,200 per month.

During March 2020, the Company entered into a commercial office lease for its US commercial center of operations in Rockville, Maryland (MD lease). The Company recognized a $5,804,000 right-of-use asset (ROU asset) and a $5,804,000 lease liability related to the lease. When measuring the lease liability, the Company discounted lease payments using its incremental borrowing rate at March 12, 2020. The incremental borrowing rate applied to the lease liability on March 12, 2020 was 5.2%.

As of March 31, 2020, the Company received reimbursement for tenant leasehold improvements by the landlord in the amount of $22,000 for MD lease. The Company recorded these leasehold improvement incentives as additions to the lease liability and construction in process.

As of March 31, 2020, we had operating lease right of use asset of $5,764,000 and lease liability of $5,851,000 in the balance sheet.

(In thousands of United States dollars)

The following table represents the weighted-average remaining lease term and discount rate as of March 31, 2020.

	As of March 31, 2020	
Lease term and discount rate	**Weighted Average Remaining Lease Term (years)**	**Weighted Average Discount Rate**
Operating leases	11.42	5.20 %

Lease Obligations

The Company's approximate lease obligations for the next five years are as follows:

	Contractual cash flow	Lease inducements	Total
2020	$ 122	$ (2,272)	$ (2,150)
2021	287		287
2022	968		968
2023	1,061		1,061
2024	1,085		1,085
Thereafter	7,882		7,882
Total future minimum lease payments	11,405	(2,272)	9,133
Carrying value (liability)	$ 8,123	$ (2,272)	$ 5,851

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	March 31, 2020	December 31, 2019
Trade payables	$ 4,123	$ 4,153
Other accrued liabilities	5,355	3,281
Employee accruals	2,933	3,743
Total accrued liabilities	$ 12,411	$ 11,177

9. ROYALTY OBLIGATION

The royalty obligations are the result of a resolution of the board of directors of the Company dated March 8, 2012 whereby certain executive officers at that time were provided with future potential employee benefit obligations for remaining with the Company contingent on the occurrence of uncertain future events. The obligation was recorded once the specified events were deemed probable to occur.

As a result of the completion of the Phase 3 AURORA trial, and the results obtained from the trial in the fourth quarter of 2019, the Company re-assessed the probability of royalty obligation payments being required in the future, and has recorded the royalty obligation at December 31, 2019. Until one of the triggering events occur, no royalty payments are required to be paid. Any royalties on sales or licensing are not expected in the next twelve months and therefore the royalty obligation has been classified as long term. The balance of the royalty obligation as at March 31, 2020 was estimated to be $9,100,000 (December 31, 2019 - $8,200,000).

(In thousands of United States dollars)

During the first quarter ended March 31, 2020 the Company re-assessed the royalty obligation and reduced the discount rate from 12% to 10%. The reduction was primarily attributable to the significant decline in interest rates caused by the global coronavirus (COVID-19) pandemic. The change in discount rate and passage of time, on revaluation, resulted in an increase in the royalty obligation of $900,000 for the three months ended March 31, 2020.

10. STOCK-BASED COMPENSATION

The Company's net loss for the three months ended March 31, 2020 and 2019 includes $3,496,000 and $1,604,000, respectively, of non-cash compensation expense related to the Company's share-based compensation awards. The compensation expense related to the Company's share-based compensation arrangements is recorded as components of general and administrative expense and research and development expense, as follows:

	March 31, 2020	March 31, 2019
Research and development	$ 1,217	$ 862
General and administrative	2,279	742
Share-based compensation expense	$ 3,496	$ 1,604

Compensation expense related to stock options is recognized over the requisite service period, which is generally the option vesting term of three years. There were no stock option awards with performance conditions for the three months ended March 31, 2020.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2020 and 2019. Option valuation models, including Black-Scholes-Merton, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free interest rate, expected dividend yield, expected volatility, and the expected life of the award.

A summary of changes in options under the Company's stock option plans during the three month period ended March 31, 2020 is as follows:

	March 31, 2020	
	Number of shares	Weighted average exercise price $
Outstanding - Beginning of Period	7,822	5.41
Granted pursuant to Stock Option Plan	2,558	17.73
Exercised	(688)	4.52
Forfeited	(7)	5.68
Outstanding - End of Period	9,685	8.72
Vested and expected to vest-End of Period	654	6.88
Options exercisable - End of Period	3,382	5.21

The maximum number of Common Shares issuable under the Stock Option Plan is equal to 12.5% of the issued and outstanding. At March 31, 2020 there were 112,487,000 Common Shares of the Company issued and outstanding, resulting in a maximum of 14,061,000 options available for issuance under the Stock Option Plan.

(In thousands of United States dollars)

The following weighted average assumptions were used to estimate the fair value of the options granted during the three months ended March 31, 2020 and 2019:

	March 31, 2020	March 31, 2019
Annualized volatility	43%	53%
Risk-free interest rate	1.20%	1.84%
Expected life of options in years	3.0 years	4.0 years
Estimated forfeiture rate	13.0%	14.2%
Dividend rate	0.0%	0.0%
Exercise price	$ 17.73	$ 6.06
Market price on date of grant	$ 17.73	$ 6.06
Fair value per common share option	$ 5.44	$ 3.43

Cash received from option exercises under all share-based payment arrangements for the three month periods ended March 31, 2020 and 2019 was $2,920,000 and $1,351,000, respectively.

11. INCOME TAXES

The effective tax rates for the three months ended March 31, 2020 and March 31, 2019 differed from the federal statutory rate applied to losses before income taxes primarily as a result of the mix of income, losses and valuation allowances.

The Company recognized an income tax benefit of $238,000 for the three months ended March 31, 2020 and income tax expense of $18,000 for the three months ended March 31, 2019. The expense recognized for the three months ended March 31, 2019 was a result of taxable income in certain jurisdictions. This tax expense is not offset by a tax benefit as the Company has taxable losses fully offset by a valuation allowance in Canada. The tax benefit recognized for the three months ended March 31, 2020 was a result of a discrete tax benefit recorded in the US pursuant to certain tax provisions provided under the CARES Act. The CARES Act permits the Company to carry back net operating losses to offset taxable income generated in the five preceding years, some of which were taxed at a federal income tax rate higher than the current enacted rate.

12. RELATED PARTIES

During the three month period ended March 31, 2020, Stephen P. Robertson was a partner at Borden Ladner Gervais (BLG) during which time he acted as the Company's corporate secretary. The Company incurred legal fees in the normal course of business to BLG of $63,000 for the three months ended March 31, 2020 compared to $68,000 for the three months ended March 31, 2019. During the three month period ended March 31, 2020, the Company had no ongoing contractual or other commitments as a result of engaging Mr. Robertson to act as the Company's corporate secretary.

The outstanding amount payable to ILJIN, an affiliated shareholder, is the result of a settlement completed on September 20, 2013 between ILJIN and the Company. Per the terms of the settlement agreement, payments of up to $10,000,000 may be payable and are based on the achievement of pre-defined clinical milestones related to voclosporin and marketing milestones related to DES. During 2019, Aurinia paid ILJIN $100,000, upon the achievement of a specific milestone. Previously, in 2017 the Company paid ILJIN $2,150,000 upon the achievement of two specific milestones. These payments reduced the original $10,000,000 contingent consideration to $7,750,000. A liability was recorded in the amount of $6,000,000 on December 31, 2019 related to these milestones as it was determined that achievement of regulatory approval and sales milestones were probable. The remaining milestones of $1,750,000 are related to the discontinued DES program and are not considered probable of achieving.

The amount payable to ILJIN was $6,000,000 recorded in other liabilities for the period ended March 31, 2020 and year ended December 31, 2019.

NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. In determining diluted net 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 month period ended March 31, 2020 exceeds the exercise price. Common shares that could potentially dilute basic net loss per common share in the future that could be issued from the exercise of stock options and warrants were not included in the computation of the diluted loss per common share for the three month period ended March 31, 2020 because to do so would be anti-dilutive. The numerator and denominator used in the calculation of historical basic and diluted net loss amounts per common share are as follows:

(in thousands, except per share data)	**March 31, 2020**	**March 31, 2019**
Net loss for the period	$ (25,932)	$ (14,097)
Weighted average number of common shares outstanding	112,209	90,146
Net loss per common share	$ (0.23)	$ (0.16)

The outstanding number and type of securities that would potentially dilute basic loss per common share in the future and which were not included in the computation of diluted loss per share, because to do so would have reduced the loss per common share (anti-dilutive) for the years presented, are as follows:

	March 31, 2020	**March 31, 2019**
Stock options	9,685	8,345
Warrants	1,690	3,523
	11,375	11,868

14. 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 consolidated financial statements represent those of the single reporting unit.

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Balance Sheets
(In thousands of United States dollars)
(Unaudited)

	June 30, 2020	December 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	**$ 232,414**	$ 306,019
Short term investments	**31,936**	—
Accrued interest and other receivables	**530**	368
Prepaid expenses and deposits	**13,161**	8,750
Total current assets	**278,041**	315,137
Non-current assets		
Other non-current assets	**209**	209
Property and equipment, net	**784**	93
Acquired intellectual property and other intangible assets, net	**8,748**	8,862
Right of use asset	**5,649**	—
Total assets	**$ 293,431**	$ 324,301
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**13,641**	11,177
Other current liabilities (of which $4,000 due to related party in 2020)	**4,118**	118
Total current liabilities	**17,759**	11,295
Non Current liabilities		
Other non-current liabilities (of which $2,000 and $6,000 due to related party in 2020 and 2019, respectively)	**2,772**	6,206
Royalty obligation	**9,000**	8,200
Operating lease liability	**6,202**	—
Total liabilities	**35,733**	25,701
SHAREHOLDERS' EQUITY		
Common shares - no par value, unlimited shares authorized, 112,705 and 111,798 issued and outstanding as at June 30, 2020 and December 31, 2019, respectively	**752,357**	746,487
Additional paid in capital	**31,098**	25,394
Accumulated other comprehensive loss	**(805)**	(805)
Accumulated deficit	**(524,952)**	(472,476)
Total shareholder’s equity	**257,698**	298,600
Total liabilities and shareholders’ equity	**$ 293,431**	$ 324,301

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands of United States dollars, except per share data)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Revenue	**$ 29**	$ 29	**$ 59**	$ 59
Operating expenses:				
Research and development	**11,076**	11,152	**24,911**	21,783
General and administrative	**15,449**	4,991	**26,502**	8,936
Amortization of intangible assets	**300**	284	**586**	568
Other expenses, net	**67**	745	**1,983**	806
Total operating expenses	**26,892**	17,172	**53,982**	32,093
Loss from operations	**(26,863)**	(17,143)	**(53,923)**	(32,034)
Interest income	**(321)**	(786)	**(1,211)**	(1,598)
Net loss before income taxes	**(26,542)**	(16,357)	**(52,712)**	(30,436)
Income tax (expense) benefit	**(2)**	(18)	**236**	(36)
Net loss and comprehensive loss	**$ (26,544)**	$ (16,375)	**$ (52,476)**	$ (30,472)
Basic and diluted loss per share	**$ (0.24)**	$ (0.18)	**$ (0.47)**	$ (0.34)

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Shareholder's Equity
(In thousands of United States dollars)
(Unaudited)

	Common Shares (in thousands)		Additional paid in capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders Deficit
	Shares	Amount $	$	$	$	$
Balance at April 1, 2020	112,487	$ 750,940	$ 27,359	$ (805)	$ (498,408)	$ 279,086
Shares issued on exercise of stock options	218	1,418	(463)	—	—	955
Exercise of derivative warrants	—	(1)	—	—	—	(1)
Share-based compensation	—	—	4,202	—	—	4,202
Net loss and comprehensive loss for the period	—	—	—	—	(26,544)	(26,544)
Balance at June 30, 2020	**112,705**	**$ 752,357**	**$ 31,098**	**$ (805)**	**$ (524,952)**	**$ 257,698**
Balance at January 1, 2020	111,798	746,487	25,394	(805)	(472,476)	298,600
Shares issued on exercise of stock options	906	5,868	(1,993)	—	—	3,875
Exercise of derivative warrants	1	2	(1)	—	—	1
Share-based compensation		—	7,698	—	—	7,698
Net loss and comprehensive loss for the period		—	—	—	(52,476)	(52,476)
Balance at June 30, 2020	**112,705**	**$ 752,357**	**$ 31,098**	**$ (805)**	**$ (524,952)**	**$ 257,698**
Balance at April 1, 2019	91,646	524,793	29,097	(805)	(398,188)	154,897
Issue of common shares	—	—	—	—	—	—
Share issue costs	—	—	—	—	—	—
Exercise of derivative warrants	—	—	—	—	—	—
Shares issued on exercise of stock options	147	761	(297)	—	—	464
Shared-based compensation	—	—	1,960	—	—	1,960
Net loss and comprehensive loss for the period	—	—	—	—	(16,375)	(16,375)
Balance at June 30, 2019	**91,793**	**$ 525,554**	**$ 30,760**	**$ (805)**	**$ (414,563)**	**$ 140,946**
Balance at January 1, 2019	85,500	488,744	31,869	(805)	(384,091)	135,717
Issue of common shares	4,608	30,000	—	—	—	30,000
Share issue costs	—	(1,170)	—	—	—	(1,170)
Exercise of derivative warrants	1,151	5,049	(3,557)	—	—	1,492
Shares issued on exercise of stock options	534	2,931	(1,116)	—	—	1,815
Shared-based compensation	—	—	3,564	—	—	3,564
Net loss and comprehensive loss for the period	—	—	—	—	(30,472)	(30,472)
Balance at June 30, 2019	**91,793**	**$ 525,554**	**$ 30,760**	**$ (805)**	**$ (414,563)**	**$ 140,946**

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands of United States dollars)
(Unaudited)

	Six Months Ended June 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	**$ (52,476)**	$ (30,472)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment	**31**	14
Amortization of intangible assets	**586**	568
Royalty obligation expense	**800**	—
Share-based compensation	**7,698**	3,564
Other, net	**271**	(54)
Changes in operating assets and liabilities:		
Accrued interest and other receivables	**(162)**	(31)
Prepaid expenses and deposits	**(4,411)**	(7)
Right of use assets	**(5,649)**	(371)
Lease liabilities	**6,202**	412
Accounts payable and accrued liabilities	**2,464**	(75)
Net cash used in operating activities	**(44,646)**	(26,452)
Cash flows from investing activities:		
Purchase of short term investments	**(31,954)**	—
Purchase of long-lived assets	**(427)**	(35)
Purchase of cloud based arrangements	**(393)**	—
Capitalized patent costs	**(79)**	(8)
Proceeds on maturity of short term investment	**18**	7,884
Net cash used in (provided by) investing activities	**(32,835)**	7,841
Cash flows from financing activities:		
Proceeds from exercise of stock options	**3,875**	1,815
Proceeds from exercise of warrants	**1**	1,492
Net proceeds from issuance of common shares	**—**	28,830
Net cash provided by financing activities	**3,876**	32,137
Net (decrease) increase in cash and cash equivalents	**(73,605)**	13,526
Cash and cash equivalents, beginning of period	**306,019**	117,967
Cash and cash equivalents, end of period	**$ 232,414**	$ 131,493
Supplemental cash flow information		
Non-cash investing and financing activities		
Cash received for interest	**$ 1,211**	$ 1,598

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

Aurinia Pharmaceuticals Inc.
Notes to the Condensed Consolidated Interim Financial Statements
(In thousands of United States dollars)
(Unaudited)

1. NATURE OF OPERATIONS

Aurinia Pharmaceuticals Inc. (Aurinia) or the Company is a commercial-stage biopharmaceutical company focused on developing and commercializing therapies to treat targeted patient populations that are suffering from serious diseases with a high unmet medical need.

Aurinia's head office is located at #1203-4464 Markham Street, Victoria, British Columbia, Canada and its registered office is located at #201, 17873-106 A Avenue, Edmonton, Alberta. Aurinia also has a U.S. Commercial office located at 77 Upper Rock Circle, Rockville, Maryland.

Aurinia is incorporated pursuant to the Business Corporations Act (Alberta). The Company's common shares are currently listed and traded on the Nasdaq Global Market (Nasdaq) under the symbol AUPH and on the Toronto Stock Exchange (TSX) under the symbol AUP.

Coronavirus pandemic (COVID-19)

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) a global pandemic. This outbreak is causing major disruptions to businesses and markets worldwide as the virus continues to spread. A number of countries as well as certain states and cities within the United States and Canada have enacted temporary closures of businesses, issued quarantine or shelter-in-place orders and taken other restrictive measures in response to COVID-19.

The interim condensed consolidated financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's estimates related to the lease liability (note 7), royalty obligation (note 9), ILJIN agreement (note 12) or results of operations will depend on future developments that are uncertain at this time. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in future periods.

2. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements for the six months ended June 30, 2020 have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) for interim financial information. Previously, the Company prepared its consolidated financial statements under International Financial Reporting Standards (IFRS) as permitted by securities regulators in Canada, as well as in the United States for as long as the Company qualified as a Foreign Private Issuer as defined by the United States Securities and Exchange Commission (SEC). At the end of the second quarter of 2020, the Company determined that it no longer qualified as a Foreign Private Issuer under the SEC rules. As a result, beginning January 1, 2021 the Company is required to report with the SEC on domestic forms and comply with domestic company rules in the United States. The transition to US GAAP was made retrospectively for all periods from the Company's inception.

In the opinion of the Company, the accompanying unaudited condensed financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of June 30, 2020, and its results of operations for the three and six months ended June 30, 2020 and 2019, and cash flows for the six months ended June 30, 2020 and 2019. The condensed balance sheet at December 31, 2019, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements

These interim consolidated financial statements do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for fair presentation have been included. For further information, refer to the Consolidated Financial Statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2020.

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These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aurinia Pharma U.S., Inc. (Delaware incorporated) and Aurinia Pharma Limited (UK incorporated). All material intercompany balances and transactions have been eliminated during consolidation.

The success of the Company depends on its ability to develop its technologies to the point of U.S. Food and Drug Administration (FDA) approval and subsequent revenue generation and, the Company must raise enough capital to finance these efforts. Based on management's cash flow projections, the Company believes that its cash and cash equivalents and marketable securities are sufficient to fund the Company's planned operations for at least the next 12 months. However, in the future, the Company may need to raise additional capital to finance the continued operating and capital requirements of the Company. There can be no assurances that the Company will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs. If the Company cannot obtain adequate working capital, it may need to reevaluate its planned business operations.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim unaudited condensed consolidated financial statements follow the same accounting policies and methods of the application as the December 31, 2020 annual audited consolidated financial statements filed on Form 10-K with the U.S. Securities and Exchange Commission (SEC).

4. NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

On January 1, 2019, the Company adopted ASC 842 using the modified retrospective transition approach as of the period of adoption. The Company's financial statements prior to January 1, 2019 were not modified for the application of the new lease standard. Upon adoption of ASC 842, the Company elected the "package of practical expedients," which allowed the Company to not reassess (a) whether expired or existing contracts as of January 1, 2019 are or contain leases, (b) the lease classification for any expired or existing leases as of January 1, 2019, and (c) the treatment of initial direct costs relating to any existing leases as of January 1, 2019. The package of practical expedients was made as a single election and was consistently applied to all leases that commenced before January 1, 2019. As part of the transition, the Company completed a comprehensive review of its lease portfolio, including significant leases by geography and by asset type that were impacted by the new guidance, and enhanced its controls around leasing. Furthermore, management reviewed all of the Company's non-facility contracts to determine whether any agreements will impact the Company's consolidated financial statements. The adoption of ASC 842 did not result in a material change to the statement of financial position, as majority of the Company's leases as of January 1, 2019 had a term of less than 12 months, with the exception of the Victoria office lease that did not result in a material adjustment to the statement of financial position.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-12). The FASB subsequently issued amendments to ASU 2016-13, which has an effective date for year ends beginning after December 15, 2019, and ASU 2016-12, which has an effective date for year ends beginning after December 15, 2020. These standards require that credit losses be reported using an expected losses model rather than the incurred losses model that is currently used, and establishes additional disclosures related to credit risks. For available-for-sale debt securities with unrealized losses, these standards now require allowances to be recorded instead of reducing the amortized cost of the investment. These standards limit the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and requires the reversal of previously recognized credit losses if fair value increases. The adoption of these standards as of January 1, 2020 did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurement. The Topic 820 requires to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issued of Level 3 assets and liabilities. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when the restrictions from redemptions might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. The new standard also amends that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The new standard is effective

(In thousands of United States dollars)

for fiscal years beginning after December 15, 2019. The standard should be applied retrospectively to the date of initial application of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to adopt the amendment as of January 1, 2020, which did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 (ASU 2018-15) "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)-Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company adopted ASU 2018-15 effective January 1, 2020 and applied the standard prospectively to implementation costs incurred in its cloud computing arrangements, resulting in capitalized costs of $393,000 for the six months ended June 30, 2020.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangement (Topic 808): Clarifying the Integration between Topic 808 and Topic 606. The new standard clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is customer in the context of a unit of account. Further, to add a unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 when an entity is assessing whether the collaborative arrangement or part of the arrangement is within the scope of Topic 606. The new standard requires that in transactions with a collaborative arrangement participant that is not directly related to sales to third parties, presenting under Topic 606 is precluded if the collaborative arrangement participant is not a customer. The new standard is effective for fiscal years beginning after December 15, 2019. The standard should be applied retrospectively to the date of initial application of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to adopt the amendment as of January 1, 2020, which did not have a material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which clarifies and simplifies certain aspects of the accounting for income taxes. The standard is effective for years beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2020. The Company is evaluating this standard and does not anticipate adoption will have a material impact on the Company's consolidated financial statements.

5. SHORT-TERM INVESTMENTS

At June 30, 2020 we had $31.9 million of short-term investments mainly of government bonds as summarized below. These instruments are carried at fair market value which is approximately equal to amortized cost. We had no investments as of December 31, 2019. The average weighted duration of the interest-bearing securities held at June 30, 2020 was 0.38 years and the weighted average yield to maturity was 1.08%.

	June 30, 2020	December 31, 2019
Government Bond	$ 29,936	$ —
Cashable Guaranteed Investment Certificate (GIC)	2,000	—
	$ 31,936	$ —

Aurinia Pharmaceuticals Inc.
Notes to the Condensed Consolidated Financial Statements
(In thousands of United States dollars)
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6. ACCRUED INTEREST AND OTHER RECEIVABLES

	June 30, 2020	December 31, 2019
Other receivables	$ 123	$ 163
Accrued interest receivables	180	205
Income taxes recoverable	227	—
	$ 530	$ 368

7. LEASES

All of the Company's existing leases as of June 30, 2020 are classified as operating leases. For the three and six months ended June 30, 2020 the Company incurred $261,000 and $403,000 of rent expense, respectively. This is compared to $71,000 and $138,000 of rent expense for the three and six months ended June 30, 2019. Rent expense includes short term leases and variable lease costs that are not included in the lease obligation.

Short-term leases are leases having a term of twelve months or less. The Company recognizes the short term leases on a straight-line basis and does not record a related lease asset or liability for such leases. Our head office location in Victoria, British Columbia has a sublease agreement which will terminate effective December 31, 2020. The estimated base rent plus operating costs on a monthly basis for the period from June 1, 2020 to December 31, 2020 is approximately $22,000 per month. On October 1, 2019, we entered into an agreement to lease premises at #201, 17873 - 106A Avenue, Edmonton, Alberta, consisting of 2,248 square feet of office space, for a term commencing October 1, 2019 to September 30, 2020 at a cost of approximately $2,200 per month.

During March 2020, the Company entered into a commercial office lease for its US commercial center of operations in Rockville, Maryland (MD lease). The Company recognized a $5,804,000 right-of-use asset (ROU asset) and a $5,804,000 lease liability related to the lease. When measuring the lease liability, the Company discounted lease payments using its incremental borrowing rate at March 12, 2020. The incremental borrowing rate applied to the lease liability on March 12, 2020 was 5.2%.

As of June 30, 2020, the Company received reimbursement for tenant leasehold improvements by the landlord in the amount of $295,000 for MD lease. The Company recorded these leasehold improvement incentives as additions to the lease liability and construction in process.

As of June 30, 2020, we had operating lease right of use asset of $5,649,000 and lease liability of $6,202,000 in the balance sheet.

The following table represents the weighted-average remaining lease term and discount rate as of June 30, 2020.

	As of June 30, 2020	
Lease term and discount rate	**Weighted Average Remaining Lease Term (years)**	**Weighted Average Discount Rate**
Operating leases	11.17	5.20%

(In thousands of United States dollars)

Lease Obligations

The Company's approximate lease obligations for the next five years are as follows:

	Contractual cash flow	Lease inducements	Total
2020	$ —	$ (1,996)	$ (1,996)
2021	287	—	287
2022	968	—	968
2023	1,061	—	1,061
2024	1,085	—	1,085
Thereafter	7,882		7,882
Total future minimum lease payments	11,283	(1,996)	9,287
Carrying value(liability)	$ 8,198	$ (1,996)	$ 6,202

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Trade payables	$ 5,217	$ 4,153
Other accrued liabilities	4,853	3,281
Employee accruals	3,571	3,743
Total accrued liabilities	$ 13,641	$ 11,177

9. ROYALTY OBLIGATION

The royalty obligations are the result of a resolution of the board of directors of the Company dated March 8, 2012 whereby certain executive officers at that time were provided with future potential employee benefit obligations for remaining with the Company contingent on the occurrence of uncertain future events. The obligation was recorded once the specified events were deemed probable to occur.

As a result of the completion of the Phase 3 AURORA trial, and the results obtained from the trial in the fourth quarter of 2019, the Company re-assessed the probability of royalty obligation payments being required in the future, and has recorded the royalty obligation at December 31, 2019. Until one of the triggering events occur, no royalty payments are required to be paid. Any royalties on sales or licensing are not expected in the next twelve months and therefore the royalty obligation has been classified as long term. The balance of the royalty obligation at June 30, 2020 was estimated to be $9,000,000 (December 31, 2019 - $8,200,000).

The change in discount rate to 10.5% from 10% during the three months ended June 30, 2020 and passage of time, on revaluation, resulted in an decrease of $100,000 in the royalty obligation. For the six month period ended June 30, 2020 there was an increase of $800,000 in the royalty obligation. There were no similar adjustments for the three and six month periods ended June 30, 2019.

10. SHARE-BASED COMPENSATION

The Company's net loss for the three and six months ended June 30, 2020 included $4,202,000 and 7,698,000 (2019-$1,960,000 and $3,564,000) of non-cash compensation expense related to the Company's share-based compensation

(In thousands of United States dollars)

awards. The compensation expense related to the Company's share-based compensation arrangements is recorded as components of general and administrative expense and research and development expense, as follows:

Stock Compensation Expense	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2020	2019	2020	2019
Research and development	1,080	749	2,296	1,611
General and administrative	3,122	1,211	5,402	1,953
Share-based compensation expense	4,202	1,960	7,698	3,564

Compensation expense related to stock options is recognized over the requisite service period, which is generally the option vesting term of three years. There was no stock option awards with performances conditions for the six months ended June 30, 2020.

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2020 and 2019. Option valuation models, including Black-Scholes-Merton, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free interest rate, expected dividend yield, expected volatility, and the expected life of the award.

A summary of changes in options under the Company's stock option plans during the six month period ended June 30, 2020 is as follows:

	As of June 30, 2020	
	Number of shares	Weighted average exercise price in $
Outstanding – Beginning of period	7,822	5.41
Granted pursuant to Stock Option Plan	4,179	17.21
Exercised	(906)	4.58
Forfeited	(134)	10.27
Granted pursuant to Section 613(c) of TSX manual	—	—
Outstanding – End of period	10,961	9.92
Vested and expected to vest-End of Period	1,678	7.35
Options exercisable – End of period	4,189	5.83

The maximum number of Common Shares issuable under the Stock Option Plan is equal to 12.5% of the issued and outstanding Common Shares at the time the Common Shares are reserved for issuance. At June 30, 2020 there were 112,705,000 Common Shares of the Company issued and outstanding, resulting in a maximum of 14,088,000 options available for issuance under the Stock Option Plan.

(In thousands of United States dollars)

The following weighted average assumptions were used to estimate the fair value of the options granted during the six months ended June 30, 2020 and 2019:

	June 30, 2020	June 30, 2019
Annualized volatility	43 %	52 %
Risk-free interest rate	0.83 %	1.68 %
Expected life of options in years	3.0 years	4.0 years
Estimated forfeiture rate	12.5 %	16.1 %
Dividend rate	— %	— %
Exercise price	$ 17.22	$ 6.19
Market price on date of grant	$ 17.22	$ 6.19
Fair value per common share option	$ 5.20	$ 2.60

Cash received from option exercises under all share-based payment arrangements for the six month periods ended June 30, 2020 and 2019 was $3,875,000 and $1,815,000, respectively.

11. INCOME TAXES

The effective tax rates for the three and six months ended June 30, 2020 and June 30, 2019 differed from the federal statutory rate applied to losses before income taxes primarily as a result of the mix of income, losses and valuation allowances.

The Company's net income tax recovery or (expense) for the three and six months ended June 30, 2020 and 2019 were $2,000, $(236,000), $18,000, and $36,000, respectively. The expense recognized for the three and six months ended June 30, 2019 was a result of taxable income in certain jurisdictions. This tax expense is not offset by a tax benefit as the Company has taxable losses fully offset by a valuation allowance in Canada. The tax benefit recognized for the three and six months ended June 30, 2020 was a result of a discrete tax benefit recorded in the US pursuant to certain tax provisions provided under the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”) enacted in the United States on March 27, 2020. The CARES Act permits the Company to carry back net operating losses to offset taxable income generated in the five preceding years, some of which were taxed at a federal income tax rate higher than the current enacted rate.

12. RELATED PARTIES

Stephen P. Robertson, a partner at Borden Ladner Gervais ("BLG") acted as our corporate secretary. We incurred legal fees in the normal course of business to BLG of $106,000 and $169,000 respectively for the three and six months ended June 30, 2020 compared to $265,000 and $333,000 for the same period in 2019. During the six month period ended June 30, 2020, we had no ongoing contractual or other commitments as a result of engaging Mr. Robertson to act as our corporate secretary.

The outstanding amount payable to ILJIN, an affiliated shareholder, is the result of a settlement completed on September 20, 2013 between ILJIN and the Company. Per the terms of the settlement agreement, payments of up to $10,000,000 may be payable and are based on the achievement of pre-defined clinical milestones related to voclosporin and marketing milestones related to DES. During 2019, Aurinia paid ILJIN $100,000, upon the achievement of a specific milestone. Previously, in 2017 the Company paid ILJIN $2,150,000 upon the achievement of two specific milestones. These payments reduced the original $10,000,000 contingent consideration to $7,750,000. A liability was recorded in the amount of $6,000,000 on December 31, 2019 related to these milestones as it was determined that achievement of regulatory approval and sales milestones were probable. The remaining milestones of $1,750,000 are related to the discontinued DES program and are not considered probable of achieving.

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The amount payable to ILJIN was $6,000,000 recorded in other liabilities for the period ended June 30, 2020 and year ended December 31, 2019.

13. NET LOSS PER COMMON SHARE

Basic and diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding for the year. In determining diluted net 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 six month period ended June 30, 2020 exceeds the exercise price. Common shares that could potentially dilute basic net loss per common share in the future that could be issued from the exercise of stock options and warrants were not included in the computation of the diluted loss per common share for the six month period ended June 30, 2020 because to do so would be anti-dilutive. The numerator and denominator used in the calculation of historical basic and diluted net loss amounts per common share are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands, except per share data)	**2020**	**2019**	**2020**	**2019**
Net loss for the period	$ (26,544)	$ (16,375)	$ (52,476)	$ (30,472)
Weighted average number common shares outstanding	112,576	91,768	112,392	90,961
Net loss per common share	$ (0.24)	$ (0.18)	$ (0.47)	$ (0.34)

The outstanding number and type of securities that would potentially dilute basic loss per common share in the future and which were not included in the computation of diluted loss per share, because to do so would have reduced the loss per common share (anti-dilutive) for the years presented, are as follows:

	June 30, 2020	June 30, 2019
Stock options	10,961	9,864
Warrants	1,690	3,523
	12,651	13,387

14. 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 consolidated financial statements represent those of the single reporting unit.

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Balance Sheets
(In thousands of United States dollars)
(Unaudited)

ASSETS	**September 30, 2020**	**December 31, 2019**
Current assets		
Cash and cash equivalents	**$ 248,758**	$ 306,019
Short term investments	**143,268**	—
Accrued interest and other receivables	**1,129**	368
Inventories	**471**	—
Prepaid expenses and deposits	**11,714**	8,750
Total current assets	**405,340**	315,137
Non-current assets		
Long term investments	**28,780**	—
Other non-current assets	**209**	209
Property and equipment, net	**4,128**	93
Acquired intellectual property and other intangible assets, net	**9,026**	8,862
Right of use asset	**5,576**	—
Total assets	**$ 453,059**	$ 324,301
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	**20,189**	11,177
Other current liabilities (of which $4,000 due to related party in 2020)	**4,118**	118
Total current liabilities	**24,307**	11,295
Non Current liabilities		
Other non-current liabilities (of which $2,000 and $6,000 due to related party in 2020 and 2019, respectively)	**2,118**	6,206
Royalty obligation	**8,900**	8,200
Operating lease liability	**8,298**	—
Total liabilities	**43,623**	25,701
SHAREHOLDERS' EQUITY		
Common shares - no par value, unlimited shares authorized, 126,450 and 111,798 issued and outstanding as at September 30, 2020 and December 31, 2019, respectively	**942,475**	746,487
Additional paid in capital	**34,848**	25,394
Accumulated other comprehensive loss	**(805)**	(805)
Accumulated deficit	**(567,082)**	(472,476)
Total shareholder’s equity	**409,436**	298,600
Total liabilities and shareholders’ equity	**$ 453,059**	$ 324,301

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Operations and Comprehensive Loss
(In thousands of United States dollars, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Revenue	**$ 29**	$ 230	**$ 88**	$ 289
Operating expenses:				
Research and development	**12,243**	17,791	**37,154**	39,574
General and administrative	**30,702**	6,108	**57,204**	15,044
Amortization of intangible assets	**316**	286	**902**	854
Other (income) expense, net	**(917)**	113	**1,066**	918
Total operating expenses	**42,344**	24,298	**96,326**	56,390
Loss from operations	**(42,315)**	(24,068)	**(96,238)**	(56,101)
Interest income	**(170)**	(637)	**(1,381)**	(2,236)
Net loss before income taxes	**(42,145)**	(23,431)	**(94,857)**	(53,865)
Income tax benefit (expense)	**15**	(23)	**251**	(59)
Net loss and comprehensive loss	**$ (42,130)**	$ (23,454)	**$ (94,606)**	$ (53,924)
Basic and diluted income loss per share	**$ (0.34)**	$ (0.25)	**$ (0.82)**	$ (0.59)

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Shareholder's Equity
(In thousands of United States dollars)
(Unaudited)

	Common Shares (in thousands)		Additional paid in capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Total Stockholders Deficit
	Shares	**Amount $**	**$**	**$**	**$**	**$**
Balance at July 1, 2020	112,705	$ 752,357	$ 31,098	$ (805)	$ (524,952)	$ 257,698
Issue of common shares	13,333	200,000	—	—	—	200,000
Share issue costs	—	(12,268)	—	—	—	(12,268)
Shares issued on exercise of stock options	412	2,386	(861)	—	—	1,525
Share-based compensation	—	—	4,611	—	—	4,611
Net loss and comprehensive loss for the period	—	—	—	—	(42,130)	(42,130)
Balance at September 30, 2020	**126,450**	**$ 942,475**	**$ 34,848**	**$ (805)**	**$ (567,082)**	**$ 409,436**
Balance at January 1, 2020	111,798	746,487	25,394	(805)	(472,476)	298,600
Issue of common shares	13,333	200,000	—	—	—	200,000
Share issue costs	—	(12,268)	—	—	—	(12,268)
Shares issued on exercise of stock options	1,318	8,254	(2,854)	—	—	5,400
Exercise of warrants	1	2	(1)	—	—	1
Share-based compensation	—	—	12,309	—	—	12,309
Net loss and comprehensive loss for the period	—	—	—	—	(94,606)	(94,606)
Balance at September 30, 2020	**126,450**	**$ 942,475**	**$ 34,848**	**$ (805)**	**$ (567,082)**	**$ 409,436**
Balance at July 1, 2019	91,793	525,554	30,760	(805)	(414,563)	140,946
Issue of common shares	2,345	15,010	—	—	—	15,010
Share issue costs	—	(730)	—	—	—	(730)
Shares issued on exercise of stock options	147	969	(361)	—	—	608
Shared-based compensation	—	—	2,022	—	—	2,022
Net loss and comprehensive loss for the period	—	—	—	—	(23,452)	(23,452)
Balance at September 30, 2019	**94,285**	**$ 540,803**	**$ 32,421**	**$ (805)**	**$ (438,015)**	**$ 134,404**
Balance at January 1, 2019	85,500	488,744	31,869	(805)	(384,091)	135,717
Issue of common shares	6,954	45,010	—	—	—	45,010
Share issue costs	—	(1,900)	—	—	—	(1,900)
Exercise of warrants	1,151	5,049	(3,557)	—	—	1,492
Shares issued on exercise of stock options	680	3,900	(1,477)	—	—	2,423
Shared-based compensation	—	—	5,586	—	—	5,586
Net loss and comprehensive loss for the period	—	—	—	—	(53,924)	(53,924)
Balance at September 30, 2019	**94,285**	**$ 540,803**	**$ 32,421**	**$ (805)**	**$ (438,015)**	**$ 134,404**

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

Aurinia Pharmaceuticals Inc.
Condensed Consolidated Statements of Cash Flows
(In thousands of United States dollars)
(Unaudited)

	Nine Months Ended September 30,	
	2020	**2019**
Cash flows from operating activities:		
Net loss	**$ (94,606)**	$ (53,924)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation of property and equipment	**59**	23
Amortization of intangible assets	**902**	853
Royalty obligation expense	**700**	—
Other, net	**36**	16
Share-based compensation	**12,309**	5,586
Changes in operating assets and liabilities:		
Accrued interest and other receivables	**(761)**	(253)
Inventories	**(471)**	—
Prepaid expenses and deposits	**(2,964)**	3,295
Right of use assets	**(5,576)**	(345)
Accounts payable and accrued liabilities	**9,012**	6,107
Lease liabilities	**8,298**	378
Net cash used in operating activities	**(73,062)**	(38,264)
Cash flows from investing activities:		
Purchase of investments	**(202,951)**	—
Proceeds on maturity of investments	**30,779**	7,884
Purchase of long-lived assets	**(4,095)**	(57)
Purchase of cloud based arrangements	**(982)**	—
Capitalized patent costs	**(83)**	(16)
Net cash (used in) provided by investing activities	**(177,332)**	7,811
Cash flows from financing activities:		
Net proceeds from issuance of common shares	**187,732**	43,110
Proceeds from exercise of stock options	**5,400**	2,423
Proceeds from exercise of warrants	**1**	1,492
Net cash provided by financing activities	**193,133**	47,025
Net (decrease) increase in cash and cash equivalents	**(57,261)**	16,572
Cash and cash equivalents, beginning of period	**306,019**	117,967
Cash and cash equivalents, end of period	**$ 248,758**	$ 134,539
Supplemental cash flow information		
Non-cash investing and financing activities		
Cash received for interest	**$ 891**	$ 811

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

Aurinia Pharmaceuticals Inc.
Notes to the Condensed Consolidated Financial Statements
(In thousands of United States dollars)
(Unaudited)

1. NATURE OF OPERATIONS

Aurinia Pharmaceuticals Inc. (Aurinia) or the Company is a commercial-stage biopharmaceutical company focused on developing and commercializing therapies to treat targeted patient populations that are suffering from serious diseases with a high unmet medical need.

Aurinia's head office is located at #1203-4464 Markham Street, Victoria, British Columbia, Canada and its registered office is located at #201, 17873-106 A Avenue, Edmonton, Alberta. Aurinia also has a U.S. Commercial office located at 77 Upper Rock Circle, Rockville, Maryland.

Aurinia is incorporated pursuant to the Business Corporations Act (Alberta). The Company's common shares are currently listed and traded on the Nasdaq Global Market (Nasdaq) under the symbol AUPH and on the Toronto Stock Exchange (TSX) under the symbol AUP.

Coronavirus pandemic ("COVID-19")

In March 2020, the World Health Organization declared the outbreak of the novel coronavirus (COVID-19) virus a global pandemic. This outbreak is causing major disruptions to businesses and markets worldwide as the virus continues to spread. A number of countries as well as certain states and cities within the United States and Canada have enacted temporary closures of businesses, issued quarantine or shelter-in-place orders and taken other restrictive measures in response to COVID-19.

The interim condensed consolidated financial statements reflect all adjustments of a normal, recurring nature that are, in the opinion of management, necessary for a fair presentation of results for these interim periods. The full extent to which the COVID-19 pandemic will directly or indirectly impact the Company's estimates related to the lease liability (note 8), royalty obligation (note 10), ILJIN agreement (note 13) or results of operations will depend on future developments that are uncertain at this time. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in future periods.

2. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements for the nine months ended September 30, 2020 have been prepared in accordance with accounting principles generally accepted in the United States (US GAAP) for interim financial information. Previously, the Company prepared its consolidated financial statements under International Financial Reporting Standards (IFRS) as permitted by securities regulators in Canada, as well as in the United States for as long as the Company qualified as a Foreign Private Issuer as defined by the United States Securities and Exchange Commission (SEC). At the end of the second quarter of 2020, the Company determined that it no longer qualified as a Foreign Private Issuer under the SEC rules. As a result, beginning January 1, 2021 the Company is required to report with the SEC on domestic forms and comply with domestic company rules in the United States. The transition to US GAAP was made retrospectively for all periods from the Company's inception.

In the opinion of the Company, the accompanying unaudited condensed financial statements contain all adjustments, consisting of only normal recurring adjustments, necessary for a fair statement of its financial position as of September 30, 2020, and its results of operations for the three and nine months ended September 30, 2020 and 2019, and cash flows for the nine months ended September 30, 2020 and 2019. The condensed balance sheet at December 31, 2019, was derived from audited annual financial statements but does not contain all of the footnote disclosures from the annual financial statements.

These interim consolidated financial statements do not include all information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for fair presentation have been included. For further information, refer to the Consolidated Financial Statements and notes thereto included in our annual report on Form 10-K for the fiscal year ended December 31, 2020.

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These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Aurinia Pharma U.S., Inc. (Delaware incorporated) and Aurinia Pharma Limited (UK incorporated). All material intercompany balances and transactions have been eliminated during consolidation.

The success of the Company depends on its ability to develop its technologies to the point of U.S. Food and Drug Administration (FDA) approval and subsequent revenue generation and, the Company must raise enough capital to finance these efforts. Based on management's cash flow projections, the Company believes that its cash and cash equivalents and marketable securities are sufficient to fund the Company's planned operations for at least the next 12 months. However, in the future, the Company may need to raise additional capital to finance the continued operating and capital requirements of the Company. There can be no assurances that the Company will be able to secure such additional financing, or if available, that it will be sufficient to meet its needs. If the Company cannot obtain adequate working capital, it may need to reevaluate its planned business operations.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim unaudited condensed consolidated financial statements follow the same accounting policies and methods of the application as the December 31, 2020 annual audited consolidated financial statements filed on Form 10-K with the U.S. Securities and Exchange Commission (SEC).

4. NEW ACCOUNTING PRONOUNCEMENTS ADOPTED

On January 1, 2019, the Company adopted ASC 842 using the modified retrospective transition approach as of the period of adoption. The Company's financial statements prior to January 1, 2019 were not modified for the application of the new lease standard. Upon adoption of ASC 842, the Company elected the "package of practical expedients," which allowed the Company to not reassess (a) whether expired or existing contracts as of January 1, 2019 are or contain leases, (b) the lease classification for any expired or existing leases as of January 1, 2019, and (c) the treatment of initial direct costs relating to any existing leases as of January 1, 2019. The package of practical expedients was made as a single election and was consistently applied to all leases that commenced before January 1, 2019. As part of the transition, the Company completed a comprehensive review of its lease portfolio, including significant leases by geography and by asset type that were impacted by the new guidance, and enhanced its controls around leasing. Furthermore, management reviewed all of the Company's non-facility contracts to determine whether any agreements will impact the Company's consolidated financial statements. The adoption of ASC 842 did not result in a material change to the statement of financial position, as majority of the Company's leases as of January 1, 2019 had a term of less than 12 months, with the exception of the Victoria office lease that did not result in a material adjustment to the statement of financial position.

In June 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASU 2016-12). The FASB subsequently issued amendments to ASU 2016-13, which has an effective date for year ends beginning after December 15, 2019, and ASU 2016-12, which has an effective date for year ends beginning after December 15, 2020. These standards require that credit losses be reported using an expected losses model rather than the incurred losses model that is currently used, and establishes additional disclosures related to credit risks. For available-for-sale debt securities with unrealized losses, these standards now require allowances to be recorded instead of reducing the amortized cost of the investment. These standards limit the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and requires the reversal of previously recognized credit losses if fair value increases. The adoption of these standards as of January 1, 2020 did not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirement for Fair Value Measurement. The Topic 820 requires to disclose transfers into and out of Level 3 of the fair value hierarchy and purchases and issued of Level 3 assets and liabilities. For investments in certain entities that calculate net asset value, an entity is required to disclose the timing of liquidation of an investee's assets and the date when the restrictions from redemptions might lapse only if the investee has communicated the timing to the entity or announced the timing publicly. The new standard also amends that the measurement uncertainty disclosure is to communicate information about the uncertainty in measurement as of the reporting date. The new standard is effective

for fiscal years beginning after December 15, 2019. The standard should be applied retrospectively to the date of initial application of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to adopt the amendment as of January 1, 2020, which did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15 (ASU 2018-15) "Intangibles-Goodwill and Other-Internal-Use Software (Subtopic 350-40)-Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract," which aligns the accounting for implementation costs incurred in a hosting arrangement that is a service contract with the accounting for implementation costs incurred to develop or obtain internal-use software under ASC 350-40, in order to determine which costs to capitalize and recognize as an asset and which costs to expense. ASU 2018-15 is effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2019, and can be applied either prospectively to implementation costs incurred after the date of adoption or retrospectively to all arrangements. The Company adopted ASU 2018-15 effective January 1, 2020 and applied the standard prospectively to implementation costs incurred in its cloud computing arrangements, resulting in capitalized costs of $982,000 for the nine months ended September 30, 2020.

In November 2018, the FASB issued ASU No. 2018-18, Collaborative Arrangement (Topic 808): Clarifying the Integration between Topic 808 and Topic 606. The new standard clarifies that certain transactions between collaborative arrangement participants should be accounted for as revenue under Topic 606 when the collaborative arrangement participant is customer in the context of a unit of account. Further, to add a unit-of-account guidance in Topic 808 to align with the guidance in Topic 606 when an entity is assessing whether the collaborative arrangement or part of the arrangement is within the scope of Topic 606. The new standard requires that in transactions with a collaborative arrangement participant that is not directly related to sales to third parties, presenting under Topic 606 is precluded if the collaborative arrangement participant is not a customer. The new standard is effective for fiscal years beginning after December 15, 2019. The standard should be applied retrospectively to the date of initial application of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company elected to adopt the amendment as of January 1, 2020, which did not have a material impact on the consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, which clarifies and simplifies certain aspects of the accounting for income taxes. The standard is effective for years beginning after December 15, 2020, and interim periods within annual periods beginning after December 15, 2020. The Company is evaluating this standard and does not anticipate adoption will have a material impact on the Company's consolidated financial statements.

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5. INVESTMENTS

At September 30, 2020 we had $143.3 million and $28.8 million of short and long term investments, respectively, mainly of commercial paper and bonds as summarized below. We had no investments as of December 31, 2019. These instruments are carried at fair market value which is approximately equal to amortized cost.

	September 30, 2020	December 31, 2019
Cashable GIC	$ 2,000	$ —
Corporate Bond	37,968	—
Commercial Paper	80,206	—
Treasury Bill	15,994	—
Treasury Bond	5,070	—
Yankee Bond	2,030	—
Total short term investments	$ 143,268	$ —
Corporate Bond - total long term investments	28,780	—
	$ 172,048	$ —

6. ACCRUED INTEREST AND OTHER RECEIVABLES

	September 30, 2020	December 31, 2019
Other receivables	$ 52	$ 163
Accrued interest receivables	582	205
Income taxes recoverable	495	—
	$ 1,129	$ 368

7. INVENTORIES

The carrying value of inventories at September 30, 2020 was $471,000. Inventories are included in the financial statements at the lower of cost (including raw materials, direct labor, other direct costs and related production overheads) and net realizable value. Cost is determined on a first in, first out basis.

8. LEASES

All of the Company's existing leases as of September 30, 2020 are classified as operating leases. For the three and nine months ended September 30, 2020 the Company incurred $271,000 and $674,000 rent expenses, respectively. This is compared to $78,000 and $216,000 of rent expense for the three and nine months ended September 30, 2019. Rent expense includes short term leases and variable lease costs that are not included in the lease obligation.

Short term leases are leases having a term of twelve months or less. The Company recognizes the short term leases on a straight-line basis and does not record a related lease asset or liability for such leases. Our head office location in Victoria, British Columbia has a sublease agreement which will terminate effective December 31, 2020. The estimated base rent plus operating costs on a monthly basis for the period from June 1, 2020 to December 31, 2020 is approximately $22,000 per

(In thousands of United States dollars)

month. Subsequent to the period ended September 30, 2020 we entered into an agreement to lease premises at #201, 17873 - 106A Avenue, Edmonton, Alberta, consisting of 2,248 square feet of office space, for a term commencing October 1, 2020 to September 30, 2021 at a cost of approximately $2,100 per month.

During March 2020, the Company entered into a commercial office lease for its US commercial center of operations in Rockville, Maryland (MD lease). The Company recognized a $5,804,000 right-of-use asset (ROU asset) and a $5,804,000 lease liability related to the lease. When measuring the lease liability, the Company discounted lease payments using its incremental borrowing rate at March 12, 2020. The incremental borrowing rate applied to the lease liability on March 12, 2020 was 5.2%.

As of September 30, 2020, the Company received reimbursement for tenant leasehold improvements by the landlord in the amount of $2,265,000 for MD lease. The Company recorded these leasehold improvement incentives as additions to the lease liability and construction in process.

As of September 30, 2020, we had operating lease right of use asset of $5,576,000 and lease liability of $8,298,000 on the balance sheet.

The following table represents the weighted-average remaining lease term and discount rate as of September 30, 2020.

	As of September 30, 2020	
Lease term and discount rate	**Weighted Average Remaining Lease Term (years)**	**Weighted Average Discount Rate**
Operating leases	10.92	5.22%

Lease Obligations

The Company's approximate lease obligations for the next five years are as follows:

	Contractual cash flow
2020	$ —
2021	287
2022	968
2023	1,061
2024	1,085
Thereafter	7,882
Total future minimum lease payments	11,283
Carrying value (liability)	$ 8,298

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2020	**December 31, 2019**
Trade payables	$ 2,212	$ 4,153
Other accrued liabilities	11,464	3,281
Employee accruals	6,513	3,743
Total accrued liabilities	$ 20,189	$ 11,177

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10. ROYALTY OBLIGATION

The royalty obligations are the result of a resolution of the board of directors of the Company dated March 8, 2012 whereby certain executive officers at that time were provided with future potential employee benefit obligations for remaining with the Company contingent on the occurrence of uncertain future events. The obligation was recorded once the specified events were deemed probable to occur.

As a result of the completion of the Phase 3 AURORA trial, and the results obtained from the trial in the fourth quarter of 2019, the Company re-assessed the probability of royalty obligation payments being required in the future, and has recorded the royalty obligation at December 31, 2019. Until one of the triggering events occur, no royalty payments are required to be paid. Any royalties on sales or licensing are not expected in the next twelve months and therefore the royalty obligation has been classified as long term. The balance of the royalty obligation as at September 30, 2020 was estimated to be $8,900,000 (December 31, 2019 - $8,200,000).

During the three months ended September 30, 2020 the Company re-assessed the royalty obligation and increased the discount rate to 11% as of September 30, 2020 compared to 10.5% at June 30, 2020. The change in discount rate resulted in a decrease of $100,000 in the royalty obligation. For the nine month period ended September 30, 2020 there was an increase of $700,000 in the royalty obligation which was primarily attributable to the passage of time, on revaluation, combined with the decrease of discount rate from 12% at December 31, 2019 to 11% at September 30, 2020. There were no similar adjustments for the three and nine month periods ended September 30, 2019.

11. SHARE-BASED COMPENSATION

The Company's net loss for the three and nine months ended September 30, 2020 included $4,611,000 and 12,309,000 (2019 - $2,022,000 and $5,586,000) of non-cash compensation expense related to the Company's share-based compensation awards. The compensation expense related to the Company's share-based compensation arrangements is recorded as components of general and administrative expense and research and development expense, as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Research and development	$ 814	$ 596	$ 3,110	$ 2,207
General and administrative	3,750	1,426	9,152	3,379
Pre-launch Inventory	47	—	47	—
Share-based compensation expense	$ 4,611	$ 2,022	$ 12,309	$ 5,586

Compensation expense related to stock options is recognized over the requisite service period, which is generally the option vesting term of three years. There were no stock option awards with performances conditions for the nine months ended September 30, 2020

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The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2020 and 2019. Option valuation models, including Black-Scholes-Merton, require the input of highly subjective assumptions, and changes in the assumptions used can materially affect the grant date fair value of an award. These assumptions include the risk-free interest rate, expected dividend yield, expected volatility, and the expected life of the award.

A summary of changes in options under the Company's stock option plans during the nine month period ended at September 30, 2020 is as follows:

	As of September 30, 2020	
	Number of shares	**Weighted average exercise price in $**
Outstanding – Beginning of period	7,822	5.41
Granted pursuant to Stock Option Plan	4,615	17.00
Exercised	(1,318)	4.34
Forfeited	(206)	11.45
Granted pursuant to Section 613(c) of TSX manual	530	14.83
Outstanding – End of period	11,443	10.53
Vested and expected to vest-End of period	2,457	7.73
Options exercisable – End of period	4,550	6.46

The maximum number of Common Shares issuable under the Stock Option Plan is equal to 12.5% of the issued and outstanding Common Shares at the time the Common Shares are reserved for issuance. At September 30, 2020 there were 126,450,000 Common Shares of the Company issued and outstanding, resulting in a maximum of 15,806,000 options available for issuance under the Stock Option Plan.

The following weighted average assumptions were used to estimate the fair value of the options granted during the nine month period ended September 30, 2020:

	September 30, 2020	**September 30, 2019**
Annualized volatility	43 %	52 %
Risk-free interest rate	0.70 %	1.61 %
Expected life of options in years	3.0 years	4.0 years
Estimated forfeiture rate	12.4 %	15.7 %
Dividend rate	0.0%	0.0%
Exercise price	$ 16.78	$ 6.16
Market price on date of grant	$ 16.78	$ 6.16
Fair value per common share option	$ 5.05	$ 2.57

Cash received from option exercises under all share-based payment arrangements for the nine month periods ended September 30, 2020 and 2019 was $5,400,000 and $2,423,000, respectively.

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12. INCOME TAXES

The effective tax rates for the three and nine months ended September 30, 2020 and September 30, 2019 differed from the federal statutory rate applied to losses before income taxes primarily as a result of the mix of income, losses and valuation allowances.

The Company's net income tax recovery or (expense) for the three and nine months ended September 30, 2020 and 2019 were $15,000, $251,000, $(23,000), and $(59,000), respectively. The expense recognized for the three and nine months ended September 30, 2019 was a result of taxable income in certain jurisdictions. This tax expense is not offset by a tax benefit as the Company has taxable losses fully offset by a valuation allowance in Canada. The tax benefit recognized for the three and nine months ended September 30, 2020 was a result of a discrete tax benefit recorded in the US pursuant to certain tax provisions provided under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) enacted in the United States on March 27, 2020. The CARES Act permits the Company to carry back net operating losses to offset taxable income generated in the five preceding years, some of which were taxed at a federal income tax rate higher than the current enacted rate.

13. RELATED PARTIES

During the three month period ended March 31, 2020, Stephen P. Robertson was a partner at Borden Ladner Gervais (BLG) during which time he acted as the Company's corporate secretary. The Company incurred legal fees in the normal course of business to BLG of $97,000 and $266,000 respectively for the three and nine months ended September 30, 2020 compared to $126,000 and $459,000 for the same period in 2019. During the nine month period ended September 30, 2020, we had no ongoing contractual or other commitments as a result of engaging Mr. Robertson to act as our corporate secretary. On November 2, 2020 we announced the appointment of Stephen Robertson as our Executive Vice President, General Counsel, Corporate Secretary and Chief Compliance Officer.

The outstanding amount payable to ILJIN, an affiliated shareholder, is the result of a settlement completed on September 20, 2013 between ILJIN and the Company. Per the terms of the settlement agreement, payments of up to $10,000,000 may be payable and are based on the achievement of pre-defined clinical milestones related to voclosporin and marketing milestones related to DES. During 2019, Aurinia paid ILJIN $100,000, upon the achievement of a specific milestone. Previously, in 2017 the Company paid ILJIN $2,150,000 upon the achievement of two specific milestones. These payments reduced the original $10,000,000 contingent consideration to $7,750,000. A liability was recorded in the amount of $6,000,000 on December 31, 2019 related to these milestones as it was determined that achievement of regulatory approval and sales milestones were probable. The remaining milestones of $1,750,000 are related to the discontinued DES program and are not considered probable of achieving.

The amount payable to ILJIN was $6,000,000 recorded in other liabilities for the period ended September 30, 2020 and year ended December 31, 2019.

14. NET LOSS PER COMMON SHARE

Basic and diluted net loss per Common Share is computed by dividing net loss by the weighted average number of Common Shares outstanding for the year. In determining diluted net 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 nine month period ended September 30, 2020 exceeds the exercise price. Common Shares that could potentially dilute basic net loss per Common Share in the future that could be issued from the exercise of stock options and warrants were not included in the computation of the diluted loss per Common Share for the three month period ended September 30, 2020 because to do so would be anti-dilutive.

The numerator and denominator used in the calculation of historical basic and diluted net loss amounts per Common Share are as follows:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per share data)	**2020**	**2019**	**2020**	**2019**
Net loss for the period	$ (42,130)	$ (23,454)	$ (94,606)	$ (53,924)
Weighted average number of common shares outstanding	122,357	92,169	115,738	91,368
Net loss per common share	$ (0.34)	$ (0.25)	$ (0.82)	$ (0.59)

The outstanding number and type of securities that would potentially dilute basic loss per common share in the future and which were not included in the computation of diluted loss per share, because to do so would have reduced the loss per common share (anti-dilutive) for the years presented, are as follows:

	September 30, 2020	September 30, 2019
Stock options	11,443	10,346
Warrants	1,690	3,523
	13,133	13,869

15. 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 consolidated financial statements represent those of the single reporting unit.