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

FORM 40-F

- REGISTRATION STATEMENT PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934
- ANNUAL REPORT PURSUANT TO SECTION 13(A) OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

Commission File Number 001-36421

AURINIA PHARMACEUTICALS INC.

(Exact name of Registrant as specified in its charter)

Alberta, Canada
(Province or other jurisdiction of
incorporation or organization)

2834
(Primary standard industrial
classification code number,
if applicable)

Not Applicable
(I.R.S. employer identification
number, if applicable)

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

CT Corporation System
111 – 8th Avenue
New York, New York 10011
(212) 590-9331
(Name, address (including zip code) and telephone number (including area code) of agent for service in the United States)

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

Title of each class:
Common Shares, no par value
Common Shares, no par value

Name of each exchange on which registered:
The NASDAQ Stock Market LLC
Toronto Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

For annual reports, indicate by check mark the information filed with this form:

Annual Information Form

Audited Annual Financial Statements

Indicate the number of outstanding shares of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

31,817,989 Common Shares (as at December 31, 2014).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to

such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (s.232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes No

PRINCIPAL DOCUMENTS

The following documents are filed as part of this Annual Report on Form 40-F:

A. Annual Information Form

For the Registrant's Annual Information Form for the year ended December 31, 2014, see Exhibit 99.1 of this Annual Report on Form 40-F.

B. Audited Annual Financial Statements

For the Registrant's Audited Consolidated Financial Statements for the year ended December 31, 2014, including the report of its Independent Auditor with respect thereto, see Exhibit 99.2 of this Annual Report on Form 40-F.

C. Management's Discussion and Analysis

For the Registrant's Management's Discussion and Analysis of the operating and financial results for the year ended December 31, 2014, see Exhibit 99.3 of this Annual Report on Form 40-F.

CONTROLS AND PROCEDURES

A. Certifications

The required disclosure is included in Exhibits 99.4, 99.5, 99.6 and 99.7 of this Annual Report on Form 40-F.

B. Disclosure Controls and Procedures

As of the end of the Registrant's year ended December 31, 2014, an internal evaluation was conducted under the supervision of and with the participation of the Registrant's management, including the President and Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Registrant's "disclosure controls and procedures" as defined in Rule 13a-15(e) under Securities and Exchange Act of 1934, as amended (the "Exchange Act"). Based on that evaluation, the President and Chief Executive Officer and the Chief Financial Officer concluded that the design and operation of the Registrant's disclosure controls and procedures were effective in ensuring that the information required to be disclosed in the reports that the Registrant files with or submits to the Securities and Exchange Commission (the "Commission") is recorded, processed, summarized and reported, within the required time periods.

It should be noted that while the President and Chief Executive Officer and the Chief Financial Officer believe that the Registrant's disclosure controls and procedures provide a reasonable level of assurance that they are effective, they do not expect that the Registrant's disclosure controls and procedures will prevent all errors and fraud. A control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

C. Management's Annual Report on Internal Control over Financial Reporting

The Registrant's management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the President and Chief Executive Officer and the Chief Financial Officer and effected by the Registrant's Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management assessed the effectiveness of the registrant's internal control over financial reporting as of December 31, 2014, based on the criteria set forth in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this assessment, management concluded that, as of December 31, 2014, the Registrant's internal control over financial reporting was effective. In addition, management determined that there were no material weaknesses in the Registrant's internal control over financial reporting as of December 31, 2014.

D. Attestation of Report of Independent Auditor

This annual report does not include an attestation report of the Registrant's registered public accounting firm due to a transition period established by rules of the Commission for newly public companies.

E. Changes in Internal Control over Financial Reporting

During the year ended December 31, 2014, there were no changes in the Registrant's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

AUDIT COMMITTEE FINANCIAL EXPERT

The Registrant's Board of Directors has determined that Mr. Charles A. Rowland, Jr. is an "audit committee financial expert" (as that term is defined in paragraph 8(b) of General Instruction B to Form 40-F) serving on its audit committee and is "independent" (as defined by the New York Stock Exchange corporate governance rules applicable to foreign private issuers). For a description of Mr. Rowland's relevant experience in financial matters, see the biographical description for Mr. Charles A. Rowland, Jr. under "Directors and Officers" in the Registrant's Annual Information Form for the year ended December 31, 2014, which is filed as Exhibit 99.1 to this Annual Report on Form 40-F.

The SEC has indicated that the designation of Mr. Charles A. Rowland, Jr. as an audit committee financial expert does not make him an "expert" for any purpose, impose any duties, obligations or liability on him that are greater than those imposed on members of the audit committee and board of directors who do not carry this designation or affect the duties, obligations or liability of any other member of the audit committee.

CODE OF ETHICS

The Registrant has adopted a "code of ethics" (as that term is defined in paragraph 9(b) of General Instruction B to Form 40-F) ("Code of Ethics"), which is applicable to the directors, officers, employees and consultants of the Registrant and its affiliates (including, its principal executive officer, principal financial officer, principal accounting officer or controller, and persons performing similar functions). The Code of Ethics entitled "Code of Ethics and Conduct" is available on the Registrant's website at www.auriniapharma.com.

In the past fiscal year, the Registrant has not granted any waiver, including an implicit waiver, from any provision of its Code of Ethics.

PRINCIPAL ACCOUNTANT FEES AND SERVICES

The required disclosure is included under the heading "External Auditor Services Fees" on Schedule 1 – Audit Committee Information in the Registrant's Annual Information Form for the year ended December 31, 2014, filed as Exhibit 99.1 to this Annual Report on Form 40-F, and is incorporated herein by reference.

OFF-BALANCE SHEET ARRANGEMENTS

The Registrant does not have any “off-balance sheet arrangements” (as that term is defined in paragraph 11(ii) of General Instruction B to Form 40-F) that have or are reasonably likely to have a current or future effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors. For a discussion of the Registrant’s other off-balance sheet arrangements, see page 13 of the Registrant’s Management’s Discussion and Analysis for the fiscal year ended December 31, 2014, attached as Exhibit 99.3.

TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS

The required disclosure is included under the heading “Contractual Obligations” in the Registrant’s Management’s Discussion and Analysis of the operating and financial results for the year ended December 31, 2014, filed as Exhibit 99.3 to this Annual Report on Form 40-F, and is incorporated herein by reference.

IDENTIFICATION OF THE AUDIT COMMITTEE

The Registrant has a separately designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Registrant’s Audit Committee members consist of Mr. Charles A. Rowland, Jr., Dr. Richard A. Glickman and Mr. Benjamin Rovinski.

DIFFERENCES IN NASDAQ AND CANADIAN CORPORATE GOVERNANCE REQUIREMENTS

The Registrant is a foreign private issuer and its common shares are listed on the NASDAQ Stock Market (“NASDAQ”).

NASDAQ Rule 5615(a)(3) permits a foreign private issuer to follow its home country practice in lieu of the requirements of the Rule 5600 Series, the requirement to distribute annual and interim reports set forth in Rule 5250(d), and the Direct Registration Program requirement set forth in Rules 5210(c) and 5255; provided, however, that such a company shall comply with the Notification of Material Noncompliance requirement (Rule 5625), the Voting Rights requirement (Rule 5640), have an audit committee that satisfies Rule 5605(c)(3), and ensure that such audit committee’s members meet the independence requirement in Rule 5605(c)(2)(A)(ii).

The Registrant does not follow Rule 5620(c) (shareholder quorum) but instead follows its home country practice, as described below.

Shareholder Meeting Quorum Requirements: The NASDAQ minimum quorum requirement under Rule 5620(c) for a shareholder meeting is 33-1/3% of the outstanding shares of common stock. In addition, a registrant listed on NASDAQ is required to state its quorum requirement in its by-laws. The Registrant’s quorum requirement is set forth in its by-laws. A quorum for a meeting of shareholders of the Registrant is shareholders or proxyholders holding ten percent of the issued and outstanding shares entitled to be voted at the meeting.

In addition, the Registrant does not follow Rule 5635, which establishes shareholder approval requirements prior to the issuance of securities in certain circumstances. In lieu of following Rule 5635, the Registrant follows the rules of the Toronto Stock Exchange.

The foregoing is consistent with the laws, customs and practices in Canada.

FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report on Form 40-F are forward-looking statements within the meaning of Section 21E of the Exchange Act and Section 27A of the Securities Act of 1933, as amended. Please see “Forward Looking Information” in the Annual Information Form of the Registrant for the year ended December 31, 2014, filed as Exhibit 99.1 to this Annual Report on Form 40-F for a discussion of risks, uncertainties, and assumptions that could cause actual results to vary from those forward-looking statements.

UNDERTAKING

The Registrant undertakes to make available, in person or by telephone, representatives to respond to inquiries made by the Commission staff, and to furnish promptly, when requested to do so by the Commission staff, information relating to the securities in relation to which the obligation to file an annual report on Form 40-F arises or transactions in said securities.

CONSENT TO SERVICE OF PROCESS

The Registrant has previously filed a Form F-X in connection with the class of securities in relation to which the obligation to file this report arises.

Any change to the name or address of the Registrant’s agent for service shall be communicated promptly to the Commission by amendment to Form F-X referencing the file number of the Registrant.

SIGNATURES

Pursuant to the requirements of the Exchange Act, the Registrant certifies that it meets all of the requirements for filing on Form 40-F and has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: March 30, 2015

Aurinia Pharmaceuticals Inc.

By: /s/ Dennis Bourgeault

Name: Dennis Bourgeault

Title: Chief Financial Officer

Exhibit Index

<u>Exhibit No.</u>	<u>Document</u>
<u>99.1</u>	Annual Information Form of the Registrant for the fiscal year ended December 31, 2014.
<u>99.2</u>	Audited Consolidated Financial Statements of the Registrant for the year ended December 31, 2014 together with the Auditors' Report thereon.
<u>99.3</u>	Management's Discussion and Analysis of the operating and financial results of the Registrant for the year ended December 31, 2014.
<u>99.4</u>	Certification of Chief Executive Officer under Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
<u>99.5</u>	Certification of Chief Financial Officer under Section 302 of the <i>Sarbanes-Oxley Act of 2002</i> .
<u>99.6</u>	Certification of Chief Executive Officer under Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> .
<u>99.7</u>	Certification of Chief Financial Officer under Section 906 of the <i>Sarbanes-Oxley Act of 2002</i> .
<u>99.8</u>	Consent of PricewaterhouseCoopers LLP, Independent Auditor

Annual Information Form

A large rectangular graphic with a horizontal gradient from orange on the left to blue on the right. The text "Aurinia Pharmaceuticals Inc." is centered in white. Two thin white horizontal lines are positioned above and below the text.

Aurinia Pharmaceuticals Inc.

For the year ended
December 31, 2014

The Aurinia logo features a stylized flower icon above the word "Aurinia". The flower has five petals in shades of orange, yellow, green, and blue.

Aurinia

March 26, 2015



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BASIS OF PRESENTATION

The information in this AIF is as of March 26, 2015, unless otherwise stated or where information in documents incorporated by reference has a different date.

This AIF describes the Company and its operations, its prospects, risks and other factors that affect its business.

References to the “**Company**” in this AIF refer to Aurinia Pharmaceuticals Inc. (“**Aurinia**”) after October 22, 2013 and to Isotechnika Pharma Inc. (“**Pharma**”) prior to October 22, 2013. Pharma changed its name to Aurinia on October 23, 2013.

All references herein to “dollars” and “\$” are to United States dollars, unless otherwise indicated. All references to CDN\$ are to Canadian dollars. On March 25, 2015 the exchange rate for conversion of US dollars into Canadian dollars was US\$1.00 = CDN\$1.2513 based upon the Bank of Canada noon rate.

Unless otherwise stated, the information set forth in this annual information form is as of December 31, 2014.

Capitalized terms that are not otherwise defined in this AIF have the meanings attributed thereto in Schedule 3 to this AIF.

FORWARD-LOOKING INFORMATION

A statement is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as “*anticipate*”, “*believe*”, “*intend*”, “*expect*”, “*goal*”, “*may*”, “*outlook*”, “*plan*”, “*seek*”, “*should*”, “*strive*”, “*target*”, “*could*”, “*continue*”, “*potential*” and “*estimated*”, or the negative of such terms or comparable terminology. You should not place undue reliance on the forward-looking statements, particularly those concerning anticipated events relating to the development, clinical trials, regulatory approval, and marketing of the Company’s products and the timing or magnitude of those events, as they are inherently risky and uncertain.

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the Company’s future prospects and make informed investment decisions. These statements may include, without limitation:

- plans to fund the Company’s operations;
- statements concerning strategic alternatives and future operations;
- partnering activities;
- summary statements relating to results of the past voclosporin trials, plans to advance the development of voclosporin;
- statements concerning partnership activities and health regulatory discussions;
- the timing of completion of patient enrollment in the Company’s AURA-LV and AURION studies;
- the Company’s intention to seek regulatory approvals in the United States and Europe for voclosporin;
- the Company’s intention to seek additional corporate alliances to support the commercialization of its products;
- the Company’s intention to demonstrate that voclosporin possesses pharmacologic properties with the potential to demonstrate best-in-class differentiation with first-in-class status for the treatment of LN outside of Japan;
- the Company’s intention to use the LN Phase 2b clinical trial program to gain a clearer understanding of voclosporin’s time to onset of action in patients suffering from LN;
- the Company’s belief that recent granted formulation patents regarding the delivery of voclosporin to the ocular surface for conditions such as dry eye have the potential to be of therapeutic value;
- the Company’s belief that voclosporin has further potential to be of therapeutic value in other autoimmune indications and in the prevention of transplant rejection;
- the Company’s intention to seek regulatory approval in other jurisdictions in the future and initiate clinical studies;
- the Company’s anticipated future financial position, future revenues and projected costs; and
- plans and objectives of management.

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These statements are forward-looking because they are based on current expectations, estimates and assumptions. It is important to know that:

- *Forward-looking statements in this AIF describe the Company's expectations as of March 26, 2015;*
- *Actual results could be materially different from what the Company expects if known or unknown risks affect its business, or if the Company's estimates or assumptions turn out to be inaccurate. As a result, the Company cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements;*
- *Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on the Company's business. For example, they do not include the effect of mergers, acquisitions, other business combinations or transactions, dispositions, sales of assets, asset write-downs or other charges announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them. Accordingly, the expected impact cannot be meaningfully described in the abstract or presented in the same manner as known risks affecting the Company's business;*
- *The Company disclaims any intention and assume no obligation to update any forward-looking statements even if new information becomes available, as a result of future events or for any other reason.*

The factors discussed below and other considerations discussed in the "Risk Factors" section of this AIF could cause the Company's actual results to differ significantly from those contained in any forward-looking statements.

Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, performance, or achievements to differ materially from any further results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause such differences include, among other things, the following:

- The need for additional capital in the longer term to fund the Company's development programs and the effect of capital market conditions and other factors on capital availability;
- Difficulties, delays, or failures the Company may experience in the conduct of and reporting of results of its clinical trials for voclosporin, and in particular its current LN Phase 2b clinical trial.
- Difficulties, delays or failures in obtaining regulatory approvals for the initiation of clinical trials;
- Difficulties, delays or failures in obtaining regulatory approvals to market voclosporin;
- Difficulties the Company may experience in completing the development and commercialization of voclosporin;
- Insufficient acceptance of and demand for voclosporin;
- Difficulties, delays, or failures in obtaining appropriate reimbursement of voclosporin; and/or
- Difficulties that the Company may experience in identifying and successfully securing appropriate corporate alliances to support the development and commercialization of its products.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The forward-looking statements are made as of the date hereof and the Company disclaims any intention and have no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

OVERVIEW

CORPORATE STRUCTURE

The Company is a clinical stage pharmaceutical company with its registered office located at #201, 17904 – 105 Avenue, Edmonton, Alberta T5S 2H5. The Company's head office is located at #1203-4464 Markham Street, Victoria, British Columbia and incorporates the clinical, regulatory and business development functions of the Company. The office of the Chief Executive Officer is located in Bellevue, Washington.

Aurinia Pharmaceuticals Inc. is organized under the *Business Corporations Act* (Alberta).

The Company's common shares are currently listed and traded on the NASDAQ under the symbol "AUPH" and on the TSX under the symbol "AUP". The Company's primary business is the development of a therapeutic drug to treat autoimmune diseases, in particular LN.

The Company has the following wholly owned subsidiaries: Aurinia Pharmaceuticals, Inc. (Delaware incorporated), Aurinia Pharma Limited (UK incorporated) and Aurinia Pharma Corp. (inactive). Aurinia Pharma Corp. had one wholly owned subsidiary, Aurinia Holdings Corp. (Barbados), which in turn had one wholly owned subsidiary, Aurinia Development Corp. (Barbados). These inactive Barbados subsidiaries were dissolved in 2014.

The Company's By-Law No. 2 was amended at a shareholder's meeting held on August 15, 2013 to include provisions requiring advance notice for any nominations of directors by shareholders.

SUMMARY DESCRIPTION OF BUSINESS

Aurinia is focused on the development of its novel therapeutic immunomodulating drug candidate, voclosporin, which is a next generation CNI. It has been studied in kidney rejection following transplantation, psoriasis and in various forms of uveitis (an ophthalmic disease).

The Company has rebranded, restructured and refocused itself since September 20, 2013 and modified its strategy to focus on the development of voclosporin for the treatment of LN. The mechanism of action of voclosporin, a CNI, has been validated with certain first generation CNIs for the prevention of rejection in patients undergoing solid organ transplants and in several autoimmune indications, including dermatitis, keratoconjunctivitis sicca, psoriasis, rheumatoid arthritis, and for LN in Japan. The Company believes that voclosporin possesses pharmacologic properties with the potential to demonstrate best-in-class differentiation with first-in-class status for the treatment of LN outside of Japan.

LN Clinical Development Program

In June, 2014, AURINIA announced the initiation of its global 258 patient LN Phase 2b clinical trial to evaluate the efficacy of voclosporin as a treatment for LN. LN is an inflammation of the kidney that if untreated or inadequately treated can lead to end-stage renal disease, the requirement for life-long dialysis, or death.

The LN Phase 2b clinical trial, called "**AURA-LV**" (Aurinia Urine protein Reduction in Active Lupus with voclosporin) or AURA, is being conducted in approximately 22 countries and is a randomized, controlled, double-blind study comparing the efficacy of voclosporin against placebo in achieving remission in patients with active LN. The AURA-LV study is designed to demonstrate that voclosporin can induce a rapid and sustained reduction of proteinuria in the presence of extremely low steroid exposure and fulfill specific regulatory requests. It will compare two dosage groups of voclosporin (23.7mg and 39.5mg) administered with MMF vs. MMF alone. All patients will also receive oral corticosteroids as background therapy. There will be a primary analysis to determine complete remission at week 24 and various secondary analyses at week 48 which include biomarkers and markers of non-renal SLE.

In support of this large, randomized, LN Phase 2b clinical trial, the Company announced on February 9, 2015, the initiation of an open label, exploratory study to assess short term predictors of response using voclosporin in combination with MMF, in patients with active LN. "**AURION**" (Aurinia early Urinary protein Reduction Predicts Response) will examine biomarkers of disease activity at eight weeks and their ability to predict response at 24 and 48 weeks.

The results from the AURION study will contribute to the growing base of clinical data derived from the entire ongoing LN Phase 2b clinical trial program. A more clear understanding of voclosporin's time to onset of action in patients suffering from LN may be gained.

STRATEGY

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

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

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

Status of the Company's Development Program in LN

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

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

About Lupus Nephritis

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

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

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

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CNIs and Lupus Nephritis

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

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

The Company plans to utilize this MTT approach to treating LN patients with voclosporin.

About Voclosporin

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

Voclosporin Mechanism of Action

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

Potential Voclosporin Clinical Benefits

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

In a head-to-head study comparing voclosporin against cyclosporine in the treatment of psoriasis, cyclosporine was shown to cause significant increases in lipid levels as compared to voclosporin. The difference was statistically significant. This is

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

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

Voclosporin Development History

More than 2,600 patients have been in voclosporin clinical trials including studies where voclosporin was compared to placebo or active control. The safety and tolerability profile of the drug therefore is well characterized. Phase 2 or later clinical studies that have been completed include studies in the following indications:

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

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

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

Scientific Rationale for Treatment of LN with voclosporin

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

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

THREE YEAR HISTORY

CORPORATE DEVELOPMENTS IN 2014

Listing on NASDAQ - September 2, 2014

The Company received approval from the NASDAQ Listing Qualifications Department to list its common shares on the NASDAQ and commenced trading on September 2, 2014 under the trading symbol "AUPH".

Listing on the TSX - June 2, 2014

The Company applied to the TSX for relist of its common shares and subsequently the common shares were listed on the TSX as of the open of trading on June 2, 2014. The common shares of the Company continue to trade on the TSX under the trading symbol "AUP".

Private Placement Financing - February 14, 2014

On February 14, 2014 the Company completed a \$52 million private placement (the "Offering"). The proceeds from the Offering are being used for the LN Phase 2b clinical trial currently underway, general corporate and working capital purposes.

The financing was led by venBio, New Enterprise Associates, Redmile Group, RA Capital Management, Great Point Partners, and Apple Tree Partners, with participation from various other institutional investors, including existing shareholders Lumira Capital, ILJIN and Difference Capital.

Under the terms of the Offering, the Company issued 18.92 million units (the "Units") at a subscription price per Unit of \$2.7485, each Unit consisting of one common share and one-quarter (0.25) of a common share purchase warrant (a "Warrant"), exercisable for a period of five years from the date of issuance at an exercise price of \$3.2204. All securities issued in connection with the Offering were subject to a four-month hold period from the date of issuance in accordance with applicable securities law, which expired on June 15, 2014 for the securities issued at closing.

Leerink Partners LLC acted as lead placement agent and Canaccord Genuity Inc. acted as co-placement agent for the Offering. The placement agents were paid a 7.5% cash commission on subscriptions excluding those from existing shareholders for a total commission of \$3.86 million.

Termination of Distribution and License Agreement with Lux – February 27, 2014

On February 27, 2014 the Company signed a Termination and Assignment Agreement with Lux which returned worldwide rights to develop and commercialize voclosporin for the treatment and prophylaxis of all ophthalmic diseases back to the Company. The return of this license further consolidates the intellectual property related to voclosporin which was a key consideration in the acquisition of Aurinia Pharma Corp. by the Company in 2013. Coincident with the termination of the Lux agreement the Company has retained a portfolio of patents focused around delivering voclosporin in high concentrations to various tissues of the eye. The Company will evaluate this intellectual property and define its role as it relates to the defined corporate strategy of the Company.

CORPORATE DEVELOPMENTS IN 2013

Management Change - November 6, 2013

On November 6, 2013 the Company announced the appointment of Stephen W. Zaruby as the Company's President and CEO. Mr. Zaruby has an accomplished history of strategic operations, sales and marketing, research and development, and general management success in the global biotechnology and pharmaceutical industries. Previously, he was President of Seattle-based ZymoGenetics Inc., which was acquired by Bristol-Myers Squibb for \$885 million in 2010. Mr. Zaruby joined ZymoGenetics from Bayer. There, his 20 years of progressive leadership experience included executive roles managing Bayer's domestic and international anti-infectives, quinolone and hospital/surgical business franchises.

Share Consolidation and Name Change - October 23, 2013

On October 23, 2013, the Company proceeded with a consolidation of its common shares on a 50:1 basis. In conjunction with the share consolidation, the Company changed its name from Isotechnika Pharma Inc. to Aurinia Pharmaceuticals Inc. Both the name change and the share consolidation were approved by the shareholders of the Company at its shareholder meeting held on August 15, 2013. In connection with its name change, the Company's trading symbol on the TSXV was changed to "AUP".

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Plan of Arrangement and Acquisition of Aurinia Pharma Corp - September 20, 2013

On February 5, 2013 the Company announced that it had signed a binding term sheet (the “**Term Sheet**”) with Aurinia Pharma Corp. for the merger of the two companies, creating a clinical development stage pharmaceutical company focused on the global nephrology market. The Term Sheet set forth the main criteria to be incorporated into a definitive merger agreement under which the Company would acquire 100% of the outstanding securities of Aurinia Pharma Corp. The merger was expected to be effected by the exchange of shares in the Company for securities of Aurinia Pharma Corp. resulting in an estimated 65:35 post merger ownership split, on a warrant diluted basis, between the Company and Aurinia Pharma Corp. shareholders, respectively.

On April 3, 2013, the Company and Aurinia Pharma Corp. negotiated a tripartite settlement agreement (the “**Settlement Agreement**”) with ILJIN pursuant to which, upon the successful completion of the proposed merger, the combined company would re-acquire the voclosporin license previously granted to ILJIN and therefore obtain full rights to voclosporin for autoimmune indications including lupus, and transplantation in the United States, Europe and other regions of the world, outside of Canada, Israel, South Africa, China, Taiwan and Hong Kong. In return, ILJIN would be entitled to receive certain predefined future milestone payments and would also own approximately 25% of the issued and outstanding shares of the merged company on a diluted basis, calculated to give effect to the dilution by the exercise of Warrants but excluding the exercise of stock options. On August 6, 2013, an arrangement agreement was prepared implementing the arrangement (the “**Arrangement Agreement**”). The Arrangement Agreement was intended to implement the terms of the Settlement Agreement, whereby ILJIN would receive a further ownership interest in the Company in exchange for:

- (i) returning to the Company and terminating:
 - (a) all of its rights, licenses and obligations under the DDLA; and
 - (b) all other licenses and sublicenses between ILJIN and any of the Company, Aurinia Pharma Corp. or Vifor; and
- (ii) suspending all of its current or contemplated legal or financial claims against the Company, Aurinia Pharma Corp. or Vifor.

The Company completed the merger and related transactions (“Plan of Arrangement”) on September 20, 2013 that its shareholders had approved on August 15, 2013.

Upon closing of the Plan of Arrangement on September 20, 2013, the Company issued common shares to ILJIN. In addition ILJIN is entitled to receive certain predefined future success based clinical and marketing milestone payments in the aggregate amount of up to \$10 million, plus up to \$1.6 million upon the merged company reaching certain financing milestones.

The Company also acquired all of the issued and outstanding common shares of Aurinia Pharma Corp. at a ratio of approximately 19.83 pre-consolidated common shares for each Aurinia Pharma Corp. share held by an Aurinia Pharma Corp. shareholder.

Second Unit Offering

Immediately following the completion of the transaction described above, the Company completed a second private placement (the “**Second Unit Offering**”) of 2.67 million units (“**Second Offering Units**”) at a price of CDN\$2.25 per Second Offering Unit for gross proceeds of CDN\$6.0 million. Each Second Offering Unit is comprised of one common share and one-half of a whole Warrant (each a “**Second Offering Warrant**”), with each whole Second Offering Warrant exercisable for one common share at a price of CDN\$2.50 per common share for a period of three years from their date of issuance.

Listing on the TSXV

The arrangement transaction among the Company, ILJIN and Aurinia Pharma Corp. was determined by the TSX to constitute a “backdoor listing” under the rules of the TSX due to the significant increase in the ownership position in the Company by ILJIN. The result of that determination was that the Company was required to meet the TSX’s original listing requirements following completion of the arrangement. The Company did not meet the TSX’s original listing requirements and, as a result, the common shares were delisted from the TSX as of the end of trading on September 27, 2013. The Company applied to the TSXV for listing of the common shares on that exchange and subsequently the common shares were listed on the TSXV as of the open of trading on September 30, 2013.

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Management Restructuring

Upon the completion of the Plan of Arrangement, the Company made changes to its management team which included the appointments of Dr. Richard Glickman as interim CEO, Dr. Neil Solomons as CMO, and Michael Martin as COO which resulted in either the termination or position change of certain previous officers and employees

CORPORATE DEVELOPMENTS IN 2012

Partial Award in Arbitration Proceedings with ILJIN – November 2012

Effective January 28, 2011 (the “**Effective Date**”) the Company completed a DDLA with ILJIN for the further clinical and commercial development of voclosporin for use in transplant indications applicable to voclosporin. The Company granted to ILJIN an exclusive license to voclosporin for transplant and autoimmune indications for the United States and other regions outside of Europe, Canada, Israel, South Africa, China, Taiwan and Hong Kong. The Company retained the rights over voclosporin in Europe for future development and commercialization.

Pursuant to the DDLA, the Company was to receive a total license fee of \$5.0 million. In addition, ILJIN was to purchase 90.7 million common shares (pre-consolidation) of the Company for gross proceeds of \$19.87 million in three tranches.

The Company was obligated under the terms of the agreement to complete a single Phase 3 clinical trial for the prevention of kidney transplant rejection. The Company received \$4.5 million of the license fee and the first private placement tranche of \$2.37 million on January 28, 2011 which was the Effective Date of the Agreement. The Company issued 11.5 million common shares (pre-consolidation) at a price of \$0.207 per share to ILJIN pursuant to the subscription agreement for securities. On or before January 28, 2012 ILJIN was to pay \$500,000 to the Company as the Second Development Payment and purchase 39.6 million common shares (pre-consolidation) of the Company issued from treasury for an aggregate subscription price of \$8.5 million. On or before January 28, 2013, ILJIN was to purchase the final tranche of 39.6 million common shares (pre-consolidation) of the Company issued from treasury for an aggregate subscription price of \$9.0 million.

Prior to the January 28, 2012 date, ILJIN verbally indicated their intent to alter the economics of the DDLA. Consequently, payment under the DDLA was not received as required per the agreement of January 28, 2011. The Company on January 30, 2012 notified ILJIN that it was terminating the DDLA. At that time the Company believed that the termination of the original DDLA was valid.

The Company received notification in March, 2012 that ILJIN submitted a request for arbitration to the International Chamber of Commerce (“ICC”) Court of Arbitration relating to the Company’s termination of the DDLA. The Arbitration hearing to determine the Company’s right to terminate the agreement was held early in the fourth quarter of 2012. In November, 2012 the Company received notification from the ICC that a Partial Award regarding its right to terminate the DDLA with ILJIN had been issued to the parties. In the result, the Partial Award provided that the DDLA had not been terminated and, therefore, the Company’s contractual relationship with ILJIN still existed. As such the Partial Award rejected the Company’s interpretation of the DDLA’s termination provision. In January of 2013, ILJIN formally notified the Company and the arbitral tribunal that ILJIN had withdrawn all claims for damages in the parties’ pending arbitration. The Company completed the Plan of Arrangement on September 20, 2013, which included a settlement with ILJIN, as discussed above in *Corporate Developments in 2013*.

REGULATORY AND BUSINESS MATTERS

REGULATORY REQUIREMENTS

The development, manufacturing and marketing of voclosporin is subject to regulations relating to the demonstration of safety and efficacy of the products as established by the government (or regulatory) authorities in those jurisdictions where this product is to be marketed. The Company would require regulatory approval in Canada, the United States, and Europe where activities would be conducted by the Company or on the Company’s behalf. Depending upon the circumstances surrounding the clinical evaluation of the product candidate, the Company itself may undertake clinical trials, contract clinical trial activities to contract research organizations, or rely upon corporate partners for such development. The Company believes this approach will allow the Company to make cost effective developmental decisions in a timely fashion. The Company cannot predict or give any assurances as to whether regulatory approvals will be received or how long the process of seeking regulatory approvals will take.

Although only the jurisdictions of the United States and Europe are discussed in this section, the Company also intends to seek regulatory approval in other jurisdictions in the future and will initiate clinical studies where appropriate.

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United States

In the United States, all drugs are regulated under the Code of Federal Regulations and are enforced by the FDA. The regulations are similar to those in Canada and require that non-clinical and clinical studies be conducted to demonstrate the safety and effectiveness of products before marketing, and that the manufacturing be conducted according to Good Manufacturing Practice.

Subsequent to the initial proof-of-concept and preliminary safety studies, the application submitted to the FDA prior to conducting human clinical trials of new drugs is referred to as an IND application. This application contains similar information to the Canadian CTA, and the FDA has 30 days in which to notify the Company if the application is unsatisfactory. If the application is deemed satisfactory, then the Company may proceed with the clinical trials. As in Canada, before a clinical trial can commence at each participating clinical trial site, the site's IRB/REB must approve the clinical protocol and other related documents.

After completing all required non-clinical and clinical trials, and prior to selling a novel drug in the United States, the Company must also comply with NDA procedures required by the FDA. The NDA procedure includes the submission of a package containing similar information as to that required in the new drug submission in Canada to indicate safety and efficacy of the novel drug and describe the manufacturing processes and controls. FDA approval of the submission is required prior to commercial sale or shipment of the product in the United States. Pre- and/or post-approval inspections of manufacturing and testing facilities are necessary. The FDA may also conduct inspections of the clinical trial sites and the non-clinical laboratories conducting pivotal safety studies to ensure compliance with good clinical practice and good laboratory practice requirements. The FDA has the authority to impose certain post-approval requirements, such as post-market surveillance clinical trials. In addition, FDA approval can be withdrawn for failure to comply with any post-marketing requirements or for other reasons, such as the discovery of significant adverse effects.

Europe

In Europe, the evaluation of new products is coordinated by the EMA. The regulations are similar to those in Canada and the United States and require that non-clinical and clinical studies be conducted to demonstrate the safety and effectiveness of products before marketing, and that the manufacturing be conducted according to good manufacturing practice.

Subsequent to the initial proof-of-concept and preliminary safety studies, and prior to conducting human clinical trials, a CTA must be submitted to the competent authority in the country where the clinical trial will be conducted. This application contains similar information to the Canadian CTA and United States IND. In Europe, the clinical trials are regulated by the European Clinical Trial Directive (2001/20/EC). As in Canada and the United States, before a clinical trial can commence at each participating clinical trial site, the site's IRB/REB must approve the clinical protocol and other related documents.

A major difference in Europe, when compared to Canada and the United States, is with the approval process. In Europe, there are different procedures that can be used to gain marketing authorization in the EU. The first procedure is referred to as the centralized procedure and requires that a single application be submitted to the EMA and, if approved, allows marketing in all countries of the EU. The centralized procedure is mandatory for certain types of medicines and optional for others. The second procedure is referred to as national authorization and has two options; the first is referred to as the mutual recognition procedure and requires that approval is gained from one member state, after which a request is made to the other member states to mutually recognize the approval, whilst the second is referred to as the decentralised procedure which requires a member state to act as the reference member state through a simultaneous application made to other member states.

DRUG DEVELOPMENT PROCESS

Clinical trials involve the administration of an investigational pharmaceutical product to individuals under the supervision of qualified medical investigators. Clinical studies are conducted in accordance with protocols that detail the objectives of a study, the parameters to be used to monitor safety, and the efficacy criteria to be evaluated. Each protocol is submitted to the appropriate regulatory body and to a relevant IRB/REB prior to the commencement of each clinical trial. Clinical studies are typically conducted in three sequential phases which may overlap in time-frame.

In summary, the following steps must be completed prior to obtaining approval for marketing in Canada, the United States and Europe:

1. **Nonclinical Animal Studies** - These studies evaluate the safety and potential efficacy of a therapeutic product and form part of the application which must be reviewed by the appropriate regulatory authority prior to initiation of human clinical trials.
2. **Phase 1 Clinical Trials** - These trials test the product in a small number of healthy volunteers to determine toxicity (safety), maximum dose tolerance, and pharmacokinetic properties.
3. **Phase 2 Clinical Trials** - These trials are conducted in the intended patient population and include a larger number of subjects than in Phase 1. The primary goal is to determine the safety of a product in a larger number of patients and ultimately in the intended patient population. These trials may also provide early information on the potential effectiveness of a product.

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4. **Phase 3 Clinical Trials** - These trials are conducted in an expanded patient population at multiple sites to determine longer-term clinical safety and efficacy of the product. It is from the data generated in these trials that the benefit/risk relationship of a product is established and the final drug labelling claims are defined.

In the course of conducting clinical trials for a drug candidate, a company may conduct more than one trial of a particular phase in order to evaluate the drug against a variety of indications or in different patient populations. In such a case, industry practice is to differentiate these trials by way of designations such as “Phase 2a” or “Phase 2b”.

A key factor influencing the rate of progression of clinical trials is the rate at which patients can be recruited to participate in the research program. Patient recruitment is largely dependent upon the incidence and severity of the disease and the alternative treatments available.

Even after marketing approval for a drug has been obtained, further trials may be required (referred to as Phase 4 trials). Post-market trials may provide additional data on safety and efficacy necessary to gain approval for the use of the product as a treatment for clinical indications other than those for which the product was initially tested. These trials may also be used for marketing purposes.

MANUFACTURING

Voclosporin

Drug supply costs are comprised of third party charges for manufacturing, encapsulating and packaging of voclosporin.

On June 8, 2004, the Company signed a manufacturing agreement with Lonza Ltd. (“**Lonza**”) to manufacture voclosporin for clinical trial and regulatory purposes.

In December 2007 Lonza completed the manufacture of the API validation batches of voclosporin required for regulatory approval.

Subsequently Lonza manufactured the API for the Company’s LN Phase 2b clinical trial currently underway. It will also manufacture the API required for commercial supply purposes. Lonza manufactures the API in Switzerland.

Paladin was responsible for the API drug supply function with the Company until December 31, 2014 when the Supply Agreement ended. Effective January 1, 2015 Aurinia has full control over the supply chain.

Aurinia has contracted Catalent to encapsule, package and distribute voclosporin for its LN Phase 2b clinical trial program

INTELLECTUAL PROPERTY RIGHTS

Patents and other proprietary rights are essential to the Company’s business. The Company’s policy has been to file patent applications to protect technology, inventions, and improvements to its inventions that are considered important to the development of its business.

The Company owns the patents and patent applications related to voclosporin in the United States, Europe and in other jurisdictions around the world except for Canada, South Africa and Israel which belong to Paladin.

As at March 26, 2015 there are 196 granted patents for voclosporin worldwide. These patents cover synthesis, composition of matter, method of use and formulation.

The Company also has six ophthalmic patents acquired upon the return of the ophthalmic indications of voclosporin as result of the Company signing a Termination and Assignment Agreement with Lux on February 27, 2014.

COMPETITIVE ENVIRONMENT

The pharmaceutical and biotechnology industries are characterized by rapidly evolving technology and intense competition. Many companies, including major pharmaceutical as well as specialized biotechnology companies, are engaged in activities focused on medical conditions that are the same as, or similar to, those targeted by the Company. Many of these companies have substantially greater financial and other resources, larger research and development staff, and more extensive marketing and manufacturing organization than the Company does. Many of these companies have significant experience in preclinical testing, human clinical

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trials, product manufacturing, marketing and distribution, and other regulatory approval procedures. In addition, colleges, universities, government agencies, and other public and private research organizations conduct research and may market commercial products on their own or through collaborative agreements. These institutions are becoming more active in seeking patent protection and licensing arrangements to collect royalties for use of technology that they have developed. These institutions also compete with the Company in recruiting and retaining highly qualified scientific personnel.

EMPLOYEES

	December 31, 2014	December 31, 2013	December 31, 2012
Total	11	13	21

As at December 31, 2014 the Company employed 11 employees, eight of whom held advanced degrees in science and business, including one with a Ph.D. degree and one with an MD.

Of the Company's total 10.7 full-time equivalent employees as at December 31, 2014, 4.7 full-time equivalent employees were engaged in, or directly support, clinical trial activities; and six full-time equivalent employees were engaged in corporate, administration and business development activities.

The Company's employees are not governed by a collective agreement. The Company has not experienced a work stoppage and believes its employee relations are satisfactory given the current economic conditions.

FACILITIES

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

June 1, 2014 to May 31, 2015 - \$9,000 per month;

June 1, 2015 to May 31, 2016 - \$9,000 per month; and

June 1, 2016 to May 31, 2017 - \$10,000 per month.

On October 1, 2013 the Company reduced its leased lab premises cost in Edmonton, Alberta by entering into a three year sublease with the head lessee for approximately 9,000 square feet while vacating the remaining 16,318 square feet it had previously been leasing. The sublease cost is approximately \$19,000 per month and includes base rent, utilities and operating costs. The Company has paid the head lessee a deposit of \$145,000 for the last 7.4 months of rent. The Company in turn, effective October 15, 2014, has subleased out this 9,000 square feet space for approximately \$7,000 per month for the remaining term of the sublease until September 30, 2016.

The Company entered into an agreement on November 14, 2014 to lease 1,247 square feet of office space for the Edmonton, Alberta registered office where the Company's finance group is located. The lease is for a term of two years commencing on January 1, 2015 at a cost of approximately \$1,500 per month.

The Company also entered into a one year agreement to rent an office in a shared office facility in Bellevue, Washington commencing November 1, 2014 at a cost of approximately \$2,000 per month.

RISK FACTORS

Investing in the Company's securities involves a high degree of risk. You should carefully consider the following risks in addition to the other information included in this AIF, the Company's historical consolidated financial statements and related notes, before you decide to purchase the Company's common shares. The risks and uncertainties described below are those that the Company currently believes may materially affect the Company and are set out in no particular order. Additional risks and uncertainties that the Company is unaware of or that it currently deems immaterial may also become important factors that materially and adversely affect its business, financial condition and results of operations. If any of the following events were to actually occur, the Company's business, operating results or financial condition could be adversely affected in a material manner.

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RISKS RELATED TO THE COMPANY'S BUSINESS

Clinical Trial Progress and Results - Dependence on Voclosporin

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

- successful completion of clinical programs;
- receipt of marketing approvals from the FDA and other regulatory authorities with a commercially viable label;
- securing and maintaining partners with sufficient expertise and resources to help in the continuing development and eventual commercialization of voclosporin for autoimmune indications and/or transplant;
- maintaining suitable manufacturing and supply agreements to ensure commercial quantities of the product through validated processes; and
- acceptance and adoption of the product by the medical community and third-party payors.

It is possible that the Company may decide to discontinue the development of voclosporin at any time for commercial, scientific, or regulatory reasons. If voclosporin is developed, but not marketed, the Company will have invested significant resources and its future operating results and financial conditions would be significantly adversely affected. If the Company is not successful in commercializing voclosporin, or significantly delayed in doing so, its business will be materially harmed and the Company may need to curtail or cease operations.

Product Development Goals and Time Frames

The Company sets goals for, and makes public statements regarding, timing of the accomplishment of objectives material to its success, such as the commencement and completion of clinical trials, anticipated regulatory approval dates, and time of product launch. The actual timing of these events can vary dramatically due to factors such as delays or failures in clinical trials, the uncertainties inherent in the regulatory approval process, and delays in achieving product development, manufacturing, or marketing milestones necessary to commercialize its products. There can be no assurance that the Company's clinical trials will be completed, that regulatory submissions will be made or receive regulatory approvals as planned, or that the Company will be able to adhere to the current schedule for the validation of manufacturing and launch of any of its products. If the Company fails to achieve one or more of these milestones as planned, the price of the Company's common shares could decline.

Results of Pre-Clinical Studies and Initial Clinical Trials Are Not Necessarily Predictive of Future Results

The results of pre-clinical studies and initial clinical trials are not necessarily predictive of future results, and the Company's current product candidates may not have favourable results in later trials or in the commercial setting. Pre-clinical tests and Phase 1 and Phase 2 clinical trials are primarily designed to test safety, to study pharmacokinetics and pharmacodynamics and to understand the side effects of product candidates at various doses and schedules. Success in pre-clinical or animal studies and early clinical trials does not ensure that later large scale efficacy trials will be successful nor does it predict final results. Favourable results in early trials may not be repeated in later trials. A number of companies in the life sciences industry have suffered significant setbacks in advanced clinical trials, even after positive results in earlier trials. Clinical results are frequently susceptible to varying interpretations that may delay, limit or prevent regulatory approvals. Negative or inconclusive results or adverse medical events during a clinical trial could cause a clinical trial to be delayed, repeated or terminated. In addition, failure to construct appropriate clinical trial protocols could result in the test or control group experiencing a disproportionate number of adverse events and could cause a clinical trial to be repeated or terminated. Pre-clinical data and the clinical results the Company has obtained may not predict results from studies in larger numbers of subjects drawn from more diverse populations or in a commercial setting, and also may not predict the ability of its products to achieve their intended goals, or to do so safely.

No Assurance of Successful Development

The Company has not completed the development of any therapeutic products and in particular, voclosporin, and therefore there can be no assurance that any product will be successfully developed. None of the Company's therapeutic products have received regulatory approval for commercial use and sale in any jurisdiction. The Company cannot market a pharmaceutical product in any jurisdiction until it has completed thorough preclinical testing and clinical trials in addition to that jurisdiction's extensive regulatory approval process. In general, significant research and development and clinical studies are required to demonstrate the safety and effectiveness of its products before submission of any regulatory applications. The Company may never obtain

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the required regulatory approvals for any of its products. Product candidates require significant additional research and development efforts, including clinical trials, prior to regulatory approval and potential commercialization, however, there can be no assurance that the results of all required clinical trials will demonstrate that these product candidates are safe and effective or, even if the results of all required clinical trials do demonstrate that these product candidates are safe and effective, or even if the results of the clinical trials are considered successful by the Company, that the regulatory authorities will not require the Company to conduct additional clinical trials before they will consider approving such product candidates for commercial use. Approval or consent by regulatory authorities to commence a clinical trial does not indicate that the device, drug, or treatment being studied can or will be approved. Preparing, submitting, and advancing applications for regulatory approval is complex, expensive, and time intensive and entails significant uncertainty.

The results of the Company's completed preclinical studies and clinical trials may not be indicative of future clinical trial results. A commitment of substantial resources to conduct time-consuming research, preclinical studies, and clinical trials will be required if the Company is to complete the development of its products.

There can be no assurance that unacceptable toxicities or adverse side effects will not occur at any time in the course of preclinical studies or human clinical trials or, if any products are successfully developed and approved for marketing, during commercial use of its products. The appearance of any such unacceptable toxicities or adverse side effects could interrupt, limit, delay, or abort the development of any of the Company's products or, if previously approved, necessitate their withdrawal from the market. Furthermore, there can be no assurance that disease resistance or other unforeseen factors will not limit the effectiveness of its products. Any products resulting from the Company's programs are not expected to be successfully developed or made commercially available in the near term and may not be successfully developed or made commercially available at all. Should one of the Company's products prove to have insufficient benefit and/or have an unsafe profile, its development will likely be discontinued.

The future performance of the Company will be impacted by a number of important factors, including, in the short-term, its ability to continue to generate cash flow from equity financings, and in the longer term, its ability to generate royalty or other revenues from licensed technology and bring new products to the market. The Company's future success will require efficacy and safety of its products and regulatory approval for these products. Future success of commercialization of any product is also dependant on the ability of the Company to obtain patents, enforce such patents and avoid patent infringement. There can be no assurance that the Company will successfully develop such products, or these products will be developed in a timely manner or that the Company will achieve significant revenues from such products if they are successfully developed.

Additional Funding may not be Available on Favorable Terms

While the Company believes it has sufficient funding to conduct the planned LN Phase 2b clinical trial as a result of completing the \$52 million private placement on February 14, 2014, the Company's longer term funding needs may vary depending upon a number of factors including progress on the Company's voclosporin development program (s), the costs associated with completing future clinical trials and the regulatory process, the Company potential decision to in-license or acquire additional products for development and defending or enforcing the Company's patent claims and other intellectual property rights. There can be no assurance that such funds will be available on favorable terms or at all.

Patents and Proprietary Technology

Patents and other proprietary rights are essential to the Company's business. The Company's policy has been to file patent applications to protect technology, inventions, and improvements to its inventions that are considered important to the development of its business.

The Company's success will depend in part on its ability to obtain patents, defend patents, maintain trade secret protection and operate without infringing on the proprietary rights of others. Interpretation and evaluation of pharmaceutical patent claims present complex and often novel legal and factual questions. Accordingly, there is some question as to the extent to which biopharmaceutical discoveries and related products and processes can be effectively protected by patents. As a result, there can be no assurance that:

- patent applications will result in the issuance of patents;
- additional proprietary products developed will be patentable;
- patents issued will provide adequate protection or any competitive advantages;
- patents issued will not be successfully challenged by third parties; or
- the patents issued do not infringe the patents or intellectual property of others.

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A number of pharmaceutical, biotechnology, medical device companies and research and academic institutions have developed technologies, filed patent applications or received patents on various technologies that may be related to the business of the Company. Some of these technologies, applications or patents may conflict with or adversely affect the technologies or intellectual property rights of the Company. Any conflicts with the intellectual property of others could limit the scope of the patents, if any, that the Company may be able to obtain or result in the denial of patent applications altogether.

Further, there may be uncertainty as to whether the Company may be able to successfully defend any challenge to its patent portfolio. Moreover, the Company may have to participate in interference proceedings in the various jurisdictions around the world. An unfavorable outcome in an interference or opposition proceeding could preclude the Company or its collaborators or licensees from making, using or selling products using the technology, or require the Company to obtain license rights from third parties. It is not known whether any prevailing party would offer a license on commercially acceptable terms, if at all. Further, any such license could require the expenditure of substantial time and resources and could harm the business of the Company. If such licenses are not available, the Company could encounter delays or prohibition of the development or introduction of the products of the Company.

The Company may need to obtain additional licenses for the development of its products. If available, these licenses may obligate the Company to exercise diligence in the development of technology and may obligate the Company to make minimum guarantees, milestone payments or purchases from specific suppliers. These diligence and milestone payments may be costly and affect the business of the Company. The Company may be obligated to make royalty payments on the sales, if any, of products resulting from licensed technology and may be responsible for the costs of filing and prosecuting patent applications.

Dependence on Key Personnel

The Company is highly dependent upon certain members of its senior management team, the loss of whose services might impede the achievement of the Company's business objectives and have an adverse effect on the Company's operating results and prospects.

Supply and Manufacture of Raw Materials

The Company's lead drug, voclosporin, requires a specialized manufacturing process. Lonza is currently the sole source manufacturer of voclosporin.

The FDA and other regulatory authorities require that drugs be manufactured in accordance with the current good manufacturing practices regulations, as established from time to time. Accordingly, in the event the Company receives marketing approvals for voclosporin, it may need to rely on a limited number of third parties to manufacture and formulate voclosporin. The Company may not be able to arrange for its products to be manufactured on reasonable terms or in sufficient quantities.

Manufacturers of pharmaceutical products often encounter difficulties in production, especially in scaling up initial production. These problems include difficulties with production costs and yields, stability, quality control and assurance, and shortages of qualified personnel, as well as compliance with strictly enforced federal, provincial and foreign regulations. The Company relies on a limited number of third parties to manufacture and supply raw materials for its products. The third parties the Company chooses to manufacture and supply raw materials for its products are not under its control, and may not perform as agreed or may terminate their agreements with the Company, and the Company may not be able to find other third parties to manufacture and supply raw materials on commercially reasonable terms, or at all. If either of these events were to occur, the Company's operating results and financial condition would be adversely affected.

Anticipated Revenues may be Derived from Licensing Activities

The Company anticipates that its revenues in the foreseeable future may be derived primarily from products licensed to pharmaceutical and biotechnology companies. Accordingly, these revenues will depend, in large part, upon the success of these companies, and the Company's operating results may fluctuate substantially due to reductions and delays in their research, development and marketing expenditures. These reductions and delays may result from factors that are not within the Company's control, including:

- changes in economic conditions;
- changes in the regulatory environment, including governmental pricing controls affecting health care and health care providers;
- pricing pressures; and
- other factors affecting research and development spending.

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Lack of Operating Profits

The Company has incurred losses and anticipates that its losses will increase as it continues its development and clinical trials and seeks regulatory approval for the sale of its therapeutic products. There can be no assurance that it will have earnings or positive cash flow in the future.

As at December 31, 2014, the Company had an accumulated deficit of \$236.39 million. The net operating losses over the near-term and the next several years are expected to continue as a result of initiating new clinical trials and activities necessary to support regulatory approval and commercialization of its products. There can be no assurance that the Company will be able to generate sufficient product revenue to become profitable at all or on a sustained basis. The Company expects to have quarter-to-quarter fluctuations in expenses, some of which could be significant, due to research, development, and clinical trial activities, as well as regulatory and commercialization activities.

Liability and Insurance

The testing, marketing and sale of human pharmaceutical products involves unavoidable risks. If the Company succeeds in developing new pharmaceutical products, the sale of such products may expose the Company to potential liability resulting from the use of such products. Such liability might result from claims made directly by consumers or by regulatory agencies, pharmaceutical companies or others. The obligation to pay any product liability claim in excess of whatever insurance the Company is able to acquire, or the recall of any of its products, could have a material adverse effect on the business, financial condition and future prospects of the Company.

The Company entered into indemnification agreements with its officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company currently maintains director and officer liability insurance coverage of CDN\$15million to reduce the exposure of the Company.

Competition and Technological Change

The industry in which the Company operates is highly competitive and the Company has numerous domestic and foreign competitors, including major pharmaceutical and chemical companies, specialized biotechnology companies, universities, academic institutions, government agencies, public and private research organizations and large, fully-integrated pharmaceutical companies which have extensive resources and experience in research and development, process development, clinical evaluation, manufacturing, regulatory affairs, distribution and marketing. Many of the Company's potential competitors possess substantially greater research and development skills, financial, technical and marketing expertise and human resources than the Company, and may be better equipped to develop, manufacture and market products. There is a risk that new products and technologies may be developed which may be more effective or commercially viable than any products being developed or marketed by the Company, thus making the Company's products non-competitive or obsolete. There may also be market resistance to the acceptance of any of the Company's new products and a risk that a product, even though clinically effective, is not economically viable in the commercial production stage.

Reliance on Partners and other Third Parties

Partners

The Company's strategy and success for the research, development, and commercialization of voclosporin in China (partner - 3SBio), Canada, South Africa and Israel (partner – Paladin) is dependent upon these partners performing their respective contractual responsibilities. The amount and timing of resources such third parties will devote to these activities may not be within the Company's control. There can be no assurance that its partners will perform their obligations as expected.

The license and research and development agreements with the third parties noted above include indemnification and obligation provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. These provisions may survive termination of the underlying agreement. The nature of the potential obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay.

The Company intends to seek additional collaborative arrangements to develop and commercialize voclosporin for the transplant indication. There can be no assurance that the Company will be able to negotiate collaborative arrangements on favorable terms, or at all, in the future, or that current or future collaborative arrangements will be successful.

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Other Third Parties

For some products, the Company depends on third parties for the sourcing of components or for the product itself. Furthermore, as with other pharmaceutical companies, the Company relies on medical institutions for testing and clinically validating its prospective products. The Company does not anticipate any difficulties in obtaining required components or products or any difficulties in the validation and clinical testing of its products but there is no guarantee that they will be obtained.

The Company currently relies on CROs for the conduct of its clinical trials. All of the Company's CROs operate in accordance with good clinical management practices mandated by the regulatory authorities and are subject to regular audits by regulatory authorities and by the Company.

The Company also has arrangements for the encapsulation, packaging and labeling of voclosporin through a third party supplier. Contract manufacturers must operate in compliance with regulatory requirements. Failure to do so could result in, among other things, the disruption of product supplies. The Company's dependence upon third parties for the manufacturing of its therapeutic products may adversely affect the Company's profit margins and its ability to develop and deliver such products on a timely and competitive basis.

Marketing and Distribution

The Company has limited experience in the sales, marketing, and distribution of pharmaceutical products. There can be no assurance that the Company will be able to establish sales, marketing, and distribution capabilities or make arrangements through collaborations, licensees, or others to perform such activities, or that such efforts would be successful. If the Company decides to market any of its products directly, the Company must either acquire or internally develop a marketing and sales force with technical expertise and provide supporting distribution capabilities. The acquisition or development of a sales and distribution infrastructure would require substantial resources, which may divert the attention of management and key personnel, and have a negative impact on product development. If the Company contracts with third parties for the sales and marketing of its products, the Company's revenue will be dependent on the efforts of these third parties, whose efforts may not be successful. If the Company fails to establish successful marketing and sales capabilities or to make arrangements with third parties, the business, financial condition and results of operations will be materially adversely affected.

Market Acceptance

Even if the Company's products are approved for sale, they may not be successful in the marketplace. Market acceptance of any of the Company's products will depend upon a number of factors, including demonstration of clinical effectiveness and safety; the potential advantages of its products over alternative treatments; the availability of acceptable pricing and adequate third party reimbursement; and the effectiveness of marketing and distribution methods for the products. If the Company's products do not gain market acceptance among physicians, patients, and others in the medical community, the Company's ability to generate significant revenues from its products would be limited.

Health Care Reimbursement

In both domestic and foreign markets, sales of the Company's products, if any, will be dependent in part on the availability of reimbursement from third party payors, such as government and private insurance plans. Third party payors are increasingly challenging the prices charged for medical products and services. There can be no assurance that the Company's products will be considered cost effective by these third party payors, that reimbursement will be available or if available that the payor's reimbursement policies will not adversely affect the Company's ability to sell its products on a profitable basis.

Government Regulation

The production and marketing of the Company's products and its ongoing research and development activities are subject to regulation by numerous federal, provincial, state and local governmental authorities in Canada, the United States and any other countries where the Company may test or market its products. These laws require the approval of manufacturing facilities, including adhering to "good manufacturing" and/or "good laboratory" practices during production and storage, the controlled research and testing of products, governmental review and approval of submissions requiring manufacturing, pre-clinical and clinical data to establish the safety and efficacy of the product for each use sought in order to obtain marketing approval, and the control of marketing activities, including advertising and labeling. The process of obtaining required approvals (such as, but not limited to, the approval of the FDA in the United States, the EMA and Health Canada) can be costly and time consuming and there can be no assurance that future products will be successfully developed, proven safe and effective in clinical trials or receive applicable regulatory approvals. Potential investors should be aware of the risks, problems, delays, expenses and difficulties which may be encountered by the Company in view of the extensive regulatory environment which controls its business.

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In addition, there can be no assurance that the Company will be able to achieve or maintain regulatory compliance with respect to all or any part of its current or future products or that the Company will be able to timely and profitably produce its products while complying with applicable regulatory requirements. If the Company fails to maintain compliance, regulatory authorities may not allow the continuation of the drug development programs, or require the Company to make substantial changes to the drug. Any such actions could have a material adverse effect on the business, financial condition, and results of operations.

Unauthorized Disclosure of Confidential Information

There may be an unauthorized disclosure of the significant amount of confidential information under the Company's control. The Company maintains and manages confidential information relating to its technology, research and development, production, marketing and business operations and those of its collaborators, in various forms. Although the Company has implemented controls to protect the confidentiality of such information, there can be no assurance that such controls will be effective. Unauthorized disclosures of such information could subject the Company to complaints or lawsuits for damages or could otherwise have a negative impact on its business, financial condition, results of operations, reputation and credibility.

Use of Hazardous Materials

The drug manufacturing processes involve the controlled use of hazardous materials. The Company and its third party manufacturing contractors are subject to regulations governing the use, manufacture, storage, handling and disposal of such materials and certain waste products. Although the Company believes that its third party manufacturers have the required safety procedures for handling and disposing of such materials and comply with the standards prescribed by such laws and regulations, the risk of accidental contamination or injury from these materials cannot be completely eliminated. In the event of such an accident, the Company could be held liable for any damages that result and such liability could exceed the Company's resources.

RISKS RELATED TO THE COMPANY'S SECURITIES

Volatility of Share Price

The trading price of the Company's common shares has been highly volatile and could continue to be subject to wide fluctuations in price in response to various factors, many of which are beyond the Company's control, including:

- actual or anticipated period-to-period fluctuations in financial results;
- failure to achieve, or changes in, financial estimates by securities analysts;
- announcements regarding new or existing products or services or technological innovations by competitors;
- comments or opinions by securities analysts or major shareholders;
- conditions or trends in the pharmaceutical, biotechnology and life science industries;
- announcements by the Company of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- announcements by the Company of results of, and developments in, its research and development efforts, including results and adequacy of, and development in, clinical trials and applications for regulatory approval;
- additions or departures of key personnel;
- economic and other external factors or disasters or crises;
- limited daily trading volume;
- if any of the Company's products do not become commercially viable for any reason, including the failure of preclinical studies and clinical trials, the Company may not achieve profitability and the Company's share price would likely decline; and
- developments regarding the Company's licensed intellectual property or that of the Company's competitors.

In addition, the stock market in general, and the market for biotechnology companies in particular, have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. Further, there has been significant volatility in the market prices of securities of biotechnology companies. Factors such as the results and adequacy of the Company's preclinical studies and clinical trials, as well as those of its collaborators, or its competitors; other evidence of the safety or effectiveness of the Company's products or those of its competitors; announcements of technological innovations or new products by the Company or its competitors; governmental regulatory actions; developments with collaborators; developments (including litigation) concerning patent or other proprietary rights of the Company or competitors; concern as to the safety of the Company's products; period-to-period fluctuations in operation results; changes in estimates of the Company's performance by securities analysts; market conditions for biotechnology stocks in general; and other factors not within the control

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of the Company could have a significant adverse impact on the market price of the Company's securities, regardless of its operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted. A class action suit against the Company could result in substantial costs, potential liabilities and the diversion of management's attention and resources.

There is no guarantee that an active trading market for the Company's common shares will be maintained on the TSX and /or NASDAQ. Investors may not be able to sell their shares quickly or at the latest market price if the trading in the Company's common shares is not active.

The Company expects to issue common shares in the future. Holders of stock options may elect to exercise their options into common shares depending on the stock price. Future issuances of common shares, or the perception that such issuances are likely to occur, could affect the prevailing trading prices of the common shares. Future issuances of the Company's common shares could result in substantial dilution to its shareholders. In addition, the existence of Warrants may encourage short selling by market participants.

Sales of common shares could cause a decline in the market price of the Company's common shares. Two of the Company's major shareholders (venBio and ILJIN) own an aggregate of approximately 31% of the Company's outstanding common shares as at March 26, 2015. Any sales of common shares by these shareholders or other existing shareholders or holders of options may have an adverse effect on the Company's ability to raise capital and may adversely affect the market price of its common shares.

Aurinia may be a "Passive Foreign Investment Company"

Aurinia may be a "passive foreign investment company" under the U.S. Internal Revenue Code, which may result in material adverse U.S. federal income tax consequences to investors in common shares that are U.S. taxpayers: Investors in common shares that are U.S. taxpayers should be aware that Aurinia believes that it was not for the financial year ended December 31, 2014, a "passive foreign investment company" under Section 1297(a) of the U.S. Internal Revenue Code (a "PFIC"). However, there is no certainty that taxation authorities in the United States would agree with the Company's determination, and there is no certainty that the Company will not be a PFIC at some point in the future. If Aurinia is determined to be or becomes a PFIC, generally any gain recognized on the sale of the common shares and any "excess distributions" (as specially defined) paid on the common shares must be ratably allocated to each day in a U.S. taxpayer's holding period for the common shares. The amount of any such gain or excess distribution allocated to prior years of such U.S. taxpayer's holding period for the common shares generally will be subject to U.S. federal income tax at the highest tax applicable to ordinary income in each such prior year, and the U.S. taxpayer will be required to pay interest on the resulting tax liability for each such prior year, calculated as if such tax liability had been due in each such prior year.

Alternatively, a U.S. taxpayer that makes a "qualified electing fund" (a "QEF") election with respect to Aurinia generally will be subject to U.S. federal income tax on such U.S. taxpayer's pro rata share of Aurinia's "net capital gain" and "ordinary earnings" (as specifically defined and calculated under U.S. federal income tax rules), regardless of whether such amounts are actually distributed by Aurinia. U.S. taxpayers should be aware, however, that there can be no assurance that Aurinia will satisfy record keeping requirements under the QEF rules or that Aurinia will supply U.S. taxpayers with required information under the QEF rules, in the event that Aurinia is a PFIC and a U.S. taxpayer wishes to make a QEF election. As a second alternative, a U.S. taxpayer may make a "mark-to-market election" if Aurinia is a PFIC and the common shares are "marketable stock" (as specifically defined). A U.S. taxpayer that makes a mark-to-market election generally will include in gross income, for each taxable year in which Aurinia is a PFIC, an amount equal to the excess, if any, of (a) the fair market value of the common shares as of the close of such taxable year over (b) such U.S. taxpayer's adjusted tax basis in the common shares.

The above paragraphs contain only a brief summary of certain U.S. federal income tax considerations. Investors should consult their own tax advisor regarding the PFIC rules and other U.S. federal income tax consequences of the acquisition, ownership, and disposition of common shares.

DIVIDEND POLICY

The Company has not paid dividends on its outstanding common shares in the past and has no established dividend policy for its common shares. The Company plans to use future earnings, if any, to finance further research and development and the expansion of its business and does not anticipate paying out dividends on its common shares in the foreseeable future. The payment of dividends in the future will depend upon the earnings and financial condition of the Company and such other factors as the Board considers appropriate.

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CAPITAL STRUCTURE

The Company's authorized share capital consists of an unlimited number of common shares, all without nominal or par value.

The holders of common shares are entitled to receive notice of and attend all meetings of shareholders, with each common share held entitling the holder to vote on any resolution to be passed at such shareholder meetings. The holders of common shares are entitled to dividends if, as and when declared by the Board. The common shares are entitled upon liquidation, dissolution or winding up of Aurinia, to receive the remaining assets of Aurinia available for distribution to shareholders.

As at March 26, 2015, the Company had 31,985,341 common shares issued and outstanding.

In addition as of March 26, 2015 there were 2,302,910 common shares issuable upon the exercise of outstanding stock options and 892,969 common shares reserved for future grant or issuance under the Company's stock option plan.

The Company also has 6,311,605 Warrants outstanding as at March 26, 2015.

TRADING PRICE AND VOLUME OF AURINIA SHARES

The Company commenced trading on the NASDAQ on September 2, 2014 under the trading symbol "AUPH"

Aurinia's common shares were traded on the TSXV from January 1, 2014 to May 30, 2014 under the symbol "AUP". On June 2, 2014, the Company's common shares commenced trading on the TSX under the symbol "AUP" and continue to trade on the TSX.

The following table sets forth, for the periods indicated, the reported high and low prices (in Canadian dollars) and volume on shares traded for each month.

TSXV

Month	Price Range (CDNS)		Total Volume
	High	Low	
January, 2014	\$ 4.46	\$ 3.50	153,561
February, 2014	\$ 4.25	\$ 3.14	164,644
March, 2014	\$ 4.40	\$ 2.75	306,019
April, 2014	\$ 4.10	\$ 2.79	339,331
May, 2014	\$ 4.10	\$ 3.35	95,859

TSX

Month	Price Range (CDNS)		Total Volume
	High	Low	
June, 2014	\$ 4.83	\$ 3.56	291,796
July, 2014	\$ 4.80	\$ 3.50	117,070
August, 2014	\$ 4.85	\$ 3.50	320,511
September, 2014	\$ 4.56	\$ 3.50	146,710
October, 2014	\$ 4.35	\$ 2.75	262,964
November, 2014	\$ 4.39	\$ 3.26	227,401
December, 2014	\$ 4.50	\$ 3.88	154,537
January, 2015	\$ 4.44	\$ 3.94	653,733
February, 2015	\$ 5.90	\$ 3.86	735,749
March 1-25, 2015 ⁽¹⁾	\$ 7.00	\$ 5.29	502,686

(1) March 25, 2015 was the last trading day prior to the date of this AIF.

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The following table sets forth, for the periods indicated, the reported high and low prices (in United States dollars) and the volume of shares traded for each month on NASDAQ.

NASDAQ

	Price Range (US \$)		Total Volume
	High	Low	
September, 2014	\$4.24	\$ 3.20	18,473
October, 2014	\$4.01	\$ 1.41	180,198
November, 2014	\$4.35	\$ 3.20	286,137
December, 2014	\$5.39	\$3.4992	331,640
January, 2015	\$3.96	\$ 3.08	523,951
February, 2015	\$4.86	\$ 3.03	769,040
March 1-25, 2015 ⁽¹⁾	\$5.65	\$ 4.11	2,595,382

(1) March 25, 2015 was the last trading day prior to the date of this AIF.

ESCROWED SECURITIES

There are no securities of the Company subject to escrow.

PRIOR SALES

The following table summarizes the distribution of securities other than common shares that were issued during the most recently completed financial year, identifying the type of security, the price per security, the number of securities issued, expiry date and the date on which the securities were issued.

Date	Type of Security	Price per Security	Number of Securities	Expiry Date
February 14, 2014	Warrants	\$ 3.22US	4,729,843	February 14, 2019
February 18, 2014	Options	\$3.50 CDN	1,192,000	February 18, 2019
November 18, 2014	Options	\$3.91 CDN	20,000	November 18, 2019

DIRECTORS AND OFFICERS

The directors of the Company are elected by the shareholders at each annual meeting and typically hold office until the next annual meeting, at which time they may be re-elected or replaced. The officers are appointed by the Board and hold office pursuant to individual contractual obligations.

As at March 26, 2015, the names and municipalities of residence of the directors and officers of the Company and their principal occupations within the five preceding years are set forth below:

<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>	<u>Director/Officer since</u>	<u>Principal Occupation for Five Preceding Years</u>
Stephen W. Zaruby <i>Woodinville, Washington U.S.A.</i>	President and CEO	November 2013	President and CEO of the Company since November 6, 2013; prior thereto was President of ZymoGenetics Inc.; Vice President, Global Head, Hospital Surgical Business Unit at Bayer Schering Pharma.
Dennis Bourgeault <i>Edmonton, Alberta, Canada</i>	CFO	May 1998	CFO of the Company since May, 1998.

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<u>Name and Municipality of Residence</u>	<u>Position with the Company</u>	<u>Director/Officer since</u>	<u>Principal Occupation for Five Preceding Years</u>
Michael R. Martin <i>Victoria, British Columbia Canada</i>	COO	September, 2013	COO of the Company since September 2013; prior thereto was CEO of privately-held Aurinia Pharmaceuticals Inc.; Director, Global Business Development & Licensing at Vifor Pharma, formerly Aspreva Pharmaceuticals.
Neil Solomons <i>Victoria, British Columbia Canada</i>	CMO	September 2013	CMO of the Company since September 2013; prior thereto was Vice President, Research and Development at Vifor Pharma, formerly Aspreva Pharmaceuticals.
Robert Huizinga <i>North Saanich, British Columbia, Canada</i>	Vice President, Clinical Affairs	August 2011	Vice President, Clinical Affairs of the Company since August 2011, prior thereto was Senior Director of Clinical Affairs of the Company.
Lawrence D. Mandt <i>Qualicum Beach, British Columbia Canada</i>	Vice President, Regulatory and Quality	September 2013	Vice President Regulatory and Quality of the Company since September 2013; independent regulatory consultant from 2010-2013; Senior Vice President, Global Regulatory Affairs at Vifor Pharma; Vice President Regulatory Affairs at Aspreva Pharmaceuticals.
Richard Glickman <i>Victoria, British Columbia Canada</i>	Director; Chairman of the Board	August 2013	Chairman of the Board Aurinia Pharmaceuticals Inc.; Chairman of the Board Aspreva Pharmaceuticals Inc.; CEO Aspreva Pharmaceuticals Inc.; CEO StressGen Pharmaceuticals Inc.
Benjamin Rovinski <i>Thornhill, Ontario Canada</i>	Director	September 2013	Managing Director, Lumira Capital
Daniel S. Park <i>Seoul, South Korea</i>	Director	August 2013	July 2014 to present – CEO/President of ILJIN Composites, January to July, 2014 - President of ILJIN Group; Executive Vice President of ILJIN Group 2010-2013; prior thereto was Senior Vice President of ILJIN Group.
Chris Kim <i>Seoul, South Korea</i>	Director	August 2013	CEO, Lumirich Co. and Fibrane Co. of Korea.
Charles A. Rowland, Jr. <i>Furlong, Pennsylvania USA</i>	Director	July 2014	Certified Public Accountant. 2008 to 2014 Vice President and CFO of Viro-Pharma Incorporated, an international biopharmaceutical company.

Directors and officers of the Company, as of March 26, 2015, beneficially own, directly or indirectly, 2,342,140 common shares representing 7.33% of the outstanding common shares of the Company.

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EXECUTIVE OFFICERS AND DIRECTORS

The following are brief biographies of the Company's executive officers and directors.

Stephen W. Zaruby, President and CEO

Stephen Zaruby has over 20 years' experience in the highly complex biopharmaceutical industry. Expertise has been demonstrated in the executive general management of fully-integrated biotechnology and pharmaceutical corporations in both the U.S. and Europe, with oversight including business development, finance, product development, regulatory affairs, manufacturing, various general and administrative functions, and global commercial operations incorporating sales, marketing, and product distribution. Mr. Zaruby was president of ZymoGenetics Inc., a publically-traded, Seattle-based biotechnology company, until the time of its acquisition by Bristol-Myers Squibb. Prior to this he worked within the pharmaceutical division of Bayer Healthcare for many years, holding several different positions with leadership of one of their global strategic business units as his last operational posting.

Dennis Bourgeault, C.A., CFO

Dennis Bourgeault has been the CFO of the Company since 1998 and is responsible for the financial operations of the Company. He was the controller for a private industrial distribution company for six years from 1992 to 1998 and prior to this time he was a senior manager in public accounting at KPMG. Mr. Bourgeault obtained his Chartered Accountant designation in 1984 and earned a Bachelor of Commence Degree from the University of Alberta.

Michael R. Martin, COO

Michael Martin was formerly CEO, director and co-founder of the privately held Aurinia Pharma Corp. which was acquired in 2013 by the Company. In his current role with Aurinia, Mr. Martin is responsible for managing company functions such as corporate and business development, alliance management, investor relations, intellectual property and pre-commercial market planning. Mr. Martin is a biotech/pharmaceutical executive with over 19 years industry experience. Mr. Martin joined Aurinia from Vifor Pharma where he held the position of Director, Global Business Development & Licensing. Prior to Vifor, Mr. Martin was a key member of the business development team that saw Aspreva sold to Galenica for \$915M. Upon joining Aspreva in 2004, Mr. Martin initiated the strategic launch planning process for CellCept® in "less-common" autoimmune diseases. These included such indications as pemphigus vulgaris, myasthenia gravis, and lupus nephritis. Prior thereto, Mr. Martin held a variety of progressively senior commercial positions at Schering-Plough. Mr. Martin spent time in Europe where he was responsible for the rheumatology business unit for Remicade® in France. In addition while at Schering-Plough, Mr. Martin was the brand manager responsible for the Canadian launch of Remicade (infliximab).

Neil Solomons, M.D., CMO

Dr. Neil Solomons is responsible for managing, developing, guiding and coordinating Aurinia's clinical development group and its activities. He is also Aurinia's senior medical spokesperson to investigators, scientific advisors and investors. Dr. Solomons is an experienced pharmaceutical physician with more than 15 years of clinical development and medical affairs experience in both big pharma and biotech. He is a recognized expert in rare-disease drug development and is widely published in this field. Prior to Aurinia Dr. Solomons worked at Vifor Pharma, formerly Aspreva Pharmaceuticals Inc., where he held the position of Vice President, Research and Development being the lead clinician in the development of CellCept® in rare diseases. Dr. Solomons led CellCept Clinical Development teams of over 50 people that saw the completion, reporting and publication of studies in pemphigus vulgaris, myasthenia gravis, both industry firsts, and the successful landmark LN study called the Aspreva Lupus Management Study (ALMS). He was responsible for all clinical development activities from Phases 1 to 3, as well as participating in the formulation of R&D strategy, portfolio management, and due diligence efforts. Prior to Vifor & Aspreva, Dr. Solomons held a variety of positions at Roche in both Global Clinical Development and Medical Affairs in transplantation, virology and auto-immune diseases. While at Roche, Dr. Solomons led a diverse team in the development and implementation of post-marketing studies with a budget exceeding \$15 million for its transplantation (CellCept® and Zenapax®) and virology (Cytovene®) franchises. Dr. Solomons qualified in medicine in 1991 receiving his MB BS (MD) at Guys Hospital Medical School, London. He subsequently worked as a physician in London UK, completing specialist training in anesthesia and intensive care.

Robert B. Huizinga, RN NNC, MSc(Epi), CNeph(C), Vice President, Clinical Affairs

Mr. Huizinga has been with the Company since 2002, focused on managing the global clinical development of voclosporin. Before joining the Company, Mr. Huizinga was a Nephrology and Transplantation nursing specialist with 14 years of clinical

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and research experience where he was involved in more than 60 clinical trials from Phase I through Phase IV. He has acted as a consultant to nephrology and transplantation pharmaceutical companies, and has lectured extensively. Mr. Huizinga holds a M.Sc. in medicine (epidemiology) from the University of Alberta, is a registered nurse, certified in nephrology, and a member of Sigma Theta Tau (Honor Society of Nursing).

Lawrence D. Mandt, Vice President Regulatory and Quality

As Vice President Quality & Regulatory Affairs, Mr. Mandt is responsible for regulatory strategy, as well as implementation of the Company's regulatory projects. Mr. Mandt brings over 30 years' experience in global regulatory affairs, in large and small companies, across a variety of therapeutic areas. Prior to Aurinia, Mr. Mandt worked as an independent regulatory consultant after leaving Vifor Pharma as Senior Vice President, Global Regulatory Affairs in 2010. During his time with Vifor Pharma, he served as a member of the Leadership Team (LST) and successfully led the consolidation of the regulatory affairs function after the acquisition of Aspreva Pharmaceuticals where he was Vice President, Regulatory Affairs. While with Aspreva, Mr. Mandt was a key contributor to the regulatory strategies, tactics and operational activities associated with the CellCept® autoimmune programs, conducted in collaboration with Roche. Before joining Aspreva in 2004, Mr. Mandt was Senior Vice President, Regulatory and Quality Affairs at QLT, Inc. During his time with QLT, QLT gained approval of Visudyne, the first drug ever approved for the treatment of age related macular degeneration. Approvals were obtained in the USA, the EU and 70+ other countries. Prior to QLT, Mr. Mandt led the regulatory and medical affairs function for CIBA Vision Ophthalmics (ultimately became Novartis Ophthalmics) for eight years, gaining approval of that company's first entirely internally developed new drug, Zaditor, for the treatment of ocular allergies. In addition to the development activities underway, applications for 25 ANDA/NDA products were effectively managed to extend life cycle and meet the needs of the business. Previous to his time at CIBA/Novartis, Mr. Mandt worked in research and development and regulatory positions of increasing responsibilities at Bausch & Lomb Inc, first in the SOFLENS division and then in the pharmaceuticals division of the company, eventually becoming Director, Regulatory Affairs. Highlights during his career at Bausch include launching major new OTC and Rx products and gaining approval for a new state of the art manufacturing facility. Mr. Mandt began his career as a microbiologist at Merck, Sharp and Dohme, at their vaccine facility in West Point, PA, USA.

Richard M. Glickman, L.L.D. (Hon), Director, Chairman of the Board

Dr. Glickman presently serves as the Company's Chairman of the Board. He previously was a co-founder and has served as the Executive Chairman of the Company for the period September 20, 2013 to February 28, 2014 and as CEO for the period October 22, 2013 to November 5, 2013. He was a co-founder, Chairman and CEO of Aspreva Pharmaceuticals ("Aspreva"). Prior to establishing Aspreva, Dr. Glickman was the co-founder and CEO of StressGen Biotechnologies Corporation. Since 2000, Dr. Glickman has served as the Chairman of the Board of Vigil Health Solutions Inc., a healthcare services company, as Lead Director for Cardiome Pharmaceuticals Inc., as founding Chairman of the Board of Essa Pharmaceuticals Inc., and Chairman of the Board of Engene Inc. Dr. Glickman was also the founder and a director of Ontario Molecular Diagnostics, a diagnostic facility that evolved into the largest molecular diagnostic laboratories in Canada. He co-founded Probtect Corporation, a rational drug design and molecular genetics firm, where he established and introduced the first licensed DNA-based forensic and paternity testing services in Canada. He has served on numerous biotechnology and community boards including roles as Chairman of Life Sciences B.C. (formerly the British Columbia Biotechnology Alliance), Director of the Canadian Genetic Disease Network, a member of the federal government's National Biotechnology Advisory Committee, a member of the British Columbia Innovation Council and as a Director for the Vancouver Aquarium.

Benjamin Rovinski, Ph.D., Director

Dr. Benjamin Rovinski has 27 years of investment, operational, managerial and research experience in the healthcare sector. He joined Lumira Capital in 2001, where he is a Managing Director, with an investment focus on mid-to late-stage private and public life sciences companies. Prior to joining Lumira Capital, Dr. Rovinski held several senior management positions in the biotechnology sector, including 13 years at Sanofi Pasteur where he was a senior scientist and director of molecular virology. He led global R&D programs in the areas of HIV/AIDS and therapeutic cancer vaccines, bringing several of them through to clinical-stage. Dr. Rovinski received a PhD in biochemistry from McGill University in Montréal and did post-doctoral studies in molecular oncology and retrovirology at the Ontario Cancer Institute in Toronto. He obtained his undergraduate degree from Rice University in Houston. Dr. Rovinski's current and past board roles and investment responsibilities include several private and public companies, including KAI Pharmaceuticals (acquired by Amgen); Morphotek (acquired by Eisai); Cervelo Pharmaceuticals; Health Hero Network (acquired by Bosch); Avalon Pharmaceuticals (NASDAQ: AVRX; acquired by Clinical Data, Inc.); Inovise Medical, Inc.; Protana; Signature Biosciences; and SGX Pharmaceuticals (NASDAQ: SGXP; acquired by Eli Lilly). He also serves on the board of directors of Life Sciences Ontario. Dr. Rovinski is fluent in English, French and Spanish. He has published over 25 scientific articles and reviews and is the recipient of 29 issued patents.

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Daniel Park, Director

Mr. Park is currently CEO and President of ILJIN Composites. He served as President of ILJIN Group from January, 2014 to July, 2014; Executive Vice President of ILJIN Group 2010-2013; prior thereto was Senior Vice President of ILJIN Group. He started his management career with ETEX Corp, an advanced biomaterials company focusing on products that promote bone repair and enable controlled delivery therapies in 1988. ETEX is one of the subsidiaries of ILJIN Group, and Mr. Park has since worked in numerous ILJIN Group companies including ILJIN Display Co., Ltd. and ILJIN Diamond Co., Ltd. in senior management positions. He is presently in the Planning Office of ILJIN Group which contains multiple subsidiary companies ranging from the Jeonju Television Co., Ltd. to ILJIN Electricity Co., Ltd. Mr. Park holds Masters of Business Administration (University of California at Los Angeles), along with a Masters and a Bachelor's degree in Economics from Seoul National University.

Chris Kim, Ph.D., Director

Dr. Kim is currently CEO, Lumirich Co. and Fibrane Co., both in Korea dating from 2008 to present. Prior to that, Dr. Kim was Vice-president, Sales and Marketing at Samsung SDI Co, Korea, where he was in charge of Samsung SDI's worldwide display panel sales and marketing. During his tenure with Samsung SDI Co., Dr. Kim had increasing responsibilities from 1986 to 1999 while at companies including NSF Polymer Research Center, VPI, in Blacksburg, Virginia, USA; Exxon-Mobil Corp., in Rochester, NY, USA; Corning Inc., in Corning, NY, USA; Lam Research Corp., in Fremont, California, USA, and Fujitsu Inc., in San Jose, California, USA. Dr. Kim has an undergraduate science degree in chemical engineering from Seoul National University (1985) and a PhD in chemical engineering (1989) from Virginia Tech., Blacksburg, Virginia, USA. He also has more than ten technical publications, one book chapter, and numerous worldwide patents, and is fluent in three languages.

Charles A. Rowland, Jr., CPA, MBA, Director, Chair of the Audit Committee

Mr. Charles A. Rowland, Jr., CPA, MBA, was most recently the Vice President and CFO of ViroPharma Incorporated, an international biopharmaceutical company, until it was acquired by Shire plc in January 2014. He has 34 years of diversified experience across a broad field of financial areas. Mr. Rowland has experience in all areas of finance and accounting, including financial reporting, tax, treasury, and strategic financial planning, as well as investor relations and IT. Prior to joining ViroPharma in 2008, Mr. Rowland was the Executive Vice President and CFO, as well as the interim Co-CEO, for Endo Pharmaceuticals Inc., a specialty pharmaceutical company with a primary focus in pain management, where he served from 2006 to 2008. Mr. Rowland previously held positions of increasing responsibility at Biovail Corporation, Breakaway Technologies, Inc., Pharmacia Corporation, Novartis AG and Bristol-Myers Squibb Co. Mr. Rowland joined the board of directors and chairs the audit committee of Bind Therapeutics, as of May 2014, Vitae Pharmaceuticals, as of September 2014. In addition, he is also a member of the supervisory board and chairs the audit committee of Nabriva Therapeutics, a privately held company based in Vienna, Austria as of January 2015. On March 20, 2015 he joined the board of Blueprint Medicines, a private company based in Boston, Massachusetts and chairs the audit and compensation committees. He is also a board member of the Philadelphia chapter of Financial Executives International. Previously, he served on the board of Idenix Pharmaceuticals until its acquisition by Merck. Mr. Rowland holds an M.B.A. with a finance concentration from Rutgers University and a B.S. in Accounting from Saint Joseph's University.

COMMITTEES OF THE BOARD

The Company has three standing committees: the Audit Committee, the Governance Committee and the Compensation Committee. Current members of these committees are identified in the following table:

<u>Committee</u>	<u>Members</u>
Audit Committee ⁽¹⁾	Charles A. Rowland, Jr. (Chair) Benjamin Rovinski Richard Glickman
Governance Committee	Richard Glickman (Chair) Daniel S. Park Stephen Zaruby
Compensation Committee	Benjamin Rovinski (Chair) Daniel S. Park Richard Glickman

(1) Detailed information on the Audit Committee is attached as Schedule 1.

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CEASE TRADE ORDERS, BANKRUPTCIES, PENALTIES OR SANCTIONS

Unless otherwise disclosed in this AIF, to the knowledge of the directors and officers of the Company, no director or executive officer of the Company:

- (a) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that, while that person was acting in that capacity
 - (i) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued while the proposed director was acting in the capacity as a director, chief executive officer or chief financial officer; or
 - (ii) was subject to a cease trade order, an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation, that was issued after the proposed director ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while he was acting in the capacity of a director, chief executive officer or chief financial officer; or
- (b) is, or has been within 10 years before the date of this AIF, a director, chief executive officer or chief financial officer of any company that while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or was subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold its assets; or
- (c) has, within 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the proposed director.

No director has been subject to:

- (d) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or
- (e) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable security holder in deciding whether to vote for a proposed director.

LEGAL PROCEEDINGS AND REGULATORY ACTIONS

The Company is not aware of, as of March 26, 2015, any legal proceedings against the Company that would involve a claim for damages that exceed ten per cent of the current assets of the Company.

No penalties or sanctions have been imposed against the Company by a court relating to securities legislation or any securities regulatory authority in 2014, nor has the Company entered into any settlement agreements with a court relating to securities legislation or with a securities regulatory authority during such financial year ended December 31, 2014. No other penalties or sanctions have been imposed by a court or regulatory body against the Company which would likely be considered important to a reasonable investor in making an investment decision respecting the Company.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

This section includes a description of the material interest, direct or indirect, of directors or executive officers of the Company, persons or companies that beneficially own, control, or direct more than 10% of the voting securities of the Company, or an associate or affiliate of any of such directors, executive officers, persons or companies, in the transactions conducted by the Company within the three most recently completed financial years or during the current financial year that has materially affected or is reasonably expected to materially affect the Company.

- (A) The Company and ILJIN entered into the DDLA, effective January 28, 2011, for the further clinical and commercial development of voclosporin for use in transplant indications applicable to voclosporin. Mr. Chin-Kyu Huh was elected a director of Pharma on December 15, 2010 at a special meeting of the shareholders. Mr. Huh was appointed Chairman of

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the Board on March 18, 2011 and resigned from the Board on July 28, 2011. The DDLA was terminated in connection with the Plan of Arrangement transaction which closed on September 20, 2013. For additional information on the DDLA, please see section *Three Year History* earlier in this document.

CONFLICTS OF INTEREST

To the knowledge of Aurinia, and other than as disclosed herein, there is no known existing or potential material conflicts of interest among Aurinia, its directors and officers, or a subsidiary of Aurinia or other members of management as a result of their outside business interests, except that certain of its directors may serve as directors of other companies and therefore it is possible that a conflict may arise between their duties to Aurinia and their duties as a director of such other companies. See *"Risk Factors-The Company is dependent upon its key personnel to achieve its business objectives"*.

TRANSFER AGENT AND REGISTRAR

The co-transfer agents and co-registrars of Aurinia Pharmaceuticals Inc. are Computershare Investor Services Inc. located at its principal offices in Calgary, Alberta and Toronto, Ontario and Computershare Trust Company, N.A. located at its principal offices in Golden, Colorado.

MATERIAL CONTRACTS

The Company currently has the following material contracts:

1. Paladin currently has the rights to market, sell, and distribute voclosporin in Canada, Israel and South Africa and is required to make payments to the Company equal to: (i) 20% of net sales, in the Canada, Israel and South Africa, less manufacturing costs until June 18, 2016; and (ii) 20% of net royalties received from third party sales, in the Paladin Territories until June 18, 2016. In addition, Paladin will receive 2% of any milestone payments, development payments, royalties, and net profit splits paid to the Company, related to voclosporin outside Canada, Israel and South Africa.
2. Under the terms of an agreement dated February 14, 2014 whereby Dr. Robert Foster's employment as CSO was terminated by the Company, it was confirmed that effective March 8, 2012 pursuant to a resolution of the Board, Dr. Foster was entitled to receive 2% of royalty licensing revenue for royalties received on the sale of voclosporin by licensees and/or 0.3% of net sales of voclosporin sold directly by the Company, to be paid quarterly as that revenue is received by the Company. Should the Company sell substantially all of the assets of voclosporin to a third party or transfer those assets to another party in a merger in a manner such that this payment obligation is no longer operative, then Dr. Foster will be entitled to receive 0.3% of the value attributable to voclosporin in the transaction. As Dr. Foster's employment was terminated without just and sufficient "cause" as set forth in his CSO employment agreement, he is entitled to receive the royalty licensing revenues he would have been entitled to receive had his employment not been terminated.
3. Under the terms of the subscription agreement for the February 14, 2014 private placement offering, the Company granted the subscribers, in the aggregate, the right to nominate two persons for election to the Company's board of directors.

INTERESTS OF EXPERTS

The Company's independent auditors are PricewaterhouseCoopers LLP, who have issued an independent auditor's report dated March 26, 2015 in respect of the Company's Consolidated Financial Statements, which comprise the Consolidated Statements of Financial Position as at December 31, 2014, December 31, 2013 and January 1, 2013 and the Consolidated Statements of Operations and Comprehensive Loss, Consolidated Statements of Changes in Shareholders' Equity (Deficit) and Cash Flows for the years ended December 31, 2014 and December 31, 2013, and the related notes. PricewaterhouseCoopers LLP has advised that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta and the rules of the United States Securities and Exchange Commission.

ADDITIONAL INFORMATION

Additional information with respect to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's common shares and securities authorized for issuance under equity compensation plans will be contained in the management information circular that will be prepared and filed in connection with the 2015 annual general meeting. Additional financial information is also available in the Company's comparative audited consolidated financial statements, together with the auditor's report thereon, and the related Management Discussion and Analysis for its most recently completed fiscal year ended December 31, 2014.

Additional information regarding the Company is available on the SEDAR website located at www.sedar.com, on EDGAR at www.sec.gov, or on the Company's corporate website located at www.auriniapharma.com, or upon request addressed to Michael Martin, COO, at #1203, 4464 Markham Street, Victoria, British Columbia V8Z 7X8.

SCHEDULE 1 - AUDIT COMMITTEE INFORMATION

1. The Audit Committee's Charter

The Company's Audit Committee Charter is available in the governance section of the Company's website at www.auriniapharma.com and is attached as Schedule 2 to this AIF.

2. Composition and Relevant Education and Experience

The Audit Committee is comprised of three independent directors: Charles A. Rowland, Jr. (Chair), Richard M. Glickman and Benjamin Rovinski. A description of the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee member may be found above under the heading "Directors and Executive Officers".

Under the SEC rules implementing the Sarbanes-Oxley Act of 2002, Canadian issuers filing reports in the United States must disclose whether their audit committees have at least one audit committee financial expert. The Board has determined that Charles A. Rowland, Jr. qualifies as an audit committee financial expert under such rules. In addition, all members of the Audit Committee are considered financially literate under applicable Canadian and U.S. laws.

3. Pre-approval Policies and Procedures

The Audit Committee is authorized by the Board to review the performance of the Company's external auditors and approve in advance the provision of services other than auditing and to consider the independence of the external auditors, including reviewing the range of services provided in the context of all consulting services bought by the Company. Such advance approval authority may be delegated by the Audit Committee to the Chair of the Audit Committee who is "independent" and "unrelated".

2. External Auditor Service Fees (By Category)

The aggregate fees recorded for professional services rendered by PricewaterhouseCoopers LLP for the Company and its subsidiaries for the years ended December 31, 2014 and 2013, respectively are as follows:

<u>Fiscal year ended</u>	<u>2014</u> <u>(in CDN\$)</u>	<u>% of Total</u> <u>Fees</u>	<u>2013</u> <u>(in CDN\$)</u>	<u>% of Total</u> <u>Fees</u>
Audit fees (for audit of the Company's annual financial statements and services provided in connection with statutory and regulatory filings)(1)	\$185,000	57.3%	\$ 79,380	50.2%
Audit related fees, including review of the Company's quarterly financial statements(2)	\$ 72,250	22.4%	\$ 46,725	29.5%
Tax fees (tax compliance, tax advice and planning)(3)	\$ 21,630	6.7%	\$ 5,250	3.3%
All other fees	\$ 43,987(4)	13.6%	\$ 26,775(5)	17%
Total fees	\$322,867	100%	\$158,130	100%

- (1) These fees include professional services provided by the external auditor for the statutory audits of the annual financial statements. The total for 2014 (\$185,000) consists of \$42,000 related to interim billings for the 2014 audit and \$143,000 related to the fees for the 2013 audit. The total of \$79,380 for 2013 related to fees for the 2012 audit.
- (2) These fees relate to performing review engagement services on the Company's quarterly financial statements and other audit related services.
- (3) These fees include professional services for tax compliance, tax advice, tax planning and various taxation matters.
- (4) These fees include professional services for assistance with the Filing of Form 40-F Registration Statement as required in conjunction with obtaining the NASDAQ listing.
- (5) These fees include professional services for reporting and filing requirements related to the Plan of Arrangement with Aurinia Pharma Corp.

SCHEDULE 2 - AUDIT COMMITTEE CHARTER

AURINIA PHARMACEUTICALS INC.

AUDIT COMMITTEE CHARTER

The term “**Company**” refers to Aurinia Pharmaceuticals Inc., the term “**Board**” refers to the board of directors of the Company.

PURPOSE

The Audit Committee (the “**Committee**”) is a standing committee appointed by the Board to assist the Board in fulfilling its oversight responsibilities with respect to the Company’s financial reporting including responsibility to:

- oversee the integrity of the Company’s consolidated financial statements and financial reporting process, including the audit process and the Company’s internal accounting controls and procedures and compliance with related legal and regulatory requirements;
- oversee the qualifications and independence of the Company’s external auditors;
- oversee the work of the Company’s financial management and external auditors in these areas; and
- provide an open avenue of communication between the external auditors, and the Board and the officers (collectively, “**Management**”) of the Company.

In addition, the Committee will review and/or approve any other matter specifically delegated to the Committee by the Board.

COMPOSITION AND PROCEDURES

In addition to the procedures and powers set out in any resolution of the Board, the Committee will have the following composition and procedures:

1. Composition

The Committee shall consist of no fewer than three (3) members. None of the members of the Committee shall be an officer or employee of the Company or any of its subsidiaries, and each member of the Committee shall be an “independent director” (in accordance with the definition of “independent director” established from time to time under the requirements or guidelines for audit committee service under applicable securities laws and the rules of any stock exchange on which the Company’s shares are listed for trading).

2. Appointment and Replacement of Committee Members

Any member of the Committee may be removed or replaced at any time by the Board and shall automatically cease to be a member of the Committee upon ceasing to be a director. The Board may fill vacancies on the Committee by election from among its members. The Board shall fill any vacancy if the membership of the Committee is less than three directors. If and whenever a vacancy shall exist on the Committee, the remaining members may exercise all its power so long as a quorum remains in office. Subject to the foregoing, the members of the Committee shall be elected by the Board annually and each member of the Committee shall hold office as such until the next annual meeting of shareholders after his or her election or until his or her successor shall be duly elected and qualified.

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3. Financial literacy

All members of the Committee should be “financially literate” (as that term is interpreted by the Board in its reasonable judgment or as may be defined from time to time under the requirements or guidelines for audit committee service under securities laws and the rules of any stock exchange on which the Company’s shares are listed for trading) or must become financially literate within a reasonable period of time after his or her appointment to the Committee.

4. Separate Executive Meetings

The Committee will endeavour to meet at least once every quarter, if required, and more often as warranted, with the Chief Financial Officer and the external auditors in separate executive sessions to discuss any matters that the Committee or each of these groups believes should be discussed privately.

5. Professional Assistance

The Committee may retain special legal, accounting, financial or other consultants to advise the Committee at the Company’s expense.

6. Reliance

Absent actual knowledge to the contrary (which will be promptly reported to the Board), each member of the Committee shall be entitled to rely on (i) the integrity of those persons or organizations within and outside the Company from which it receives information, (ii) the accuracy of the financial and other information provided to the Committee by such persons or organizations and (iii) representations made by the Chief Financial Officer, the Company, senior management and the external auditors, as to any information, technology, internal audit and other non-audit services provided by the external auditors to the Company and its subsidiaries.

7. Review of Charter

The Committee will periodically review and reassess the adequacy of this Charter as it deems appropriate and recommend changes to the Board. The Committee will evaluate its performance with reference to this Charter. The Committee will approve the form of disclosure of this Charter, where required by applicable securities laws or regulatory requirements, in the annual proxy circular or annual report of the Company.

8. Delegation

The Committee may delegate from time to time to any person or committee of persons any of the Committee’s responsibilities that lawfully may be delegated.

9. Reporting to the Board

The Committee will report through the Committee Chair to the Board following meetings of the Committee on matters considered by the Committee, its activities and compliance with this Charter.

SPECIFIC MANDATES OF THE COMMITTEE

The Committee will:

I. In Respect of the Company’s External Auditors

- (a) review the performance of the external auditors of the Company who are accountable to the Committee and the Board as the representatives of the shareholders of the Company, including the lead partner of the independent auditor team and make recommendations to the Board as to the reappointment or appointment of the external auditors of the Company to be proposed in the Company’s proxy circular for shareholder approval and shall have authority to terminate the external auditors;

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- (b) review the reasons for any proposed change in the external auditors of the Company which is not initiated by the Committee or Board and any other significant issues related to the change, including the response of the incumbent auditors, and enquire as to the qualifications of the proposed replacement auditors before making its recommendation to the Board;
- (c) approve the terms of engagement and the compensation to be paid by the Company to the Company's external auditors;
- (d) review the independence of the Company's external auditors, including a written report from the external auditors respecting their independence and consideration of applicable auditor independence standards;
- (e) approve in advance all permitted non-audit services to be provided to the Company or any of its affiliates by the external auditors or any of their affiliates, subject to any *de minimus* exception allowed by applicable law; the Committee may delegate to one or more designated members of the Committee the authority to grant pre-approvals required by this subsection;
- (f) review the disclosure with respect to its pre-approval of audit and non-audit services provided by the Company's external auditors;
- (g) approve any hiring by the Company or its subsidiaries of employees or former employees of the Company's external auditors;
- (h) review a written or oral report describing:
 - (i) critical accounting policies and practices to be used in the Company's annual audit,
 - (ii) alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management and that are significant to the Company's consolidated financial statements, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the external auditors, and
 - (iii) other material written communication between the Company's external auditors and Management, such as any management letter or schedule of unadjusted differences;
- (i) review with the external auditors and Management the general audit approach and scope of proposed audits of the consolidated financial statements of the Company, the objectives, staffing, locations, co-ordination and reliance upon Management in the audit, the overall audit plans, the audit procedures to be used and the timing and estimated budgets of the audits;
- (j) if a review engagement report is requested of the external auditors, review such report before the release of the Company's interim consolidated financial statements;
- (k) discuss with the external auditors any difficulties or disputes that arose with Management during the course of the audit, any restrictions on the scope of activities or access to requested information and the adequacy of Management's responses in correcting audit-related deficiencies;

II. In Respect of the Company's Financial Disclosure

- (a) review with the external auditors and Management:
 - (i) the Company's audited consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, the annual report, the annual information form, the financial information of the Company contained in any prospectus or information circular or other disclosure documents or regulatory filings of the Company, the recommendations for approval of each of the foregoing from each of the Chairman of the Board, President and Chief Executive Officer, and Chief Financial Officer of the Company and based on such recommendations provide, where applicable, its own recommendations to the Board for their approval and release of each of the foregoing to the public;
 - (ii) the Company's interim consolidated financial statements and the notes and Managements' Discussion and Analysis relating to such consolidated financial statements, and either, in the discretion of the Audit Committee, (A) approve and release each of the foregoing to the public, or (B) provide, where applicable, its own recommendation to the Board for their approval and release of each of the foregoing to the public;
 - (iii) the quality, appropriateness and acceptability of the Company's accounting principles and practices used in its financial reporting, changes in the Company's accounting principles or practices and the application of particular accounting principles and disclosure practices by Management to new transactions or events;

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- (iv) all significant financial reporting issues and judgments made in connection with the preparation of the Company's consolidated financial statements, including the effects of alternative methods in respect of any matter considered significant by the external auditor within generally accepted accounting principles on the consolidated financial statements and any "second opinions" sought by Management from an independent or other audit firm or advisor with respect to the accounting treatment of a particular item;
- (v) the effect of regulatory and accounting initiatives on the Company's consolidated financial statements and other financial disclosures;
- (vi) any reserves, accruals, provisions or estimates that may have a significant effect upon the consolidated financial statements of the Company;
- (vii) the use of special purpose entities and the business purpose and economic effect of off balance sheet transactions, arrangements, obligations, guarantees and other relationships of the Company and their impact on the reported financial results of the Company;
- (viii) any legal matter, claim or contingency that could have a significant impact on the consolidated financial statements, the Company's compliance policies and any material reports, inquiries or other correspondence received from regulators or governmental agencies and the manner in which any such legal matter, claim or contingency has been disclosed in the Company's consolidated financial statements;
- (ix) review the treatment for financial reporting purposes of any significant transactions that are not a normal part of the Company's operations;
- (x) the use of any "pro forma" or "adjusted" information not in accordance with generally accepted accounting principles;
- (b) review and resolve disagreements between Management and the Company's external auditors regarding financial reporting or the application of any accounting principles or practices;
- (c) review earnings press releases, as well as financial information and earnings guidance provided to analysts and ratings agencies, it being understood that such discussions may, in the discretion of the Committee, be done generally (i.e., by discussing the types of information to be disclosed and the type of presentation to be made) and that the Committee need not discuss in advance each earnings release or each instance in which the Company gives earning guidance;
- (d) establish and monitor procedures for the receipt and treatment of complaints received by the Company regarding accounting, internal accounting controls or audit matters and the anonymous submission by employees of concerns regarding questionable accounting or auditing matters and review periodically with the Management these procedures and any significant complaints received; and
- (e) review and discuss the Company's major financial risk exposures and the steps taken to monitor and control such exposures, including the use of any financial derivatives and hedging activities.

III. In Respect of Insurance

- (a) review periodically insurance programs relating to the Company and its investments;

IV. In Respect of Internal Controls

- (a) review the adequacy and effectiveness of the Company's internal accounting and financial controls based on recommendations, if any, from Management and the external auditors for the improvement of accounting practices and internal controls;
- (b) oversee compliance with internal controls and the Code of Business Conduct;

V. In respect of Other Items

- (a) on an annual basis review and assess committee member attendance and performance and report thereon to the Board and review this Charter and, if required implement amendments to this Charter;
- (b) on a quarterly basis review compliance with the Disclosure Policy of the Company; and
- (c) on a quarterly basis review any related-party transactions.

OVERSIGHT FUNCTION

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's consolidated financial statements are complete and accurate or are in accordance with IFRS and applicable rules and regulations. These are the responsibilities of Management and the Company's external auditors. The Committee, its Chair and any Committee members identified as having accounting or related financial expertise are members of the Board, appointed to the Committee to provide broad oversight of the financial, risk and control related activities of the Company, and are specifically not accountable or responsible for the day-to-day operation or performance of such activities. Although the designation of a Committee member as having accounting or related financial expertise for disclosure purposes or otherwise is based on that individual's education and experience which that individual will bring to bear in carrying out his or her duties on the Committee, such designation does not impose on such person any duties, obligations or liability that are greater than the duties, obligations and liability imposed on such person as a member of the Committee and Board in the absence of such designation. Rather, the role of a Committee member who is identified as having accounting or related financial expertise, like the role of all Committee members, is to oversee the process, not to certify or guarantee the internal or external audit of the Company's financial information or public disclosure.

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SCHEDULE 3 - GLOSSARY OF TERMS AND DEFINITIONS

In this annual information form, the following capitalized words and terms shall have the following meanings:

“**3SBio**” means 3SBio, Inc.;

“**AIF**” means the Annual Information Form of the Company dated March 26, 2015 for the fiscal year ended December 31, 2014;

“**ALMS**” means the Aspreva Lupus Management Study;

“**API**” means active pharmaceutical ingredient;

“**Aspreva**” means Aspreva Pharmaceuticals Inc.;

“**Board**”, means the board of directors of the Company;

“**Calcineurin**” means a specific enzyme (phosphatase enzyme) that can have its activity inhibited by immunosuppressive (anti-organ rejection) drugs, including, for example, cyclosporine;

“**CellCept®**” means the brand name of MMF;

“**CEO**” means Chief Executive Officer;

“**CFO**” means Chief Financial Officer;

“**CMO**” means Chief Medical Officer;

“**CNI**” means calcineurin inhibitors, the cornerstone of therapy for the prevention of organ transplant rejection;

“**Company**” means Aurinia Pharmaceuticals Inc. and (unless the context specifies or implies otherwise) its subsidiaries;

“**COO**” means Chief Operating Officer;

“**CRL**” means Complete Response Letter;

“**CRO**” means Contract Research Organization;

“**CSO**” means Chief Scientific Officer;

“**CTA**” means Clinical Trial Application;

“**Cyclosporine**” means a drug that suppresses the immune system and is used to prevent rejection following organ transplantation;

“**DDLA**” means the Development, Distribution and License Agreement between the Company and ILJIN effective January 28, 2011;

“**EMA**” means the European Medicines Agency;

“**EU**” means European Union;

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“**FDA**” means the Food and Drug Administration of the United States Government;

“**ILJIN**” means ILJIN Life Science Co., Ltd.;

“**IND**” means investigational new drug;

“**IRB**” means Institutional Review Board;

“**LN**” means lupus nephritis;

“**Lonza**” means Lonza Ltd.;

“**Lux**” means Lux BioSciences, Inc.;

“**MAA**” means Marketing Authorization Application;

“**MMF**” means mycophenolate mofetil;

“**MPA**” means mycophenolic acid, the active metabolite of MMF;

“**MTT**” means multi-targeted therapeutic;

“**NASDAQ**” means the NASDAQ Global Market Exchange;

“**NDA**” means New Drug Application made to a regulatory agency;

“**Paladin**” means Paladin Labs Inc.;

“**Paladin Territories**” means Canada, Israel, Central and South America, South Africa and Mexico prior to January 28, 2011; and Canada, Israel and South Africa after January 28, 2011;

“**Pharmacokinetics**” means the processes of drug absorption, distribution, metabolism and excretion in a living system (e.g., in humans);

“**REB**” means Research Ethics Board;

“**SEDAR**” means the System for Electronic Document Analysis and Retrieval;

“**SLE**” means systemic lupus erythematosus;

“**Supply Agreement**” means the Supply Agreement dated the 18th day of June, 2009 between Paladin and the Company for the supply of API for use in clinical studies and other research and development projects.

“**TSX**” means the Toronto Stock Exchange;

“**TSXV**” means TSX Venture Exchange;

“**Vifor**” means Vifor (International) AG; and

“**Warrants**” means warrants to purchase common shares in the capital of the Company, with each whole warrant being exercisable to purchase one common share.

Financial Statements

Aurinia Pharmaceuticals Inc.

YEAR
END | 14

For the year ended
December 31, 2014


Aurinia

Aurinia Pharmaceuticals Inc.

Consolidated Financial Statements

December 31, 2014

(expressed in US dollars)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of **Aurinia Pharmaceuticals Inc.** are the responsibility of management.

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and reflect where appropriate, management's best estimates and judgments based on currently available information. Management has prepared the financial information presented elsewhere in the Management's Discussion and Analysis and has ensured it is consistent with the consolidated financial statements.

The Company maintains systems of internal accounting and administrative controls. These systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors exercises its responsibility over the consolidated financial statements and over financial reporting and internal controls principally through the Company's Audit Committee. The Board appoints the Audit Committee and its members are outside and unrelated directors. The Audit Committee meets periodically with management, to discuss internal controls over the financial reporting process and financial reporting issues and to satisfy itself that each party is properly discharging its responsibilities. The Audit Committee reviews the annual consolidated financial statements with both management and the independent auditors and reports its findings to the Board of Directors before such statements are approved by the Board. The Audit Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, the Company's independent auditors, in accordance with Canadian Auditing Standards on behalf of the shareholders. Their report outlines the scope of their audit and gives their opinion on the consolidated financial statements. PricewaterhouseCoopers LLP has full and free access to the Audit Committee.

(Signed) "Stephen Zaruby

(Signed) "Dennis Bourgeault"

Chief Executive Officer

Chief Financial Officer

Victoria, British Columbia
March 26, 2015

PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: +1 780 441 6776

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



March 26, 2015

Independent Auditor's Report

To the Shareholders of Aurinia Pharmaceuticals Inc.

We have audited the accompanying consolidated financial statements of Aurinia Pharmaceuticals Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014, December 31, 2013 and January 1, 2013 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity (deficit) and cash flows for the years ended December 31, 2014 and December 31, 2013, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

*PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: +1 780 441 6776*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Aurinia Pharmaceuticals Inc. and its subsidiaries as at December 31, 2014, December 31, 2013 and January 1, 2013 and their financial performance and their cash flows for the years ended December 31, 2014 and December 31, 2013 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Accountants

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Financial Position

(in thousands of US dollars)

	December 31, 2014 \$	December 31, 2013 \$ (restated – note 3(a))	January 1, 2013 \$ (restated – note 3(a))
Assets			
Current assets			
Cash and cash equivalents (note 6)	22,706	1,821	185
Short-term investment (note 7)	9,998	—	—
Accounts receivable	92	106	184
Prepaid expenses	755	169	75
	<u>33,551</u>	<u>2,096</u>	<u>444</u>
Non-current assets			
Property and equipment (note 8)	52	37	88
Intangible assets (note 9)	18,489	20,882	3,031
Prepaid deposits	286	152	—
Investment (note 10)	—	—	595
	<u>52,378</u>	<u>23,167</u>	<u>4,158</u>
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities (note 11)	2,464	2,904	1,623
Current portion of deferred revenue (note 13)	217	228	340
Provision for restructuring costs (note 17)	155	—	—
Drug supply loan (note 12)	—	1,318	1,707
Contingent consideration (note 14)	—	1,600	—
	<u>2,836</u>	<u>6,050</u>	<u>3,670</u>
Non-current liabilities			
Deferred revenue (note 13)	847	1,114	2,606
Provision for restructuring costs (note 17)	116	—	—
Contingent consideration (note 14)	3,473	2,690	—
	<u>7,272</u>	<u>9,854</u>	<u>6,276</u>
Shareholders' Equity (Deficit)			
Share capital			
Common shares (note 15)	258,494	220,908	204,684
Warrants (note 15)	11,483	2,256	417
Contributed surplus	12,306	10,074	9,844
Accumulated other comprehensive loss	(805)	(200)	—
Deficit	<u>(236,372)</u>	<u>(219,725)</u>	<u>(217,063)</u>
	<u>45,106</u>	<u>13,313</u>	<u>(2,118)</u>
	<u>52,378</u>	<u>23,167</u>	<u>4,158</u>

Commitments and contingencies (note 24)

Subsequent event (note 27)

Approved by the Board of Directors

(signed) Richard Glickman
Director

(signed) Charles A. Rowland Jr.
Director

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Operations and Comprehensive Loss
For the years ended December 31, 2014 and December 31, 2013

(expressed in US dollars, in thousands, except per share data)

	2014 \$	2013 \$ (restated – note 3(a))
Revenue (note 13)		
Licensing revenue	118	860
Research and development revenue	100	107
Contract services	60	2
	<u>278</u>	<u>969</u>
Expenses		
Research and development – net (note 16)	9,112	1,992
Corporate, administration and business development (note 16)	6,890	2,298
Acquisition and restructuring costs (note 17)	1,068	1,513
Amortization and impairment of intangible assets (note 9)	1,480	783
Amortization of property and equipment	41	49
Contract services	37	1
Other expense (income) – net (note 18)	(1,703)	906
	<u>16,925</u>	<u>7,542</u>
Loss before income taxes	(16,647)	(6,573)
Income tax (recovery) (note 19)	—	(3,911)
Net loss for the year	(16,647)	(2,662)
Other comprehensive loss		
Item that will not be reclassified subsequently to loss Translation adjustment	(605)	(200)
Comprehensive loss for the year	<u>(17,252)</u>	<u>(2,862)</u>
Net loss per share (note 20) (expressed in \$ per share)		
Basic and diluted loss per common share	(0.57)	(0.42)

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

Aurinia Pharmaceuticals Inc.

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

For the years ended December 31, 2014 and December 31, 2013

(expressed in US dollars, thousands)

	Common shares \$	Warrants \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive loss \$	Shareholders' equity (deficit) \$
Balance – January 1, 2014	220,908	2,256	10,074	(219,725)	(200)	13,313
Issue of units (note 15(a))	38,748	10,418	—	—	—	49,166
Share issue costs	(2,751)	(739)	—	—	—	(3,490)
Exercise of warrants (note 15(b))	1,589	(406)	—	—	—	1,183
Expiry of warrants	—	(46)	46	—	—	—
Stock-based compensation (note 15(c))	—	—	2,186	—	—	2,186
Net loss for the year	—	—	—	(16,647)	—	(16,647)
Comprehensive loss for the period	—	—	—	—	(605)	(605)
Balance – December 31, 2014	258,494	11,483	12,306	(236,372)	(805)	45,106
Balance – January 1, 2013	204,684	417	9,844	(217,063)	—	(2,118)
Issuance of first offering units (note 15(a))	408	458	—	—	—	866
Issuance of second offering units (note 15(a))	4,179	1,363	—	—	—	5,542
Issuance of common shares to ILJIN (note 15(a))	3,671	—	—	—	—	3,671
Issuance of Common shares and warrants on acquisition of Aurinia Pharma Corp. (note 15(b))	7,959	18	—	—	—	7,977
Stock-based compensation (note 15(c))	—	—	230	—	—	230
Exercise of stock options	7	—	—	—	—	7
Net loss for the year	—	—	—	(2,662)	—	(2,662)
Comprehensive income for the period	—	—	—	—	(200)	(200)
Balance – December 31, 2013	220,908	2,256	10,074	(219,725)	(200)	13,313

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

Aurinia Pharmaceuticals Inc.
Consolidated Statements of Cash Flows
For the years ended December 31, 2014 and December 31, 2013

(expressed in US dollars, thousands)

	2014 \$	2013 \$
Cash flow provided by (used in)		
Operating activities		
Net loss for the year	(16,647)	(2,662)
Adjustments for		
Amortization of deferred revenue	(218)	(967)
Amortization of property and equipment	41	49
Amortization and impairment of intangible assets	1,480	783
Revaluation of contingent consideration	848	—
Change in provision for restructuring costs	271	—
Gain on warrant liability	(2,834)	—
Share issue costs allocated to warrant liability	203	—
Stock-based compensation	2,186	230
Gain on disposal of property and equipment	(4)	(68)
Amortization of deferred lease inducements	—	(8)
Deferred income tax recovery	—	(3,911)
Foreign exchange loss related to non-operating activities	—	158
Gain on acquisition of Aurinia Pharma Corp.	—	(3,501)
Loss on contract settlement with ILJIN	—	4,266
	<u>(14,674)</u>	<u>(5,631)</u>
Net change in other operating assets and liabilities (note 22)	<u>(2,230)</u>	<u>1,011</u>
Net cash used in operating activities	<u>(16,904)</u>	<u>(4,620)</u>
Investing activities		
Increase in short-term investment	(9,998)	—
Cash acquired from Aurinia Pharma Corp. (note 5(b))	—	4
Proceeds on disposal of equipment	4	68
Purchase of equipment and leaseholds	(58)	—
Capitalized patent costs	<u>(32)</u>	<u>(108)</u>
Net cash used in investing activities	<u>(10,084)</u>	<u>(36)</u>
Financing activities		
Payment of financing milestone to ILJIN	(1,600)	—
Proceeds from issuance of units, net	48,307	6,017
Proceeds from exercise of warrants	1,183	—
Proceeds from exercise of stock options	—	2
Proceeds from issuance of promissory notes	—	391
Principal payments under capital lease	<u>—</u>	<u>(35)</u>
Net cash generated from financing activities	<u>47,890</u>	<u>6,375</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(17)</u>	<u>(83)</u>
Increase in cash and cash equivalents during the year	20,885	1,636
Cash and cash equivalents – Beginning of year	<u>1,821</u>	<u>185</u>
Cash and cash equivalents – End of year	<u>22,706</u>	<u>1,821</u>

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

(expressed in US dollars, tabular amounts in thousands)

1 Corporate information

Aurinia Pharmaceuticals Inc. or the Company is a clinical stage pharmaceutical company with its head office located at #1203-4464 Markham Street, Victoria, British Columbia V8Z 7X8 where clinical, regulatory and business development functions of the Company are conducted. The Company has its registered office located at #201, 17904-105 Avenue, Edmonton, Alberta T5S 2H5 where the finance function is performed.

Aurinia Pharmaceuticals Inc. 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 under the symbol AUP. The Company's primary business is the development of a therapeutic drug to treat autoimmune diseases, in particular lupus nephritis.

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

2 Basis of preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorized for issue by the Board of Directors on March 26, 2015.

Basis of measurement

The consolidated financial statements have been prepared on a going concern and historical cost basis, other than certain financial instruments recognized at fair value.

Functional and presentation currency

These consolidated financial statements are presented in United States (US) dollars, which is the Company's functional currency.

(expressed in US dollars, tabular amounts in thousands)

3 Summary of significant accounting policies and change in accounting policies

a) Functional currency and change in presentation currency

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

b) Summary of significant accounting policies

Consolidation

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies. The Company has a 100% voting interest in all of its subsidiaries.

The Company applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired, and liabilities and contingent liabilities assumed in a business combination, are measured initially at their fair values at the acquisition date. If any unallocated portion is positive, it is recognized as goodwill and if negative, it is recognized as a gain in the statement of operations.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognized in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

(expressed in US dollars, tabular amounts in thousands)

Inter-company transactions, balances and unrealized gains on transactions between companies are eliminated.

Translation of foreign currencies

The monetary assets and liabilities of operations denominated in foreign currencies are translated into United States dollars at rates of exchange in effect at the end of the period. Revenues and expenses related to monetary assets and liabilities are translated at average rates of exchange during the period. Exchange gains and losses arising on translation are included in the statement of operations and comprehensive income (loss).

Revenue recognition

Payments received under collaboration agreements may include upfront payments, milestone payments, contract services, royalties and license fees. Revenues for each unit of accounting are recorded as described below:

- Licensing and research and development revenues

The Company has agreements in specific regions with strategic partners. Licensing agreements usually include one-time payments (upfront payments), payments for research and development services in the form of cost reimbursements, milestone payments and royalty receipts. Revenues associated with those multiple-element arrangements are allocated to the various elements based on their relative fair value.

Agreements containing multiple elements are divided into separate units of accounting if certain criteria are met, including whether the delivered element has stand-alone value to the customer and whether there is objective and reliable evidence of the fair value of the undelivered obligation(s). The consideration received is allocated among the separate units based on each unit's fair value, and the applicable revenue recognition criteria are applied to each of the separate units.

License fees representing non-refundable payments received at the time of signature of license agreements are recognized as revenue upon signature of the license agreements when the Company has no significant future performance obligations and collectability of the fees is assured. Upfront payments received at the beginning of licensing agreements are deferred and recognized as revenue on a systematic basis over the period during which the related services are rendered and all obligations are performed.

- Milestone payments

Milestone payments, which are generally based on developmental or regulatory events, are recognized as revenue when the milestones are achieved, collectability is assured, and when the Company has no significant future performance obligations in connection with the milestones.

- Contract services

Revenues from contract services are recognized as services are rendered, the price is fixed or determinable and collection is reasonably assured.

- Royalty payments

Royalty income is recognized on the accrual basis in accordance with the substance of the relevant agreement.

(expressed in US dollars, tabular amounts in thousands)

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Property and equipment

Property and equipment are stated at cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The carrying amount of a replaced asset is derecognized when replaced. Repair and maintenance costs are charged to the statement of operations during the period in which they are incurred.

The major categories of property and equipment are amortized on a straight-line basis as follows:

Leasehold improvements	Term of the lease
Scientific equipment	20%
Office equipment and furniture	20%
Computer equipment and software	33.3%

Intangible assets

External patent costs specifically associated with the preparation, filing and obtaining of patents are capitalized and amortized straight-line over the shorter of the estimated useful life and the patent life, commencing in the year of the grant of the patent. Other intellectual property expenditures are recorded as research and development expenses on the statement of operations and comprehensive loss as incurred.

An intangible asset arising from research will not be recognized as an intangible asset and such expenditures will be recorded as research and development expenses on the statement of operations and comprehensive loss as incurred. Upon reaching the development stage, the Company will assess an intangible asset and only recognize it as such if technical feasibility, intention to use or sell, ability to use or sell, probable future economic benefits, availability and ability to develop the intangible asset are demonstrated.

Separately acquired intellectual property is shown at historical cost. The initial recognition of a reacquired right is recognized as an intangible asset measured on the basis of the remaining contractual term of the related contract regardless of whether market participants should consider potential contractual renewals when measuring its fair value. If the terms of the contract giving rise to a reacquired right are favourable or unfavourable relative to the terms of current market transactions for the same or similar items, the difference is recognized as a gain or loss in the statement of operations. Purchased intellectual property and reacquired rights are capitalized and amortized on a straight-line basis in the statement of operations over the patent life, which is typically 20 years. The ALMS database (see note 5(b)) is being amortized over 10 years.

(expressed in US dollars, tabular amounts in thousands)

Impairment of non-financial assets

Property and equipment and intangible assets with a finite useful life are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The Company evaluates impairment losses for potential reversals when events or circumstances warrant such consideration.

Share capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

Proceeds on the issue of common share purchase warrants (warrants) are recorded as a separate component of equity. Costs incurred on the issue of warrants are netted against proceeds. Warrants issued with common shares are measured at fair value at the date of issue using the Black-Scholes pricing model, which incorporates certain input assumptions including the warrant price, risk-free interest rate, expected warrant life and expected share price volatility. The fair value is included as a component of equity and is transferred from warrants to common shares on exercise.

Provisions

A provision is recognized when the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Stock-based compensation

The Company records stock-based compensation related to employee stock options granted using the fair value at the date of grant and it is expensed as employee benefits over the period in which employees unconditionally become entitled to the award. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related services and non-market performance conditions at the vesting date. The corresponding charge is to contributed surplus. Any consideration paid on the exercise of stock options is credited to share capital.

Leases

Operating lease payments are recognized in net income (loss) on a straight-line basis over the term of the lease.

(expressed in US dollars, tabular amounts in thousands)

Income tax

Income tax comprises current and deferred tax. Income tax is recognized in the statement of operations and comprehensive loss except to the extent that it relates to items recognized directly in shareholders' equity, in which case the income tax is also recognized directly in shareholders' equity.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted at the end of the reporting period, and any adjustments to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax assets and liabilities are presented as non-current.

Earnings (loss) per share

Basic earnings (loss) per share (EPS) is calculated by dividing the net income (loss) for the period attributable to equity owners of the Company by the weighted average number of common shares outstanding during the period.

Diluted EPS is calculated by adjusting the weighted average number of common shares outstanding for dilutive instruments. The number of shares included with respect to options, warrants and similar instruments is computed using the treasury stock method. The Company's potentially dilutive common shares comprise stock options and warrants.

Financial instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expires.

A derivative is a financial instrument whose value changes in response to a specified variable, requires little or no net investment and is settled at a future date.

(expressed in US dollars, tabular amounts in thousands)

At initial recognition, the Company classifies its financial instruments in the following categories:

- i) Financial assets and liabilities at fair value through profit or loss: a financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term.

Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Gains and losses arising from changes in fair value are presented in the consolidated statement of operations and comprehensive loss within other income (expenses) in the period in which they arise.
- ii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise trade and other receivables, cash and cash equivalents and short-term investments and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- iii) Available for sale financial assets: Available for sale assets are non-derivative financial assets that are designated as available for sale and are not categorized into any of the other categories described above. They are initially recognized at fair value including direct and incremental transaction costs. They are subsequently recognized at fair value. Gains and losses arising from changes in fair value are included as a separate component of equity until sale, when the cumulative gain or loss is transferred to the statement of operations. Interest is determined using the effective interest method, and impairment losses and translation differences on monetary items are recognized in the statement of operations. Prior to the acquisition of Aurinia Pharma Corp., the Company's 10% investment in Aurinia Pharma Corp. was classified as available for sale (see note 10).
- iv) Financial liabilities at amortized cost: Financial liabilities at amortized cost are composed of trade payables and accrued liabilities. Trade payables and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method. These are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.
- v) Financial liabilities at fair value: Contingent consideration provided to ILJIN (see note 14) is a financial liability recorded at fair value with subsequent changes in fair value recorded in the statement of operations.

Impairment of financial assets

- Financial assets carried at amortized cost

At each balance sheet date, the Company assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event), and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

(expressed in US dollars, tabular amounts in thousands)

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the consolidated statement of operations. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. For practical reasons, the Company may measure impairment on the basis of an instrument's fair value using an observable market price.

New standards, amendments and interpretations adopted by the Company

The following standards have been adopted by the Company for the first time for the financial year beginning on or after January 1, 2014 and could have an impact on the Company:

- Amendment to IAS 32, Financial Instruments: Presentation on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's consolidated financial statements.
- Amendments to IAS 36, Impairment of assets, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units (CGUs), which had been included in IAS 36 by the issuance of IFRS 13. The Company has applied the amendment and there has been no significant impact on the Company's consolidated financial statements as a result.
- Amendment to IAS 39, Financial Instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to over-the-counter derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not affect the Company's financial statements.
- IFRIC 21, Levies, sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37, Provisions. The interpretation addresses the obligating event that gives rise to the payment of a levy and when a liability should be recognized. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Company.

(expressed in US dollars, tabular amounts in thousands)

New standards, amendments and interpretations not yet adopted

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income (OCI) and fair value through profit and loss (P&L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.
- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, Revenue, IAS 11, Construction Contracts and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. We are currently in the process of evaluating the impact that IFRS 15 may have on our consolidated financial statements.
- IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets, address clarification of acceptable methods of depreciation and amortization. IAS 16 and IAS 38 are amended to: (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets. The standard is effective for accounting periods on or after January 1, 2016. The Company is yet to assess IAS 16's and IAS 38's full impact.

There are no other IFRS or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4 Critical accounting estimates and judgments

The preparation of consolidated financial statements in accordance with IFRS often requires management to make estimates about, and apply assumptions or subjective judgment to, future events and other matters that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and

(expressed in US dollars, tabular amounts in thousands)

other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared. Management reviews, on a regular basis, the Company's accounting policies, assumptions, estimates and judgments in order to ensure that the consolidated financial statements are presented fairly and in accordance with IFRS.

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

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

Critical estimates in applying the Company's accounting policies

- **Contingent consideration**

Contingent consideration is a financial liability recorded at fair value (see note 14). The amount of contingent consideration to be paid is based on the occurrence of future events, such as the achievement of certain development, regulatory and sales milestones. Accordingly, the estimate of fair value contains uncertainties as it involves judgment about the likelihood and timing of achieving these milestones as well as future foreign exchange rates and the discount rate used. Changes in fair value of the contingent consideration obligation result from changes to the assumptions used to estimate the probability of success for each milestone, the anticipated timing of achieving the milestones, and the discount period and rate to be applied. A change in any of these assumptions could produce a different fair value, which could have a material impact to the results from operations.

The key assumptions used by management include the probability of success for each milestone (35% - 70%) and a discount rate of 10%. There has been no change made to the key assumptions except for a discount rate change to 10% as at March 31, 2014 from 15% used in 2013, which reflects the Company's reduced credit risk. If the probability for success were to increase by a factor of 10% for each milestone this would increase the obligation by approximately \$677,000 at December 31, 2014. If the probability for success were to decrease by a factor of 10% for each milestone this would decrease the obligation by approximately \$677,000 at December 31, 2014. If the discount rate were to increase to 12%, this would decrease the obligation by approximately \$212,000. If the discount rate were to decrease to 8%, this would increase the obligation by approximately \$232,000.

- **Fair value of stock options**

Determining the fair value of stock options on the grant date, including performance based options, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, liabilities or other components of shareholders' equity. The key assumption used by management is the stock price volatility. If the stock price volatility was higher by a factor of 10% on the option grant dates in 2014 this would have increased annual stock compensation expense by approximately \$163,000. If the stock price volatility was lower by a factor of 10% on the grant date this would have decreased annual stock compensation expense by approximately \$178,000.

(expressed in US dollars, tabular amounts in thousands)

- Fair value of warrants

Determining the fair value of warrants requires judgment related to the choice of a pricing model, the estimation of stock price volatility, expected term of the underlying instruments and the probability factors of success in achieving the objectives for contingently issuable warrants (note 15(a)). Any changes in the estimates or inputs utilized to determine fair value at the grant date could have a significant impact on the Company's operating results, liabilities or other components of shareholders' equity. If the stock price volatility was higher by a factor of 10% this would have increased the value of the warrants (equity component) by approximately \$1,098,000. If the stock price volatility was lower by a factor of 10% this would have decreased the value of the warrants (equity component) by approximately \$1,189,000.

Critical judgments in applying the Company's accounting policies

- Revenue recognition

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

- Impairment of intangible assets

The Company follows the guidance of IAS 36 to determine when impairment indicators exist for its intangible assets. When impairment indicators exist, the Company is required to make a formal estimate of the recoverable amount of its intangible assets. This determination requires significant judgment. In making this judgment, management evaluates external and internal factors, such as significant adverse changes in the technological, market, economic or legal environment in which the Company operates as well as the results of its ongoing development programs. Management also considers the carrying amount of the Company's net assets in relation to its market capitalization, as a key indicator. In making a judgment as to whether impairment indicators exist at December 31, 2014, management concluded that there were none.

5 Plan of arrangement and acquisition of Aurinia Pharma Corp.

On February 5, 2013, the Company announced that it had signed a binding term sheet (the Term Sheet) with Aurinia Pharma Corp. for the merger of the two companies, creating a clinical development stage pharmaceutical company focused on the global nephrology market. The Term Sheet set forth the main criteria to be incorporated into a definitive merger agreement under which the Company would acquire 100% of the outstanding securities of Aurinia Pharma Corp. The merger was expected to be effected by the exchange of shares in the Company for securities of Aurinia Pharma Corp. resulting in an estimated 65:35 post merger ownership split, on a warrant diluted basis, between the Company and Aurinia Pharma Corp. shareholders, respectively.

(expressed in US dollars, tabular amounts in thousands)

On April 3, 2013, the Company and Aurinia Pharma Corp. negotiated a tripartite settlement agreement (the Settlement Agreement) with ILJIN Life Science Co., Ltd. (ILJIN) pursuant to which, upon the successful completion of the proposed merger, the combined company would re-acquire the license previously granted to ILJIN and therefore obtain full rights to voclosporin for autoimmune indications including lupus, and transplantation in the United States, Europe and other regions of the world, outside of Canada, Israel, South Africa, China, Taiwan and Hong Kong. In return, ILJIN would be entitled to receive certain predefined future milestone payments and would also own approximately 25% of the issued and outstanding shares of the merged company on a warrant diluted basis, which is calculated to give effect to the dilution by the exercise of warrants but excluding the exercise of stock options. On June 11, 2013, a draft arrangement agreement was prepared implementing the arrangement (the Arrangement Agreement), the terms of which were subsequently negotiated by the parties. The Arrangement was intended to implement the terms of the Settlement Agreement, whereby ILJIN would receive a further ownership interest in the Company in exchange for:

- i) returning to the Company and terminating:
 - a) all of its rights, licenses and obligations under the DDLA (see note 13(b)); and
 - b) all other licenses and sublicenses between ILJIN and any of the Company, Aurinia Pharma Corp. or Vifor (International) AG (Vifor); and
- ii) suspending all of its current or contemplated legal or financial claims against the Company, Aurinia Pharma Corp. or Vifor.

Upon closing of the plan of arrangement on September 20, 2013, the Company issued common shares to ILJIN. In addition ILJIN is entitled to receive certain predefined future success based clinical and marketing milestone payments in the aggregate amount of up to \$10,000,000, plus up to \$1,600,000 upon the merged company reaching certain financing milestones (see note 14).

The Company also acquired all of the issued and outstanding common shares of Aurinia Pharma Corp. at a ratio of approximately 19.83 common shares for each Aurinia Pharma Corp. share held by an Aurinia Pharma Corp. shareholder.

a) Settlement with ILJIN

The estimated fair value of the contract settlement with ILJIN at September 20, 2013 was \$8,403,000 and has been determined to represent reacquired license rights in the amount of \$4,137,000 and a loss on contract settlement of \$4,266,000. Consideration paid or payable to ILJIN is as follows: the Company's 10% interest in Aurinia Pharma Corp. of \$670,000, \$3,671,000 in common shares, \$2,690,000 in financial milestones payable and \$1,600,000 in clinical and sales milestones payable based on the estimated fair value of the pre-defined future milestone payments.

(expressed in US dollars, tabular amounts in thousands)

The Company's tripartite settlement agreement with Aurinia Pharma Corp. and ILJIN resulted in the recognition of a loss on contract settlement with ILJIN of \$4,266,000. This is the result of a value allocated to the intangible property rights being reacquired from ILJIN as a result of the settlement. The value of these rights was determined using a differential income approach; that is, the discounted cash flows that the Company is able to generate above and beyond what it was entitled to under the original licensing agreement. The cash flows used to determine the value of these rights are derived from the same cash flows used to determine the reacquired right from Aurinia Pharma Corp.

b) Acquisition of Aurinia Pharma Corp.

The Company determined that the transaction with Aurinia Pharma Corp. represented a business combination with the Company identified as the acquirer. The Company began consolidation of the operating results, cash flows and net assets of Aurinia Pharma Corp. on September 20, 2013.

The table below presents the allocation of the purchase price to the assets and liabilities acquired, as well as the settlement of pre-existing balances between the parties to the Arrangement Agreement prior to acquisition.

	Carrying value \$	Settle pre- existing items \$	Fair value adjustments \$	Fair value of acquisition \$
Cash	4	—	—	4
Prepaid expenses and deposits	116	—	—	116
Inventory	75	—	—	75
	195	—	—	195
Intangibles	2,302	(542)	12,813	14,573
	2,497	(542)	12,813	14,768
Accounts payable	174	(46)	—	128
Note payable	496	(496)	—	—
Deferred income taxes	—	—	3,911	3,911
	670	(542)	3,911	4,039
Net assets acquired	1,827	—	8,902	10,729

Consideration provided by the Company for the acquisition of Aurinia Pharma Corp. was 3,682,000 common shares of the Company with a fair value of \$7,977,000, less \$459,000 of deferred revenue that was effectively settled as a result of the business combination. The fair value of the shares issued was determined by the trading price on September 20, 2013. The \$3,501,000 difference between the fair value of net consideration of \$7,518,000 and the fair value of net assets acquired of \$10,729,000 is recorded as a gain in other income. Acquisition costs of \$251,000 have been expensed (note 17).

(expressed in US dollars, tabular amounts in thousands)

The Company's acquisition of Aurinia Pharma Corp. has resulted in the recognition of a gain of \$3,501,000. This is primarily as a result of the value allocated to the intangible property rights being reacquired from Aurinia Pharma Corp. as a result of the merger. The value of these rights was determined using a differential income approach; that is, the discounted cash flows that the Company is able to generate above and beyond what it was entitled to from the Vifor License, determined over the contract life to 2029. The determination of these cash flows is subject to significant estimates and assumptions, including:

- The amount and timing of projected future cash flows, adjusted for the probability of technical and marketing success;
- The amount and timing of projected costs to develop voclosporin into a commercially viable treatment for lupus nephritis;
- The discount rate selected to measure the risks inherent in the future cash flows; and
- An assessment of voclosporin's life-cycle and the competitive trends impacting the drug, including consideration of any technical, legal, regulatory, or economic barriers to entry.

6 Cash and cash equivalents

	December 31, 2014 \$	December 31, 2013 \$ (restated – note 3(a))	January 1, 2013 \$ (restated – note 3(a))
Cash at bank and on hand	2,706	1,351	185
Short-term bank deposits	<u>20,000</u>	<u>470</u>	<u>—</u>
	<u>22,706</u>	<u>1,821</u>	<u>185</u>

The interest rate on the short-term bank deposits at December 31, 2014 was 0.25% (2013 – 1.00%).

7 Short-term investment

The short-term investment, which is recorded initially at fair value and subsequently at amortized cost, using the effective interest method, is a HSBC Bank US denominated discount note with amortized cost of \$9,998,000 and initial cost of \$9,991,000. The note is due February 3, 2015 and has an effective interest rate of 0.18%.

(expressed in US dollars, tabular amounts in thousands)

8 Property and equipment

	Leasehold improvements \$	Scientific and office equipment and furniture \$	Computer equipment and software \$	Total \$
Year ended December 31, 2014				
As at January 1, 2014	—	7	30	37
Additions	34	9	15	58
Disposals	—	—	—	—
Amortization	(6)	(5)	(30)	(41)
Translation adjustment	—	—	(2)	(2)
Net book value	28	11	13	52
As at December 31, 2014				
Cost	1,727	1,202	228	3,157
Accumulated amortization	(1,699)	(1,191)	(215)	(3,105)
Net book value	28	11	13	52
Year ended December 31, 2013				
As at January 1, 2013	5	16	67	88
Additions	—	—	—	—
Amortization	(5)	(8)	(36)	(49)
Translation adjustment	—	(1)	(1)	(2)
As at December 31, 2013	—	7	30	37
As at December 31, 2013				
Cost	2,431	1,744	627	4,802
Accumulated amortization	(2,431)	(1,737)	(597)	(4,765)
Net book value	—	7	30	37
As at January 1, 2013				
Cost	6,038	4,218	701	10,957
Accumulated amortization	(6,033)	(4,202)	(634)	(10,869)
Net book value	5	16	67	88

For the year ended December 31, 2014, the Company disposed of fully depreciated equipment for proceeds of \$4,000, resulting in a gain of \$4,000 (2013 – \$68,000 resulting in a gain of \$68,000).

(expressed in US dollars, tabular amounts in thousands)

9 Intangible assets

	Patents \$	Purchased Intellectual property and reacquired rights \$	Total \$
Year ended December 31, 2014			
Opening net book value	1,522	19,360	20,882
Additions	32	—	32
Amortization for the year	(150)	(1,286)	(1,436)
Write off of patents	(44)	—	(44)
Translation adjustment	(69)	(876)	(945)
Closing net book value	<u>1,291</u>	<u>17,198</u>	<u>18,489</u>
As at December 31, 2014			
Cost	2,366	19,075	21,441
Accumulated amortization	<u>(1,075)</u>	<u>(1,877)</u>	<u>(2,952)</u>
Net book value	<u>1,291</u>	<u>17,198</u>	<u>18,489</u>
Year ended December 31, 2013			
Opening net book value	1,892	1,139	3,031
Additions	108	—	108
Fair value of re-acquired rights from ILJIN (note 5(a))	—	4,137	4,137
Fair value of intangible assets acquired from Aurinia Pharma Corp. (note 5(b))	—	14,573	14,573
Amortization for the year	(165)	(416)	(581)
Impairment of patents	(202)	—	(202)
Translation adjustment	(111)	(73)	(184)
Closing net book value	<u>1,522</u>	<u>19,360</u>	<u>20,882</u>
As at December 31, 2013			
Cost	2,644	19,979	22,623
Accumulated amortization	<u>(1,122)</u>	<u>(619)</u>	<u>(1,741)</u>
Net book value	<u>1,522</u>	<u>19,360</u>	<u>20,882</u>
As at January 1, 2013			
Cost	2,714	1,357	4,071
Accumulated amortization	<u>(822)</u>	<u>(218)</u>	<u>(1,040)</u>
Net book value	<u>1,892</u>	<u>1,139</u>	<u>3,031</u>

(expressed in US dollars, tabular amounts in thousands)

As a result of the Arrangement Agreement as described in note 5, the Company recognized re-acquired rights from ILJIN and Aurinia Pharma Corp. in the total amount of \$18,710,000. The re-acquired rights represent the value of discounted cash flows expected to arise from the return of the licenses granted under the ILJIN DDLA (note 13(b)) and the Vifor License and ILJIN License Back (note 13(a)).

On February 14, 2014, the Company signed a NICAMs Purchase and Sale Agreement with Ciclofilin Pharmaceuticals Inc. (Ciclofilin) whereby it divested its early stage research and development NICAMs asset, consisting of intellectual property, including patent applications and know-how to Ciclofilin. Consideration will consist of future contingent milestones and a royalty. Due to the early stage of development of this technology and the contingent nature of the consideration to be received by the Company, the Company recognized an impairment against the entire capitalized cost of the NICAMs patent portfolio (\$202,000) at December 31, 2013.

10 Investment

	December 31, 2014 \$	December 31, 2013 \$ (restated – note 3(a))
Opening fair value	—	595
Shares received from Aurinia Pharma Corp.	—	—
Change in fair value to date of disposal (note 18)	—	75
Shares provided to ILJIN (note 5(a))	—	(670)
Closing fair value	—	—

The Company's investment in Aurinia Pharma Corp. was carried at fair value, with changes in fair value recognized in other comprehensive income (OCI). Since Aurinia Pharma Corp.'s shares did not trade in a public market, the Company used a form of comparable company valuation approach to determine fair value, categorized as Level 3 in the fair value hierarchy. Due to the unique nature of Aurinia Pharma Corp.'s primary assets, being its license agreement with the Company and its intellectual property related to lupus nephrology research, management does not believe there are any comparable companies that trade publicly for which an indicative value could be obtained. As a result, it compared the value of Aurinia Pharma Corp. to the value of the Company based on the planned merger of the entities and the relative valuation formula agreed to by the parties and approved by the shareholders. Without providing for any adjustments for lack of liquidity or non-controlling interests, this approach resulted in a fair value of the investment of \$670,000 at September 20, 2013. Pursuant to the plan of arrangement as described in note 5 the Company transferred its ownership interest in Aurinia Pharma Corp. to ILJIN. The Company recorded a gain of \$75,000 on the statement of operations in 2013 upon disposal of this investment.

(expressed in US dollars, tabular amounts in thousands)

11 Accounts payable and accrued liabilities

	December 31, 2014 \$	December 31, 2013 \$ (restated – note 3(a))	January 1, 2013 \$ (restated – note 3(a))
Trade payables	1,392	1,105	1,165
Other accrued liabilities	390	436	288
Employee and director related accruals	682	560	153
Payroll taxes payable	—	36	17
Accrued severance costs	—	767	—
	<u>2,464</u>	<u>2,904</u>	<u>1,623</u>

12 Drug supply loan

As at December 31, 2013, the Company had a drug supply loan in the amount of \$1,318,000 (CA\$1,402,000) (January 1, 2013 - \$1,707,000 (CA\$1,698,000)) payable to Paladin Labs Inc. (Paladin).

The terms of repayment were as follows:

- i) The Company was to pay Paladin CA\$100,000 per month, commencing 15 days after the successful completion of the Company raising a minimum of CA\$3,000,000 in financing which occurred on September 20, 2013;
- ii) Any outstanding balance was due on or before December 31, 2014;
- iii) Interest on the outstanding balance was at a rate of 10%, compounded monthly for the first 12 months, commencing upon first payment, and then payable at a rate of 18%, compounded monthly after the first 12 months. The Company had the right to prepay the balance owing on the outstanding balances, plus accrued interest to the date of prepayment, at any time without penalty.

The Company repaid the loan in full during the first quarter ended March 31, 2014.

(expressed in US dollars, tabular amounts in thousands)

13 Revenue and deferred revenue

	2014	2013
	\$	\$ (restated – note 3(a))
Revenue is composed of Licensing revenue		
3SBio	118	128
Aurinia Pharma Corp.	—	34
Lux	<u>—</u>	<u>698</u>
	118	860
Research and development revenue-Paladin	100	107
Contract services	<u>60</u>	<u>2</u>
	<u>278</u>	<u>969</u>

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

a) Licensing and Collaboration Agreement with Aurinia Pharma Corp.

The Company signed a global Licensing and Collaboration Agreement (LCA) effective December 30, 2011 with Vifor. The agreement granted Vifor an exclusive license for voclosporin, for the treatment of lupus and all proteinuric nephrology indications (the Vifor License). The Vifor License was for the United States and other regions outside of Canada, South Africa, Israel, China, Taiwan and Hong Kong (the Vifor Territory). Under the terms of the Agreement, the Company was to receive milestone payments, as well as royalties on commercial sales. On December 13, 2012, the LCA was assigned by Vifor to Aurinia Development Corp, a subsidiary of Aurinia Pharma Corp.

In order for these rights to be licensed to Vifor, ILJIN had provided a License Back of certain rights especially for the field of lupus and proteinuric kidney diseases for the Territory defined in the ILJIN DDLA, in return for certain milestones and royalties to be paid by Vifor.

On December 10, 2012, pursuant to the LCA, the Company received as a milestone payment, an investment in Aurinia Pharma Corp. Aurinia Pharma Corp. issued the Company a share certificate representing 10% of the common shares of Aurinia Pharma Corp. Aurinia Pharma Corp. had the option of granting the Company these shares or \$595,000. The Company determined that the fair value of the shares in Aurinia Pharma Corp. approximated \$595,000 and therefore recorded the value of the investment in Aurinia Pharma Corp. shares at \$595,000 (see note 10). The Company had recorded this milestone payment as deferred revenue upon receipt. Under the LCA, the primary substantive obligations of the Company were to maintain the patent portfolio and pay for drug supply if costs exceeded a certain amount. Until September 20, 2013, deferred revenue was being amortized into licensing revenue as the Company incurred the costs related to meeting its obligations under the LCA. Effective with the acquisition of Aurinia Pharma Corp. (as described in note 5), the remaining balance of deferred revenue of \$459,000 as at September 20, 2013 was an adjustment to the purchase consideration.

(expressed in US dollars, tabular amounts in thousands)

b) Development, Distribution and License Agreement with ILJIN Life Science Co., Ltd.

Effective January 28, 2011 (the Effective Date) the Company completed a Development, Distribution and License Agreement (the DDLA) with ILJIN for the further clinical and commercial development of voclosporin for use in transplant indications applicable to voclosporin. The Company granted to ILJIN an exclusive license to voclosporin for transplant and autoimmune indications for the United States and other regions outside of Europe, Canada, Israel, South Africa, China, Taiwan and Hong Kong. The Company retained the rights over voclosporin in Europe for future development and commercialization.

Pursuant to the DDLA, the Company was to receive a total license fee of \$5,000,000. In addition, ILJIN was to purchase 90,700,000 common shares (pre-conversion) of the Company for gross proceeds of \$19,875,000 in three tranches.

The Company was obligated under the terms of the agreement to complete a single Phase 3 clinical trial for the prevention of kidney transplant rejection. A Joint Steering Committee (JSC) with equal membership from the Company and ILJIN was to have been formed to oversee the development and commercialization of voclosporin in the ILJIN territories.

The Company received \$4,500,000 of the license fee and the first private placement tranche of \$2,375,000 on January 28, 2011, which was the effective date of the Agreement. The Company issued 11,500,000 common shares (pre-conversion) at a price of \$0.207 per share to ILJIN pursuant to the subscription agreement for securities. On or before January 28, 2012 ILJIN was to pay \$500,000 to the Company as the Second Development Payment and purchase 39,600,000 common shares (pre-conversion) of the Company issued from treasury for an aggregate subscription price of \$8,500,000. On or before January 28, 2013, ILJIN was to purchase the final tranche of 39,600,000 common shares (pre-conversion) of the Company issued from treasury for an aggregate subscription price of \$9,000,000.

Prior to the January 28, 2012 date, ILJIN verbally indicated their intent to alter the economics of the DDLA. Consequently, payment under the DDLA was not received as required per the agreement. The Company on January 30, 2012 notified ILJIN that it was terminating the DDLA. At that time the Company believed that the termination of the original DDLA was valid.

The Company received notification in March 2012 that ILJIN submitted a request for arbitration to the International Chamber of Commerce (ICC) Court of Arbitration relating to the Company's termination of the DDLA.

In November 2012, the Company received notification from the ICC that a Partial Award regarding its right to terminate the DDLA with ILJIN had been issued to the parties. In the result, the Partial Award provided that the DDLA had not been terminated and, therefore, the Company's contractual relationship with ILJIN still existed. As such the Partial Award rejected the Company's interpretation of the DDLA's termination provision. In January of 2013, ILJIN formally notified the Company and the arbitral tribunal that ILJIN had withdrawn all claims for damages in the parties' pending arbitration.

On September 20, 2013, the Company, ILJIN and Aurinia Pharma Corp. completed a plan of arrangement whereby the DDLA was terminated as more fully described in note 5.

(expressed in US dollars, tabular amounts in thousands)

c) Development, Distribution and License Agreement with 3SBio, Inc.

On August 23, 2010, the Company and 3SBio, Inc. (3SBio) completed a Development, Distribution and License Agreement for voclosporin for the territories of China, Hong Kong and Taiwan. The transaction with 3SBio included a non-refundable licensing fee of \$1,500,000, which was originally recorded as deferred revenue.

Under the agreement, the primary substantive obligations of the Company are to grant the license and transfer intellectual knowledge to 3SBio. Management believes it had fulfilled these obligations by December 31, 2010. However, under the agreement, the Company is also required to maintain the patent portfolio in China, Taiwan and Hong Kong, and to provide further support and cooperation to 3SBio over the life of the agreement, which coincides with the life of the patents. Any additional assistance which may be provided to 3SBio will be performed on a full cost recovery basis. For accounting purposes, when services are to be performed by an indeterminate number of acts over a specific period of time, revenue is recognized on a straight-line basis over this future period. As a result, the balance in deferred revenue is being amortized into licensing revenue on a straight-line basis to 2022.

d) Development, Distribution and License Agreement with Lux Biosciences, Inc.

Upon signing a Distribution and License Agreement (DDLA) with Lux Biosciences, Inc. (Lux) in 2006, Isotechnika Inc. received an upfront payment of \$3,000,000 which was recorded as deferred revenue. The balance of deferred revenue remaining as at January 1, 2011 was being recorded as revenue on a straight-line basis as the Company incurred costs related to meeting its remaining obligation of maintaining the patent portfolio. In late December 2012, the Company received notice from Lux that its Phase 3 clinical trial using voclosporin for the treatment of non-infectious uveitis did not meet its primary endpoint. In December 2013, the Company received notice from Lux, that it would be ceasing operations and returning the license to the Company. As a result, on December 31, 2013, the Company determined it had no further obligations pursuant to the DDLA and recorded the remaining balance of deferred revenue associated with the Lux DDLA as licensing revenue in the statement of operations and comprehensive loss. The Company and Lux signed the Termination, Assignment and Assumption Agreement on February 27, 2014.

e) Plan of Arrangement with Paladin Labs Inc.

Research and development revenues represent the amortization of the deferred monthly research and development fee payments received by the Company from Paladin for the period from July 1, 2009 to June 30, 2010, pursuant to the terms of the Research and Development Agreement. Under the agreement, the primary substantive obligations of the Company had been achieved by the Company by December 31, 2010. However, under the agreement, the Company is also required to maintain the patent portfolio in Canada, South Africa and Israel and to provide further support and cooperation to Paladin over the life of the agreement. As a result, the balance in deferred revenue at January 1, 2011 is being amortized into research and development revenue on a straight-line basis over the remaining life of the agreement, which ends in June 2016.

(expressed in US dollars, tabular amounts in thousands)

14 Contingent consideration

As described in note 5(a) the Company has recorded the contingent consideration payable to ILJIN resulting from the Arrangement Agreement completed on September 20, 2013 between the Company, Aurinia Pharma Corp., and ILJIN, at fair value.

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

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

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

The fair value of this portion of contingent consideration as at December 31, 2014 was estimated to be \$3,473,000 (December 31, 2013 – \$2,690,000) and was determined by applying the income approach. The fair value estimates as at December 31, 2014 were based on a discount rate of 10% and an assumed probability adjusted payment range between 35% and 70%. This is a Level 3 recurring fair value measurement. The revaluation expense adjustment for the year ended December 31, 2014 was \$848,000 and was comprised of \$315,000 to reflect the reduction in time until reaching the milestone dates and \$533,000 to reflect the reduction of the discount rate to 10% at March 31, 2014 from 15% as at December 31, 2013, with the probabilities for payments being the same.

The fair value of this portion of contingent consideration at December 31, 2013 was estimated to be \$2,690,000 and was determined by applying the income approach. The fair value estimates at December 31, 2013 were based on a discount rate of 15% and an assumed probability-adjusted payment range between 35% and 70%.

(expressed in US dollars, tabular amounts in thousands)

15 Share capital

a) Common shares

Authorized

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

	Common shares	
	Number	\$
Issued	(in thousands)	(restated – note 3(a))
Balance as at January 1, 2014	12,375	220,908
Issued pursuant to February 14, 2014 private placement	18,919	38,748
Share issue costs related to private placement	—	(2,751)
Issued pursuant to exercise of warrants	524	1,589
Balance as at December 31, 2014	31,818	258,494
Balance as at January 1, 2013	3,857	204,684
Issued pursuant to June 26, 2013 private placement	453	408
Issued to ILJIN pursuant to plan of arrangement (note 5(a))	1,694	3,671
Issued on acquisition of Aurinia Pharma Corp. (note 5(b))	3,682	7,959
Issued pursuant to September 20, 2013 private placement	2,687	4,179
Issued pursuant to exercise of stock options	2	7
Balance as at December 31, 2013	12,375	220,908

On February 14, 2014, the Company completed a \$52,000,000 private placement (the Offering). Under the terms of the Offering, the Company issued 18,919,404 units (the Units) at a subscription price per Unit of \$2.7485, each Unit consisting of one common share and one-quarter (0.25) of a common share purchase warrant (a Warrant), exercisable for a period of five years from the date of issuance at an exercise price of \$3.2204. The warrant holder may elect, in lieu of exercising the warrants for cash, a cashless exercise option to receive common shares equal to the fair value of the warrants based on the number of warrants to be exercised multiplied by a weighted average market price less the exercise price with the difference divided by the weighted average market price. In addition, the Company signed a Registration Rights Agreement with subscribers to register its common shares with the Securities and Exchange Commission (SEC).

(expressed in US dollars, tabular amounts in thousands)

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

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

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

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

As there was a degree of uncertainty in achieving the reduction of its Board to seven directors and obtaining a NASDAQ listing, the Company recorded an initial warrant liability of \$2,834,000 related to the contingently issuable warrants. Management used weighted average probability factors of 3% for Board Warrants and 16% for NASDAQ Warrants in determining the contingent settlement liability.

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

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

On September 20, 2013, the Company closed a Second Unit Offering private placement, raising gross proceeds of \$5,777,000 by the issuance of 2,687,000 units at a price of CA\$2.25 per unit. Each unit consisted of one common share and one half of a whole non-transferable Second Offering warrant. Each whole Second Unit warrant is exercisable at CA\$2.50 for a period of three years from the closing date. The fair value attributed to the warrants using the Black-Scholes option pricing model was \$1,237,000.

(expressed in US dollars, tabular amounts in thousands)

The Company paid a cash commission of \$236,000, issued 20,000 Second Offering units at a deemed value of CA\$2.25 per share and 102,067 broker warrants to the agents. The broker warrants are exercisable at a price of CA\$2.25 and will expire three years from the closing date. The Company recorded share-based compensation of \$43,000 and \$125,000 to the broker units and broker warrants respectively as share issue costs.

On June 26, 2013, the Company closed a First Unit Offering private placement, raising gross proceeds of \$996,000 by the issuance of 453,000 units at a price of CA\$2.25 per unit. Each unit consisted of one common share and one non-transferable common share purchase warrant exercisable at CA\$2.50 for a period of five years from the closing date. The issue of the warrants was subject to shareholder approval which was received at the August 15, 2013 Special and Annual Shareholder meeting. No fair value was attributed to the warrants until shareholder approval was received. Upon shareholder approval, the Company recorded an adjustment to attribute \$458,000 as the fair value of these warrants. The Company paid a 7% cash commission of \$605,000 on the private placement and issued 19,273 broker warrants. The broker warrants are exercisable at a price of CA\$2.25 and will expire five years from the closing date. Related to this the Company recorded share-based compensation of \$32,000 as a share issue cost and a fair value adjustment to warrants. In addition the Company incurred legal and other advisory fees of \$89,000 to complete the private placement.

In order to help fund its operations in the first half of 2013, the Company received loans in April 2013, from Dr. Richard Glickman, who was a major Aurinia Pharma Corp. shareholder, and ILJIN consisting of the issuance of zero-coupon promissory notes in the principal amount of \$195,500 each for a total of \$391,000. Dr. Glickman and ILJIN subscribed for Units in the June 26, 2013 private placement in the amount of \$199,500 each and the promissory notes were cancelled.

b) Warrants

	Warrants	
	Number	\$
Issued	(in thousands)	(restated – note 3(a))
Balance as at January 1, 2014	2,318	2,256
Issued pursuant to February 14, 2014 private placement	4,730	10,418
Share issue costs allocated to warrants	—	(739)
Warrants exercised	(523)	(406)
Warrants expired	(71)	(46)
Balance as at December 31, 2014	<u>6,454</u>	<u>11,483</u>
Balance as at January 1, 2013	387	417
Issued pursuant to June 26, 2013 private placement	472	458
Issued on acquisition of Aurinia Pharma Corp. (note 5)	14	18
Issued pursuant to September 20, 2013 private placement	<u>1,445</u>	<u>1,363</u>
Balance at December 31, 2013	<u>2,318</u>	<u>2,256</u>

The warrants issued on acquisition of Aurinia Pharma Corp. are exercisable at CA\$2.00 per share until December 31, 2018.

(expressed in US dollars, tabular amounts in thousands)

On June 18, 2008, pursuant to a debt financing, the Company issued 8,028 warrants to purchase common shares at a price of CA\$50.00 per common share. These warrants expire June 18, 2015. The fair value attributed to the warrants using the Black-Scholes option pricing model was \$172,000.

The Company uses the Black-Scholes warrant pricing model to estimate the fair value of the warrants. The following weighted average assumptions were used to estimate the fair value of the warrants granted during the years ended December 31, 2014 and December 31, 2013:

	2014	2013
Annualized volatility	85%	92.9%
Risk-free interest rate	1.52%	1.5%
Expected life of warrants in years	5 years	3.5 years
Dividend rate	0.0%	0.0%
Exercise price	\$ 3.22	\$ 2.35
Market price on date of grant	\$ 3.27	\$ 2.12
Fair value per common share warrant	\$ 2.20	\$ 1.41

Expiry date	Number (in 000s)	Weighted average exercise price \$
Exercisable in CA\$		
June 18, 2015 (CA\$50)	8	43.10
September 20, 2016 (CA\$2.25 and CA\$2.50)	1,365	2.15
June 26, 2018 (CA\$2.25 and CA\$2.50)	337	2.15
December 31, 2018 (CA\$2.00)	14	1.72
Exercisable in US\$		
February 14, 2019	4,730	3.22
	<u>6,454</u>	<u>2.98</u>

c) Stock options and compensation expense

The maximum number of common shares issuable under the 2012 Option Plan is equal to 10% of the issued and outstanding common shares at the time the common shares are reserved for issuance. As at December 31, 2014 there were 31,818,000 common shares of the Company issued and outstanding, resulting in a maximum of 3,181,800 options available for issuance under the 2012 Stock Option Plan. As at December 31, 2014 an aggregate total of 1,376,000 options were outstanding, representing 4.3% of the issued and outstanding common shares of the Company.

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

Aurinia Pharmaceuticals Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

(expressed in US dollars, tabular amounts in thousands)

A summary of the status of the Company's stock option plans as of December 31, 2014 and 2013 and changes during the years ended on those dates is presented below:

	2014		2013	
	Number	Weighted average exercise price in CAS	Number	Weighted average exercise price in CAS
Outstanding – Beginning of year	276	5.04	321	5.50
Granted	1,212	3.51	—	—
Exercised	—	—	(2)	2.50
Expired	(34)	7.50	(7)	15.75
Cancelled and forfeited	(78)	4.56	(36)	5.99
Outstanding – End of year	<u>1,376</u>	<u>3.68</u>	<u>276</u>	<u>5.04</u>
Options exercisable – End of year	<u>843</u>	<u>3.71</u>	<u>244</u>	<u>4.76</u>

On February 18, 2014, the Company granted 1,192,200 stock options to certain directors and officers of the Company at a price of \$3.19 (CA\$3.50) per common share. The options are exercisable for a term of ten years and vest over specific time periods with the exception of 50,000 options which vested during the year upon the Company achieving a specific milestone. On November 18, 2014 the Company granted 20,000 stock options to a new director of the Company at a price of \$3.44 (CA\$3.91) per common share. The options are exercisable for a term of five years and vest over twelve months. For the year ended December 31, 2013, the Company did not grant any stock options.

Application of the fair value method resulted in charges to stock-based compensation expense of \$2,186,000 for the year ended December 31, 2014 (2013 – \$230,000) with corresponding credits to contributed surplus. For the year ended December 31, 2014, stock compensation expense has been allocated to research and development expense in the amounts of \$nil (2013 – \$98,000) and corporate and administration expense in the amounts of \$1,933,000 (2013 – \$135,000) and restructuring costs in the amount of \$253,000 (2013 – \$nil).

The Company used the Black-Scholes option pricing model to estimate the fair value of the options granted in 2014.

(expressed in US dollars, tabular amounts in thousands)

The following weighted average assumptions were used to estimate the fair value of the options granted during the year ended December 31, 2014:

Annualized volatility	85%
Risk-free interest rate	1.73%
Expected life of options in years	7.1 years
Estimated forfeiture rate	11.9%
Dividend rate	0.0%
Exercise price	\$ 3.19
Market price on date of grant	\$ 3.19
Fair value per common share option	\$ 2.38

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

The following table summarizes information on stock options outstanding at December 31, 2014:

Range of exercise prices CAS	Options outstanding		Options exercisable
	Number outstanding (in thousands)	Weighted average remaining contractual life (years)	Number outstanding (in thousands)
3.50	1,286	8.89	791
3.91	20	4.88	1
7.00	70	1.59	51
	<u>1,376</u>	<u>8.46</u>	<u>843</u>

(expressed in US dollars, tabular amounts in thousands)

16 Nature of expenses

	2014 \$	2013 \$ (restated – note 3(a))
Research and development		
Study contracts, consulting and other outside services	6,584	181
Wages and employee benefits	1,030	856
Drug supply and distribution	894	373
Patent annuity and legal fees	316	307
Travel	212	27
Other	114	9
Rent, utilities and other facility costs	—	325
Stock compensation expense	—	98
	<u>9,150</u>	<u>2,176</u>
Less: Government assistance (i)	<u>(38)</u>	<u>(184)</u>
	<u>9,112</u>	<u>1,992</u>

- i) The Company has recognized Alberta refundable research and development tax credits for the year ended December 31, 2014 in the amount of \$38,000 (2013 – \$17,000).

Further, the Company had previously signed contribution agreements with National Research Council Canada (NRC) whereby the NRC provided government assistance in the form of Industrial Research Assistance Program (IRAP) grants to cover specific salaries and contractor fees related to the development of the Company's Non-Immunosuppressive Cyclosporine Analogue Molecules (NICAMs) program. The Company recorded funding of \$nil for the year ended December 31, 2014 (2013 – \$167,000) which was recognized as a reduction of research and development expenses. The rights and obligations under these contribution agreements were transferred to Ciclofilin Pharmaceuticals Corp. upon the divestiture of the NICAMs as discussed in note 17).

	2014 \$	2013 \$ (restated – note 3(a))
Corporate, administration and business development		
Wages and benefits	2,003	1,038
Stock compensation expense	1,933	132
Professional and consulting fees and services	952	392
Trustee fees, filing fees and other public company costs	732	134
Directors fees	455	189
Travel and promotion	295	124
Rent, utilities and other facility costs	291	165
Office, insurance, information technology costs and other	<u>229</u>	<u>124</u>
	<u>6,890</u>	<u>2,298</u>

(expressed in US dollars, tabular amounts in thousands)

17 Acquisition and restructuring costs

	2014 \$	2013 \$ (restated – note 3(a))
Severance, moving costs and other	475	1,262
Provision for loss on sublease agreement	340	—
Stock compensation expense	253	—
Acquisition	—	251
	<u>1,068</u>	<u>1,513</u>

The Company recorded restructuring costs related to the shutdown of the Edmonton lab facility in 2014 and the transfer of the head office and all business operations except for the finance function to Victoria, British Columbia. The finance group also moved to smaller premises during the year. These restructuring costs included moving costs, retention and/or severance costs and a provision for the estimated loss on the sublease agreement related to the Edmonton lab facility in the amount of \$340,000. The remaining \$271,000 provision for restructuring costs liability as at December 31, 2014 is reflected on the balance sheet as \$155,000 in current liabilities and \$116,000 as a non-current liability as the term of the sublease extends to September 30, 2016.

In addition, the Company recorded restructuring costs related to its divestiture of its early stage NICAMs assets. On February 14, 2014, the Company signed a NICAMs Purchase and Sale Agreement with Ciclofilin Pharmaceuticals Corp. (Ciclofilin), a company controlled by the former Chief Executive Officer and Chief Scientific Officer, whereby it divested its early stage research and development Non-Immunosuppressive Cyclosporine Analogue Molecules (NICAMs) assets, consisting of intellectual property, including patent applications and know-how to Ciclofilin. There was no upfront consideration received by the Company and future consideration will consist of milestones relating to the clinical and marketing success of NICAMs and a royalty. Due to NICAMs' early stage of development, the Company estimated the fair value of the consideration to be \$nil at the time of the disposition and as at December 31, 2014.

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

The Company recorded restructuring costs of \$1,262,000 for the year ended December 31, 2013 which consisted primarily of severance provisions resulting from personnel changes upon completion of the plan of arrangement on September 20, 2013.

(expressed in US dollars, tabular amounts in thousands)

18 Other expense (income), net

	2014 \$	2013 \$ (restated – note 3(a))
Finance income		
Interest income	(65)	(3)
Finance costs		
Interest on drug supply loan	30	102
Interest on finance lease	—	1
	<u>30</u>	<u>103</u>
Other		
Gain on extinguishment of warrant liability (note 15)	(2,188)	—
Gain on re-measurement of warrant liability (note 15)	(646)	—
Revaluation adjustment on contingent consideration (note 14)	848	—
Share issue costs allocated to warrant liability	203	—
Foreign exchange loss	119	184
Gain on disposal of equipment	(4)	(68)
Loss on contract settlement with ILJIN (note 5(a))	—	4,266
Gain on acquisition of Aurinia Pharma Corp. (note 5(b))	—	(3,501)
Realized gain on disposal of investment in Aurinia Pharma Corp. (note 10)	—	(75)
	<u>(1,668)</u>	<u>806</u>
	<u>(1,703)</u>	<u>906</u>

19 Income taxes

As at December 31, 2014, the Company has available Canadian non-capital losses in the amount of \$40,156,000 (2013 – \$24,732,000) to reduce Canadian taxable income in future years. The Company has unclaimed investment tax credits of \$904,000 (2013 – \$675,000) available to reduce future Canadian income taxes otherwise payable.

The Company has available US net operating losses in the amount of \$41,000 (2013 – \$97,000) to reduce US taxable income in future years.

Aurinia Pharmaceuticals Inc.
Notes to Consolidated Financial Statements
December 31, 2014 and 2013

(expressed in US dollars, tabular amounts in thousands)

The losses and credits will expire as follows:

	Net operating losses carried forward \$	Non-capital losses carried forward \$	Federal investment tax credits \$
2015	—	632	36
2029	—	3,930	59
2030	—	2,793	334
2031	—	2,120	220
2032	—	8,618	98
2033	41	6,592	157
2034	—	15,741	—

As at December 31, 2014 and December 31, 2013, temporary differences for which no deferred tax asset was recognized were as follows:

	2014 \$	2013 \$
Deferred tax assets (liabilities)		
Loss carry-forwards	10,062	7,089
Share issue costs	806	156
Deferred revenue	517	349
Property and equipment	1	(71)
Intangible assets	622	(2,352)
Other	20	(3)
	<u>12,028</u>	<u>5,168</u>
Potential tax assets not recognized	<u>(12,028)</u>	<u>(5,168)</u>
Net deferred tax assets	<u>—</u>	<u>—</u>

Given the Company's past losses, management does not believe that it is more probable than not that the Company can realize its deferred tax assets and therefore it has not recognized any amount in the statement of financial position.

The difference between the expected income tax recovery based on a 25.0% (2013 – 25.0%) Canadian statutory tax rate and the actual income tax recovery is summarized as follows:

	2014 \$	2013 \$
Expected recovery at the statutory rate	(4,162)	(1,643)
Non-deductible expenses including stock compensation	42	56
Non-deductible portion of capital gain	1	(17)
Unrecognized deductible temporary differences	4,119	(1,958)
Impact of substantively enacted rates	—	(349)
Total income tax recovery	<u>—</u>	<u>(3,911)</u>

(expressed in US dollars, tabular amounts in thousands)

20 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 year ended December 31, 2014 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 years ended December 31, 2014 and December 31, 2013 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:

	2014 \$	2013 \$ (restated – note 3(a))
Net loss for the year	<u>(16,647)</u>	<u>(2,662)</u>
		Number (in thousands)
Weighted average common shares outstanding	<u>29,158</u>	<u>6,344</u>
	\$	\$
Net loss per common share (expressed in \$ per share)	<u>(0.57)</u>	<u>(0.42)</u>

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:

	2014 Number (in thousands)	2013 Number (in thousands)
Stock options	1,376	276
Warrants	<u>6,454</u>	<u>2,318</u>
	<u>7,830</u>	<u>2,594</u>

(expressed in US dollars, tabular amounts in thousands)

21 Segment disclosures

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

The following geographic information reflects revenue based on customer location.

Geographic information

	2014 \$	2013 \$ (restated – note 3(a))
Revenue		
Canada	160	143
China	118	128
United States	—	698
	<u>278</u>	<u>969</u>

22 Supplementary cash flow information

Net change in other operating assets and liabilities:

	2014 \$	2013 \$ (restated – note 3(a))
Accounts receivable	9	67
Prepaid expenses and other	(593)	(100)
Prepaid deposits	(141)	(156)
Accounts payable and accrued liabilities	(308)	1,485
Drug supply loan	<u>(1,197)</u>	<u>(285)</u>
	<u>(2,230)</u>	<u>1,011</u>
Interest paid	<u>30</u>	<u>102</u>
Interest received	<u>47</u>	<u>3</u>

(expressed in US dollars, tabular amounts in thousands)

23 Related parties

Compensation of key management

Key management includes Directors and Officers of the Company.

Compensation awarded to key management was composed of the following:

	2014	2013
	\$	\$ (restated – note 3(a))
Salaries and short-term employee benefits	1,768	1,286
Bonuses accrued or paid	921	—
Severances	—	1,208
Director fees	456	192
Stock-based compensation	<u>2,186</u>	<u>128</u>
	<u>5,331</u>	<u>2,814</u>

The Company recorded \$34,350 of legal fees for the period June 16, 2014 to December 31, 2014 in the normal course of business to the law firm of which a partner is the Company's corporate secretary. The partner became the Company's corporate secretary on June 16, 2014.

24 Commitments and contingencies

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

- June 1, 2014 to May 31, 2015 - \$9,000 per month
- June 1, 2015 to May 31, 2016 - \$9,000 per month
- June 1, 2016 to May 31, 2017 - \$10,000 per month

The Company entered into an agreement on November 14, 2014 to lease 1,247 square feet of office space for the Edmonton, Alberta registered office where the Company's finance group is located. The lease is for a term of two years commencing on January 1, 2015 at a cost of approximately \$1,500 per month.

The Company also entered into a one year agreement to rent an office in a shared office facility in Bellevue, Washington commencing November 1, 2014 at a cost of approximately \$2,000 per month.

(expressed in US dollars, tabular amounts in thousands)

On October 1, 2013, the Company reduced its leased lab premises cost in Edmonton, Alberta by entering into a three-year sublease with the head lessee for approximately 9,000 square feet while vacating the remaining 16,318 square feet it had previously been leasing. The Sublease cost is approximately \$19,000 monthly and includes base rent, utilities and operating costs. The Company has paid the head lessee a deposit of \$145,000 for the last 7.4 months of rent, which has not been deducted from operating lease obligation figures below. The Company in turn, effective October 15, 2014 has subleased out this 9,000 square feet space for approximately \$7,000 per month for the remaining term of the sublease, which runs until September 30, 2016. This sublease revenue has not been netted in the operating lease obligations noted above (see note 17 – provision for loss on sublease).

The Company has entered into contractual obligations for services and materials required for the Phase IIb clinical trial and other operational activities.

Future minimum lease payments for its premises and the minimum amount to exit the Company’s contractual commitments are as follows:

	Operating lease \$	Purchase obligations \$
2015	382	501
2016	307	—
2017	51	—
2018	—	—
	<u>740</u>	<u>501</u>

The Company sub-leased certain laboratory and office space in its premises and received sublease payments of \$124,000 for the year ended December 31, 2014 (2013 – \$138,000) which has been netted against gross rent expense of \$405,000 (\$2013 – \$408,000).

- Contingencies

- i) The Company may, from time to time, be subject to claims and legal proceedings brought against it in the normal course of business. Such matters are subject to many uncertainties. Management believes that the ultimate resolution of such contingencies will not have a material adverse effect on the consolidated financial position of the Company.
- ii) The Company entered into indemnification agreements with its officers and directors. The maximum potential amount of future payments required under these indemnification agreements is unlimited. However, the Company does maintain liability insurance to limit the exposure of the Company

(expressed in US dollars, tabular amounts in thousands)

- iii) The Company has entered into license and research and development agreements with third parties that include indemnification and obligation provisions that are customary in the industry. These guarantees generally require the Company to compensate the other party for certain damages and costs incurred as a result of third party claims or damages arising from these transactions. These provisions may survive termination of the underlying agreement. The nature of the obligations prevents the Company from making a reasonable estimate of the maximum potential amount it could be required to pay. Historically, the Company has not made any payments under such agreements and no amount has been accrued in the accompanying consolidated financial statements.

25 Capital management

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

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

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

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

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

26 Financial instruments and fair values

As explained in note 3, financial assets and liabilities have been classified into categories that determine their basis of measurement and for items measured at fair value, whether changes in fair value are recognized in the statement of operations and comprehensive loss. Those categories are fair value through profit or loss; loans and receivables; and, for most liabilities, amortized cost.

In establishing fair value, the Company used a fair value hierarchy based on levels defined below:

- Level 1: defined as observable inputs such as quoted prices in active markets.
- Level 2: defined as inputs other than quoted prices in active markets that are either directly or indirectly observable.
- Level 3: defined as inputs that are based on little or no observable market data, therefore requiring entities to develop their own assumptions.

(expressed in US dollars, tabular amounts in thousands)

The Company has determined that the carrying values of its short-term financial assets and liabilities, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, drug supply payable, and financing milestones payable to ILJIN (note 14) approximate their fair value because of the relatively short period to maturity of the instruments. Information on the fair value of long-term contingent consideration is included in note 14 and information on the fair value of investments is included in note 10.

Financial risk factors

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

- **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through the management of its capital structure and financial leverage as discussed in note 25. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors reviews and approves the Company's budget, as well as any material transactions out of the ordinary course of business. The Company invests its cash equivalents in bankers' acceptances and/or guaranteed investment certificates with 30 to 90 day maturities to ensure the Company's liquidity needs are met. The short-term investment consists of a discount bank note with a term of 180 days.

The Company's activities have been financed through a combination of the cash flows from licensing and development fees and the issuance of equity and/or debt.

All of the Company's financial liabilities are due within one year except for the contingent consideration as described in note 14.

- **Interest rate risk**

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

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

The Company manages its interest rate risk by maximizing the interest income earned on excess funds while maintaining the liquidity necessary to conduct operations on a day-to-day basis. The Company's policy limits the investing of excess funds to liquid guaranteed investment certificates and bankers' acceptances. The Company's exposure to interest rate risk at December 31, 2014 is considered minimal.

(expressed in US dollars, tabular amounts in thousands)

- Foreign currency risk

The Company is exposed to financial risk related to the fluctuation of foreign currency exchange rates. Foreign currency risk is the risk that variations in exchange rates between the United States dollar and foreign currencies, primarily with the Canadian dollar, will affect the Company's operating and financial results.

The following table presents the Company's exposure to the Canadian dollar:

	2014
	\$
Cash and cash equivalents	138
Accounts receivable	60
Accounts payable and accrued liabilities	<u>(860)</u>
Net exposure	<u>(662)</u>
	Reporting date rate 2014 \$
CA\$ – US\$	<u>0.862</u>

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the Canadian dollar would have increased the net loss by \$66,000 assuming that all other variables remained constant. An assumed 10% weakening of the Canadian dollar would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

The following table presents, in Canadian dollars, the Company's exposure to the US dollar for 2013:

	2013
	\$
Cash and cash equivalents	4
Accounts receivable	1
Accounts payable and accrued liabilities	(422)
Contingent consideration	<u>(4,563)</u>
Net exposure	<u>(4,980)</u>
	Reporting date rate 2013 \$
US\$ – CA\$	<u>1.064</u>

(expressed in US dollars, tabular amounts in thousands)

Based on the Company's foreign currency exposures noted above, varying the foreign exchange rates to reflect a ten percent strengthening of the Canadian dollar would have decreased the net loss by CA\$497,000, assuming that all other variables remained constant. An assumed ten percent weakening of the Canadian dollar would have had an equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

- **Credit risk**

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

27 Subsequent event

Stock option grant

On January 6, 2015, the Company granted 960,000 stock options to directors, officers and employees of the Company at a price of CA\$4.25 (US\$3.61) per common share.

Stock option and warrant exercise

Subsequent to year-end, the Company issued 143,000 common shares upon the exercise of 143,000 warrants for proceeds of CA\$343,000 and issued 25,000 common shares upon the exercise of 25,000 stock options for proceeds of CA\$87,000.

Management's Discussion and Analysis

Aurinia Pharmaceuticals Inc.

YEAR
END | 14

For the year ended
December 31, 2014


Aurinia

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2014**

The following Management's Discussion and Analysis of Financial Condition or MD&A and Results of Operations provides information on the activities of Aurinia Pharmaceuticals Inc. ("Aurinia" or the "Company") on a consolidated basis and should be read in conjunction with the Company's audited consolidated financial statements and accompanying notes for the year ended December 31, 2014. This MD&A has been prepared with reference to National Instrument 51-102 "Continuous Disclosure Obligations" of the Canadian Securities Administrators. All amounts are expressed in United States dollars unless otherwise stated. Dollar amounts in tabular columns expressed in thousands of United States dollars. This document is current in all material respects as of March 26, 2015.

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

Forward-looking Statements

A statement is forward-looking when it uses what we know and expect today to make a statement about the future. Forward-looking statements may include words such as "anticipate", "believe", "intend", "expect", "goal", "may", "outlook", "plan", "seek", "should", "strive", "target", "could", "continue", "potential" and "estimated", or the negative of such terms or comparable terminology. You should not place undue reliance on the forward-looking statements, particularly those concerning anticipated events relating to the development, clinical trials, regulatory approval, and marketing of the Company's products and the timing or magnitude of those events, as they are inherently risky and uncertain.

Securities laws encourage companies to disclose forward-looking information so that investors can get a better understanding of the Company's future prospects and make informed investment decisions. These statements may include, without limitation:

- plans to fund the Company's operations;
- statements concerning strategic alternatives and future operations;
- partnering activities;
- summary statements relating to results of the past voclosporin trials, plans to advance the development of voclosporin;
- statements concerning partnership activities and health regulatory discussions;
- the timing of completion of patient enrollment in the Company's AURA-LV and AURION studies;
- the Company's intention to seek regulatory approvals in the United States and Europe for voclosporin;
- the Company's intention to seek additional corporate alliances to support the commercialization of its products;
- the Company's intention to demonstrate that voclosporin possesses pharmacologic properties with the potential to demonstrate best-in-class differentiation with first-in-class status for the treatment of LN outside of Japan;
- the Company's intention to use the LN Phase 2b clinical trial program to gain a clearer understanding of voclosporin's time to onset of action in patients suffering from LN;
- the Company's belief that recent granted formulation patents regarding the delivery of voclosporin to the ocular surface for conditions such as dry eye have the potential to be of therapeutic value;
- the Company's belief that voclosporin has further potential to be of therapeutic value in other autoimmune indications and in the prevention of transplant rejection;
- the Company's intention to seek regulatory approval in other jurisdictions in the future and initiate clinical studies;
- the Company's anticipated future financial position, future revenues and projected costs; and
- plans and objectives of management.

These statements are forward-looking because they are based on current expectations, estimates and assumptions. It is important to know that:

- *Forward-looking statements reflect current expectations regarding future events and speak only as of the date of this MD&A and represent the Company's expectations as of that date.*
- *Forward-looking statements in this MD&A describe the Company's expectations as of March 26, 2015;*
- *Actual results could be materially different from what the Company expects if known or unknown risks affect its business, or if the Company's estimates or assumptions turn out to be inaccurate. As a result, the Company cannot guarantee that any forward-looking statement will materialize and, accordingly, you are cautioned not to place undue reliance on these forward-looking statements;*
- *Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made may have on the Company's business. For example, they do not include the effect of mergers, acquisitions, other business combinations or transactions, dispositions, sales of assets, asset write-downs or other charges announced or occurring after the forward-looking statements are made. The financial impact of such transactions and non-recurring and other special items can be complex and necessarily depends on the facts particular to each of them. Accordingly, the expected impact cannot be meaningfully described in the abstract or presented in the same manner as known risks affecting the Company's business;*
- *The Company disclaims any intention and assume no obligation to update any forward-looking statements even if new information becomes available, as a result of future events or for any other reason.*

Such forward-looking statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, performance, or achievements to differ materially from any further results, performance or achievements expressed or implied by such forward-looking statements. Important factors that could cause such differences include, among other things, the following:

- The need for additional capital in the longer term to fund the Company's development programs and the effect of capital market conditions and other factors on capital availability;
- Difficulties, delays, or failures the Company may experience in the conduct of and reporting of results of its clinical trials for voclosporin, and in particular its current LN Phase 2b clinical trial.
- Difficulties, delays or failures in obtaining regulatory approvals for the initiation of clinical trials;
- Difficulties, delays or failures in obtaining regulatory approvals to market voclosporin;
- Difficulties the Company may experience in completing the development and commercialization of voclosporin;
- Insufficient acceptance of and demand for voclosporin;
- Difficulties, delays, or failures in obtaining appropriate reimbursement of voclosporin; and/or
- Difficulties that the Company may experience in identifying and successfully securing appropriate corporate alliances to support the development and commercialization of its products.

Although the Company believes that the expectations reflected in the forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements. The forward-looking statements are made as of the date hereof and the Company disclaims any intention and have no obligation or responsibility, except as required by law, to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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

Additional information related to Aurinia, including its most recent Annual Information Form, is 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 ("SEC") Electronic Document Gathering and Retrieval System ("EDGAR") website at www.sec.gov/edgar.

OVERVIEW

THE COMPANY

Corporate Structure

Name, Address and Incorporation

Aurinia Pharmaceuticals Inc. or the “Company” is a biopharmaceutical company with its head office located at #1203-4464 Markham Street, Victoria, British Columbia V8Z 7X8 where clinical, regulatory and business development functions of the Company are conducted. The Company has its registered office located at #201, 17904-105 Avenue, Edmonton, Alberta T5S 2H5 where the finance function is performed. The office of the Chief Executive Officer is located in Bellevue, Washington.

Aurinia Pharmaceuticals Inc. is organized under 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”. The Company’s primary business is the development of a therapeutic drug to treat autoimmune diseases, in particular lupus nephritis.

The Company has the following wholly-owned subsidiaries: Aurinia Pharma Corp. (formerly private Aurinia Pharmaceuticals Inc.), Aurinia Pharmaceuticals, Inc. (Delaware incorporated) and Aurinia Pharma Limited (UK incorporated).

Summary Description of Business

Aurinia is focused on the development of its novel therapeutic immunomodulating drug candidate, voclosporin, which is a next generation calcineurin inhibitor (“CNI”). It has been studied in kidney rejection following transplantation, psoriasis and in various forms of uveitis (an ocular disease).

The Company has rebranded, restructured and refocused itself over the past year and modified its strategy to focus on the development of voclosporin for the treatment of lupus nephritis (“LN”). The mechanism of action of voclosporin, a CNI, has been validated with certain first generation CNIs for the prevention of rejection in patients undergoing solid organ transplants and in several autoimmune indications, including dermatitis, keratoconjunctivitis sicca, psoriasis, rheumatoid arthritis, and for LN in Japan. The Company believes that voclosporin possesses pharmacologic properties with the potential to demonstrate best-in-class differentiation with first-in-class regulatory approved status for the treatment of LN outside of Japan.

LN Clinical development program

In June, 2014, AURINIA announced the initiation of its global 258 patient LN Phase 2b clinical trial to evaluate the efficacy of voclosporin as a treatment for LN. LN is an inflammation of the kidney that if untreated or inadequately treated can lead to end-stage renal disease, the requirement for life-long dialysis, or death.

The LN Phase 2b clinical trial, called “**AURA-LV**” (Aurinia Urine protein Reduction in Active Lupus with voclosporin) or AURA, is being conducted in approximately 22 countries and is a randomized, controlled, double-blind study comparing the efficacy of voclosporin against placebo in achieving remission in patients with active LN. The AURA-LV study is designed to demonstrate that voclosporin can induce a rapid and sustained reduction of proteinuria in the presence of extremely low steroid exposure and fulfill specific regulatory requests. It will compare two dosage groups of voclosporin (23.7mg and 39.5mg) administered with mycophenolate mofetil (MMF) vs. MMF alone. All patients will also receive oral corticosteroids as background therapy. There will be a primary analysis to determine complete remission at week 24 and various secondary analyses at week 48 which include biomarkers and markers of non-renal SLE. Patient recruitment is scheduled for completion in the third quarter of 2015.

In support of this large, randomized, LN Phase 2b clinical trial, the Company announced on February 9, 2015, the initiation of an open label, exploratory study to assess short term predictors of response using voclosporin in combination with MMF, in patients with active LN. “**AURION**” (Aurinia early Urinary protein Reduction Predicts Response) will examine biomarkers of disease activity at 8 weeks and their ability to predict response at 24 and 48 weeks. Patient enrollment of this small pilot study is scheduled to be completed by the end of the third quarter of 2015.

The results from the AURION will contribute to the growing base of clinical data derived from the entire ongoing LN Phase 2b clinical trial program. A more clear understanding of voclosporin’s time to onset of action in patients suffering from LN may be gained.

CORPORATE DEVELOPMENTS IN 2014

Listing on NASDAQ – September 2, 2014

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

Private Placement Financing – February 14, 2014

On February 14, 2014 the Company completed a \$52 million private placement (the “Offering”). The proceeds from the Offering are being used for the LN Phase 2b clinical trial currently underway, general corporate and working capital purposes.

The financing was led by venBio, New Enterprise Associates, Redmile Group, RA Capital Management, Great Point Partners, and Apple Tree Partners, with participation from various other institutional investors, including existing shareholders Lumira Capital, ILJIN Life Science Co., Ltd. and Difference Capital.

Under the terms of the Offering, the Company issued 18.92 million units (the “Units”) at a subscription price per Unit of \$2.7485, each Unit consisting of one common share and one-quarter (0.25) of a common share purchase warrant (a “Warrant”), exercisable for a period of five years from the date of issuance at an exercise price of \$3.2204.

In addition, in the event that the Company did not reduce the size of its Board of Directors to seven directors within 90 days following closing of the Offering, an additional 0.1 Warrants would have been issued for each Unit purchased by a subscriber for every additional 90-day period delay, up to a maximum of 0.35 Warrants per Unit. This represented a maximum of 6.62 million additional Warrants. If the Company did not obtain approval to list its common shares on NASDAQ within 12 months following the closing of the Offering, the Company had agreed to issue an additional 0.1 Warrants for each Unit purchased by a subscriber for every 90-day period delay, up to a maximum of 0.35 Warrants per Unit. This represented a maximum of 6.62 million additional Warrants. The Company reduced the Board to seven directors and obtained a NASDAQ listing within the required time limits and therefore the Company has extinguished these contingent warrant liabilities.

All securities issued in connection with the Offering were subject to a four-month hold period from the date of issuance in accordance with applicable securities law, which expired on June 15, 2014 for the securities issued at closing.

Leerink Partners LLC acted as lead placement agent and Canaccord Genuity Corp. acted as co-placement agent for the Offering. The placement agents were paid a 7.5% cash commission of \$3.49 million.

Functional currency and change in presentation currency – January 31, 2014

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

STRATEGY

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

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

- Focusing the Company’s resources on advancing voclosporin through a robust LN Phase 2b clinical trial.
- Mitigate development risk by leveraging the ALMS database and management team’s experience – The Company has certain rights to utilize the ALMS database including its use in planning, designing and informing the LN Phase 2b clinical trial.

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- Evaluate other voclosporin indications – While the Company intends to deploy its operational and financial resources to develop voclosporin for LN, the Company believes that recent granted formulation patents regarding the delivery of voclosporin to the ocular surface for conditions such as dry eye have the potential to be of therapeutic value. The Company will explore its strategic options to exploit shareholder value from this intellectual property. The Company also believes that voclosporin has further potential to be of therapeutic value in other autoimmune indications and in the prevention of transplant rejection. Management will consider strategic opportunities for these other potential indications on an ongoing basis.

Status of the Company’s Development Program in LN

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

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

About Lupus Nephritis

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

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

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

CNIs and Lupus Nephritis

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

In 2008, the Japanese Health Authority became the first major jurisdiction in 50 years to approve a pharmaceutical agent for the treatment of LN. This product was the calcineurin inhibitor tacrolimus. In addition to this approval, a substantial amount of

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

The Company plans to utilize this MTT approach to treating LN patients with voclosporin.

About voclosporin

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

Voclosporin mechanism of action

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

Potential voclosporin clinical benefits

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

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

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

Voclosporin development history

More than 2,600 patients have been in voclosporin clinical trials including studies where voclosporin was compared to placebo or active control. The safety and tolerability profile of the drug therefore is well characterized. Phase 2 or later clinical studies that have been completed include studies in the following indications:

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

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

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

Scientific Rationale for Treatment of LN with voclosporin

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

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

Current Collaboration Agreements

Paladin Labs Inc.

On June 18, 2009, the Company completed a plan of arrangement transaction with Paladin Labs Inc. (“Paladin”). Paladin has the rights to market, sell, and distribute voclosporin in the Paladin territories which include Canada, South Africa and Israel and is required to make payments to the Company equal to: (i) 20% of net sales, in the Paladin territories, less manufacturing costs until June 18, 2016; and (ii) 20% of net royalties received from third party sales, in the Paladin territories until June 18, 2016. In addition, Paladin will receive 2% of any milestone payments, development payments, royalties, and net profit splits paid to the Company, related to voclosporin outside the Paladin territories.

3SBio, Inc.

On August 23rd, 2010, the Company and 3SBio Inc. (“3SBio”), a China-based biotechnology company focused on researching, developing, manufacturing and marketing biopharmaceutical products, completed a Development and License Agreement (“DDL”) for voclosporin. Under the terms of the agreement the Company granted 3SBio exclusive rights to all transplant and autoimmune indications of voclosporin in China, including Hong Kong, Taiwan, excluding ophthalmic indications which were previously licensed to Lux. 3SBio will be responsible, including costs, for the clinical development, registration and commercialization of voclosporin in China. The Company will also receive ongoing royalties based on sales of voclosporin by 3SBio. The Company will also supply commercial supply to 3SBio on a cost-plus basis. 3SBio is in the process of determining how to proceed with the development of voclosporin in this territory.

Plan of arrangement and acquisition of Aurinia Pharma Corp. -September 20, 2013

On February 5, 2013, the Company announced that it had signed a binding term sheet (the Term Sheet) with Aurinia Pharma Corp. for the merger of the two companies, creating a clinical development stage pharmaceutical company focused on the global nephrology market. The Term Sheet set forth the main criteria to be incorporated into a definitive merger agreement under which the Company would acquire 100% of the outstanding securities of Aurinia Pharma Corp. The merger was expected to be effected by the exchange of shares in the Company for securities of Aurinia Pharma Corp. resulting in an estimated 65:35 post merger ownership split, on a warrant diluted basis, between the Company and Aurinia Pharma Corp. shareholders, respectively.

On April 3, 2013, the Company and Aurinia Pharma Corp. negotiated a tripartite settlement agreement (the Settlement Agreement) with ILJIN Life Science Co., Ltd. (ILJIN) pursuant to which, upon the successful completion of the proposed merger, the combined company would re-acquire the license previously granted to ILJIN and therefore obtain full rights to voclosporin for autoimmune indications including lupus, and transplantation in the United States, Europe and other regions of the world, outside of Canada, Israel, South Africa, China, Taiwan and Hong Kong. In return, ILJIN would be entitled to receive certain predefined future milestone payments and would also own approximately 25% of the issued and outstanding shares of the merged company on a warrant diluted basis, which was calculated to give effect to the dilution by the exercise of warrants but excluding the exercise of stock options. On June 11, 2013, a draft arrangement agreement was prepared implementing the arrangement (the Arrangement Agreement), the terms of which were subsequently negotiated by the parties. The Arrangement was intended to implement the terms of the Settlement Agreement, whereby ILJIN would receive a further ownership interest in the Company in exchange for:

- i) returning to the Company and terminating:
 - a) all of its rights, licenses and obligations under the ILJIN Development, Distribution & License Agreement (see note 13b to the audited consolidated financial statements for the year ended December 31 2014); and
 - b) all other licenses and sublicenses between ILJIN and any of the Company, Aurinia Pharma Corp. or Vifor (International) AG (Vifor); and
- ii) suspending all of its current or contemplated legal or financial claims against the Company, Aurinia Pharma Corp. or Vifor.

Upon closing of the plan of arrangement on September 20, 2013, the Company issued common shares to ILJIN. In addition ILJIN is entitled to receive certain predefined future success based clinical and marketing milestone payments in the aggregate amount of up to \$10 million, plus up to \$1.60 million upon the merged company reaching certain financing milestones (see note 14 to the audited consolidated financial statements ended December 31, 2014).

The Company also acquired all of the issued and outstanding common shares of Aurinia Pharma Corp. at a ratio of approximately 19.83 common shares for each Aurinia Pharma Corp. share held by an Aurinia Pharma Corp. shareholder.

Settlement with ILJIN

The estimated fair value of the contract settlement with ILJIN at September 20, 2013 was \$8.40 million and has been determined to represent reacquired license rights in the amount of \$4.14 million and a loss on contract settlement of \$4.27 million. Consideration paid or payable to ILJIN is as follows: the Company’s 10% interest in Aurinia Pharma Corp. of \$670,000, \$3.67 million in common shares \$2.69 million in financial milestones payable and \$1.6 million in clinical and sales milestones payable based on the estimated fair value of the pre-defined future milestone payments.

The Company’s tripartite settlement agreement with Aurinia Pharma Corp. and ILJIN resulted in the recognition of a loss on contract settlement with ILJIN of \$4.27 million. This is the result of a value allocated to the intangible property rights being

reacquired from ILJIN as a result of the settlement. The value of these rights was determined using a differential income approach; that is, the discounted cash flows that the Company is able to generate above and beyond what it was entitled to under the original licensing agreement. The cash flows used to determine the value of these rights are derived from the same cash flows used to determine the reacquired right from Aurinia Pharma Corp.

Acquisition of Aurinia Pharma Corp.

The Company determined that the transaction with Aurinia Pharma Corp. represented a business combination with the Company identified as the acquirer. The Company began consolidation of the operating results, cash flows and net assets of Aurinia Pharma Corp. on September 20, 2013.

Consideration provided by the Company for the acquisition of Aurinia Pharma Corp. was 3.68 million common shares of the Company with a fair value of \$7.98 million, less \$459,000 of deferred revenue that was effectively settled as a result of the business combination. The fair value of the shares issued was determined by the trading price on September 20, 2013. The \$3.50 million difference between the fair value of net consideration of \$7.52 million and the fair value of net assets acquired of \$10.73 million is recorded as a gain in other income. Acquisition costs of \$251,000 were expensed in 2013.

The Company's acquisition of Aurinia Pharma Corp. resulted in the recognition of a gain of \$3.50 million in 2013. This is primarily as a result of the value allocated to the intangible property rights being reacquired from Aurinia Pharma Corp. as a result of the merger. The value of these rights was determined using a differential income approach; that is, the discounted cash flows that the Company is able to generate above and beyond what it was entitled to from the Vifor License, determined over the contract life to 2029. The determination of these cash flows is subject to significant estimates and assumptions, including:

- The amount and timing of projected future cash flows, adjusted for the probability of technical and marketing success;
- The amount and timing of projected costs to develop voclosporin into a commercially viable treatment for lupus nephritis;
- The discount rate selected to measure the risks inherent in the future cash flows; and
- An assessment of voclosporin's life-cycle and the competitive trends impacting the drug, including consideration of any technical, legal, regulatory, or economic barriers to entry.

RESULTS OF OPERATIONS

For the year ended December 31, 2014, the Company reported a consolidated net loss of \$16.65 million or \$0.57 per common share, as compared to an adjusted consolidated net loss of \$2.66 million or \$0.42 per common share for the year ended December 31, 2013.

The activities in 2014 are significantly changed from those in 2013 as the Company completed a private placement on February 14, 2014 which provided funding for the Company to become fully engaged in its LN Phase 2b clinical trial.

This process has increased the level of activity across all functions of the Company and as a result the levels of expenditures are significantly higher when compared to the previous year, particularly in the research and development expenditures which are primarily related to the LN Phase 2b clinical trial activities. As a result, the net loss for the year ended December 31, 2014 is significantly higher than the comparable figure in 2013.

Revenue and deferred revenue

The Company recorded revenue of \$278,000 for the year ended December 31, 2014 compared to \$969,000 for the year ended December 31, 2013.

The Company recorded licensing and research and development revenue of \$218,000 for the year ended December 31, 2014 compared to \$967,000 for the year ended December 31, 2013. Licensing and R&D fee revenues represent the amortization of deferred revenue from fee payments received by the Company in prior years. The deferred revenue is recorded as revenue as the Company incurs the costs related to meeting its obligations under the terms of the applicable agreements.

The decrease in revenue in 2014 was primarily the result of the Company recording the unamortized deferred revenue balance of \$698,000 related to the Lux DLA in 2013. In December, 2013 the Company received notice from Lux, that it would be ceasing operations and returning the license to the Company. As a result, at December 31, 2013 the Company determined it had no further obligations pursuant to the Lux DLA and therefore recorded the remaining balance of deferred revenue associated with the Lux DLA as licensing income. The deferred revenue from the Aurinia Pharma Corp. license payment was amortized into revenue up to September 20, 2013 until the completion of the plan of arrangement with Aurinia Pharma Corp and ILJIN on September 20, 2013.

The remaining deferred revenue relates to the 3SBio and Paladin fee payments and is being amortized on a straight line basis over the life of the agreements.

Research and Development expenses

Net research and development expenditures increased to \$9.11 million for the year ended December 31, 2014 compared to \$1.99 million for the year ended December 31, 2013. The expenditures in 2014 reflect costs related to patient recruitment, enrollment and treatment activities for the LN Phase 2b clinical trial. These activities included site selections and initiations, site contract approvals, Contract Research Organization (“CRO”) contract approvals and various other activities conducted by the Company in order to enroll patients. CRO and other third party clinical trial costs were \$6.58 million for the year ended December 31, 2014 compared to \$181,000 in 2013. There were nominal costs of this nature incurred in 2013 as the Company was only in the early start-up phase of the LN clinical trial in the latter part of 2013.

The Company incurred drug supply costs, primarily for drug packaging, stability and distribution, of \$894,000 for the year ended December 31, 2014 compared to \$373,000 in 2013.

Salaries and employee benefits were \$1.03 million for the year ended December 31, 2014 compared to \$856,000 in 2013.

Travel expenses related to research and development also increased to \$212,000 for the year ended December 31, 2014 compared to \$27,000 in 2013. This increase is a reflection of the additional travel incurred in 2014 for the LN Phase 2b clinical trial by the Company’s staff. Travel costs are significant as the trial is being conducted in 22 countries and at approximately 80 sites.

Corporate, administration and business development expenses

Corporate, administration and business development expenditures were \$6.89 million for the year ended December 31, 2014 compared to \$2.30 million in 2013.

The largest change related to non-cash stock option expense which increased to \$1.93 million for the year ended December 31, 2014 compared to \$135,000 for the comparable period in 2013. The stock compensation expense in 2014 resulted from the grant of options to the new Chief Executive Officer and the Board of Directors, including the Chairman, on February 18, 2014. There were no stock options granted in 2013.

Salaries and employee benefits increased to \$2.00 million for the year ended December 31, 2014 compared to \$1.04 million for the comparable period in 2013. The increase in 2014 reflected the increased salary paid to the new Chief Executive Officer, salary increases for the other corporate, administration and business development staff, the hiring of two additional employees and bonuses, paid and accrued, to corporate and administration executives and staff in 2014.

Trustee fees, filing fees and other public company costs increased to \$732,000 for the year ended December 31, 2014 compared to \$134,000 in 2013. The increase was primarily due to the Company incurring \$279,000 of costs related to the process of obtaining its NASDAQ listing on September 2, 2014. The Company also incurred TSX listing fees of \$182,000 upon the Company graduating to the TSX from the TSX-V exchange in the second quarter of 2014.

Professional and consulting fees increased to \$952,000 for the year ended December 31, 2014 compared to \$392,000 in 2013. This increase was due to legal and audit costs associated with the NASDAQ application process, higher audit and other advisory fees for the 2013 audit resulting from the Plan of Arrangement, the timing of audit fees incurred and higher legal fees related to the divestiture of the NICAMs assets, termination of the Lux license agreement, public disclosure documents such as the Annual Information Form and general legal advice requirements. The Company also incurred consulting fees of \$324,000 for the year ended December 31, 2014 for various business development activities. There were no similar expenses in 2013.

Director fees increased to \$455,000 respectively for the year ended December 31, 2014 compared to \$189,000 in 2013. Director fees in 2014 reflected changes to the compensation and composition of the Board during the year which resulted in an increase in director fee expense from the previous year.

Travel and promotion expenses related to corporate, administration and business development increased to \$295,000 for the year ended December 31, 2014 compared to \$124,000 for fiscal 2013. This increase reflects additional travel incurred in 2014 related to investor relations and business development activities.

Stock-based Compensation expense

For stock option plan information and outstanding stock option details refer to note 15 of the audited consolidated financial statements for the year ended December 31, 2014.

On February 18, 2014, the Company granted 1,192,200 stock options to certain directors and officers of the Company at a price of \$3.19 (CDN\$3.50) per common share. The options are exercisable for a term of ten years and vest over specific time periods with the exception of 50,000 options which vested in 2014 upon the Company achieving a specific milestone. On November 18, 2014 the Company granted 20,000 stock options to a new director of the Company at a price of \$3.44 (CDN \$3.91) per common share. The options are exercisable for a term of five years and vest equally over a one year period. For the year ended December 31, 2013, the Company did not grant any stock options.

Application of the fair value method resulted in charges to stock-based compensation expense of \$2.19 million for the year ended December 31, 2014 (2013 – \$230,000) with corresponding credits to contributed surplus. For the year ended December 31, 2014, stock compensation expense has been allocated to research and development expense in the amounts of \$Nil (2013 –\$98,000) and corporate and administration expense in the amounts of \$1.93 million (2013 –\$132,000) and restructuring costs in the amount of \$253,000 (2013-\$Nil).

Amortization of intangible assets

Amortization of intangible assets was \$1.48 million for the year ended December 31, 2014 compared to \$783,000 recorded in 2013. The increase in 2014 reflects the higher balance of intangible assets being amortized in 2014 compared to the same period in 2013 as a result of the Company recording reacquired rights in the amount of \$18.71 million upon completion of the Plan of Arrangement on September 20, 2013.

Restructuring and acquisition costs

The Company recorded restructuring and acquisition costs of \$1.07 million for the year ended December 31, 2014 compared to \$1.51 million for fiscal 2013.

The Company recorded restructuring costs related to the shut-down of the Edmonton lab facility in 2014 and the transfer of the head office and all business operations, except for the finance function, to Victoria, British Columbia. The finance group also moved to smaller premises in Edmonton during the year. Restructuring costs included moving costs, retention and/or severance costs of \$259,000 and a provision for the estimated loss on the sublease agreement related to the Edmonton lab facility in the amount of \$340,000. In addition the Company recorded restructuring costs related to its divestiture of its early stage NICAMs assets. On February 14, 2014 the Company signed a NICAMs Purchase and Sale Agreement with Ciclofilin Pharmaceuticals Corp. (“Ciclofilin”), a company controlled by the former Chief Executive Officer and Chief Scientific Officer, whereby it divested its early stage research and development Non-Immunosuppressive Cyclosporine Analogue Molecules (“NICAMs”) assets, consisting of intellectual property, including patent applications and know-how to Ciclofilin. There was no upfront consideration received by the Company and future consideration will consist of milestones relating to the clinical and marketing success of NICAMs and a royalty. Due to NICAMs’ early stage of development, the Company estimated the fair value of the consideration to be \$Nil at the time.

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

The Company recorded restructuring and acquisition costs of \$1.51 million for the year ended December 31, 2013. This amount was composed of \$1.26 million in restructuring costs comprised primarily of severance provisions resulting from personnel changes upon completion of the Plan of Arrangement on September 20, 2013 and \$251,000 in acquisition costs.

Other expense (income)

The Company recorded other income of \$1.70 million for the year ended December 31, 2014 compared to other expense of \$906,000 recorded in 2013.

Other expense (income) for the year ended December 31, 2014 reflected a gain on extinguishment of warrant liability of \$2.19 million and a gain on re-measurement of warrant liability of \$646,000. The warrant liability arose pursuant to the February 14, 2014 private placement. For a detailed discussion of the warrant liability and the related accounting treatment please refer to note 15(a) of the audited consolidated financial statements for the year ended December 31, 2014.

The Company recorded an expense of \$848,000 on revaluation adjustments on long term contingent consideration to ILJIN in 2014. It also recorded as an expense of \$203,000 related to share issue costs allocated to the warrant liability. There were no similar items for the comparable period in 2013. For further details refer to note 14 and note 15(a) of the audited consolidated financial statements for the year ended December 31, 2014.

In addition, the Company recorded a foreign exchange loss of \$119,000 for the year ended December 31, 2014 compared to a foreign exchange loss of \$184,000 in 2013. Effective January 31, 2014 the Company's functional currency is the United States dollar. It incurs foreign exchange gains or losses depending on the fluctuations of the USD-Canadian dollar exchange rates.

Other expense for the year ended December 31, 2013 reflected a net expense of \$906,000. This amount was composed primarily of a loss on contract settlement with ILJIN of \$4.27 million offset by a gain on acquisition of Aurinia Pharma Corp. of \$3.50 million which are discussed in note 5 of the year ended December 31, 2014 audited consolidated financial statements.

Income Tax (Recovery)

The acquisition of Aurinia resulted in the recognition of a deferred tax liability of \$3.91 million related to the fair values of the intangible assets. Since the Company had tax losses available to off-set the liability, a deferred tax recovery of \$3.91 million was recognized in the Statement of Operations and Comprehensive Loss for the year ended December 31, 2013. There was no similar item in 2014.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2014, the Company had cash, term deposits and a short term investment totalling \$32.70 million compared to \$1.82 million at December 31, 2013. The Company believes that its cash position will be sufficient to finance its operational and capital needs, including completion of the LN Phase 2b clinical trial until at least December 31, 2016.

The Company completed a private placement on February 14, 2014 for net proceeds of \$48.31 million with the net proceeds to be used to advance the development of its lead drug candidate, voclosporin, as a therapy for LN by conducting a LN Phase 2b clinical trial and for general corporate and working capital purposes.

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

Sources and Uses of Cash:

	Year ended December 31, 2014	Year ended December 31, 2013	Increase (Decrease)
	\$	\$	\$
Cash used in operating activities	(16,904)	(4,620)	(12,284)
Cash provided by (used in) investing activities	(10,084)	(36)	(10,048)
Cash provided by financing activities	47,890	6,375	41,515
Effect of foreign exchange rate on cash and cash equivalents	(17)	(83)	66
Net increase in cash and cash equivalents	20,885	1,636	19,249

Net cash used in operating activities in fiscal 2014 was \$16.90 million, an increase of \$12.28 million from cash used in operating activities of \$4.62 million in fiscal 2013. Cash used in operating activities in 2014 and 2013 was composed of net loss, add-backs or adjustments not involving cash and net change in non-cash working items, which for 2014 included repayment of the drug supply loan in the amount of \$1.20 million. The increase in cash used was primarily a function of increased operating activities in 2014 which included the commencement of the LN Phase 2b clinical trial during the year.

Cash used in investing activities in fiscal 2014 was \$10.08 million compared to \$36,000 for fiscal 2013. The increase in 2014 was primarily due to the 2014 purchase of a HSBC discount note with a six month maturity that was classified as a short-term investment.

Cash provided by financing activities for fiscal 2014 was \$47.89 million compared to cash provided by financing activities in fiscal 2013 of \$6.38 million. On February 14, 2014, the Company received net proceeds of \$48.31 million from the private placement equity financing and in turn paid out the financing milestone to ILJIN (contingent consideration) of \$1.6 million in the same period. The Company also received \$1.18 million from the exercise of warrants in fiscal 2014. In 2013, the Company received net proceeds of \$6.41 million from two private placement equity financings, which included the conversion of \$391,000 in promissory notes into units in the first private placement.

CONTRACTUAL OBLIGATIONS

The Company has entered into contractual obligations for services and materials required for the LN Phase 2b clinical trial and other operational activities.

Future minimum lease payments for its premises and the minimum amount to exit the company's contractual commitments are as follows:

<u>(in thousands of dollars)</u>	<u>Total</u>	<u>Less than</u>	<u>Two to three</u>	<u>Greater than</u>
	<u>\$</u>	<u>one year</u>	<u>years</u>	<u>three years</u>
		<u>\$</u>	<u>\$</u>	<u>\$</u>
Operating lease obligations (consists of premise leases)	740	382	358	—
Purchase obligations	501	501	—	—

RELATED PARTY TRANSACTIONS

All related party transactions are recorded at the exchange amount.

The Company recorded \$34,000 of legal fees for the period June 16, 2014 to December 31, 2014 in the normal course of business to the law firm of which a partner is the Company's corporate secretary. The partner became the Company's corporate secretary on June 16, 2014.

Key management personnel of the Company consist of its directors and executive officers. In addition to the director fees and salaries to the directors and officers, the directors and officers participate in the Stock Option Plan. The compensation related to key management personnel is disclosed in note 23 to the audited consolidated financial statements for the year ended December 31, 2014.

OFF-BALANCE SHEET ARRANGEMENTS

To date the Company has not had any relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or special purpose entities, which are established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. The Company does have off-balance sheet financing arrangements consisting of various lease agreements which are entered into in the normal course of operations. All leases have been treated as operating leases whereby the lease payments are included in Corporate, administration and business development expenses for the year ended December 31, 2014. All of the lease agreement amounts have been reflected in the Contractual Obligations table above.

CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

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

Critical estimates in applying the Company's accounting policies

Contingent consideration

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

The key assumptions used by management include the probability of success for each milestone (35% - 70%) and a discount rate of 10%. There has been no change made to the key assumptions except for a discount rate change to 10% as at March 31, 2014 from 15% used in 2013 which reflects the Company's reduced credit risk. If the probability for success were to increase by a factor of 10% for each milestone this would increase the obligation by approximately \$677,000 at December 31, 2014. If the probability for success were to decrease by a factor of 10% for each milestone this would decrease the obligation by approximately \$677,000 at December 31, 2014. If the discount rate were to increase to 12%, this would decrease the obligation by approximately \$212,000. If the discount rate were to decrease to 8%, this would increase the obligation by approximately \$232,000.

Fair value of stock options

Determining the fair value of stock options on the grant date, including performance based options, requires judgment related to the choice of a pricing model, the estimation of stock price volatility and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's reported operating results, liabilities or other components of shareholders' equity. The key assumption used by management is the stock price volatility. If the stock price volatility was higher by a factor of 10% on the option grant dates in 2014 this would have increased annual stock compensation expense by approximately \$163,000. If the stock price volatility was lower by a factor of 10% on grant date this would have decreased annual stock compensation expense by approximately \$178,000.

Fair value of warrants

Determining the fair value of warrants requires judgment related to the choice of a pricing model, the estimation of stock price volatility, expected term of the underlying instruments and the probability factors of success in achieving the objectives for contingently issuable warrants. Any changes in the estimates or inputs utilized to determine fair value at grant date could have a significant impact on the Company's operating results, liabilities or other components of shareholders' equity. If the stock price volatility was higher by a factor of 10% this would have increased the value of the warrants (equity component) by approximately \$1.1 million. If the stock price volatility was lower by a factor of 10% this would have decreased the value of the warrants (equity component) by approximately \$1.19 million.

Critical judgments in applying the Company's accounting policies

Revenue recognition

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

Impairment of intangible assets

The Company follows the guidance of IAS 36 to determine when impairment indicators exist for its intangible assets. When impairment indicators exist, the Company is required to make a formal estimate of the recoverable amount of its intangible assets. This determination requires significant judgment. In making this judgment, management evaluates external and internal factors, such as significant adverse changes in the technological, market, economic or legal environment in which the Company operates as well as the results of its ongoing development programs. Management also considers the carrying amount of the Company's net assets in relation to its market capitalization, as a key indicator. In making a judgment as to whether impairment indicators exist at December 31, 2014, management concluded that there were none.

RISKS AND UNCERTAINTIES

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

- successful completion of its clinical program in LN, including the LN Phase 2b clinical trial currently underway;
- Timely completion of the LN Phase 2b clinical trial;
- receipt of marketing approvals from the FDA and other regulatory authorities with a commercially viable label;
- securing and maintaining partners with sufficient expertise and resources to help in the continuing development and eventual commercialization of voclosporin;
- maintaining suitable manufacturing and supply agreements to ensure commercial quantities of the product through validated processes;
- acceptance and adoption of the product by the medical community and third-party payors; and
- the ability of the Company to raise future financial resources if and when required. Future additional sources of capital could include payments from potential new licensing partners, equity financings, debt financings and/or the monetization of the Company's intangible assets. There is no assurance of obtaining additional future financing through these arrangements or any arrangements on acceptable terms.

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

Capital management

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

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

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

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

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

Financial risk factors

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

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through the management of its capital structure and financial leverage. The Company successfully completed a \$52 million private placement on February 14, 2014 which is expected to provide the Company with sufficient financial resources to conduct the LN Phase 2b clinical trial and other corporate, administration and business development activities until at least December 31, 2016. It also manages liquidity risk by continuously monitoring actual and projected cash flows. The Board of Directors and/or the Audit Committee reviews and approves the Company's operating budgets, as well as any material transactions out of the ordinary course of business. The Company invests its cash in term deposits and bank discount notes with 30 to 180 day maturities to ensure the Company's liquidity needs are met.

Interest rate, credit and foreign exchange risk

The Company invests in cash reserves in fixed rate, highly liquid and highly rated financial instruments such as treasury bills, term deposits and bank discount notes which are all denominated in US dollars. The Company does not believe that the results of operations or cash flows would be affected to any significant degree by a sudden change in market interest rates relative to its investment portfolio, due to the relative short-term nature of the investments and current ability to hold the investments to maturity.

The Company is exposed to financial risk related to the fluctuation of foreign currency exchange rates which could have a material effect on its future operating results or cash flows. Foreign currency risk is the risk that variations in exchange rates between the United State dollar and foreign currencies, primarily with the Canadian dollar, will affect the Company's operating and financial results. The Company holds its cash reserves in US dollars and the majority of its expenses, including clinical trial costs are also denominated in US dollars, which mitigates the risk of foreign exchange fluctuations. The Company has not entered into any forward currency contracts or other financial derivatives to hedge foreign exchange risk in 2014 or 2013.

CONTINGENCIES

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

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS ADOPTED BY THE COMPANY

The following standards have been adopted by the Company for the first time for the financial year beginning on or after January 1, 2014 and could have an impact on the Company:

- Amendment to IAS 32, Financial Instruments: Presentation on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Company's consolidated financial statements.
- Amendments to IAS 36, Impairment of assets, on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of cash generating units (CGUs), which had been included in IAS 36 by the issuance of IFRS 13. The Company has applied the amendment and there has been no significant impact on the Company's consolidated financial statements as a result.

- Amendment to IAS 39, Financial Instruments: Recognition and measurement on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to over-the-counter derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The amendment did not affect Company's financial statements.
- IFRIC 21, Levies, sets out the accounting for an obligation to pay a levy if that liability is within the scope of IAS 37, provisions. The interpretation addresses that the obligating event is that gives rise to the payment of a levy and when a liability should be recognized. The Company is not currently subjected to significant levies so the impact on the Company is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on January 1, 2014 are not material to the Company.

NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ADOPTED

- IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit and loss (P&L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company is yet to assess IFRS 9's full impact.
- IFRS 15, Revenue from Contracts with Customers, was issued in May 2014 by the IASB and supersedes IAS 18, Revenue, IAS 11, Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively or through the recognition of the cumulative effect to opening retained earnings and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted. We are currently in the process of evaluating the impact that IFRS 15 may have on our consolidated financial statements.
- IAS 16, Property, Plant and Equipment, and IAS 38, Intangible Assets, addresses clarification of acceptable methods of depreciation and amortization. IAS 16 and IAS 38 are amended to: (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriated, and (ii) provide a rebuttable presumption for intangible assets. The standard is effective for accounting periods on or after January 1, 2016. The Company is yet to assess IAS 16's and IAS 38's full impact.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Internal control over financial reporting ("ICFR") as defined in National Instrument 52-109 includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with IFRS, and that the Company's receipts and expenditures are being made

only in accordance with authorizations of the Company's management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

The Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO") are responsible for establishing and maintaining ICFR for Aurinia. They have, as at the financial year ended December 31, 2014 designed ICFR or caused it to be designed under their supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Because of its inherent limitations, ICFR may not prevent or detect misstatements even when determined to be effective and can only provide reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision of the Company's Chief Executive Officer and Chief Financial Officer, as of December 31, 2014, management evaluated the effectiveness of the Company's ICFR based on the framework set forth in Internal Control-Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its evaluation under this framework, management concluded that the Company's ICFR was effective as of December 31, 2014. Management intends to assess the effectiveness of the Company's ICFR as of December 31, 2015 based on the 2013 COSO framework.

There were no changes in the Company's ICFR during the year ended December 31, 2014 that materially affected, or are reasonably likely to materially affect, the Company's ICFR.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures ("DC&P") as defined in National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings*, are designed to provide reasonable assurance that all material information required to be publicly disclosed in the Company's annual, interim filings and other reports filed or submitted by the Company under securities legislation is recorded, processed, summarized and reported within the time periods specified under securities legislation and include controls and procedures designed to ensure that information required to be so disclosed is accumulated and communicated to management including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions.

In designing and evaluating the Company's disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

The Chief Executive Officer and the Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures as at December 31, 2014, have concluded that the disclosure controls and procedures were adequate and effective to provide reasonable assurance that material information the Company is required to disclose on a continuous basis in interim and annual filings and other reports and news releases is recorded, processed, summarized and reported or disclosed on a timely basis as necessary.

UPDATED SHARE INFORMATION

As at March 26, 2015, the following class of shares and equity securities potentially convertible into common shares were outstanding:

Common shares	
Convertible equity securities	31,985,000
Warrants outstanding	6,312,000
Stock options	2,303,000

On January 6, 2015 the Company granted 960,000 stock options with a term of five years at an exercise price of \$4.25 CDN per common share to directors, officers and employees of the Company. Subsequent to December 31, 2014, the Company issued 143,000 common shares upon the exercise of warrants for proceeds of \$343,000 CDN and issued 25,000 common shares upon the exercise of 25,000 stock options for proceeds of \$87,000 CDN.

SUPPLEMENTAL INFORMATION

Selected Annual Information (expressed in thousands of dollars, except per share data)

	<u>2014</u>	<u>2013</u>	<u>2012</u>
	\$	\$	\$
Statement of Operations			
Revenues	278	969	6,166
Total expenses, net	(16,925)	(7,542)	(15,896)
Income tax recovery	—	3,911	—
Net loss for the year	(16,647)	(2,662)	(9,730)
Net loss per share	(0.57)	(0.42)	(2.81)
Weighted average number of common shares outstanding	29,158	6,344	3,552
Balance sheets			
Working capital (deficiency)	30,715	(3,954)	(3,226)
Total assets	52,378	23,167	4,158
Total non-current financial liabilities	3,473	2,690	—
Shareholder's equity (deficit)	45,106	13,313	(2,118)
Common shares outstanding	31,818	12,375	3,857

Quarterly Information (expressed in thousands of dollars except per share data)

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

<u>2014</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>Annual</u>
	\$	\$	\$	\$	\$
Revenues	67	71	72	68	278
Expenses					
Research and development	1,040	2,547	2,433	3,092	9,112
Corporate, administration and business development	2,373	1,713	1,405	1,399	6,890
Restructuring and acquisition	569	403	60	36	1,068
Amortization and impairment of tangible and intangible assets	369	369	373	410	1,521
Contract services	8	10	11	8	37
Other expense (income)	899	(954)	(1,690)	42	(1,703)
Net loss for the period	(5,191)	(4,017)	(2,520)	(4,919)	(16,647)
Per common share (\$)					
Net loss per common share					
Basic and diluted	(0.24)	(0.13)	(0.08)	(0.15)	(0.57)
Common Shares outstanding	31,354	31,369	31,577	31,818	31,818
Weighted average number of common shares outstanding	21,848	31,359	31,516	31,774	29,158
<u>2013</u>	<u>Q1*</u>	<u>Q2*</u>	<u>Q3*^</u>	<u>Q4*^</u>	<u>Annual</u>
Revenues	88	85	84	712	969
Expenses					
Research and development	335	442	524	691	1,992
Corporate, administration and business development	494	413	492	899	2,298
Restructuring and acquisition	—	78	1,406	29	1,513
Amortization and impairment of tangible and intangible assets	82	80	79	591	832
Contract services	1	—	—	—	1
Other expense (income)	(38)	42	702	200	906
Income tax (recovery)	—	—	(3,911)	—	(3,911)
Net income (loss) for the period	(786)	(970)	792	(1,698)	(2,662)
Per common share (\$)					
Net loss – basic and diluted	(0.20)	(0.25)	0.15	(0.14)	(0.42)
Common Shares outstanding	3,857	4,311	12,374	12,375	12,375
Weighted average number of common shares outstanding	3,857	3,877	5,197	12,374	6,344

* These figures have been restated from those originally presented as more fully described in note 3a to the audited consolidated financial statements for the year ended December 31, 2014.

[^] On September 30, 2013 the Company completed a plan of arrangement with ILJIN and Aurinia Pharma Corp. and acquired Aurinia Pharma Corp. The Company determined a preliminary fair value of the reacquired rights, intellectual know-how and goodwill related to the plan of arrangement and acquisition of Aurinia Pharma Corp. However, at September 30, 2013 management was still in the process of determining the fair value of the assets and liabilities acquired and therefore the allocation between these asset categories was subject to change. Management completed the evaluation and made the final purchase price adjustments in the fourth quarter of 2013. As these adjustments related to the third quarter ended September 30, 2013 the Company restated the figures for the third and fourth quarters of 2013.

Summary of Quarterly Results

The primary factors affecting the magnitude of the Company's losses in the various quarters are noted below and include the amortization of deferred revenue to revenues, the timing of research and development costs associated with the clinical development programs, timing of stock compensation expense and other specific one-time items including items noted below.

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

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

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

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

The restated net income for the three months ended September 30, 2013 included acquisition and restructuring costs of \$1.41 million, a gain on acquisition of Aurinia Pharma Corp. of \$3.50 million, a loss on contract settlement with ILJIN of \$4.27 million and a non-cash deferred income tax recovery of \$3.91 million.

Fourth Quarter Analysis

The Company recorded a consolidated net loss of \$4.92 million or \$0.15 per common share for the fourth quarter ended December 31, 2014, compared to a consolidated net loss of \$1.70 million or \$0.14 per common share for the fourth quarter ended December 31, 2013.

The activities in the fourth quarter of 2014 were significantly changed from those in the same period in 2013 as the Company's LN Phase 2b clinical trial was in full progress in the fourth quarter of 2014 as reflected by a significant increase in research and development costs to \$3.09 million compared to \$691,000 for the fourth quarter of 2013.

OUTLOOK

Aurinia Pharmaceuticals Inc. (the Company) was established on September 20, 2013 through the merger of Isotechnika Pharma Inc. (a Canadian public company) and Aurinia Pharma Corp. (a Canadian private company) as approved by shareholders on August 15, 2013. The Company is a publically-traded entity, listed on both the Toronto Stock Exchange (AUP) and the NASDAQ (AUPH).

The Company is a clinical-stage pharmaceutical company operating in the field of nephrology and is specifically focused on the development of its lead compound, voclosporin, to treat patients afflicted with LN. There is no compound approved in either North America or Europe to treat this devastating condition, and with the current standard of care, approximately 90% of patients still do not achieve satisfactory clinical results. Further, longitudinal studies have shown that patients who do not achieve adequate clinical remission through available treatments will, in 90% of cases, develop end-stage renal disease (ESRD) within ten years.

Aurinia's clinical hypothesis is that by layering their lead compound, voclosporin, a calcineurin inhibitor, on top of the current standard of care in patients suffering from LN, that patient outcomes can be significantly and rapidly improved. To this end, Aurinia initiated a 258-patient Phase 2b, randomized, placebo-controlled clinical trial in the summer of 2014, with the projection to complete enrollment from 22 countries and approximately 85 sites in about one year. Following enrollment of the last clinical patient and six months of active treatment, the database will be un-blinded and the primary clinical objective evaluated.

To fund this trial and Company operations, Aurinia raised \$52 million on February 14, 2014. At December 31, 2014, the Company held US\$ 32.70 million in cash and short term investments, and is financially stable and capitalized through and past the time of trial completion. The corporate focus is on the successful clinical development of voclosporin to treat patients afflicted with lupus nephritis and execution against stated budgets, objectives, and tactical goals in order to accomplish this.



**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephen W. Zaruby, certify that:

1. I have reviewed this annual report of Aurinia Pharmaceuticals Inc. on Form 40-F;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 30, 2015

AURINIA PHARMACEUTICALS INC.

/s/ Stephen W. Zaruby

Name: Stephen W. Zaruby

Title: President and Chief Executive Officer

**CERTIFICATION PURSUANT TO RULE 13a-14 OR 15d-14 OF
THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Dennis Bourgeault, certify that:

1. I have reviewed this annual report of Aurinia Pharmaceuticals Inc. on Form 40-F;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the period presented in this report;
4. The issuer's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the issuer and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the issuer, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the issuer's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the issuer's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the issuer's internal control over financial reporting; and
5. The issuer's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the issuer's auditors and the audit committee of the issuer's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the issuer's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the issuer's internal control over financial reporting.

Dated: March 30, 2015

AURINIA PHARMACEUTICALS INC.

/s/ Dennis Bourgeault

Name: Dennis Bourgeault

Title: Chief Financial Officer

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

In connection with the Annual Report of Aurinia Pharmaceuticals Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen W. Zaruby, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2015

AURINIA PHARMACEUTICALS INC.

/s/ Stephen W. Zaruby

Name: Stephen W. Zaruby

Title: President and Chief Executive Officer

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

In connection with the Annual Report of Aurinia Pharmaceuticals Inc. (the "Company") on Form 40-F for the fiscal year ended December 31, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Dennis Bourgeault, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my knowledge:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 30, 2015

AURINIA PHARMACEUTICALS INC.

/s/ Dennis Bourgeault

Name: Dennis Bourgeault
Title: Chief Financial Officer



Consent of Independent Auditor

We hereby consent to the inclusion in this Annual Report on Form 40-F for the year ended December 31, 2014 of Aurinia Pharmaceuticals Inc. of our report dated March 26, 2015, relating to the consolidated financial statements, which appears in the Annual Report.

We also consent to reference to us under the heading "Interests of Experts," which appears in the Annual Information Form incorporated by reference in this Annual Report on Form 40-F.

"PricewaterhouseCoopers LLP"

**Chartered Accountants
Edmonton, Alberta
March 30, 2015**

*PricewaterhouseCoopers LLP
TD Tower, 10088 102 Avenue NW, Suite 1501, Edmonton, Alberta, Canada T5J 3N5
T: +1 780 441 6700, F: +1 780 441 6776, www.pwc.com/ca*

"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.